

Legal Services Board

Annual Report and Accounts for the Year Ended 31 March 2017

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Contents

Performance report	4
Overview – Statement from the Chairman and Chief Executive	4
Statement of the purpose and activities of the LSB	8
Performance analysis	13
Accountability report	27
Corporate governance report	27
The Governance statement	29
Remuneration and staff report	36
Parliamentary accountability and audit report	41
Financial statements	44
Notes to the financial statements	48

Performance report

Overview

Introduction from the Chairman

This is the final annual report of the Legal Services Board (LSB) that I will introduce as my term of office as Chairman comes to an end.

Looking back over my three years, I am encouraged by the progress made by all concerned. As ever, more remains to be done. I know the LSB will continue to press for the substantial change which is needed in this sector change that will ensure that consumers are well served and adequately protected and that the public interest is upheld, not least in relation to professional standards and the rule of law.

This report outlines the work that the LSB has undertaken during 2016/17.

The LSB is uniquely well-placed as the oversight regulator to collect and analyse evidence about what works well in the current regulatory framework and what needs to be addressed.

We know from the market evaluation we published in July 2016, that there are many signs of positive progress since the implementation of the Legal Services Act 2007. But, for the most part, that change remains incremental.

The view of my Board is that a quicker pace could be achieved if there was reform of the legal framework. That is why, in September 2016, the Board published its 'Vision' document. This explains why, in our view, the regulatory framework requires substantial alteration and sets out one view of what a forward looking regulatory framework might include. We suggested that a sensible starting point would be a formal review of the scope

of what is regulated. In our view, regulation should address the risks of particular activities.

It is highly likely that in any revised framework regulation will continue to be required (amongst other matters) to cover training and development, professional standards, integrity, ethics and codes of conduct. Since the regulator cannot be present when each and every reserved legal activity is undertaken, there will always be a fundamental reliance on professionalism and the duties owed by the practitioner to his or her client and to the Courts. Titles will continue to be used and will be important signposts of quality for consumers. We consider our proposals, if implemented, would strengthen the legal profession and professionalism.

Our opinion that legal service markets need to work better for consumers (and for practitioners) was echoed by the Competition and Markets Authority. In December 2016, we welcomed the publication of the Competition and Market Authority's (CMA) final report on its legal services market study. We contributed our views and significant research evidence to this study. Its conclusions, and the principles for reform that the CMA has established, reflect our own vision for the future of legal services regulation. There are two main strands to the CMA's recommendations: (i) improved information to help consumers choose and use legal services and (ii) recommendations to the Ministry of Justice, including that it should review the independence of regulators and the regulatory framework more broadly. We have already started work with the regulators in implementing these recommendations.

We await the Government's formal response to the recommendations directed to it in the market study. We appreciate that there may be little prospect of legislation in the next few years and so we will, of course, continue to make sure that the maximum benefits are delivered from the current framework. Nonetheless, we think the time will come for consideration of what should happen next and we believe that the vision statement will be a good starting point for the analysis of how the profession can adapt and thrive in the rapidly changing environment in which it finds itself.

Another strong focus for me in my time at the LSB has been the way our relationships with a wide range of external stakeholders have developed over the past few years. Good relationships are vital to the work we do. They are particularly important in relation to one of the core functions for the LSB which is to hold to account the regulators and the Office for Legal Complaints (OLC). We continue to do this not least through the assessment of the performance by each regulator. In May 2016, we published a comprehensive assessment of eight of the regulators outlining the progress that has been made. Again, there is more to be done, which is why we have agreed action plans with all of them.

As I step down, I should like to thank a number of people. I am grateful to everyone who has worked with me in this period, in particular to all the members of the Board. I would also like to thank colleagues who work at the LSB for their commitment and hard work.

I would also like to wish my successor the very best of luck. Helen Phillips takes on this role as interim Chair for the immediate future. As an existing Board member she is more than aware of the challenges that await just as I have the fullest confidence that she is equal to them.

Sir Michael Pitt
Chairman

Statement from the Chief Executive

This annual report for 2016/17, describes the work we completed, and the impact we have had, in delivering the second year of our 2015-18 strategic plan. There has been strong continuity from previous years. Our proactive work has seen us focus on those areas where we believed we could deliver the most positive impact for consumers and the public interest through driving changes to improve market conditions for competition, growth and innovation all the while, maintaining appropriate consumer protections. We have continued to deliver our statutory duty to consider regulators' changes to their regulatory arrangements. And we have made important contributions to external initiatives that have been helping shape the legal services sector.

I would like to highlight four aspects of our work over the past year:

Regulatory independence

Regulatory independence is a cornerstone of public confidence in the legal profession. Regulation should be structurally, legally and culturally independent of both the professions and government. This helps to ensure consumers have the confidence to use legal services, safe in the knowledge that their interests will not be overridden by professional or commercial interests, in an environment in which most consumers are unable to judge for themselves the value or quality of what is being provided.

While we have advocated structural change, we remain committed to ensuring that there is compliance with the internal governance rules made under the Legal Services Act. In February 2017, we opened a formal investigation into the governance arrangements between The Law Society and the Solicitors Regulation Authority (SRA). Our investigation will consider whether aspects of those arrangements impair the independence or effectiveness of the performance

of the SRA's regulatory functions, in breach of the LSB's internal governance rules. The investigation is ongoing.

Standards

The LSB's work to hold the legal services regulators to account for their performance is at the core of our statutory duties. It is key to delivering public confidence in legal services. In May 2016, we published performance assessments of eight legal service regulators. Our reviews reflected the wider divergence in these regulators: the smallest regulates less than a thousand individuals; the largest regulates over a hundred thousand individuals working in thousands of firms.

Our reviews revealed evidence of substantial progress since our last review. Improvements were evident in developing outcomes-focused approaches to regulation, risk assessment processes and risk-based approaches to supervision. But we found that much more still needs to be done, particularly as regards transparency, understanding the impact of rule changes and the need to focus on developing their understanding of consumer needs and use of legal services.

Diversity

We place great emphasis on our work in relation to diversity. We believe that a more diverse profession will support the better delivery of legal services and encourage innovation in the sector.

In February 2017, we issued new guidance giving regulators greater flexibility, which was less prescriptive but tailored to help the sector find new ways of developing the diversity of the workforce and assist in collecting and using the valuable data gathered in the last five years. We believe that our guidance will support the work some regulators are already doing in this area, and encourage those still developing their approach to continue to work towards a more diverse profession.

Research

Research is essential to the work we do. The ongoing value of this work was highlighted in the recent CMA report which drew heavily on our research findings in reaching its conclusions about competition in the legal services market.

Our market evaluation¹ (July 2016) is the one comprehensive and independent assessment of developments in the legal service sector. It demonstrates that there is change in market outcomes associated with the regulatory objectives given to all the regulators by parliament. However, the pace of change is slow. More positively, regulatory reforms have enabled the delivery of a wider variety of services. For example, our joint research with the Bar Standards Board² shows the value of consumers being able to access barrister services directly. Our joint research with the Legal Services Consumer Panel (the Panel)³ demonstrated no regulatory issues around offering unbundled services.

From a competition perspective, our joint research with the Solicitors Regulation Authority⁴ found that levels of innovation have not changed over time, although alternative business structures were more innovative than other regulated law firms. Our 2016 research on prices⁵ highlights a lack of transparency in pricing across three key areas of law for individual consumers, and substantial variation in the prices charged for the same service. This points to a market with lower levels of competition than might be in the public interest. This conclusion formed a substantial element of the analysis by the CMA and their recommendations for increased price transparency, something for which the LSB has been arguing for a number of years.

Our joint work with the Law Society,⁶ updating our 2012 research, shows that there remain substantial levels of unmet legal need among individual consumers with poor information regarding the availability of services leading to a belief on the part of consumers that nothing can be done to resolve their problems. This is true even where the problems are having a severe impact on their lives. Perceptions of legal services as high cost – whether accurate or not – also persist. There are similar issues from the perspective of small business consumers, with our 2015 Small Business legal needs survey⁷ showing that only 13% of firms viewed lawyers as cost effective – little improved since our 2013 survey. This demonstrates room for significant improvement in the outcomes being achieved for consumers in the legal services market. Enabling legal need to be met more effectively remains a key strategic objective for the LSB.

Conclusion

We are a small organisation with a Board and 32 colleagues. Our remit is wide and we believe we have had and continue to have considerable impact. The outcomes we achieve are due to the effort and engagement of the Board and executive colleagues together.

In closing, I would like to pay thanks to Sir Michael Pitt for the immense contribution he has made as Chairman of the LSB. He has been dedicated to ensuring that there is progress in this sector, not least in relation to unmet legal need, and he has also brought his knowledge and insight to help the Board express with great clarity a vision of what change could deliver.

Neil Buckley
Chief Executive

¹ <https://research.legalservicesboard.org.uk/news/latest-research-14/>

² Barrister perceptions of the public access scheme (2016) <https://research.legalservicesboard.org.uk/news/latest-research-11/>

³ Qualitative Research Exploring Experiences and Perceptions of Unbundled Legal Services (2015) https://research.legalservicesboard.org.uk/wp-content/media/14-086345-01-Unbundling-Report-FINAL_060815.pdf

⁴ Innovation in Legal Services (2015) <https://research.legalservicesboard.org.uk/reports/measuring-the-impacts-of-reform/innovation-in-legal-services-2015-2/>

⁵ <https://research.legalservicesboard.org.uk/reports/measuring-the-impacts-of-reform/prices-of-individual-consumer-legal-services/>

⁶ Large scale online survey of individuals responses to legal issues (2016) <https://research.legalservicesboard.org.uk/reports/consumers-unmet-legal-needs/online-survey-of-individuals-handling-of-legal-issues-in-england-and-wales-2015/>

⁷ <https://research.legalservicesboard.org.uk/reports/consumers-unmet-legal-needs/the-legal-needs-of-small-businesses-2015-survey-3/>

Statement of the purpose and activities of the LSB

Our purpose

The LSB oversees the regulation of legal services in England and Wales. It is independent of both government and the legal profession. We hold to account the nine approved regulators for the different branches of the profession and the OLC.

We have a challenging goal – to reform and modernise the legal services marketplace across England and Wales. We want to help create the conditions for competitive, innovative and accessible services that work better for all users and consumers of those services, while protecting consumer and public interests.

Our vision is a legal services market characterised by:

- consumers who are well informed and able to choose from a range of services that are of appropriate quality and represent value for money
- vibrant, diverse and professional legal service providers, who compete and innovate to offer services that collectively support wider public interest objectives including the rule of law and access to justice for all
- prompt and effective redress for consumers when things go wrong
- a regulatory framework that commands the confidence of consumers, the public and all those who have an interest in legal services.

The Legal Services Act 2007 (the Act) established the LSB on 1 January 2009 and we took on the majority of our statutory powers and duties on 1 January 2010.

We are funded by, but wholly independent of, the legal profession. Our levy in 2016/17 for each person authorised to undertake reserved legal activities was less than £19, down from over £34 at its peak in 2009/10.

Our regulated community

Details of the nine approved regulators, who they regulate, for which reserved legal activities, and whether they are also licensing authorities, are provided in Figure 1.

We also have a number of responsibilities in relation to the OLC, whose role is to administer the Legal Ombudsman scheme. The scheme resolves complaints about lawyers. Our relationship with the OLC is set out in the Act and guided by a Memorandum of Understanding. We approve the OLC's annual budget and are able to set or agree performance targets.

The Act also provides us with limited powers in relation to the Solicitors Disciplinary Tribunal (SDT) and requires the Tribunal to obtain the LSB's approval of its annual budget and for changes that it wishes to make to its rules.

Figure 1.

