



LEGAL SERVICES
BOARD

Legal Services Board

Annual Report and Accounts for
the Year Ended **31 March 2013**

Legal Services Board

Annual Report and Accounts for the Year Ended 31 March 2013

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Highlights of 2012/13

This report covers the period 1 April 2012 to 31 March 2013.

In the period under review we have achieved the following:

- Received positive endorsement of our role, form and functions and the governance process we implement through the Ministry of Justice's first Triennial Review
- For the first time, concluded that all of the regulators operating in the legal services sector are potentially compliant with rules to ensure that regulation is free from prejudicial representative influence and are therefore operating in the public interest – not the interests of the professions
- Assessed the regulatory competence and capability of each of the regulators and agreed action plans for improvement for each of them, concluding that every regulator has a way to go before regulation that imposes minimum burdens but delivers maximum consumer protection is in place across the sector
- Completed a major investigation into the detriment experienced by consumers using will-writing services
- Concluded an investigation into regulation of immigration advice and service by calling on regulators to ensure that practitioners are technically competent and provide good quality advice and client care – and urging them to take swift action against those practitioners that do not meet minimum standards
- Reported on the regulatory risks that arise in conveyancing with a number of recommendations around controls on holding of client money for regulators to consider
- Continued to promote competitiveness and innovation by working with licensing authorities to improve alternative business structure (ABS) processes. At the end of March 2013 137 alternative business structures had been approved.
- Consulted on the regulation of special bodies and identified the policy issues that needed to be addressed so that a coherent approach to regulation could be developed. Further work is now being undertaken with potential licensing authorities and special bodies to develop and test draft guidance.

- Received 19 applications from regulators to approve changes to their regulatory arrangements, one application from an existing regulator to extend the scope of activities it can regulate and one application from a new body wishing to become an approved regulator
- Worked with the Office for Legal Complaints (OLC) to ensure that the performance of the Legal Ombudsman meets appropriate levels of timeliness, quality and cost and that the valuable information obtained by the Ombudsman is considered by regulators in addressing consumer risk – and consented to revised Scheme Rules
- Reviewed the performance of each regulator in making sure that those they regulate have effective complaints handling arrangements in place and set out agendas for improvements for each of them
- Delivered a major contribution to the understanding of the legal services sector and the experiences of those using and providing services through our research programme including by:
 - o Undertaking the largest ever survey of solicitor firm activities jointly with The Law Society and Ministry of Justice (MoJ)
 - o Publishing a summation of all available data on the legal services market to provide a baseline from which future change can be measured
 - o Reviewing all available evidence on the equality of pay in legal services
 - o Investigating the extent of consumers' legal needs and the potential for the internet to meet those needs
 - o Considering the extent to which empirical research can be used to track ethics



Introduction from the Chairman



This is the fifth annual report of the Legal Services Board (LSB) for the period April 2012 to March 2013. It covers our third year of access to full regulatory powers.

The central role of the LSB is to drive improvements in legal services and access to justice by improving legal services regulation. We are now starting to see the results of the hard work of previous years – as of May 2013 we are approaching 200 alternative business structures approved, the Legal Ombudsman is continuing to operate more cost effectively than past schemes and independent public interest based regulators are more solidly established than ever before.

But the job envisaged at our creation is not done. Our core responsibility – to enhance the interests of consumers of legal services in England and Wales – remains clear. Discharging it requires a regulatory

system that is fit for purpose, enables greater innovation and competition and has the principles of proportionality, accountability, consistency, targeting and transparency at its heart. We will continue to pursue this with vigour during 2013/14.

That is why this year we conducted assessments of the performance of the regulators we oversee. For the first time we have been able to see clearly what progress has been made and how far there is still to go in achieving legal services regulation that imposes the lowest possible regulatory demands on providers, which safeguards consumers and which addresses all of the regulatory objectives. We were genuinely pleased by the level of frank self-reflection shown by the regulators and will work with them to maintain momentum.

This is a very significant development in terms of driving up regulatory effectiveness at the front line. However, while significant progress is being made by each regulator, substantial work is still required for each to achieve their ambitions. We will therefore continue to expect rigour and a strong focus on operational delivery from regulators – and will be challenging them on both their general plans and specific strategic issues when we perceive that progress is not keeping pace with the needs of consumers or the evolution of business models.

Our agenda is dictated by the need to keep our own oversight regulation, and the direct regulation carried out by the regulators, to the minimum needed to secure clear outcomes. The framework for the new regulatory regime and the essential rules, policies and processes needed to support it have been put in place over the last three years. Clear expectations have been set for independence, standards of

regulatory performance, quality and diversity. As we move into 2013/14, we will take this work one step further and start to consider how all of this combines to see where and how cost and complexity can be reduced – bringing benefits to consumers and practitioners alike.

But there will continue to be a need for targeted intervention to protect consumers. We were therefore disappointed to receive news that the Lord Chancellor had rejected our recommendation of regulation of will-writing. We are studying his reply carefully and will reflect it in future plans. As a regulator independent of government, we will continue to advise and act robustly when we perceive that the case for intervention is soundly made.

Our research team has also been busy. We launched new online resources to make the research and the data sources we use available as widely as possible – the key objective is to collate research in one place. We have published a wide range of reports addressing topics as diverse as professional ethics, equality of pay in legal services, access to justice for individual consumers and the cab rank rule. We also published our first ever comprehensive report on the legal services market – from which all future changes can be tracked. These reports and the data behind them make a valuable contribution not just to our understanding of legal services and the broad legal sector, but to that of the regulators, professional bodies, potential investors and market entrants and Government alike. This is vitally important at a time when we are all striving to ensure that legal services can play their critical role in supporting economic growth, especially for small and medium-sized enterprises, in the wider economy.

In relation to our own operations, the MoJ published its Triennial Review of the LSB and OLC in July 2012. It was the first time that our role and remit had been reviewed and assessed. The unequivocal conclusion was that we should continue to deliver our functions in our present form and work with the approved regulators, other partners, and Government so

to do. The Board welcomed the review and its outcome. It has encouraged us to continue proactive interventions in legal regulation. We have responded to its specific recommendations and we have considered carefully all published responses, responding more broadly to the themes in them both in the content of our plans for 2013-14 and how we plan to tackle them in practice.

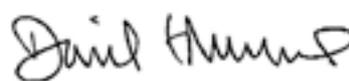
It has been a productive year at the LSB. My view is that 2013/14 will be no less active. The LSB will continue to drive change into a market place that needs change. In that, I thank too my colleagues on the Board, who have offered a powerful balance of support and challenge.

I would like to thank David Wolfe QC and Nicole Lyons who stepped down from the Board this year at the end of their terms of appointment. Their support over four and a half years has been immense.

I also welcome Anneliese Day QC and Terry Babbs who joined the Board in April.