Approved regulator	Regulatory body	Reserved Activities	Licensing Authority	No. of authorised persons*
Law Society	Solicitors Regulation Authority	The exercise of a right of audience The conduct of litigation Reserved instrument activities Probate activities The administration of oaths	YES	145,059
General Council of the Bar	Bar Standards Board	The exercise of a right of audience The conduct of litigation Reserved instrument activities Probate activities The administration of oaths	YES	15,288
Chartered Institute of Legal Executives	CILEx Regulation	The exercise of a right of audience The administration of oaths The conduct of litigation Reserved instrument activities Probate activities	NO	6,832
Chartered Institute of Patent Attorneys	Intellectual Property Regulation Board	The exercise of a right of audience The conduct of litigation Reserved instrument activities The administration of oaths	YES	2,129 (includes 284 dual registered)
Institute of Trademark Attorneys			YES	888 (includes 284 dual registered)
Council for Licensed Conveyancers		Reserved instrument activities Probate activities The administration of oaths	YES	1,283
Master of the Faculties		Reserved instrument activities Probate activities The administration of oaths Notarial activities	NO	784
Association of Costs Lawyers	Costs Lawyer Standards Board	The exercise of a right of audience The conduct of litigation The administration of oaths	NO	632
Institute of Chartered Accountants in England and Wales (ICAEW)**		Probate activities	YES	265
Institute of Chartered Accountants of Scotland (ICAS)***		Probate activities	NO	N/A
Association of Chartered Certified Accountants (ACCA)***		Probate activities	NO	N/A

* Figures show number of persons authorised by each regulator to undertake one or more legal activity as at 1 April 2016.

** The Institute of Chartered Accountants in England and Wales applied to become an approved regulatory and licensing authority for reserved legal activities relating to taxation matters in July 2016.

*** The Institute of Chartered Accountants in Scotland and the Association of Chartered Certified Accountants are approved regulators for reserved probate activities only, but do not currently have any regulatory arrangements and so do not regulate reserved legal services.

Our regulatory responsibilities

Our regulatory objectives (RO) are set out in the Act. We share these objectives with the approved regulators and the OLC. The objectives are to:

- protect and promote the public interest (RO1)
- support the constitutional principle of the rule of law (RO2)
- improve access to justice (RO3)
- protect and promote the interests of consumers (RO4)
- promote competition in the provision of legal services (RO5)
- encourage an independent, strong, diverse and effective legal profession (RO6)
- increase public understanding of the citizen's legal rights and duties (RO7) and
- promote and maintain adherence to the professional principles. (RO8)

The professional principles are further defined in the Act as:

- acting with independence and integrity
- maintaining proper standards of work
- acting in the best interests of clients
- complying with practitioners' duty to the Court to act with independence in the interests of justice
- keeping clients' affairs confidential.

In addition, the *better regulation principles*, enshrined within the Act, stipulate that in all our activities, we must always be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed.

Ultimately, the primary responsibility for devising, developing and implementing regulation that guarantees public trust and confidence in the legal profession in England and Wales rests with the regulators. The role of the LSB is to make sure that they meet this responsibility to ensure promotion of the regulatory objectives.

Our oversight of the regulators is designed to ensure that they have the competence, capability and capacity to promote and adhere to the regulatory objectives, free from undue representative influence.

We have statutory responsibilities in relation to:

- **approval and recognition** – we consider a range of applications from both existing regulators (including applications to become a licensing authority, changes to regulatory arrangements and extension of scope) and those seeking to become an approved regulator
- **monitoring and investigation** – we monitor regulators' compliance with regulatory requirements; oversee aspects of the performance of the OLC; and perform some specific duties in relation to the SDT. We also examine the wider market place to identify trends, gaps in regulation, competition issues and how both our own rules and those of regulators are working in practice
- **enforcement and disciplinary activities** – we ensure that regulators and licensing authorities perform their duties in a way that meets the regulatory objectives and, where necessary, exercise the powers at our disposal to ensure that this happens. These powers include the power to set performance targets, give directions, publicly censure a body, impose a fine, intervene in the running of a regulatory authority in relation to any of its regulatory functions and ultimately recommend cancellation of a body's designation as regulatory authority
- **regulation, education and training** – we have a duty to assist in the maintenance and development of standards of regulation by approved regulators and in the education and training of persons carrying out reserved legal activities

- **scope of regulation** – we have powers to make recommendations to the Lord Chancellor on the designation of new activities as reserved and the removal of existing designations.

The Act also contains provision for the LSB to be a licensing authority ‘of last resort’ if there is no existing licensing authority with licensing rules suitable for licensing a particular type of alternative business structure (ABS) but these have not been activated.

Key issues and risks

In 2016/17, the LSB maintained its active management of risks and issues in line with the organisation’s risk management strategy. The following two risks were of particular concern during the year.

- From 1 April 2016 until 1 October 2016, the Board’s membership was below that required by statute by one ordinary member. Whilst the Act is clear that the validity of any act of the Board is not affected by such a vacancy, the Board took steps to ensure that it was at all points quorate and that there was appropriate discussion, challenge and review of all items that it considered.
- The LSB also took steps to respond to the potential for misunderstanding of the LSB’s role in relation to the performance of the Legal Ombudsman scheme. The LSB’s role is to hold the OLC to account for the effective performance of its role in administering the Legal Ombudsman, not to direct performance improvement at the Legal Ombudsman. Mitigation included imposing section 120 reporting requirements on the OLC and the development of a three-way operating protocol between the Ministry of Justice (MoJ), LSB and OLC.

Going concern basis

Whilst the Act remains in place, the LSB is required to fulfil its statutory functions. In order to fund our activities, the Lord Chancellor has agreed that a levy of £3.85m for 2017/18 may be raised from the approved regulators to fund our budget.

Performance summary

The Business Plan (the Plan) for 2016/17⁸ was the second year of our three-year Strategy.⁹ The Plan set out an ambitious programme of work, including a number of longer-term projects designed to run over the multiple years in the strategic planning period. The Plan was agreed on the understanding that external initiatives and other unforeseen occurrences were likely to mean some reprioritisation would be needed during the year.

As of 31 March 2017, alongside fulfilling its in-year obligations to make routine statutory decisions on matters emerging from the regulators, the OLC, and the SDT, the LSB had delivered the proactive work set out in its Plan in line with the published schedule, except for a small element of work that, as a consequence of in-year re-scoping and in response to external initiatives, will be completed in the first few months of 2017/18.

⁸ www.legalservicesboard.org.uk/Projects/pdf/20160412_LSB_Business_Plan.pdf

⁹ www.legalservicesboard.org.uk/news_publications/LSB_news/PDF/2015/The_Strategy_2015_18.pdf

Financial performance

Our budget ceiling for the year was £3,998k and our actual outturn was: £3,525k. We continue to drive down our costs.

Historical Analysis of LSB Budgets	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	£000	£000	£000	£000	£000	£000	£000
Total including OLC Board costs	4,931	4,931	4,498	4,448	4,298	4,298	3,998

Total amount levied per person authorised to undertake reserved legal activities ¹⁰	£34.38	£31.65	£27.97	£25.36	£24.71	£21.55	£18.83
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¹⁰ Approved regulators have their own methodology for determining the charges they impose for each person they authorise to undertake reserved legal activities

Performance analysis

Measuring performance at the LSB

The LSB measures its performance in a number of ways, including performance against the Plan, meeting statutory deadlines, performance against budget and fulfilling statutory requirements such as responding to Freedom of Information Act and Data Protection Act requests.

Detailed performance analysis

Performance against the Plan

One of our key measures is how we perform in delivering our Plan. For 2016/17, this outlined the work the LSB intended to undertake in the second year of its 2015 – 18 Strategy, with work organised around the three outcomes the Strategy aims to deliver:

- breaking down the regulatory barriers to competition, growth and innovation
- enabling the need for legal services to be met more effectively and
- ensuring that the regulators and the Legal Ombudsman are operating effectively and that there is a shared understanding of the legal services market.

The Plan was underpinned by the regulatory objectives. We balanced these competing and complementary objectives on a case by case basis, informed by the particular circumstances of the issue being addressed.

Throughout the year, we keep track of our performance against the Plan through a number of mechanisms. Project teams report monthly to the LSB's Programme Board where progress, risks and issues are discussed. Highlight reports are reviewed by the Senior Leadership Team (SLT) and shared with the Board. We prepare quarterly performance reports, which are scrutinised by the Board, and submitted to our sponsor department, the MoJ.

We review the impact that our work and the wider impact of the Act's reforms are having on the legal services market through our market evaluation programme. This is a long-running research project which looks at how the legal services market is changing. It seeks to assess whether the market outcomes associated with the regulatory objectives are being achieved over the longer term, the areas where progress is limited, and what the issues might be. In 2016/17, we published an update to our 2012 market evaluation report. This work includes analysis that draws on the findings of data produced and research commissioned by the LSB and others over the past three years.

A detailed breakdown of work carried out in 2017/18 is set out on the next page.

Strategic element 1: Breaking down regulatory barriers

Breaking down regulatory barriers is not an end in itself, but is important in helping to facilitate competition, growth and innovation, all of which should deliver benefits for consumers.

As the traditional boundaries between different regulated communities and business models disappear, regulation must keep pace with market developments. Our work in this area aims to make sure that unnecessary regulation that can stifle positive change is removed, helping to deliver the benefits of competition, growth and innovation. Over the Strategy's three-year period, we hope to:

- facilitate more choice for consumers and reduce unmet legal need
- see a greater range of business models in the sector, with increasingly diverse service provision and an increased ability for service providers to be agile and respond to changing patterns of demand and
- see a smaller number of streamlined and simplified regulatory arrangements.

In 2016/17, we completed the following work to help break down regulatory barriers.

Improving scrutiny of regulatory costs and identifying opportunities for savings

Completed

In May 2016, we published individual reports providing information about our own and each of the regulators historic costs, along with an overarching report.¹¹ These concluded the first phase of our work to understand regulatory costs and their impact on those who pay for them. These reports had an emphasis on published data, which is important as we wanted to find out what information existed currently and which is easily accessible by providers and the public. The work focused on areas such as size of regulator, income from practising certificate and firm fees, fee income allocated to non-regulatory permitted purposes, and an indication of unit cost.

From September 2016, building on this first phase of work, we worked collaboratively with the regulators to develop a set of cost transparency principles that reflect best practice and include a commitment to continuous improvement. To inform this work we published a desk review looking at best practice on cost transparency among regulators in other parts of the economy. As a result of these efforts, the regulators, along with the LSB, have voluntarily committed to producing an annual cost statement that has regard to the principles and contains certain core metrics. We will monitor the transparency efforts made by the regulators in 2017/18 and consider whether any further action is required in the 2018/19 business year.

¹¹ www.legalservicesboard.org.uk/Projects/Reviewing_the_cost_of_regulation/index.htm#Phase1

Identifying ways in which legislation needs to change to keep pace with the development of modern, vibrant, diverse, high quality legal services

Continuing into 2017/18

In August 2016, we responded to a MoJ consultation on proposals to remove barriers to competition in legal services by amending ABS licensing provisions in the Act.¹²

In September 2016, we published our vision for wider legislative reform of the regulatory framework for legal services in England and Wales.¹³ This explained the LSB's view that fundamental reform is necessary to address unnecessary barriers to consumer choice, innovation and growth. We contributed our thinking on legislative reform alongside our research evidence and other policy evidence, to the CMA's legal services market study.

The CMA published its final report in December 2016, in which it found that the legal services sector is not working well for individuals and small businesses. The CMA concluded that the current legislative framework may not be sustainable in the longer term and made a recommendation to the MoJ to review the framework.

We played an active role in the market study by making formal written submissions, contributing research evidence and providing technical support on the regulatory framework. We agree with the CMA's analysis that competition is not working well for individual consumers and small businesses. And we share the CMA's concern that a lack of information weakens the ability of consumers to drive competition through making informed purchasing decisions.

We decided to support the CMA's recommendation directed to us to provide oversight and public reporting on the approach and progress of the regulators individually and collectively in their efforts to improve transparency in the market for consumers. The LSB is also a full member of the Remedies Programme Implementation Group, which has been convened to support and assist cooperation between regulators to implement recommendations made by the CMA that are intended to improve market transparency.

¹² In July 2015, we highlighted the need for these changes in a joint submission with the frontline regulators to Ministers www.legalservicesboard.org.uk/what_we_do/pdf/20150720_Proposals_For_Changes_To_The_Current_Legislative_Framework.pdf

¹³ www.legalservicesboard.org.uk/news_publications/LSB_News/PDF/2016/20160909LSB_Vision_For_Legislative_Reform.pdf

<p>Making sure that regulation does not necessarily deter entry, innovation and investment</p> <p><i>Continuing into 2017/18</i></p>	<p>In October 2016, we commenced in-house research to assess whether there are any regulatory barriers to investment in legal services. A major aim of the permitting of new business structures was to allow new forms of investment into regulated law firms to improve market efficiency. However, there has been less externally financed investment in the sector than expected and the investor perspective is under-researched. The investor perspective is important to understand not least because our market evaluation, published in July 2016, shows slow change in outcomes associated with increased competition and lack of evidence of improving access to legal services.</p> <p>The research project draws upon different evidence. We have gathered information from investors, regulators, ABS, and traditional firms. Between October 2016 and March 2017, we undertook survey fieldwork and literature reviews. We expect to publish our research findings in Quarter 1 of 2018.</p>
<p>Thematic review of restrictions on the choice of insurer</p> <p><i>Completed</i></p>	<p>In July 2016, we published our conclusions to our review of the different approaches taken by regulators to the supply of professional indemnity insurance (PII) against the regulatory objectives and better regulation principles.¹⁴ We found a need for more evidence to support some of the claims that are made about different insurance models. Ongoing developments and changes in the legal services and PII markets all point to approved regulators needing to regularly review any restrictions they impose on choice of PII provider to stay assured that those restrictions remain fit for purpose. This is both in terms of the market and in terms of the legislative obligations that each must meet. This review suggests some tools that regulators can use to understand what options are available regarding choice of PII provider.</p> <p>Our policy and legal analysis was complemented by independent economic advice from the Regulatory Policy Institute (RPI). RPI's advice on this subject sets out key questions and identifies data that the approved regulators can gather to answer them. These focus on the PII market (since what happens there can have implications for the legal sector) and the entire legal services market. This work has since informed regulators' thinking on PII.</p>

¹⁴ www.legalservicesboard.org.uk/Projects/thematic_review/Choice_Of_Insurer.htm

Strategic element 2: Tackling unmet legal need

Legal services must be affordable and accessible, consumers must be able to make informed choices to take advantage of the range of services that a more dynamic market could offer, and appropriate protections for consumers and the public interest must be secured.

Our work in this area had a number of aims. We wanted to identify how all consumers, including small businesses, could better meet their legal needs conveniently, affordably and more effectively. We also wanted to improve our, and service providers', understanding of the consumer's journey through the legal services landscape, and how we could target our activity in this area to have the most beneficial effect for consumers.

In 2016/17, we completed the following work to help tackle unmet legal need.

Encouraging market entry by comparison websites by unlocking regulatory data and helping consumers choose and use legal services

Completed

In April 2016, we concluded our internal review of barriers that are preventing market entry by comparison websites and how (if at all) these can be addressed. This review also considered the effect of regulatory interventions in other markets to increase open data. Our work in this area contributed to the CMA's legal services market study.

In May 2016, we also responded to the Panel's advice on what kind of information regulators could collect and publish to aid consumers when choosing providers. We welcomed the Panel's report, which contained recommendations for both us and the regulators. In particular, we have continued to emphasise the need for greater price transparency in the legal services market building on our past research in this area.

Finally, in October 2016, we responded to the CMA's statement of scope document for its separate market study on Digital Comparison Tools. The CMA published its interim report on this study in March 2017 and we have begun to consider the implications for the legal services market.

<p>Responding to emerging market risks</p> <p><i>Re-scoped</i></p>	<p>In 2016 we increased our understanding of how the regulators we oversee are developing the knowledge, skills and relationships they need to prevent and respond to emerging market risks in the legal services market.</p> <p>In July 2016, our discussions with the regulators established that a sub-group of their Regulators' Forum would be convened to work specifically on risk, sharing experiences, good practice and knowledge on specific risk areas. The group has agreed to a programme of meetings, focusing on specific areas of risk which are of common interest to different regulators, and to undertake joint horizon scanning exercises.</p> <p>In March 2017, we also completed in-depth analysis of relevant LSB research to identify changes in the market that could highlight emerging market risks.</p> <p>This project has been re-scoped into continued monitoring of the regulators' work on emerging market risks and encouragement of the regulators better resourced in this area to share their knowledge with other less well-resourced regulators. Any evidence identified will inform our next three-year Strategy.</p>
<p>Understanding how vulnerable consumers access legal services</p> <p><i>Continuing into 2017/18</i></p>	<p>In November 2016, we commissioned research to understand the experiences of consumers in vulnerable circumstances with different legal services providers. Having explored existing and on-going research to understand where we can add value, our focus has been on individuals with mental health problems and dementia (and their carers). Our principal interests in this area are informing regulators' work on consumer vulnerability and helping practitioners to improve services to better meet the needs of these clients.</p> <p>We expect to publish the findings of this research in Quarter 1 2017/18. We plan to use this as a basis for discussion with the regulators, practitioners, the Legal Ombudsman and, potentially, other bodies including representative bodies and relevant charities.</p>
<p>Understanding the different legal needs of different types of consumers, how they choose to deal with their problems and the reasons why</p> <p><i>Completed</i></p>	<p>In June 2016, we published the findings of our large scale legal needs survey of individual consumers. This research, which was conducted in partnership with the Law Society, provides evidence on individual consumers who have experienced a legal problem over the past three years. It offers rich insights into the different responses taken and the reasons why people respond in the way they do, across 29 different types of legal issue. We found that just three in ten issues were handled using advice and support, with 56% of these issues involving the use of a regulated legal professional. The research highlights the continuing scale of unmet need in the legal services market.</p>

Strategic element 3: Performance, evaluation and oversight

Our performance, evaluation and oversight work delivers the range of statutory responsibilities required by the Act. These range from approving new designations and requests for changes to regulatory arrangements to monitoring the performance of approved regulators in delivering the requirements of the Act and evaluating the Act's impact. We also oversee the OLC's performance in administering the Legal Ombudsman scheme, approve the OLC's budget and consent to its *Scheme Rules*.

In 2016/17, we completed the following performance, evaluation and oversight work.

<p>Consider applications from regulators <i>Completed on request</i></p>	<p>In 2016/17, six regulators made applications to change their regulatory arrangements. We made decisions on all of these within the requisite statutory time limits. We also determined an application, from the Bar Standards Board, to become a licensing authority.</p> <p>In July 2016, we received an application from the ICAEW seeking to add to the list of reserved legal activities for which it is an approved regulator and licensing authority. We made a decision on this in Quarter 1 of 2017/18 and made a recommendation to the Lord Chancellor that the ICAEW be designated as an approved regulator and licensing authority for all reserved legal activities.</p> <p>We approved all the applications we received seeking approval for Practising Certificate Fees (PCF).</p>
<p>Review of the PCF rules <i>Completed</i></p>	<p>In June 2016, following consultation, we published revised Practising Fee Rules which set out amended criteria against which applications would be assessed. The revised criteria were aimed at increasing transparency, particularly where an increase in PCF is proposed. All applications decided in the year have been assessed against the new criteria.</p>
<p>Holding regulators to account for their performance <i>Continuing into 2017/18</i></p>	<p>Our current approach to reviewing the regulators' performance has been in place since 2012. Given the time passed, we have undertaken a review of our existing processes and standards to ensure that they: provide sufficient assurance about how the regulators are performing; operate in a risk-based, proportionate manner; and are clearly linked to the regulatory objectives and the better regulation principles. Our review has identified improvements that can be made to our current approach. We have developed a revised model for reviewing the regulators' performance and this was informed by consultation with the regulators, extensive environmental scanning of review processes, and through conversations held with regulators from other fields of regulation. The draft proposed model is currently being tested with the regulators and the Panel. Feedback will further shape the proposed model, on which we will publicly consult on over summer 2017. The project is continuing into 2017/18.</p>

<p>Making sure regulation is undertaken independently of representative interests</p> <p><i>Continuing into 2017/18</i></p>	<p>In February 2017, we opened an investigation into the internal governance arrangements between the Law Society and the Solicitors Regulation Authority. This investigation was ongoing at the close of the year.</p> <p>In November 2015, the Government indicated that the MoJ would consult on the independence of regulation in legal services in spring 2016 and we had anticipated responding. This consultation did not in the event take place.</p>
<p>Diversity – the role of regulators in driving improvement</p> <p><i>Completed</i></p>	<p>The aim of our work in 2016/17 was to review our guidance issued in 2011 and consider how we could develop the document to allow regulators more flexibility to implement their own, targeted approaches to diversity. Each profession faces different challenges, and feedback from regulators in 2016 had made it clear that our guidance on encouraging a diverse workforce was too prescriptive.</p> <p>In September 2016, we issued a public consultation on revised guidance, which ran for 10 weeks. Stakeholders with different interests and expertise were approached directly and asked to respond. The responses contained a range of helpful comments and questions with regard to our proposals. We were particularly encouraged that almost all respondents felt that the new guidance, with a renewed focus on outcomes and placing more responsibility on regulators, would help in delivering a more diverse profession. In February 2017, we published the outcome of our consultation with revised guidance.¹⁵</p> <p>The work scheduled for 2016/17 has been completed but this project will continue into 2017/18.</p>
<p>Identifying the benefits and risks associated with the changing shape of legal services regulation</p> <p><i>Continuing into 2017/18</i></p>	<p>In Quarter 3 of 2016/17, we considered the impact of the LSA reforms that allow switching between regulators. We spoke to legal services entity regulators about this and gathered information on the scale of activity. We also heard from some legal services providers about their experiences when switching regulator.</p> <p>To ensure that we and the regulators remain alert to developments, in 2017/18 all of the legal services entity regulators will be required to collect evidence on the scale of regulator switching activity they experience over a set period of time. This information will inform future decisions by the Board on related areas of work.</p>

¹⁵ www.legalservicesboard.org.uk/what_we_do/consultations/closed/pdf/20170215/2017_Encouraging_A_Diverse_Workforce.pdf