The Board has again benefited from the excellent work of Elisabeth Davies and her team at the Legal Services Consumer Panel (LSCP). The focus on the consumer at the heart of our activity is reinforced by their activities.

Finally, I thank Chris Kenny and the entire staff of the LSB who have delivered so much – described in this report – over the last 12 months. As well as seeing the outputs of their work, I share an office with the team and can see the way in which they worked diligently, resourcefully, innovatively, and with determination to secure the goals of the Board. It is a team which has much to take pride in.



David Edmonds
Chairman



About Us

The Legal Services Board (LSB) was established by the Legal Services Act 2007 (the Act) and we took on the majority of our statutory powers and duties on 1 January 2010. We are the independent body responsible for overseeing the regulation of legal services in England and Wales.

Our goal – as it has been since our inception – is to reform and modernise the legal services marketplace in the interests of consumers, enhancing quality, ensuring value for money and improving access to justice across England and Wales.

We do this through our regulatory oversight of the ten approved regulators, who between them directly regulate approximately 148,000 lawyers operating throughout the jurisdiction.

The LSB is independent of Government and of the legal profession.

Who we regulate

The approved regulators, who themselves are required to ensure independent regulation of the eight branches of the legal profession, are:

- The Law Society, who through the Solicitors Regulation Authority (SRA), regulate practising solicitors
- The General Council of the Bar, who through the Bar Standards Board (BSB), regulate practising barristers
- the Chartered Institute of Legal Executives, who through ILEX Professional Standards Ltd, regulate practising fellows
- the Council for Licensed Conveyancers (CLC), who regulate practising licensed conveyancers
- the Chartered Institute of Patent Attorneys, who through the Intellectual Property Regulation Board (IPReg), regulate practising chartered patent attorneys
- the Institute of Trade Mark Attorneys, who through the IPReg, regulate practising trade mark attorneys
- the Association of Costs Lawyers who, through the Costs Lawyer Standards Board (CLSB), regulate practising costs lawyers
- the Master of the Faculties, who regulates notaries.

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

We also oversee the OLC and its administration of the Legal Ombudsman scheme. The scheme resolves complaints about lawyers. Our relationship with the OLC is 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.

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)
- 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.

We also have a statutory duty to assist in the maintenance and development of standards of regulatory practice and the education and training of lawyers.

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

We use the following methods to deliver our statutory responsibility for overseeing regulation:

- ensuring that all requests for changes to regulatory arrangements put to us for statutory approval have been developed by regulators in line with better regulation principles and properly address the regulatory objectives
- challenging regulators to ensure that their systems and processes meet best regulatory practice in the economy as a whole and can be shown to produce outcomes in the consumer and public interest
- deploying the most appropriate tools for intervention from our suite of statutory intervention powers when we think regulatory failure – by both action and inaction – threatens the regulatory objectives
- ensuring that a comprehensive evidence base for the regulatory system as a whole is developed, made available, used and maintained
- ensuring that important issues which have an impact across the sector and which need concerted and coordinated action – such as education and training and diversity at firm level – are addressed properly by individual regulators and in a coherent and consistent way across the sector.

Alongside our duty to oversee regulation, we are responsible for considering (and, where appropriate, approving): any changes that approved regulators wish to make to their regulatory arrangements, any organisation that wishes to become an approved regulator or regulate other reserved activities and monitoring approved regulators' continued compliance with rules made by the LSB. We are also responsible for making recommendations to the Lord Chancellor about designating approved regulators as licensing authorities for alternative business structures (ABS).

As well as our powers of review, we also have a range of enforcement powers. These include powers to direct, fine, censure and set performance targets for the approved regulators.

Our key non-regulatory relationships

The LSB is independent of government but accountable to Parliament through the Lord Chancellor. We are an executive Non-Departmental Public Body (NDPB), sponsored by the MoJ. Although our decision-making powers are independent of MoJ, we work closely on the legislation required to undertake the challenging reforms outlined in the Act.

We have established a relationship with the Welsh Assembly Government in order to ensure we understand the particular perspectives of consumers and providers in Wales.

We will continue to follow the Welsh Assembly's debate about a separate jurisdiction for Wales with interest.

We also have an important relationship with the LSCP, which plays a vital role in ensuring that the views and interests of consumers are addressed in our work. Its advice and influence helps to inform our current and future work and we have welcomed its contribution to our work programme.

Whilst we appoint and fund the LSCP, it operates independently of the Board, with its own secretariat, and our relationship is guided by a memorandum of understanding.

How we are funded

In accordance with Act we are financed by a levy on the approved regulators. The methodology for calculating the levy is set out in the Statutory Instrument The Legal Services Act 2007 (Levy) (No.2) Rules 2010.

The LSB's share of the levy is calculated based on the number of authorised persons per approved regulator; the OLC's share of the levy is calculated using the average number of service complaints during the three-year period ending 31 December 2009. This will be reviewed in 2013/14.



Our activities in 2012/13

We set out the work we intended to deliver in 2012/13 in our Final Business Plan 2012/13¹. The Plan set out a range of activities, the milestones we intended to meet in delivering them and why we believed the work was important. The Plan was finalised after public consultation.

Work stream A: Regulatory performance and oversight

ROs supported: RO1, RO4, RO6, RO7

Our activities in this work stream were designed to ensure that better regulation principles are embedded across existing and any new approved regulator. It included work on regulator performance assessment, looking at how far regulators have embedded outcomes focused regulation, risk, proportionate supervision and an appropriate approach to compliance and enforcement into their regulatory arrangements and identifying any actions that need to be addressed. The exercise also asked the regulators to assess their overall capacity and capability. Additional work in this area included: thematic reviews into areas where evidence of real and/or potential consumer detriment is apparent; ensuring availability of effective redress for consumers; and our continuing work around widening access to justice and the legal services market through ABS.

Milestone/output	Description
Developing standards and performance – Self assessment for approved regulators	
Quarter (Q)1: Analyse and discuss plans with regulators	Changed and Completed: All draft plans were received by the end of Q1. The LSB agreed to allow some flexibility in the timelines to accommodate the regulators' requirements. Therefore final plans were received throughout the year.
Q2: Receive final plans from regulators	The Board agreed the review of five regulators' self-assessment reports and action plans in November 2012 and these were published at the end of Q3. The Board agreed the review of the SRA's self-assessment report and action plan in Q4 and this was published in February 2013. We considered the BSB's report and action plan in April 2013.
Q3-4: Monitor implementation of plans	All of the regulators require time to implement the improvements identified and we will continue to monitor the delivery of their action plans throughout 2013/14.