<p>Improvement plan for statutory decision making</p> <p><i>Partially complete</i></p>	<p>In Quarter 1 2016/17, we undertook a review of our rules change process which identified that whilst generally, the process works well, there were some areas that could be improved.</p> <p>Building on this work, throughout Quarters 2-4, we have improved exemption direction notices so that the changes are more easily understood; made clear in decision notices the agreed actions; changed the format of issues logs so that the rationale for the query is more readily understood; and expanded the number of colleagues who can handle applications so that there is less reliance on a small number of individuals.</p> <p>Work to improve the accessibility of information on the website and to identify ways to streamline the process will continue into 2017/18.</p>
<p>Thematic review of first tier complaints handling</p> <p><i>Completed</i></p>	<p>In July 2016, following a review and consultation, we published revised rules and guidance for regulators on first-tier complaint handling. Our revised approach is based on two consumer-focused outcomes. Our rules mean that clients are notified of their rights to complain, including any rights they may have to complain to the Legal Ombudsman. Our revised guidance reflects the expectation that regulators will use complaints data, from authorised persons and from the Legal Ombudsman, to understand and address risks in legal services.</p>
<p>Bar Standards Board section 69 order</p> <p><i>Continuing into 2017/18</i></p>	<p>Section 69 of the Act gives the LSB the power to make a recommendation to the Lord Chancellor that an order is made to modify, or make other provision relating to, the functions of an approved regulator.</p> <p>During 2016/17, we have continued to work with the Bar Standards Board (BSB) and MoJ on a draft order that would place certain BSB powers (as delegated to it by the General Council of the Bar) on a statutory footing. These concern arrangements for appeals against decisions by the BSB, interventions and information gathering, and disciplinary and disqualification and compensation arrangements.</p> <p>Following previous consultations by the BSB, and our decision in November 2014 to grant its application to regulate entities, we consulted during 2016 on a draft recommendation and order. The BSB has now considered the responses to the consultation and we expect to be able to proceed with a recommendation to the Lord Chancellor early in 2017/18.</p>

Overseeing the Office for Legal Complaints	
<p>Holding the OLC to account for their administration of the Legal Ombudsman scheme</p> <p><i>Ongoing responsibility</i></p>	<p>In April 2016, we imposed performance reporting requirements under section 120 of the Act, which asked OLC to provide monthly reports of performance against its own key performance indicators, and quarterly narrative reports outlining where performance was failing to meet expectations, the reasons why and information on action being taken. These reports were reviewed by the Board and quarterly performance meetings with OLC were also held.</p> <p>Throughout 2016/17 we have been working on the development of a three-way operating protocol with the OLC and the MoJ.</p>
Research	
<p>Market evaluation</p> <p><i>Completed</i></p>	<p>In July 2016, we published our market evaluation report, which assessed how the legal services market has changed over the 2006/07-2014/15 period, updating the work we produced in 2012 to baseline the market. The report presents an analysis of market outcomes associated with the delivery of the regulatory objectives across the whole legal services market. It provides a summary of a wide range of information, research findings, and in house data analysis, considered against each outcome, alongside our interpretation of what that means in the context of the evaluation framework.</p> <p>The findings show signs of some positive changes in the legal services market. The market has grown. Some consumers have been able to take advantage of fixed fees and published prices to buy services at a more affordable price. Moreover, the quality of legal services has improved on most measures following the 2007 reforms. The review does however, reveal the continued scale of unmet legal need and suggests that progress has been slow towards delivering better market outcomes and access to justice for all. This report was used extensively by the CMA in their investigation into the legal services market and will assist the development of our next three-year Strategy.</p>

Performance against statutory performance targets

During 2016/17, we continued to exercise our statutory responsibilities as regards the OLC including making the appointment of a new Chair and non-lay member, both taking effect from 1 April 2017. The LSB also approved the OLC's budget for 2017/18.

Approving new designations and changes to regulatory arrangements is a key part of our oversight role. We also have statutory responsibility to approve the PCF of each regulator and approve the annual budget of the SDT. By approving new entrant regulators and designations we allow more firms to start to provide or to expand their services and improve choice for consumers. We also encourage the approved regulators, in making changes to their handbooks and rules, to be more outcomes focused and to keep regulatory burdens to a minimum.

Some of these activities have statutory performance deadlines set out in the Act and we have also developed our own targets. We continually monitor performance against these deadlines and targets and record both in the monthly Programme Highlight Report and the quarterly performance report. The breakdown of our performance in 2016/17 is shown below. These figures are derived from ongoing records that the LSB maintains of our processing of applications.

Activity	How we performed
Publication of applications on our website	<ul style="list-style-type: none"> 100% (8 out of 8) of applications for approval of changes to regulatory arrangements were published within the two day working target
Decisions and recommendations on an application	<p>Changes to regulatory arrangements:</p> <ul style="list-style-type: none"> 7 decisions on applications to change regulatory arrangements were made 6 decisions were made in the initial decision period of 28 calendar days 1 decision was made in an extended decision period of 90 calendar days and 1 application was withdrawn by the applicant before a decision was made
Publish our decisions, extensions, warnings and refusals to consider applications	<ul style="list-style-type: none"> 100% (24 out of 24) of notices were published on our website within the target of 2 working days
Publish advice from mandatory consultees, written representation from applicants, and oral representations	<ul style="list-style-type: none"> 100% of targets achieved Advice was received from the CMA, the Panel, and Lord Chief Justice, all in respect of an application seeking designation for additional reserved legal activities as both an approved regulator and licensing authority. A written representation was received from the applicant in respect of the same application. Publication of all of the advice and representation occurred within 5 working days following receipt of the applicant's representation.
Recommendations to the Lord Chancellor	A recommendation was made to the Lord Chancellor to make an order designating the General Council of the Bar as a licensing authority. That recommendation was published within 5 working days.

In 2016/17, we received eight new applications concerning change of regulatory arrangements. Seven decisions were made and one application was withdrawn. There were no ongoing applications at the end of the year. Six decisions were made in the initial decision period of 28 days; one decision was issued after 64 days. The average time to make a decision was 29.5 days (29 days in 2015/16).

16 exemption directions were issued. Two of these were submitted as full applications; after reviewing these applications we considered that they could be exempted from the full process due to their low significance, impact and risk.

Performance against budget

The financial performance measure for the LSB is to keep within its annual budget (although it should be noted that we do not budget to incur any litigation costs). In doing so, the LSB aims to secure budget efficiencies wherever possible so that there is constant downward pressure on costs. This has been achieved as shown below:

	2016/17	2015/16
	£000	£000
Budget	3,998	4,298
Expenditure	3,525	3,587
Underspend	473	711

The underspend for 2016/17 was due to a number of factors:

- holding some staff posts vacant for an extended period initially while new colleagues were working out their notice at previous employers
- maintaining salary increase within an overall 1% limit in line with public sector pay policy
- vacancies on the LSB Board, the Panel and the OLC
- delaying some work to 2017/18 and
- other ongoing efficiencies.

The underspend for 2015/16 was also due to similar factors: holding some staff posts vacant for an extended period initially while new colleagues were working out their notice at previous employers, which had a consequential impact on what we could undertake in the year.

The LSB is financed by a levy on the approved regulators. This is in accordance with the Act, which stipulates that the costs of the LSB should be recouped by means of a levy, to be collected from approved regulators on behalf of HM Treasury (HMT). The Legal Services Act 2007 (Levy) (No.2) Rules 2010 as amended in 2014 enables the LSB to request funds from the approved regulators each year equal to its estimated net expenditure.

The LSB, in conjunction with the MoJ and HMT, are still seeking to identify a suitable legislative vehicle to make an amendment to s175 of the Act. This is to confirm the current practice whereby the LSB retains all amounts received through the levy and any 'prescribed fees' rather than passing this over to the Consolidated Fund and then having the same amounts returned to it by the MoJ. The LSB believes that this was the intention of Parliament when debating the Bill setting up the LSB although some of the drafting of s175 does not capture this intent correctly (see note 1b).

Income and expenditure is accounted for on an accruals basis. The levy amount charged and collected in 2016/17 was £3,255k (£3,676k 2015/16). The amount of funds released from 'deferred income' was £238k (£334k added to 'deferred income' in 2015/16). Any underspend that the LSB achieves in one year reduces the amount it needs to collect through the levy in the subsequent year.

The LSB recognises funds received as 'application fees', as defined in the Act at section 175 (2), for designation and licensing authority applications. Such fees received are initially treated as 'deferred income' and released to the Statement of Comprehensive Net Expenditure in accordance with the value of work undertaken. These fees are set against the LSB's expenditure and also reduce the levy payable by all approved regulators. £32k was received as 'prescribed fees' in 2016/17 (£22k 2015/16) and there are no monies left in 'deferred income' from 'prescribed fees' as at the 31 March 2017.

The LSB is constantly striving for the best value for money in the goods and services it purchases, fully aware that its funds are generated from the legal services sector and continues to drive down its running costs. ICT support is provided by a small enterprise, in line with government's aim of encouraging the use of SMEs for public sector services. Facilities services are provided by the LSB's current landlord, the Office of Rail and Road. As a small organisation, LSB managers are expected to undertake their own HR management, but this is supplemented by an outsourced advice arrangement.

These outsourced arrangements have provided the LSB with built-in resilience, which is normally not a feature of small organisations. This obviates the need for expensive consultancy or temporary staff cover, whilst ensuring that the organisation still receives a focused bespoke service, which recognises both its independent status and unusual funding and remuneration models (for example the absence of defined benefit pensions) compared to many public sector organisations.

Payment of creditors

The LSB has committed to pay all supplier invoices by the due date or within 30 days of receipt if no due date has been agreed. In line with guidance issued by the Department for Business, Energy and Industrial Strategy and the Cabinet Office, the LSB aims to pay all authorised invoices that are not under dispute within 10 days from receipt. Throughout 2016/17 100% of these invoices were paid within 10 days.

Performance against other measures

The Act (section 110(1)) also requires the Board's annual report to deal with how, in the Board's opinion, the activities of licensing authorities and ABS have affected the regulatory objectives.

Our view remains that the introduction of ABS continues to have a direct and positive impact in particular on the regulatory objectives of protecting and promoting the interests of consumers,

promoting competition in legal services and encouraging a strong, diverse and effective legal profession. Their value has been to provide a structure for firms wishing to provide services differently to address legal need. While overall numbers have continued to grow over time, and we have evidence of a wider variety of business models in the market than prior to the emergence of ABS, further regulatory reform is necessary. We need to continue to break down regulatory barriers to competition, innovation and growth, empower consumers and enable the need for legal services to be met more effectively. In the longer-term we consider that legislative reform may be necessary to complete the liberalisation of the legal services market. As at February 2017, there were 584 ABS licensed by the SRA, 168 by ICAEW, 58 by the CLC, and 36 by IPREG.

The LSB is a public authority for the purposes of the Freedom of Information Act 2000 (FOIA), and we take our responsibility seriously both to make up-to-date information about what we do routinely available through our Publication Scheme, and also to respond constructively and in a timely manner to requests for information.

All requests made under the FOIA must be responded to within 20 working days of receipt. However, we aim to respond to requests within 15 working days. In 2016/17, we received 18 requests, and on average these were responded to within seven days. All of these requests were dealt with within the 20-day statutory deadline, and only three requests were handled in more than 15 days.

As a data controller under the Data Protection Act 1998, the LSB is required to respond to any subject access requests within 40 calendar days. No subject access requests were received in 2016/17.

Environment, social and community issues

The LSB is not required to produce a sustainability report but it is committed to working closely with the Office of Rail and Road (the LSB's landlord) to ensure that it takes proper account of the impact of all of its activities on the environment.

Within the constraints of business need, the LSB has allowed colleagues flexibility with working patterns to enable them to undertake public service or other related duties as required. It will continue to be sensitive to the differing needs of different parts of the community.

In November 2016, LSB colleagues provided support to a local charity, Roots and Shoots. This charity provides vocational training for young people from the inner city, mainly from the London boroughs of Lambeth and Southwark. It aims to give them the skills and self-confidence that will equip them for work. LSB colleagues ran workshops helping the young people to identify and make the most of their skills and understand how these could relate to the workplace, including applying for jobs and preparing for and participating in interviews. Colleagues also spent a day with the charity helping to maintain the gardens as an important space for urban biodiversity, including planting of bulbs and shrubs.

During the course of the year LSB colleagues supported the London Legal Trust, by participating in the London Legal Walk, baking cakes and participating in a quiz night, raising £407.50. Colleagues also took part in the Christmas Jumper Day and donated £164.35 to Save the Children.

Neil Buckley
Accounting Officer
6 July 2017

Accountability report

Corporate governance report

LSB Members' report

The LSB was established by the Act to oversee the regulation of legal services in England and Wales. It took on the majority of its statutory powers and duties on 1 January 2010.

In 2016/17 the LSB oversaw regulation by nine approved regulators, who directly regulated almost 173,000 lawyers practising throughout the jurisdiction. (There are two additional approved regulators, Institute of Chartered Accountants of Scotland (ICAS) and the Association of Chartered Certified Accountants (ACCA), who do not currently have any approved regulatory arrangements or persons authorised to undertake reserved legal activities).

The Act allows the LSB to designate additional bodies as approved regulators, on application, provided they are able to demonstrate compliance with rules issued by the LSB for the purpose.

The LSB has to respond to the full range of risks that such a mixed market environment presents to consumers of legal services, to the public interest and to those seeking to provide regulated legal services in England and Wales

Schedule 1 of the Act stipulates that:

The Board is to consist of the following members –

- (a) a chairman appointed by the Lord Chancellor,*
- (b) the Chief Executive of the Board and*
- (c) at least 7, but not more than 10, other persons appointed by the Lord Chancellor.*

and

(1) In appointing persons as ordinary members the Lord Chancellor must ensure that a majority of the members of the Board are lay persons.

(2) The chairman must be a lay person.

The LSB Board has authority and responsibility for controlling the major activities of the LSB during the year and it is only this group that influences decisions of the LSB as a whole.

The names and details of all members of the LSB Board, who served during the year are shown in the Remuneration and Staff Report.

The LSB requires each Board Member to provide details of any company directorships and other significant interests they hold and this is published on the LSB website.¹⁶ Members are also required to declare any conflicts or interests in any item being discussed and the Chairman will determine whether they need to be excluded for that item. All and any such instances are recorded in the minutes of the Board, which are also published on the LSB website. Members are also required to make a 'related party declaration' to confirm whether they or any related party to them had undertaken any transactions with the LSB.

¹⁶ www.legalservicesboard.org.uk/about_us/our_board/board_interests_and_expenses/index.htm#Register

Statement of accounting officer's responsibilities

Under paragraph 25 of Schedule 1 of the Act, the Lord Chancellor, with the approval of HMT, has directed the LSB to prepare for each financial year a statement of accounts. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the LSB and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual (FReM) and in particular to:

- apply suitable accounting policies on a consistent basis
- make judgments and estimates that are reasonable and prudent
- state whether applicable accounting standards as set out in the FReM have been followed, and disclose and explain any material departures in the financial statements
- prepare the financial statements on a going concern basis.

The Principal Accounting Officer of the MoJ has appointed the Chief Executive as Accounting Officer of the LSB. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the LSB's assets, are set out in *Managing Public Money*, published by HMT.

I confirm that the annual report and accounts as a whole are fair, balanced and understandable and that I take personal responsibility for the annual report and accounts and the judgments required for determining that they are fair, balanced and understandable.

Professional financial advice

The LSB engaged the services of John Ward, a chartered accountant to provide support to the Audit and Risk Assurance Committee in reviewing and challenging the policies and procedures instigated by the Executive. In 2016/17 the LSB paid him £2k (£0.94k in 2015/16) for these services.

Auditor

Internal audit services for the period of this report were provided to the LSB by KPMG LLP.

The LSB's annual financial statements are audited externally by the Comptroller and Auditor General (C&AG) in accordance with the Act, Schedule 1, paragraph 25(4)(a). For the period ended 31 March 2017, a fee of £19.5k will be charged for the audit work that has been performed.

The audit services provided by the C&AG related only to statutory audit work.

So far as I am aware, as the Accounting Officer, there is no relevant information of which the LSB's auditors are unaware. I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

The Governance statement

As Accounting Officer for the LSB, I am responsible for maintaining a sound system of risk management, governance and internal control that enables the LSB to achieve its statutory obligations, aims and objectives, while safeguarding the funds and assets for which I am personally responsible. I particularly take personal responsibility for ensuring that the LSB:

- complies with all statutory and administrative requirements on the use of public funds, including the principles and policies set out in the HMT publication Managing Public Money, relevant Dear Accounting Officer letters, and other directions from the Cabinet Office/HMT
- meets its obligations under, and acts in accordance with the regulatory objectives contained in the Act
- operates within the limits of its statutory authority and in accordance with any delegated authorities agreed with the MoJ as the LSB's sponsoring department
- operates in line with the statutory requirements and spirit of the FOIA and complies with the Data Protection Act 1998.

I am an executive member of the Board of the LSB. The Board is responsible for ensuring the efficient discharge of the LSB's statutory functions, and that the LSB complies with all relevant statutory or administrative requirements for the use of public funds.

Corporate governance framework

The Board is responsible for the strategic leadership and direction of the LSB. The Board meets at regular intervals throughout the year, with a quorum of three Members (or one third of the number of Board members, whichever is the higher), and must have a lay majority.

The LSB is required, under section 5 of the Act, to have regard to generally accepted principles of good corporate governance. In this regard, the Board has adopted a Governance Manual which is published on the LSB's website at http://www.legalservicesboard.org.uk/about_us/our_board/board_code_of_practice/index.htm.

The LSB website also contains Board Members' biographies and information about their LSB-related expenses, interests and any corporate gifts or hospitality that they have received or given.

LSB Board

The LSB Board comprises both non-executive Members (including the Chairman) and the Chief Executive. The Board met formally on eight occasions during the period 1 April 2016 to 31 March 2017.

Meeting attendance	
+Sir Michael Pitt (Chair, Lay Member Chair)	8/8
Terry Babbs (Lay Member)	8/8
Marina Gibbs (Lay Member)	8/8
David Eveleigh (Non Lay Member)	8/8
++Dr Helen Phillips (Lay Member)	8/8
*Michael Smyth CBE QC (Hon) (Non Lay Member)	8/8
*Jemima Coleman (Non Lay Member)	7/8
**Jeremy Mayhew (Lay Member)	4/4
**Catharine Seddon (Lay Member)	4/4
Neil Buckley (Chief Executive Non Lay Member)	7/8

+ term of office ended on 30 April 2017

++ appointed as Interim Chair from 1 May 2017

* became a member of the Board from 18 April 2016

** became a member of the Board from 1 October 2016

The Act stipulates that the Board is to consist of a Chairman, Chief Executive, and at least seven other Members. Appointments are the responsibility of the Lord Chancellor in consultation with the Lord Chief Justice.

An appointment process for two non lay members was run by the MoJ on behalf of the Lord Chancellor during the winter of 2015/16. On 18 April 2016, Jemima Coleman and Michael Smyth CBE QC were appointed to the Board.

From April to September 2016, the Board had six other Members in addition to the Chairman. This meant that the Board was below its statutory minimum for that period. The Act states that the validity of any decision of the Board is not affected by a vacancy within its membership.

An appointment process for two lay members was run by the MoJ on behalf of the Lord Chancellor during the summer of 2016. On 1 October 2016, Catharine Seddon and Jeremy Mayhew were appointed to the Board. The Board now has eight *other Members*.

Board Committees

The Audit and Risk Assurance Committee (ARAC) is responsible, on behalf of the Board, for advising me as Accounting Officer on the maintenance of appropriate audit and risk processes within the LSB, and the governance of the internal and external audit programmes.

The Committee's activities in 2016/17 included:

- full scrutiny and review of the LSB's Annual Report and Accounts 2015/16
- review of the activities of the external auditors
- review of the internal auditor's activities
- scrutiny of the process of risk management and controls, including annual review of the LSB Risk Management Strategy, and oversight of the adoption of inherent scoring

- review of the LSB Governance Manual
- scrutiny of the Grant Thornton report into OLC governance to identify any areas of learning for LSB
- oversight of the Committee's business programme, review of its ToR and its effectiveness/performance.

The ARAC met on three occasions during the year in line with its Terms of Reference (ToR).

The Remuneration and Nomination Committee (RNC) is responsible for advising me as Accounting Officer and the Board Chairman on a number of HR issues, and has responsibilities relating to the appointment of Members of the Board, Panel and OLC.

The Committee's activities in 2016/17 included:

- consideration of the outcome of the performance review process and advising the CEO on the distribution of the 2016 pay award and pay arrangements for an apprentice
- review of resourcing trends including turnover, wastage and vacancy rates and sickness absence, the outcome and action plan emerging from the 2015 colleague engagement survey, the succession plan, HR policies and ToR for the SLT.

The RNC met twice during the year in line with its ToR.

Each Committee has a lay majority and is supported in its role by external advisors.

Committee Chairs and Members are appointed by the Board, with neither Chair being the Chairman of the Board.

Membership and attendance records are given below.

Audit and Risk Assurance Committee	
Terry Babbs (Chair)	3/3
Marina Gibbs	3/3
David Eveleigh	2/3
*Catharine Seddon	1/1

* became a member of ARAC from 1 January 2017

Remuneration and Nomination Committee	
Dr Helen Phillips (Chair)	2/2
Jemima Coleman	2/2
*Jeremy Mayhew	1/1
**Marina Gibbs	1/1

* became a member of ARAC from 1 January 2017

** co-opted onto the committee for one meeting only

Governance relationship with the Office for Legal Complaints

The Act gives the LSB a number of responsibilities in respect of the OLC, including approving its annual budget and appointing its members.

The relationship between the LSB and the OLC is underpinned by a Memorandum of Understanding, reflecting the respective bodies' independent and separate functions.

In approving the OLC's budget, the LSB seeks a range of assurances, and for the budget year 2017/18, these covered:

- an indication of the distribution of resources deployed in the operation of the ombudsman scheme, and the amount of income the OLC expects to raise from its operation, including a breakdown of staff costs by function
- key risks to delivering the plan for 2017/18 and the mitigations planned
- case volumes predicted for the year, along with a sensitivity analysis illustrating the organisation's response in the event that these fluctuate

- a summary of changes to the plan and budget in response to stakeholder responses, including the outcome of discussions with the MoJ and the extent to which the final plan and budget took account of that input
- the rationale behind a significant increase in bad debt contingency and
- details of the planning assumptions for the transfer of the Claims Management jurisdiction to the Financial Ombudsman Service.

As an independent body sponsored by the MoJ, the MoJ has responsibility for oversight of the OLC in respect of matters relating to Managing Public Money.

Governance relationship with the Legal Services Consumer Panel

The LSB is required by the Act to establish a Consumer Panel. The role of the Panel is to provide independent advice to the LSB about the interests of users of legal services. It does this by analysing issues that affect consumers, and providing the consumer perspective of Board decisions. Details of the Panel's composition and activities can be found on its website: www.legalservicesconsumerpanel.org.uk

Executive leadership

Senior Leadership Team (SLT) Chaired by the Chief Executive. It comprises eight colleagues. Its role is to provide oversight of the LSB's strategic and business plans, and ensure delivery of all executive activity. The SLT assesses and approves individual projects and serves as a resource for the consideration of major policy issues.

Programme Board Chaired by the Corporate Director, this group provides assurance that the Programme remains on track against the milestones in the Plan and, in particular, focuses on issues of risk at both project and programme level.

Board performance

The performance and effectiveness of the Board, its Committees and individual Board members are evaluated on an annual basis. Appraisals of individual Board members are carried out by the Chair in the last quarter of the year.

The Board Evaluation exercise for 2015/16 was completed in May 2016 and the outcomes were reported to the Board in July 2016 with progress against actions reported in January 2017. The Board Evaluation is overseen by the Chairman with support from the Corporate Governance Manager. Each Board Member completes a questionnaire covering all aspects of the Board's work and (where relevant for each Member) Board Committee's role and remit.