¹http://www.legalservicesboard.org.uk/news_publications/publications/pdf/business_plan_201213_final.pdf

Thematic reviews – Immigration	
<p>Q2: Publish responses to discussion documents and assess next steps</p>	<p>Completed:</p> <p>In July 2012, we published our consultation response document on the regulation of immigration advice services.</p> <p>We made clear that we expected qualifying regulators to take immediate action to mitigate the risks to consumers of immigration services and will follow this up in 2013/14.</p>
Thematic reviews – Conveyancing	
<p>Q1: Review and assess next steps (if required)</p>	<p>Completed:</p> <p>The review was completed in Q1 and agreed by the Board in July 2012. The final report was published in October 2012 and indicated that there was little evidence of systemic failure, the regulators are aware of the existing risks and are taking steps to respond. Some recommendations were made but the review did not point to the need for further intervention.</p>
Thematic reviews – Appeals mechanisms	
<p>Q1: Define, scope and carry out a review and determine next steps in light of internal scoping study.</p>	<p>Changed:</p> <p>This work was re-prioritised in 2012/13 and re-scoped at the beginning of Q3 to look at the current systems of regulatory sanctions and appeals mechanisms, identify any issues of consumer detriment, set out an ideal system and options for change. This project will be delivered in 2013/14.</p>
Ensuring effective redress for consumers – Monitor approved regulators’ arrangements for first-tier complaints handling	
<p>Q2: Review qualitative assessment plans and decide on further action as necessary</p> <p>Q3: Procedural assessment</p> <p>Q4: Qualitative assessment</p>	<p>Changed and completed:</p> <p>In April 2012, the Board reviewed regulators’ progress in understanding how complaints are dealt with by law firms and consumers experience of complaints handling and concluded that it was disappointing. A targeted review framework was developed and in July 2012, the LSB wrote to each regulator providing feedback on progress and individual timetables for follow-up. Progress against the bespoke frameworks will be reviewed in 2013/14.</p>

Widening access to justice and the legal services market – Ending transitional arrangements

Q4: Review arrangements by year-end based on designation applications

Delayed

The Act provides a transitional period during which regulated legal service providers that would otherwise have to apply for an ABS licence do not need to do so. Before we can end these transitional arrangements we need to ensure that there is an appropriate licensing authority in place for those affected. This work is therefore linked, at least in part, to IPReg's application to become a licensing authority; this is expected in Q1 of 2013/14.

Widening access to justice and the legal services market – Regulation of special bodies

Q1: Consult on regulation for special bodies

Changed and completed:

The LSB's consultation on special bodies closed in July 2012. The responses identified a number of policy issues that needed to be addressed before a recommendation could be made to the Lord Chancellor; for example issues over regulatory scope and separate business rules as well as requirements on personal indemnity insurance, compensation, accounts and Heads of Legal Practice and Finance and Administration roles.

Q2: Consider responses to consultation

Q3-4: Recommendation to Lord Chancellor and development of orders (if required)

This work was therefore re-scoped to allow time to work with special bodies and potential licensing authorities throughout 2012/13 to develop and test draft guidance and develop an appropriate approach to ending transitional arrangements. We will consult on the draft guidance and proposed approach to ending transitional arrangements in Q1 2013/14.

Widening access to justice and the legal services market – LSB as a licensing authority

Q1-2: Develop orders (as required)

Not required

Widening access to justice and the legal services market – SRA compensation fund

<p>Q1-2: Work with MoJ and SRA to ensure a single fund can operate after 31 December 2012</p>	<p>Completed:</p> <p>A recommendation was made to the Lord Chancellor in August 2012 to ensure that a single compensation fund could operate after December 2012. This was approved and the relevant Orders passed.</p>
<p>Q2-4: Monitor SRA progress on the compensation review</p>	<p>The LSB has monitored the SRA's progress in implementing a compensation review throughout the year and arrangements have been made to continue with quarterly meetings throughout 2013 and 2014 whilst the review is undertaken. The review has been split into three stages:</p> <ul style="list-style-type: none"> • Stage 1 – analysing the landscape across other sectors and considering ideas for the future; • Stage 2 – Research and data collection to provide evidence for subsequent policy recommendations; and • Stage 3 – a consultation is due to be launched in Summer 2014 with a final report expected in the Autumn.

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 is that the introduction of ABS is likely 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.

As at 3 April 2013, there were 22 ABS licensed by the CLC and around 115 by the SRA. The introduction of ABS has led to innovation not just by new entrants but also by non-ABS firms. For example:

- a large conveyancing ABS firm wants to provide conveyancing on a "white label" basis to law firms, leaving the firms to manage their client relationships under their own brand;
- fixed prices are being offered across an

increasingly wide range of services including family law;

- services are being developed specifically for Small and Medium Enterprises (SME), including on an annual contractual basis;
- services that link consumers directly to barristers without needing to go through a solicitor.

Despite these positive examples, we have been concerned about the length of time that it takes the SRA to consider ABS licence applications and continue to monitor the position closely through the use of our powers to obtain information under section 55 of the Act and regular discussions.

Work stream B: Strategy development and research

ROs supported: RO1, RO2, RO3, RO4, RO5, RO6, RO7, RO8

Our activities in this work stream focused on quality in the provision of legal services and diversity and social mobility in the legal sector. We also initiated our first investigation into the scope of regulated activity, specifically will-writing activities, probate and estate administration. This area of our work also includes our research and evaluation programme, designed to develop the evidence base for legal services regulation and evaluating the impact of the Legal Services Act 2007.

Milestone/output	Description
Scope of regulation investigation	
Q1: Publish general approach	Completed In April 2012, we published the decisions reached in light of our 2011 consultation <i>Enhancing consumer protection, reducing regulatory restrictions</i> . This set out our approach to assessing the boundaries of legal services regulation.
Q3: Publish progress update	The suggested approach and indicative timetable for investigating general legal advice were agreed and published with the October 2012 Board papers. The agreed approach is a four stage process reflecting the principles set out in the Consultation <i>Enhancing consumer protection, reducing regulatory restrictions (Nov 2011)</i> .
Scope of regulation investigations – Will-writing, probate activity and estate administration	
Q1: Publish public consultation document	Changed and delayed The consultation document <i>Enhancing consumer protection, reducing regulatory restrictions – will writing, probate activity and estate administration</i> was published in April 2012 outlining the LSB's provisional recommendations for the regulation of will-writing, probate activities and estate administration.
Q2: Publish provisional report and consult	The provisional report was published in September 2012 detailing our interim conclusions and setting out our intention to recommend to the Lord Chancellor to reserve will-writing and estate administration activities and to keep probate as a reserved activity.
Q3: Publish final report	Our final report was published at the beginning of Q4 along with the final recommendation to the Lord Chancellor and final impact assessment. The Board agreed to recommend that will-writing become a reserved activity, but reflected that the weight of evidence did not point to a need to reserve estate administration.
Q4: Decisions arising from any change in scope	The Board will consider its options in light of the Lord Chancellor's recent decision to encourage further non-regulatory action before reconsidering the issue.