The outcome of this process for 2015/16 confirmed that the Board believes it observes principles of collective responsibility, support and respect. The Board was also confident that generally accepted principles of good corporate governance are observed. Practical considerations such as induction, initial training, frequency and length of meetings were judged appropriate. The Board agreed a number of areas to enhance their effectiveness such as inviting external speakers to the Board, improving opportunities to engage directly with colleagues and giving ongoing consideration to the items brought before the Board for discussion.

The Board Committees, ARAC and RNC, assessed their effectiveness by reviewing their performance against their Terms of Reference. Each Committee reports after each meeting to the next Board meeting. Each Committee prepared an annual report of its activities to the Board to inform this Report.

New Board Members received an induction covering the role of the LSB and their obligations as a Board Member in relation to Managing Public Money, and ongoing support to assist them in settling into their new roles. All new members are required to attend courses on accountability and governance for arm's length bodies and have participated in equality and diversity training. Board members, who are appointed to serve on ARAC also need to attend an introduction to audit and risk assurance committees, if they have not undertaken this previously.

Risk and internal control framework

The Board scrutinises the plans and sets the overall strategic direction of the LSB. The Board owns the risk management strategy; sets the tone and influences the culture of risk management. Executives are the owners of the risk register.

The Board reviewed the Corporate Risk Register at their meetings in May and November 2016.

The ARAC, on behalf of the Board, assesses in detail, issues of risk at each of its meetings, providing constant check and challenge to the assumptions and risk classifications made by the Executive. Issues of risk are considered at Board meetings in the course of discussions of each of the papers presented.

Initial identification of risk is undertaken by colleagues across the LSB, and those which are assessed to be potential risks under the risk framework are added to the Corporate Risk Register.

The LSB proactively assesses and manages its risks at both the corporate and project level.

Colleagues identify and record risks relating to their work. These are reported through the programme and corporate processes, as appropriate. Project and programme risks are reviewed at monthly Programme Board meetings. Each month the SLT reviews programme performance and the full corporate risk register, with new and increasing risks reported to the SLT as part of the monthly review.

The Board's approach to risk management and tolerance for risk is dependent on the area of business to which the risk is attached. The Board has agreed that:

- the tolerance for Operational (including financial) risk will be low, the priority here being business-as-usual.
- the tolerance for Strategic (including environmental and reputational) risk will be relatively high.

Where the Board determines that a risk causes concern, it will put in place a strategy to mitigate the risk which will include one or more of the following elements:

- preventing the risk from occurring by doing things differently
- reducing the impact of the risk by taking action to control it
- transferring the financial impact of a risk by passing it to a third party via, for instance an insurance policy or penalty clause, and
- contingency planning so that should the risk occur, actions are taken as planned in advance.

As Accounting Officer, I am ultimately accountable to the Board for the management of risk.

Assessment of risk management

In reviewing the LSB's risk management strategy, the Board and the ARAC have evaluated the quality of the LSB's management of risk during 2016/17 and have confirmed their assessment that the LSB's approach identifies the correct risks, and that mitigating actions are appropriately focused and implemented so as to support the LSB's programme of work to deliver the regulatory objectives.

Reporting of risk

I have assessed that there are no significant omissions in relation to risk that require further disclosure. This assessment has been endorsed by the Board and the ARAC.

Key risks

Some of the key risks facing the LSB in achieving its priorities in 2017/18 are ongoing, while others arise in relation to the point that the Board has reached in its corporate life, and the progress that has been made across the sector in seeking to implement the changes initiated by the Act. Certain of these are identified below:

LSB's independence called into question

Risk: As a body constituted by statute, with responsibilities under the Managing Public Money Framework and appointments made by a Minister (with the approval of the Lord Chief Justice) critics may seek to characterise the LSB as insufficiently independent of political interests. In 2016/17, this was stated in the *Report of the IBA Presidential Task Force on the Independence of the Legal Profession*.

Mitigation: On the specific issue that arose, the LSB responded publicly to the Report, writing to the IBA explaining the clear statutory and working basis for the LSB's independence'. The allegation was retracted from the IBA Report. We continue to be clear about the independence of LSB as it delivers its regulatory remit and to challenge and correct misconceptions.

Constraints on operating agility

Risk: The current spending controls required by the Cabinet Office and, separately, by the MoJ, have the potential to impact adversely on the LSB's ability to fulfil its statutory commitments. Most notably this includes the need to secure approval to recruit staff when vacancies arise and secure permission for other aspects of spend.

Mitigation: The LSB will continue to work constructively with its sponsor team in the MoJ to understand the full scope of the controls and how

they apply to the LSB, taking into account our status as an independent regulator.

Lack of a permanent Chair

Risk: The current LSB Chairman's term of office expired on 30 April 2017 and a permanent replacement has not been identified. The lack of a permanent appointee risks creating uncertainty and instability.

Mitigation: Interim Chair arrangements will provide stability and continuity of leadership until a permanent appointment is made by the Lord Chancellor.

The wider framework of control

As well as a risk and control framework, the LSB exercises a wider system of internal control which is based on a framework of regular management information, administrative procedures, including the segregation of duties, and processes for delegation and accountability. The Board acknowledges the quality of information it receives from the Executive, which provides the assurance they require to discharge their duties and responsibilities.

Role of internal audit

The LSB's governance arrangements and risk management processes are supported by an internal audit function provided by KPMG LLP.

Internal audit reviews carried out in 2016/17 were as follows:

- a review of the processes, policies and controls in place as regards financial systems
- a review of the risk management process and procedures used by the LSB and
- a review of the design of the performance management framework for overseeing approved regulators.

The Head of Internal Audit has found that overall the LSB has an adequate and effective framework of governance, risk management and control within the areas of financial systems, risk management and the design in relation to overseeing regulators.

Information risk and data security

The LSB is a data controller under the Data Protection Act 1998 and is subject to the FOIA. The LSB must also have due regard to the requirements set out in HMG Security Policy Framework issued by the Cabinet Office. This focuses on the outcomes required to achieve a proportionate and risk managed approach to security, which enables the LSB to function, safely and securely.

All of the LSB's electronic data and access to this data is managed securely with support provided by Co-Operative Systems. This organisation helped to ensure that the LSB implements guidance on protection and security of its IT, physical and data assets from CESG (the National Technical Authority for Information Assurance), the Cabinet Office and the Centre for the Protection of the National Infrastructure (CPNI).

During 2016/17 there were no data security incidents or breaches.

All new colleagues receive training on information assurance and security, with particular focus on the Government's security classification system and information assurance.

Security and confidentiality of information is included within Board Member's terms and conditions of appointment.

Assessment of fraud risk

Together with the ARAC, I have reviewed the arrangements for the LSB's assessment of the risk that the financial statements may be materially misstated due to fraud, the current processes for identifying and responding to the risks of fraud and any known instances of fraud. I consider that there is a low risk of misstatement due to fraud. The fact that appropriate segmentation of budgetary and authorisation processes are in place and that the organisation does not handle any physical cash both significantly reduce the

risk of fraud. Appropriate processes for identifying and responding to the risks of fraud in day-to-day operations are nevertheless in place. There were no known instances of fraud to report.

Public interest disclosure arrangements

The LSB has put in place an internal whistleblowing policy which sets out in detail the steps that will be taken in the event that a member of staff seeks to make a protected disclosure. This policy includes the identification of the personnel, including named Board members, to whom such disclosures can be made.

In addition, a Reporting and Investigation Scheme has been published setting out the process by which persons external to the LSB may report any allegations of fraud or corruption. Such disclosures may also be made to a range of senior LSB staff as well as named Board members.

Both policies are reviewed annually, as part of the Governance Manual review, to ensure that it is in line with current best practice. The most recent policy review was reported to both the ARAC and to the Board in October 2016.

There were no public interest disclosure incidents reported during the year.

Review of the effectiveness of the risk and governance framework

The ARAC has advised me on the adequacy of audit arrangements (internal and external) and on the implications of assurances provided in respect of risk and control in the LSB. My review is also informed by the work of the internal auditors, senior managers and comments made by the external auditors in their management letter and other reports. In particular, I have placed reliance on the significant assurance annual opinion provided to me by the Head of Internal Audit.

Significant control issues

I can confirm that the LSB has not had any significant control issues during the year and has no significant weaknesses to address.

Compliance with Corporate Governance in central government departments: Code of Good Practice 2011

In drawing up the *Governance Statement*, I have assessed the LSB's governance arrangements against the requirements set out in *Corporate Governance in central government departments: Code of Practice 2011* ('the Code'). Whilst the Code is specifically designed for Central Government departments, the requirement to 'comply or explain' also applies to any other bodies within the scope of *Managing Public Money*, including the LSB. My assessment, which has been endorsed by the ARAC and the Board, is that the LSB complies with the Code insofar as this is applicable to it, with the exception of one area of non-compliance:

Code 5.9 states: 'At least one, but preferably more, of [the Audit and Risk Assurance Committee] members should have recent and relevant financial experience'.

John Ward, a chartered accountant, provided support to the ARAC on the basis that none of the Board members, who had served on the Committee during 2016/17, have relevant or professional financial experience.

Conclusion

I am satisfied that the LSB has maintained the level of financial and governance control and oversight necessary to enable, rather than impede, delivery of its challenging agenda, with a combination of effective management of risk, stewardship of resources and non-executive challenge and engagement.

Remuneration and staff report

Appointments

All Non-Executive Board Members are appointed by the Lord Chancellor, in consultation with the Lord Chief Justice, for a fixed term of up to five years and Members may be re-appointed for one subsequent term of office.

The Chairman, Sir Michael Pitt, was appointed on 1 May 2014 for a three-year term. The Chairman is required to commit at least 70 days per annum to the work of the LSB. Sir Michael's term of office concluded on 30 April 2017 and an appointment process, undertaken by the MoJ on behalf of the Lord Chancellor and in consultation with the Lord Chief Justice, will be held to identify his successor.

Members are required to commit at least 30 days per annum to their work with the LSB and to attend at least 75% of Board meetings.

In accordance with the Act, the Chief Executive is a Board Member.

As at 31 March 2017, there were ten Board Members – six men and four women.

Termination

There is no compensation payable for loss of office for Board Members before the expiry of the term of appointment.

The Chief Executive's contract of employment provides for six months' notice on either side.

Performance conditions

Remuneration of the Chairman and other Non-Executive Board Members is set by the Lord Chancellor and is not subject to performance conditions.

The remuneration of the Chief Executive is determined following a recommendation to the Board by the RNC and in consultation with the MoJ. The performance of the Chief Executive is reviewed annually by the Chairman, the first of which was undertaken in March 2017 and as a result the Chief Executive received a bonus of £15k.

Name	Date Appointed	Date Appointment Ends
Sir Michael Pitt (Chairman)	1 May 2014	30 April 2017
Terry Babbs	1 April 2013	30 September 2017
Marina Gibbs	1 April 2014	31 March 2020*
David Eveleigh	1 April 2014	31 March 2020*
Dr Helen Phillips	9 March 2015	31 March 2018
Michael Smyth CBE QC (Hon)	18 April 2016	17 April 2019
Jemima Coleman	18 April 2016	17 April 2019
Catharine Seddon	1 October 2016	30 September 2019
Jeremy Mayhew	1 October 2016	30 September 2019
Neil Buckley (Chief Executive)	4 January 2016	(see termination note above)

* Now in second term

This table has been audited

LSB Board Member	Annual salary Rate	2016/17				2015/16		
		Salary	Pension	Bonus	Total	Salary	Pension	Total
		£000	£000	£000	£000	£000	£000	£000
Sir Michael Pitt (Chairman)	63	63	–	–	63	63	–	63
Terry Babbs	15	15	–	–	15	15	–	15
Marina Gibbs	15	15	–	–	15	15	–	15
David Eveleigh	15	15	–	–	15	15	–	15
Dr Helen Phillips	15	15	–	–	15	15	–	15
Michael Smyth CBE QC (Hon)	15	14.3	–	–	14.3	–	–	–
Jemima Coleman	15	14.3	–	–	14.3	–	–	–
Catharine Seddon	15	7.5	–	–	7.5	–	–	–
Jeremy Mayhew	15	7.5	–	–	7.5	–	–	–
Neil Buckley (Chief Executive from 4/1/16)	140	140	27.2	15	182.2	35	4.5	39.5
Anneliese Day QC (1/4/13 to 31/3/16)	15	–	–	–	–	15	–	15
William Moyes (1/9/08 to 30/9/15)	15	–	–	–	–	7.5	–	7.5
Edward Nally (14/2/11 to 30/9/15)	15	–	–	–	–	7.5	–	7.5
Richard Moriarty (Chief Executive 2/2/15 to 11/1/16)	142.5	–	–	–	–	100	32.4	132.4

Remuneration of Chairman and Board Members

The remuneration of the Chairman and Board Members is shown in the table. There were no benefits in kind. Only Board Members are included in this report as they are the only ones who influence the decisions of the LSB as a whole rather than individual parts. No payments were made to any former Board member after they ceased to be a Board member.

Staff Report

LSB employees are not civil servants but public servants. LSB colleagues do not have access to the Principal Civil Service Pension Scheme or any

other defined benefit scheme. As at 31 March 2017 the LSB had 24 full time employees and 9 part time employees. 66.7% of the staff complement were women. The LSB supports a range of flexible working patterns.

The LSB's average sickness absence was 7.66 days per full time equivalent (3.98 days 2015/16). Two colleagues were absent due to sickness for an extended period of time.

The LSB does not engage any 'off payroll' staff nor does it use any contingent labour: agency (clerical and admin) staff, interim managers or specialist contractors.

Pension liabilities

The LSB has established a defined contribution group personal pension scheme into which the LSB makes fixed contributions based on a percentage of each employee's salary but has no other liabilities.

As at 31 March 2017 the seven senior civil service equivalents on the Senior Leadership Team, excluding the Chief Executive, comprised– three men and four women.

Senior civil servant equivalent by pay band (based on full time equivalent salary rate)

Salary band £000	Number of senior civil service equivalent within band as at 31 March 2017	Number of senior civil service equivalent within band as at 31 March 2016
£60-£70	2	2
£70-£80	1	1
£80-£90	1	2
£90-£100	2	1
£100-£110	1	1

Numbers of staff and non-executives split between male and female

	Male	Female
LSB Board Members	6	4
Consumer Panel	3	5
Senior Civil service equivalents	3	4
All others	7	18

Fair pay disclosures (audited)

In 2016/17 the annual full-time equivalent rate of remuneration ranged from £23,300 to £155,000. (2015/16 £23,300 to £142,500). In 2016/17, a pay award of 1% of salary budget was distributed on a flat percentage basis to all eligible colleagues bar the Chief Executive.

The remuneration of the most-highly paid Director who was also the most highly paid individual at the LSB in the financial year 2016/2017 was £155,000. This was 2.84 times the median salary of the workforce, which was £54,618. The ratio has increased due to the bonus paid to the Chief Executive in March 2017 and a reduction in the median salary.

The remuneration of the most-highly paid Director who was also the most highly paid individual at the LSB in the financial year 2015/2016 was £142,500. This was 2.59 times the median salary of the workforce, which was £55,065.

Staff policies, equality and colleague involvement

The LSB is committed to ensuring equality of opportunity in employment and advancement. It strongly believes that all colleagues are entitled to be treated with respect in an environment free from discrimination, harassment, victimisation and bullying.

The LSB's recruitment policy states our commitment to equality of opportunity at all stages of recruitment and selection and that we will make reasonable adjustments to the recruitment process to ensure that no applicant is disadvantaged because of his/her disability. Shortlisted candidates are selected purely on the basis that their skills and experiences match the job description and colleague specification.

As an employer the LSB aims to recruit, motivate, develop and retain outstanding people from diverse backgrounds to deliver its priorities. Even as a relatively small organisation, it strives to support and promote equality both within its organisation and in delivering its external responsibilities. In addition to the LSB's organisational commitment to integrate diversity and equality into its work and organisational culture, it has statutory obligations under The Equality Act 2010.

The LSB is managed on a basis, which seeks to make sure that colleagues are fully involved in matters affecting them. It holds regular all-colleague meetings, and colleagues are consulted on matters affecting their employment and welfare. A colleague engagement survey was carried out in 2015/16 and the LSB continues to carry forward the learning and organisational development points that emerged.

During the course of the year, the LSB maintained its commitment to professional development for all colleagues by providing both internal and external training as required. In addition, each colleague was allocated a small budget that is used to fund learning and development opportunities relevant to personal career aspirations and business need.

Staff numbers and related costs (audited)

Staff remuneration

	2016/17 Permanent Staff	2016/17 LSB Board	2016/17 OLC Board	2016/17 Consumer Panel	2016/17 Total	2015/16 Total
	£000	£000	£000	£000	£000	£000
Wages and Salaries	1,603	167	112	134	2,016	1,994
Social security costs	190	14	8	13	225	219
Pension costs	305	–	–	13	318	319
Other staff costs	28	–	–	–	28	18
Total	2,126	181	120	160	2,587	2,550

The remuneration of the Chief Executive is included in staff remuneration.

- Wages and salaries include a 10% benefits allowance paid to all staff, excluding the Chief Executive, as part of the LSB's Total Reward Scheme. Staff can purchase benefits from a menu of choices or take this as cash and the LSB operates a salary sacrifice scheme.
- Other costs include death in service and payments and such items as childcare vouchers
- Consumer Panel costs include the fixed fees paid to Panel members as well as the supporting secretariat of two LSB colleagues
- LSB Board fees, which are disclosed in 'Wages and salaries' are also included in Remuneration of Chairman and Board Members table

The average monthly number of full-time equivalent staff including secondees from government departments, other organisations, staff employed on short term contracts and temporary staff was:

	2016/17	2016/17	2015/16
	Permanent staff	Total	Total
Directly employed – LSB	29.0	29.0	28.7
Directly employed – Panel secretariat	1.8	1.8	1.7
Total	30.8	30.8	30.4

Redundancy costs are accounted for in full in the year that an irrevocable decision has been made. There were no redundancies in 2016/17 or 2015/16. Consequently the cost of redundancy payments in 2016/17 was £nil (2015/16: nil).

Parliamentary accountability and audit report

The LSB is accountable to Parliament through the Lord Chancellor and is sponsored by the MoJ. The relationship between the LSB and the MoJ is detailed in the Framework Agreement, which sets out the principles and strategic framework under which the LSB and the MoJ will operate. The Agreement looks at how both parties will:

- meet their responsibilities
- ensure regular contact and communicate with one another
- undertake proper planning and ensure accountability and
- support each other.

The LSB's Framework Agreement states that the overall aim of the LSB is to contribute to the reform and modernisation of the legal services market place in the interests of consumers, enhancing quality, ensuring value for money and improving access to justice across England and Wales.

It does this by working to improve the delivery of legal services by providing oversight of the regulation of the legal services sector. This includes ensuring that the performance of the approved regulators meets the standards expected of them

by society. In relation to the approved regulators, this includes ensuring that the principles of better regulation are adopted and that the regulatory objectives outlined in the Act are promoted. In addition, the LSB has a number of responsibilities relating the governance of the OLC.

Regularity of expenditure (audited)

Losses and special payments – there were no losses or special payments in 2016/17 (2015/16: Nil).

Remote Contingent Liabilities – there are no remote contingent liabilities to report.

Long-term expenditure trends – the LSB's initial budget for its first full year of normal operations (2010/11) was £4,931k. The Accounting Officer has made a commitment to reduce this to under £3,700k by 2019/20, subject to the functions of the LSB remaining the same as at present.

Neil Buckley

Chief Executive and Accounting Officer

6 July 2017

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Legal Services Board for the year ended 31 March 2017 under the Legal Services Act 2007. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and the Parliamentary accountability disclosures that is described in that report as having been audited.

Respective responsibilities of the Board, Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Board and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Legal Services Act 2007. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Legal Services Board's circumstances and have been

consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Legal Services Board; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Legal Services Board's affairs as at 31 March 2017 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Legal Services Act 2007 and directions issued thereunder by the Lord Chancellor with the approval of HM Treasury.

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary accountability disclosures to be audited have been properly prepared in accordance with directions made by the Lord Chancellor with the approval of HM Treasury under the Legal Services Act 2007; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

11 July 2017

Financial Statements

Statement of Comprehensive Net Expenditure for the year ended 31 March 2017			
	Note	2016/17 £'000	2015/16 £'000
Programme costs			
Staff costs	5	2,587	2,550
Depreciation/Amortisation	6 and 7	39	39
Other programme costs	2	899	998
		3,525	3,587
Income			
Levy income	3	3,493	3,342
Refund of legal costs	4	–	223
Designation and application fees	4	32	22
		3,525	3,587
Net (income)/expenditure		–	–

All operations are continuing. There were no acquisitions or disposals of operations during the period.

The notes on pages 48 to 56 are part of the financial statements.

Statement of Financial Position as at 31 March 2017			
	Note	31 March 17 £'000	31 March 16 £'000
Non-Current assets			
Property, Plant & Equipment	6	70	102
Intangible assets	7	20	27
Total non-current assets		90	129
Current assets			
Trade and other receivables due within one year	10	46	117
Cash and cash equivalents	8	7,015	7,081
Total current assets		7,061	7,198
Total assets		7,151	7,327
Current liabilities			
Trade and other payables	11	784	960
Total current liabilities		784	960
Assets less liabilities		6,367	6,367
Taxpayers' equity			
Income and Expenditure reserve		6,367	6,367
		6,367	6,367

Neil Buckley
Accounting Officer
6 July 2017

The notes on pages 48 to 56 are part of the financial statements.

Statement of Cash Flows for the year ended 31 March 2017			
	Note	2016/17 £'000	2015/16 £'000
Cash flows from operating activities			
Net operating cost		–	–
Decrease (Increase) in trade and other receivables		71	(71)
(Decrease) Increase in trade and other payables		(176)	52
Depreciation/Amortisation		39	39
Net (outflow)/inflow from operating activities		(66)	20
Cash flows from investing activities			
Purchase of property, plant and equipment		–	–
Purchase of intangible assets		–	–
Net cash outflow from investing activities		–	–
Net (decrease) increase in cash and cash equivalents in the period		(66)	20
Cash and cash equivalents at the beginning of the period	8	7,081	7,061
Cash and cash equivalents at the end of the period	8	7,015	7,081

The notes on pages 48 to 56 are part of the financial statements.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2017		
Income and Expenditure Reserve		
	Note	£'000
Balance as at 1 April 2015		6,367
Changes in Taxpayers' Equity 2015/16		
Comprehensive net expenditure for the year		–
Notional transfer to Consolidated Fund		3,364
Notional receipt from sponsoring department		(3,364)
Balance at 31 March 2016		6,367
Balance at 1 April 2016		6,367
Changes in Taxpayers' Equity 2016/17		
Comprehensive net expenditure for the year		–
Notional transfer to Consolidated Fund	1b	3,525
Notional receipt from sponsoring department	1b	(3,525)
Balance at 31 March 2017		6,367

Notes to the financial statements

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2016/17 Government Financial Reporting Manual (FReM). The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy that is judged to be most appropriate to the particular circumstances of the LSB for the purpose of giving a true and fair view has been selected. The particular policies adopted by the LSB are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

(a) Accounting convention

These accounts have been prepared under the historical cost convention, modified by the revaluation of certain assets and liabilities to fair value, where appropriate, as determined by the relevant accounting standards, and subject to the interpretations and adaptations of those standards in the FReM.