Developing a changing workforce for a changing market – Diversity	
Q1-3: Monitor implementation of agreed regulator action plans	Completed Reviews of regulators' action plans were completed and published in Q1. We monitored their progress in collecting diversity data and in delivering their action plans throughout the year.
Q4: Review findings of approved regulator data	Changed and completed We had collected and reviewed regulator data by the end of March 2013 and regulators were then contacted to discuss the progress that they have made in meeting their action plans. The LSB will review the outcome of this exercise in May 2013.
Q4: Review the evidence base around equal pay	Completed A literature review of the issues in relation to the equality of pay across legal services was published in Q4.
Approaches to quality	
Q2: Publish responses to consultation	Completed Our response to the consultation <i>Approaches to quality</i> was published in September 2012. We identified a list of success criteria which the regulators were asked to consider whilst developing their action plans for regulatory standards work.
Q4: Identify next steps	Completed We have set clear success criteria for what we expect from approved regulators in this area. A particular priority is for improved information sharing between regulators and comparison service providers, a key theme of the Consumer Panel's advice on empowering consumers. We will follow this up in 2013/14.
Evaluation of the impact of the Legal Services Act 2007	
Q1: Publish interim baseline evaluation	Completed Our interim report into the market impacts of the Act was published in April 2012. The report brought together, for the first time, data from a wide range of sources to look at how the legal services market in England and Wales has changed over the past five years. The report summarised the market changes leading up to the implementation of the ABS regime and also highlighted the areas and data that the LSB would monitor over time. The approach to monitoring change is to identify the indicators of change and to describe the extent to which these demonstrate changes in the legal markets that lead us to believe our objectives are being met.
Q3: Publish expanded baseline evaluation	Changed and Completed A final baseline report was published in October 2012. This report was updated in response to feedback from the first report and utilised new research and data sources to add new indicators to the list of outcomes.

Work stream C: Statutory decision making

In our 2012/13 Business Plan, we set out the service standards that we would work to when making our regulatory decisions. Performance against those decisions is set out below.

Activity	How we performed
Publication of applications on our website	<ul style="list-style-type: none"> 95% (18 out of 19) applications for changes to regulatory arrangements were published within the two day target Two new applications for designation were received; both were published within the five day target
Decisions and recommendations on an application	<p>Changes to regulatory arrangements:</p> <ul style="list-style-type: none"> 22 decisions on applications to change regulatory arrangements were made 12 decisions were made in the initial decision period of 28 calendar days Nine were made in an extended period of 90 calendar days In one case (where a warning notice had been issued in January 2012 extending the decision period to January 2013), the decision was made 284 days after the application was made One warning notice was issued in the year; this case is yet to be decided <p>Designation applications:</p> <ul style="list-style-type: none"> One decision was made on a designation application. The application was made on 2 February 2011 and the decision issued on 2 April 2012, outside our internal target of 130 working days.
Publish our decisions, extensions, warnings and refusals to consider applications	<ul style="list-style-type: none"> 98% (44 out of 45) of notices were published on our website within the target of two days
Publish advice from mandatory consultees, written representation from applicants, oral representations	<ul style="list-style-type: none"> Advice was requested from mandatory consultees on one rules change application. All advice and the applicant's representations on it were published within the target of 5 days
Recommendations to the Lord Chancellor	<ul style="list-style-type: none"> There were no recommendations to the Lord Chancellor in respect of designation applications

At the start of 2012/13 there were six ongoing rules change applications and 19 new applications were received. 22 decisions were made and three remained ongoing at the end of the year. The average time for making a decision (excluding the case on which a warning notice had been issued) was 33 days. Seven of the nine decisions made in the second half of the year were made in under 28 days; this is largely attributable to the increased engagement with approved regulators as the proposals are developed.

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

In relation to the one designation application that was decided in the year, a notice was issued extending the time in which the application should be decided to 16 months in order to allow us to complete our assessment of some technical issues. Ultimately the application was not granted.

Summary of research activity in 2012/13

The LSB is committed to developing the evidence base for legal services regulation, to support the development of regulatory policy and understand the impacts of reform. We consider all research projects against the regulatory objectives, policy priorities, the research activity of the approved regulators and representative arms, and longer term aims of the Legal Services Act reforms. We undertook or commissioned the following research in 2012/13. All research and data is made publicly available via our research web pages, promoting the use of the findings of research and greater use of evidence in legal services policy making. All externally commissioned research is subject to competitive tender.

Research reports published 2012/13 and commissioned prior to 1 April 2012

	Undertaken by	Date published	Summary
Understanding consumer needs from legal information sources	Vanilla Research	July 2012	Research looking at information consumers seek from online legal services, exposing flaws in existing legal websites, and identifying scope for a single trusted website.
Individual Consumers benchmarking survey	BDRC Continental	July 2012	Report on a large scale survey of individual consumers' experience of and response to legal problems, providing insight into how individual consumers resolve legal problems, choose different providers, and providing data on individual consumers access to justice issues.
A methodology for conducting research into SMEs' use of legal services	Professor Pascoe Pleasence, Dr Nigel Balmer and the Small Business Research Centre, Kingston University	July 2012	Research framework to understand how small businesses experience and respond to legal problems, and to provide data on small business consumers access to justice issues. Precursor to a future main stage research project.
Designing Ethics Indicators for Legal Services Provision	Professor Richard Moorhead	September 2012	Research framework to understand how to assess professional principles in the changing legal market, to support understanding of how the professional principles might change over time. Precursor to a possible future main stage research project.
Market impacts of the Legal Services Act – 2012	LSB	October 2012	Literature review and analysis to provide a baseline of the legal services market against all the regulatory objectives in 2012, and allow a future analysis to understand how the market has changed in the intervening years.

Research reports published 2012/13 and commissioned prior to 1 April 2012 continued

Survey of solicitors firms (joint research with The Law Society and Ministry of Justice)	TNS-BMRB, Professor Pascoe Pleasence, Dr Nigel Balmer and Professor Richard Moorhead	January 2013	Joint survey of 2007 solicitors firms to baseline the activity and business models, providing information to enable analysis of changes in this type of legal service provision over time, with regard to competition, diversity, and access to these types of legal services.
The Cab Rank Rule: Its Meaning and Purpose in the New Legal Services Market	Professor John Flood and Professor Morten Hviid	February 2013	Literature review of the impacts of cab rank rule and its exemptions on the provision of legal services, and potential negative effects on specialisation and competition.
Cost protection	Hogan Lovells	March 2013	Review of the range of cost protection regulations in place for consumers of legal services, to inform the review of existing regulations.