(b) Income

Receipts from the levy on the approved regulators are classified as income. Any levy amounts received in excess of the LSB's net expenditure for the year are deferred to the following year. Any shortfall between levy amounts received and the LSB's expenditure are financed by a release of funds deferred from a previous year.

Any cash received as "Prescribed Fees" (designation and application fees) relating to applications for designation or application to become an approved regulator or licensing authority will initially be accounted for as deferred income and thereafter be released to the Statement of

Comprehensive Net Expenditure by reference to the stage of completion.

The LSB, in conjunction with the MoJ and HMT, is seeking to identify a suitable legislative vehicle to make an amendment to s175 of the Act. This is to confirm the current practice whereby the LSB retains all amounts received through the levy and any prescribed fees rather than passing this over to the Consolidated Fund and then having the same amounts returned to it by the MoJ. The LSB believes that this was the intention of Parliament when debating the Bill setting up the LSB although some of the drafting of s175 does not capture this intent correctly. To comply with the strict requirements of s175 for the year ended 31 March 2017 the MoJ will be responsible for making a payment on behalf of the LSB to the Consolidated Fund equivalent to the income received by the LSB for the year from the levy and prescribed fees. Accordingly, a notional transfer to the Consolidated Fund has been shown in the Statement of Changes to Taxpayers' Equity. An equal amount is shown as a notional receipt from the sponsoring department.

(c) Capitalisation policy for non-current assets

Property, plant and equipment comprise major technology projects, information technology equipment such as servers, PCs as well as office furniture, fixtures and fittings and office leasehold improvements. Intangible assets comprise software licenses.

Expenditure on major information technology projects is capitalised. This includes expenditure directly incurred on hardware, software and if appropriate consultancy costs.

Non-current assets are capitalised where the cost is £2,500 or over. However, for grouped purchases of IT equipment, IT software or furniture, fixtures and fittings individual items with a cost of £500 or

greater are capitalised where the total grouped purchase is £2,500 or more.

Consultancy expenditure is generally charged to the Statement of Comprehensive Net Expenditure when incurred. However, where the level of expenditure is over £30,000 and creates a distinct asset for the LSB which has a life of more than one year, consultancy costs that are directly attributable to the asset are capitalised.

Assets in the course of construction are capitalised at purchase cost and then depreciated from the date that they become operational.

(d) Research

The LSB commissions social science/consumer research to inform its understanding of the legal services market and consumers. The costs of such research are charged to the Statement of Comprehensive Net Expenditure when incurred.

(e) Depreciation/amortisation

Depreciation/amortisation is charged in respect of all capitalised non-current assets (nothing in the month of purchase but a full month in the month of disposal) and charged to the Statement of Comprehensive Net Expenditure at rates calculated (less any estimated residual value) for each asset evenly on a straight line basis over their expected useful life as follows:

Tangible PPE	
Information Technology	4-7 years
Furniture, fixtures and fittings	5-9 years

Intangible non-current assets	
Software licences	3-7 years

In line with IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets, the LSB has reviewed the useful economic lives and residual values of its PPE and extended its depreciation period by an additional year. The effect of this change on the Statement of Comprehensive Net Expenditure is to reduce the charge for the year from £40k to £39k.

(f) Impairment and revaluation policy on non-current assets

The LSB undertakes an annual impairment review of assets to ensure that they are carried at no more than their recoverable amount. The recoverable amount is the amount to be recovered through use or sale of the asset. An impairment reflects a permanent diminution in the value of an asset as a result of a clear reduction of economic benefits or service potential.

Depreciated historical cost is used as a proxy for fair value as this realistically reflects consumption of the assets as allowed by the FReM paragraph 7.1.14. Revaluation would not cause a material difference and the total value of all asset classes is defined as 'low'.

(g) Taxation

Expenditure in the Statement of Comprehensive Net Expenditure and costs for capitalised non-current assets are shown inclusive of VAT, which is irrecoverable for the LSB.

(h) Going concern

The LSB receives funding from the approved regulators through the levy for its operating costs. This arrangement has been enshrined in legislation through a Statutory Instrument and levy funding will continue until there are changes to primary legislation. The MoJ has confirmed an overall budget for the LSB (£3.85m) for 2017/18. The Lord Chancellor has announced a review of the Act but any change or decision to abolish its functions and bring its operations to an end would require primary legislation. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

(i) Pensions

The LSB has established a defined contribution group personal pension scheme in which the LSB makes fixed contributions of 10% for all colleagues and has no other liabilities. The Chief Executive receives a fixed contribution of 19.4%. Pension contributions are charged to the Statement of Comprehensive Net Expenditure in the year in which they are incurred.

(j) Operating leases

Rentals are charged to the Statement of Comprehensive Net Expenditure in equal amounts over the lease term.

(k) IFRS in issue but not yet effective and future FReM changes

The LSB has considered annual improvements and new interpretations to existing standards and has determined that there would be no material effect on its current or prior period or a future period.

The LSB has also considered new standards, amendments and interpretations issued but not yet effective for the financial year beginning 1 April 2017 and not early adopted IFRS 15 (Revenue from contracts with customers), IFRS 9 (Financial Instruments) and IFRS 16 (Leases) and has determined that there would be no material effect on its current or prior period or a future period.

2. Other expenditure

	2016/17 £'000	2015/16 £'000
External legal costs	6	13
Accommodation – (licence to occupy fee)	166	171
Outsourced services	94	99
Research costs	159	330
Running costs	128	126
Other programme costs	65	54
Recruitment LSB Staff	61	49
Recruitment OLC Members	32	3
Recruitment Consumer Panel	27	–
Legal library services & reference	34	32
Consumer Panel (non pay)	32	32
Professional advisers	14	27
Training	21	13
Travel and subsistence – LSB Staff	5	4
Travel and subsistence – LSB Board	13	10
Travel and subsistence – OLC Board	9	10
Audit fees for statutory audit work	20	20
Internal audit fees	13	5
Total cash items	899	998
Non-cash items		
– Depreciation	32	32
– Amortisation	7	7
Total non-cash items	39	39
Total other expenditure	938	1,037

3. Levy income

	2016/17 £'000	2015/16 £'000
Levy income from approved regulators	3,493	3,342
Total	3,493	3,342

4. Sundry income and Designation and application fees

	2016/17 £'000	2015/16 £'000
Refund of costs incurred defending QASA judicial review	–	223
Designation application fees: ICAEW	32	–
<i>Licensing Authority – application fees: Bar Council</i>	–	22
Total	32	245

5. Staff costs

	2016/17 Permanent Staff	2016/17 LSB Board	2016/17 OLC Board	2016/17 Consumer Panel	2016/17 Total	2015/16 Total
	£,000	£,000	£,000	£,000	£,000	£,000
Wages and Salaries	1,603	167	112	134	2,016	1,994
Social security costs	190	14	8	13	225	219
Pension costs	305	–	–	13	318	319
Other staff costs	28	–	–	–	28	18
Total	2,126	181	120	160	2,587	2,550

6. Property, plant and equipment

	2016/17 £'000	2016/17 £'000	2016/17 £'000
	Information technology	Furniture, fixtures & fittings	Total
Cost			
At 1 April 2016	85	137	222
Additions	–	–	–
Disposals	–	–	–
At 31 March 2017	85	137	222
Depreciation			
At 1 April 2016	24	96	120
Provision for the year	17	15	32
Released on disposals	–	–	–
At 31 March 2017	41	111	152
Net Book Value			
At 31 March 2017	44	26	70
At 31 March 2016	61	41	102

	2015/16 £'000	2015/16 £'000	2015/16 £'000
	Information technology	Furniture, fixtures & fittings	Total

Cost			
At 1 April 2015	85	137	222
Additions	–	–	–
Disposals	–	–	–
At 31 March 2016	85	137	222

Depreciation			
At 1 April 2015	7	81	88
Provision for the year	17	15	32
Released on disposals	–	–	–
At 31 March 2016	24	96	120

Net Book Value			
At 31 March 2016	61	41	102
At 31 March 2015	78	56	134

7. Intangible assets

Software licences		Software licences	
	2016/17 £'000		2015/16 £'000
Cost		Cost	
At 1 April 2016	36	At 1 April 2015	36
Additions	–	Additions	–
Disposals	–	Disposals	–
At 31 March 2017	36	At 31 March 2016	36
Amortisation		Amortisation	
At 1 April 2016	9	At 1 April 2015	2
Provision for the year	7	Provision for the year	7
Released on disposals	–	Released on disposals	–
At 31 March 2017	16	At 31 March 2016	9
Net Book Value		Net Book Value	
At 31 March 2017	20	At 31 March 2016	27
At 31 March 2016	27	At 31 March 2015	34

8. Cash and cash equivalents

	2016/17 £'000	2015/16 £'000
Balance at 1 April	7,081	7,061
Net change in cash and cash equivalent balances	(66)	20
Balance at 31 March	7,015	7,081

The LSB does not use petty cash and holds all of its cash in the Government Banking Service. It does not have any cash equivalents.

Approved regulators pay their share of the levy by 31 March each year and these funds are then used to finance the LSB's operating costs for the following year.

9. Financial instruments

As the cash requirements of the LSB are met through levy funding provided by approved regulators of the legal profession, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. All financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the LSB in undertaking its activities. The LSB is therefore currently exposed to little credit, liquidity or market risk.

10. Trade receivables and other assets

Amounts falling due within one year		
	2016/17 £'000	2015/16 £'000
Sundry debtors	–	66
Prepayments	36	34
Deposits and advances	10	17
Total trade and other receivables	46	117

11. Trade payables and other current liabilities

Amounts falling due within one year		
	2016/17 £'000	2015/16 £'000
Trade payables		
– External	81	9
Other taxation and social security	79	69
National Audit Office	20	20
Deferred income	473	711
Staff benefits accrual	30	27
Accruals	101	124
Total trade and other payables	784	960

12. Capital commitments

There are no capital commitments.

13. Commitments under leases

Operating leases		
	2016/17 £'000	2015/16 £'000
<i>Buildings</i>		
Not later than one year	165	166
Later than one year and not later than five years	286	452

The LSB signed a *Crown Estate Occupancy Agreement (CEOA)* with the Office of Rail and Road in September 2013 and the LSB moved to One Kemble Street at the beginning of January 2014. The licence fee to occupy part of the third floor is billed quarterly.

14. Contingent assets/liabilities

There are no contingent assets or liabilities to report.

15. Related party transactions

The LSB is a NDPB sponsored by MoJ. The MoJ is regarded as a related party solely due to its sponsorship responsibility. During the year the LSB had no material transactions with MoJ apart from the notional transactions as shown in the Statement of Taxpayers' Equity.

In addition the LSB has had a small number of transactions with other government departments and other central government bodies.

The LSB has a direct relationship with the OLC and has some oversight responsibilities for the Ombudsman Scheme that the OLC established. Under the Act the LSB is responsible for appointing and paying the salaries and expenses of the OLC Board members, which for the whole reporting period amounted to £129k (£134k 2015/16). The payments for fees for the OLC Board members for 2016/17 were £112k (£116k 2015/16).

During the period there were no other material transactions with the OLC itself or any of the Members of the OLC.

None of the LSB or LSCP Members or key managerial staff undertook any related party transactions with the LSB during the year, except for remuneration paid for their services and reimbursement of business travel expenses.

16. Events after the reporting period

In accordance with IAS 10 *Events After the Reporting Period* events after the reporting period are considered up to the date on which the accounts are authorised for issue. The Accounting Officer authorised these financial statements for issue on 11 July 2017.

There are no events after the reporting period to report.



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