Research reports yet to be published but commissioned prior to 1 April 2012

	Undertaken by	Planned Publication Date	Research Purpose
Consumers value of regulation	Opinion Leader	June 2013	Report on a series of focus groups and large scale quantitative survey to determine consumers wants from regulation and the monetary value they attach to different elements of regulatory protection. Findings will be used to inform future cost benefit analysis of regulation, particularly in relation to reviewing reservation of legal activities.

Research reports published and commissioned in 2012/13

	Undertaken by	Planned Publication Date	Research Purpose
Evaluation: How can we measure changes in access to justice?	LSB	September 2012	Literature review of different perspectives on access to justice and the rule of law, proposing a data framework for tracking how this changes over time, to generate discussion among stakeholders. The final framework will be used to support future evaluations of the impacts of the LSA reforms.

Research in progress – commissioned in 2012/13 but yet to complete

	Undertaken by	Planned Publication Date	Research Purpose
Small Business Consumers benchmarking survey	You Gov	May 2013	Analysis of survey responses to describe how different businesses respond to different types of legal problems and to provide data on small business consumers access to justice issues.
Small Business Consumers benchmarking survey analysis	Professor Pascoe Pleasence, Dr Nigel Balmer	May 2013	Analysis of survey responses to describe how different businesses respond to different types of legal problems and to provide data on small business consumers access to justice issues.
Understanding the needs of legal services consumers with learning disabilities (joint research with Mencap and the Legal Services Consumer Panel)	Norah Fry Research Centre from Bristol University	June 2013	Qualitative research to improve understanding of how consumers with learning disabilities experience legal services, and to provide insight into vulnerable consumers access to justice issues.
Scoping a project to understand the proportionality of legal services regulation	Kyla Malcolm	June 2013	Development of an approach to collecting and analysing data to help the development of a future project looking at the proportionality of regulation in legal services.
Understanding suppliers and consumer behaviour in legal services	Professor John Maule	June 2013	Research to understand more about the drivers behind the choices consumers and suppliers make, and applying this to regulation, and improve regulatory effectiveness.
Understanding consumers who don't use, don't choose or don't trust lawyers	Optimisa Research	June 2013	Building on the findings of the Individual Consumer benchmarking survey, this research explores the reasons why many consumers choose to ignore their problems and not get help, don't choose to use a regulated lawyer or simply don't trust lawyers.

Financial Statements of the Legal Services Board

for the year ended 31 March 2013

LSB Members' Report

LSB Framework Agreement

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 overseeing the performance of both the approved regulators and the OLC, both of whom share the Act's regulatory objectives with the LSB and, in the case of the approved regulators ensuring that the principles of better regulation are adopted.

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 for how 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
- support each other.

Financial performance measures and results

The LSB aims to keep within its annual budget and to maintain a downward pressure on costs to minimise the costs of regulation which are borne by the approved regulators. This has been achieved as shown below:

	2012/13	2011/12
	£000	£000
Budget	4,498	4,931
Expenditure	4,264	4,578
Underspend	234	353

The underspend for 2012/13 was mainly due to the LSB holding some posts vacant for an extended period, maintaining the first salary increase for four years at 1% although it had budgeted for an increase of 3%, lower than planned levels of training and deferring capital expenditure in 2011 and in 2012 which has reduced depreciation charges.

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, which it should collect from approved regulators on behalf of HM Treasury. Following the laying of the statutory instrument, *The Legal Services Act 2007 (Levy) (No.2) Rules 2010*, the LSB is able to request funds from the approved regulators each year equal to its estimated net expenditure.

Income and expenditure is accounted for on an accruals basis. The levy amount charged and

collected in 2012/13 was £4,145k (£4,655k 2011/12). The balance of funds in deferred income from amounts collected through the levy has been reduced to £254k, comprising underspend for the year of £234k and the release of application and designation fees of £20k (£353k 2011/12). This treatment results in neither a deficit nor a surplus but a reduced levy for the subsequent year and reflects the LSB's underspend against budget this year.

The Income and Expenditure Reserve represents the initial grant in aid provided to the LSB to finance its operations as agreed by Parliament. As the levy rules are now in force and the levy is collected in arrears, this reserve will not increase but may be reduced if the LSB returns any grant in aid to the Consolidated Fund. This may happen if the cash reserves that the LSB was holding were significantly more than it needed for routine operations.

The LSB has recognised, as income for the year, £20k that it has received as "prescribed fees", as defined in the Act 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 stage of completion. These fees are set against the LSB's expenditure and will also reduce the levy payable by all approved regulators.

The LSB constantly strives for the best value for money in the goods and services it purchases, fully cognisant that its funds come from the legal profession.

The LSB has outsourced its finance, facilities and IT functions to its landlord, the Competition Commission. As a small organisation, LSB managers undertake their own HR management, but this is supplemented by an outsourced advice arrangement with Deminos Ltd. These outsourced arrangements provide 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.

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, Innovations and Skills and the Cabinet Office, the LSB aims to pay all authorised invoices that are not under dispute within 10 days from receipt. The LSB has contracted with the Competition Commission through a shared services agreement to meet this target as part of its financial transaction processing service. In 2012/13 100% of these invoices were paid within 10 days.

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.

Professional financial advice

The LSB has engaged the services of Philip Lindsell, a chartered accountant, to provide support to the Audit and Risk Committee in reviewing and challenging the policies and procedures instigated by the Executive. In 2012/13 the LSB paid £4k (£2.9k 2011/12) for these services.

Equality and colleague involvement

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

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*. In 2011/12 it developed its *Equality Objectives*, which were then operational during 2012/13, describing how they apply to internal processes as well as external outcomes.

The LSB maintains an open management style and strives to involve colleagues fully in matters affecting them. It holds regular all-colleague meetings and colleagues are consulted on matters affecting their employment and their welfare. The LSB undertook

its first colleague engagement survey in November 2012 and work is currently underway to take forward the learning and organisational points that came out of this.

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.

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 2013 a fee of £20.5k 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.

Chris Kenny

Accounting Officer

24 May 2013

Management Commentary

The LSB and its external environment

Background

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. It is responsible for overseeing all approved regulators who have primary responsibility for direct regulation of the different branches of the legal profession.

The Act allows for the LSB to designate additional bodies as approved regulators, on application and providing compliance with rules issued by the LSB for the purpose.

In 2012/13 the LSB oversaw regulation by ten approved regulators, which themselves directly regulated circa 148,000 lawyers practising throughout the jurisdiction. During the course of the year the Institute for Chartered Accountants in England and Wales (ICAEW) submitted two applications to the LSB: one to become an approved regulator for probate services and the second to become a licensing authority. These applications are being considered.

On 14 March 2013 the LSB's Chairman and Chief Executive gave oral evidence to Parliament's Justice Committee for a one off evidence session on the work of the LSB.

Evaluation

In October 2012 the LSB published its *Market Impacts of the Legal Services Act 2007– Baseline Report (Final) 2012*. This report represented an important milestone in ongoing efforts to build a comprehensive and quantifiable understanding of the legal services sector: a sector which has historically suffered from a lack of such data.

The Act provides for a set of regulatory reforms designed to increase competition in the legal services market and place the consumer at the heart of the regulatory system. Monitoring how the market changes is a vital part of understanding the impacts of these reforms. The evaluation report represents the first of several steps in evaluating change in the legal services market over the coming years. This final baseline report is in effect a summary of market changes leading up to the implementation of the ABS regime.

The LSB will refresh and update the report biennially to track changes over the 2012-2015 period. By using the specific set of indicators set out in this report the LSB, consumers, the regulated community and others can track how the market changes over time, against the outcomes envisaged by the regulatory objectives in the Act. This is to ensure that this activity remains focused on the key areas of change.

Regulatory Effectiveness

The LSB is aware that many legal services providers are facing challenging decisions as they react and adapt to the demands in the wider economy: changing consumer expectations, technological change and the consequences of policy changes in relation to the funding environment for legal aid and funding mechanisms for civil litigation. The risks that may accrue to current and potential consumers of legal services as a result of the changing environment, as providers seek to adjust their delivery models, need to be anticipated by approved regulators and the LSB alike, as do the opportunities to better equip the sector to manage such pressures through a combination of a more flexible approach to organisation and more targeted supervision and enforcement.

Between December 2012 and February 2013 the LSB therefore undertook regulatory assessments of all currently active approved regulators with the exception of the Bar Standards Board (whose assessment will be published in Spring 2013). Together with the LSB's Business Plan for 2013/14, these documents make clear the importance the LSB attaches to improving regulatory performance in the coming year.

The LSB's employees

As at 31 March 2013 the LSB had 31 full time employees and one part time employee – 48% of the staff complement were women. The LSB's average sickness absence (excluding absence for planned operations) was 3.4 days per full time equivalent (4.0 days 2011/12).

Environment, social and community issues

The LSB is not required to produce a sustainability report but it is committed to working closely with the Competition Commission, as its landlord and supplier of its IT, facilities and financial transactional processing services, to ensure that it takes proper account of the impact of all of its activities on the environment.

In conjunction with In Midtown, the local Business Improvement District, the LSB has achieved the status of sending "zero waste to landfill".

The LSB is working with other tenants in Victoria House and In Midtown to determine how it can best support local social and community issues. Within the constraints of business need the LSB has allowed some colleagues flexibility with working patterns to enable them to contribute as volunteers for community projects or other public service. It will continue to be sensitive to the differing needs of different parts of the community as its work on issues, in particular access to justice and public legal education, progresses.

Objectives and strategy for achieving them

The LSB's Business Plan for the year covered by this Report was published in April 2012 and is available at www.legalservicesboard.org.uk.

This document also sets out in detail the LSB's objectives for the three years 2012-2015, the medium-term implications for its work and the way in which it intends to deliver them. The Plan for the year ahead was published in April 2013.

Significant features of the development and performance of the organisation in the financial period

This is summarised in Section A of this Annual Report and Accounts.

Future developments and the trends and factors that the LSB considers likely to impact on its work

Background

The LSB's work to date has laid the foundations for a regulatory system for the legal services sector that is better able to command continuing public confidence in its independence and rigour. The consequences of this work – independence in regulation, improved complaints resolution, in particular through the Legal Ombudsman and a

more diverse and open market – have and will continue to deliver benefits to consumers, the public, the legal profession and the economy over the years ahead. To the LSB they are intrinsically linked: independent regulation will focus on consumer outcomes and harness competitive forces to improve them and so contribute to confidence and growth in both the general economy and the legal services market. These links are as important now as they were in 2009 when the LSB started its work and they continue to inform its approach to delivering its statutory responsibilities.

Making the Market and Regulation Work Better

The legal services market – those who provide services, receive services and all who rely on its crucial role in supporting the rule of law – need a regulatory regime that is dynamic, flexible and focused on key risks. This is a shift that is already underway. The work the LSB will do in 2013/14, in particular to ensure that regulatory performance standards meet the requirements of a modern society and economy, is designed to fulfil the ambitions of the Act: to protect and promote the regulatory objectives – and to make the market work well. The intensity of LSB activity and the future size and shape of the organisation will in very large part be determined by how effectively approved regulators rise to this performance challenge.

Part of making the market work well for consumers must inevitably include addressing the complex jurisdictional issues that have been bequeathed by the passing of the Act. These jurisdictional issues are not at all new but they have become more visible with the advent of the Legal Ombudsman and the changing market for legal services. There will be an inevitable tension between better regulation principles, that rightly require rolling back from regulation where it is not justified against the regulatory objectives, and the argument that complete consistency is essential to avoid public confusion, which can be used to argue for

significant expansion of regulatory coverage. The LSB will continue to work through the issues in detail, not being forced to either of the unrealistic ends of the spectrum.

The LSB will also play its part in ensuring that regulation enables markets for both initial and continuing education and training which maintains standards of competence, but is similarly diverse in the provision offered and the students and practitioners it attracts.

Both of these issues represent activity explicitly provided for by the Act. Each is an example of where coherent, cross-sector thinking is required to make sure that there are no perverse incentives or unintended consequences of regulation, or the lack of it, for providers or purchasers. The advent of ABS, and the attendant likelihood of delivery models that do not fit the mould of traditional legal services providers or which blur even further the “bright line” to any one particular regulator or redress scheme, are all consequences of reform which the regulatory system must be alive to. This reaffirms the need for active intelligence gathering – not just about those operating in the market today – but for trends, themes and innovations in other jurisdictions and in other markets that may transfer to the English and Welsh legal sector in due course.

Drivers of Future Change

Increasing use of technology to access and deliver services, including “self-service” options, alternative methods of funding such as growing use of insurance and subscription services, greater service bundling are all emerging trends – the LSB expects them to continue. It also expects to see an increasing plurality of ownership models – be that shareholder, mutualisation, private equity (domestic or foreign) – alongside more traditional business models, including self-employment.

None of these developments can be predicted with certainty and it would be wrong of a regulator to attempt to do so. They will also be affected by a range of external factors, most of which will be outwith the remit of either the LSB or the approved regulators to control or influence. These include the overall state of the economy, both domestic and global, business and public finances, the impact of government policy, technological developments and consumer behaviour and preferences. However, this increasing level of general change and uncertainty makes the importance of agile, liberalised regulation more important than ever to ensure consumer protection and avoid barriers to entry.

The Act provides the LSB with the authority and the mechanisms to investigate and address these issues. It will do so best by developing strong partnerships with all who have an interest in these issues. In addition to the Legal Ombudsman, the LSCP and the regulators, the issues it is required to face also require the involvement of others: the professions, consumer and citizen groups, the Office of Fair Trading, academics and commentators.

The principal risks and uncertainties facing the LSB and the approach to them

Whilst delivering its regulatory responsibilities the LSB is also conscious of its place within the disciplines of the wider public sector. During 2012 the functions of the LSB (including the LSCP) were subject to a Triennial Review – a Cabinet Office mandated process for reviewing the functions of NDPBs, the appropriateness of the body's delivery mechanism and its governance arrangements. The outcome of this Review was that the functions of

the LSB should continue. In response to the MoJ's call for evidence there were some calls to *abolish the LSB* as it has now *completed what Parliament had set it up to do*. These calls were rejected by the Review and LSB considers that there is a danger that giving too much weight to them in its future activities may lead to not pursuing the regulatory objectives with the necessary vigour. However, the LSB is conscious that it may need to adjust its approach on specific issues when it receives well-founded comment.

The LSB currently shares office space and services with the Competition Commission. In early 2012 it was announced that the new Competition and Markets Authority, which will take on the functions of the existing Competition Commission and Office of Fair Trading from 1 April 2014, would be based at Victoria House. The LSB will therefore need to secure alternative office accommodation and also suppliers for its shared services by the end of the 2013/14 year.

The term for the current Chairman will expire in April 2014 and for two Board members in March 2014. During the course of the year MoJ will be seeking to recruit a new Chairman and two new Board Members (one lay and one non-lay). The LSB will also be required to appoint a new Chair and two members for the OLC and six members for the LSCP from 1 April 2014.

Remuneration Report

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 its Remuneration and Nomination Committee. The Committee determined in 2008 that the LSB should not make any performance related payments and so the remuneration of the Chief Executive is not subject to any performance conditions. The Chairman annually appraises the Chief Executive's performance in delivering his agreed objectives. This is discussed in a formal meeting and the Chairman's assessment is informed by views of Board Members and senior colleagues.

Appointments

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

The Chairman, David Edmonds, was appointed on 1 May 2008 for a three-year term and re-appointed for the period 1 May 2011 to 30 April 2014. The Chairman is required to commit at least 70 days per annum to the work of the LSB.

No new Board Members were appointed during the period but two new appointments have been made effective from 1 April 2013; these are Terry Babbs as a lay Member and Anneliese Day as a non-lay Member. Members are required to commit at least 30 days per annum to their work with the LSB.

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

Termination

There is no compensation payable for loss of office for Board Members before the expiry of the term of appointment. Two Board Members, Nicole Smith and David Wolfe, left the LSB on 31 March 2013 as their term of appointment expired.

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

	Date Appointed	Date Appointment Ends (actual date shown if appointment already expired)
David Edmonds (Chairman)	1 May 2008	30 April 2014
Steve Green (Member)	1 September 2008	31 March 2015
William Moyes (Member)	1 September 2008	31 March 2015
Edward Nally (Member)	14 February 2011	31 March 2015
Barbara Saunders (Member)	1 September 2008	31 March 2014
Nicole Smith (Member)	1 September 2008	31 March 2013
Andrew Whittaker (Member)	1 September 2008	31 March 2014
David Wolfe (Member)	1 September 2008	31 March 2013
Chris Kenny (Chief Executive)	1 January 2009	(see termination note above)

Remuneration of Chairman and Board Members

The remuneration of the Chairman and Board Members is shown in the table below and has been subject to audit. There were no benefits in kind. In accordance with the Government

Financial Reporting Manual (FRM) 5.2.6 d) only Board Members are included in this report. Board Members are the only ones who influence the decisions of the LSB as a whole rather than individual parts.

	Annual salary Rate	Remuneration					
		2012/13			2011/12		
		Salary	Pension	Total	Salary	Pension	Total
David Edmonds (Chairman)	63,000	63,000	-	63,000	63,000	-	63,000
Terry Connor (Member)	-	-	-	-	6,250	-	6,250
Steve Green (Member)	15,000	15,000	-	15,000	15,000	-	15,000
William Moyes (Member)	15,000	15,000	-	15,000	15,000	-	15,000
Barbara Saunders (Member)	15,000	15,000	-	15,000	15,000	-	15,000
Nicole Smith (Member)	15,000	15,000	-	15,000	15,000	-	15,000
Andrew Whittaker (Member)	15,000	15,000	-	15,000	15,000	-	15,000
David Wolfe (Member)	15,000	15,000	-	15,000	15,000	-	15,000
Edward Nally (Member)	15,000	15,000	-	15,000	15,000	-	15,000
Chris Kenny (Chief Executive)	160,000	152,724 ¹	43,678 ²	196,402	152,004 ¹	45,043 ²	197,047

¹The Chief Executive's contracted salary is £160,000 but the cash amount he receives may vary from year to year as a result of any choices he makes as part of salary sacrifice arrangements.

²The pension contribution that the LSB makes to the pension for the Chief Executive is 22.5%.

The Chief Executive was granted an interest free loan of £1,992 for the purchase of an annual rail travel card. As at the year end there was an outstanding balance of £1,162 (see note 2(a)(i) to the financial statements).

In 2012/13 remuneration ranged from £24,770 to £160,000 (2011/12 £24,000 to £160,000). Salaries at the LSB were frozen until the end of the 2011/12 year and in 2012/13 a pay award of 1% of salary budget was distributed on a flat rate basis to all colleagues not in probation bar the Chief Executive and the two most senior Directors who waived the award.

The contractual salary of the most highly paid Director, who was also the most highly paid individual at the LSB in the financial year 2012/2013, was £160,000. This was 3.2 times the median salary of the workforce, which was £50,000.

The contractual salary of the most highly paid Director, who was also the most highly paid individual at the LSB in the financial year 2011/12, was £160,000. This was 3.27 times the median salary of the workforce, which was £49,000.

Chris Kenny

Accounting Officer

24 May 2013

Statement of Accounting Officer's Responsibilities

Under paragraph 25 of Schedule 1 of the Act the Lord Chancellor, with the approval of Treasury, 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 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 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.

Governance Statement

The LSB's governance framework

This governance statement sets out the basis on which the LSB: is governed and managed; is held accountable; manages risk. The statement also considers the effectiveness of the LSB's governance arrangements.

Scope of Responsibility

As Accounting Officer for the LSB, I am responsible for maintaining a sound system of risk management, governance and internal control that supports the achievement of the LSB's statutory obligations, whilst safeguarding the public funds and assets for which I am personally responsible. In particular, I take personal responsibility to ensure 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 and controls from the Cabinet Office/HM Treasury
- 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 Freedom of Information Act 2000 and complies with Data Protection legislation
- meets its obligations under and acts in line with the regulatory objectives contained in its founding statute, the Legal Services Act 2007.

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

Corporate Governance framework of the LSB

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

The LSB has regard to generally accepted principles of good corporate governance. The Board has adopted a Governance Manual, which was reviewed and updated in November 2012. The Manual pays due regard to the requirements of the UK Corporate Governance Code and the Code of Good Practice for Central Government Departments 2011.

The LSB publishes Board Members' biographies and information about their LSB-related expenses, interests and any corporate gifts or hospitality they have received or given. Board Members are required to declare any interest they may have in Board meeting discussions at the start of each meeting and these are recorded in the minutes. This occurred on five occasions in 2012/13. Any potential conflicts of interest with Board Members and their other activities are recorded in the Register of Interests, which is available on the LSB's website.

A Register of Interests is also kept and published for senior executives of the LSB.

I am satisfied that in this regard the LSB has good governance in place, both in terms of the existence of relevant policies and effective review of their practical operation. This assessment is informed by the outputs of the Triennial Review of the LSB's corporate governance arrangements, the Board's annual evaluation and review exercise as well as consultation with executive and non executive colleagues about operation of the Manual.

All LSB governance documents are published on the LSB's website: www.legalservicesboard.org.uk.

LSB Board

The Lord Chancellor, after consultation with the Lord Chief Justice, appoints the Chairman and non-executive Board Members. The Chairman takes part in the process of recruiting the other Board Member, and the Chairman and Board Members are responsible for the appointment of the Chief Executive. The Board met formally on eight occasions during the period April 2012 to March 2013.

Meeting attendance	
David Edmonds (Chairman)	8/8
Steve Green (member)	8/8
William Moyes (member)	8/8
Edward Nally (member)	7/8
Barbara Saunders (member)	6/8
Nicole Smith (member)	6/8
Andrew Whittaker (member)	7/8
David Wolfe (member)	8/8
Chris Kenny (member and Chief Executive)	8/8

Board Committees

The Board has established three committees. The terms of reference for the Audit and Risk Committee and Remuneration and Nomination Committee were reviewed by the Board in November 2012. The terms of reference for the Licensing Authority Committee were agreed by the Board in January 2011 and have not been reviewed since as the Committee has not met.

The Audit and Risk Committee 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. It met formally on three occasions during the period 1 April 2012 and 31 March 2013. Representatives from the LSB's internal (KPMG LLP) and external (National Audit Office) auditors attended all relevant meetings. The MoJ's Head of Internal Audit also attended a meeting in October 2012.

The main activities of the Committee in 2012/13 related to reviewing and responding to the outcomes of services provided by the NAO and our internal Auditors, reviewing the corporate risk register and the LSB's risk management framework, reviewing the LSB governance policies and the Annual report and Accounts for 2012/13.

The Chairmen of the LSB and OLC's Audit and Risk Committees held discussions during each quarter of the year to review performance information. Members also met in private sessions with the external adviser, Internal Auditor and NAO.

The Remuneration and Nomination Committee is responsible, on behalf of the Board, for reviewing the terms and conditions of service of the Chief Executive and making recommendations to the

Board, reviewing the process for determining the terms and conditions of employment of LSB colleagues and other matters relating to appointments. It met formally on two occasions during the period 1 April 2012 to 31 March 2013.

This year we carried out our first colleague engagement survey, the Remuneration and Nomination Committee reviewed the results of this as well as reports of equality, diversity and accessibility. In response to the ongoing constraints on our resources the Committee also looked at resourcing trends across the organisation and began developing a robust succession plan for senior posts, as well as a review of Board members' skills. This has led to a recommendation to undertake a skills self assessment early in 2013/14. The committee also provided advice on development of guidance on appropriate procedures for colleagues wishing to undertake activities outside employment and undertook their regular reviews of our corporate policies, the LSB's pension arrangements and the terms and conditions of service.

Both Committees are supported in their roles by external advisers. Philip Lindsell, a chartered accountant, provides support to the Audit and Risk Committee. His term will end in May 2014 and the Audit and Risk Committee will be considering his succession arrangements in March 2014. Sandra Jenner provides specialist advice to the Remuneration and Nomination Committee on a contractual basis, due to expire in August 2013. These appointments assist with challenging the policies and procedures of the Executive from expert financial and human resources perspectives respectively.

The papers and minutes of both the Audit and Risk Committee and Remuneration and Nomination

Committee are circulated to the Board before and after each meeting respectively.

Membership and attendance records are given below.

Audit and Risk Committee meeting attendance

Steve Green	3/3
Barbara Saunders	3/3
Andrew Whittaker	3/3

Remuneration and Nomination Committee meeting attendance

William Moyes	2/2
Nicole Smith	2/2
Edward Nally	2/2

Licensing Authority Committee

The Licensing Authority Committee was established at the end of January 2011 to fulfil the functions of the Board in preparing to act as, and in its capacity (if any), as a licensing authority and to deal with any matters that arose in relation to those functions. It did not meet during the period 1 April 2012 to 31 March 2013. Its membership is set out below.

William Moyes (Chairman)
Edward Nally
Barbara Saunders
Chris Kenny

Governance relationship with the Office for Legal Complaints

The Act gives the LSB responsibilities in respect of the OLC. The OLC is itself responsible for establishing and administering an independent ombudsman scheme for England and Wales to resolve complaints about lawyers in a fast, fair and impartial way. The Act provides for the LSB to:

- With the consent of the Lord Chancellor, appoint and if necessary remove the OLC Chair
- After consultation with the OLC Chair, appoint and if necessary remove the other members of the Board
- Remunerate the OLC Chair and members of the Board
- Give consent to scheme rules made by the OLC, and where necessary, direct the OLC to take steps to modify its scheme rules (Following a consultation undertaken by the OLC, modified rules were consented to by the Board in September 2012)
- Make rules in consultation with the OLC providing for the imposition of a levy on leviable bodies
- Set performance targets for the OLC or directing such targets to be set (The Board has not found it necessary to do this, as consistent dialogue with the OLC has provided assurance that the OLC Board is providing the necessary performance challenge).
- Approve the annual budget of the OLC, and any subsequent variations to it
- Seek reports on any specified matter related to the function of the OLC

The relationship between the LSB and OLC is governed by a Memorandum of Understanding, which reflects the respective bodies' independent

and separate functions, and facilitates constructive communication, co-operation and co-ordination in the performance of the bodies' respective responsibilities.

In respect of the annual budget approval, the LSB seeks a range of assurances from the OLC to underpin the annual budget approval process. The Board approved the OLC's 2013/14 budget at its March 2013 meeting.

In respect of my Board's responsibility to issue levy bills to levy payers for the expenditure of the OLC, as LSB Chief Executive and Accounting Officer I seek a range of assurances from the OLC to underpin the annual budget approval process to reassure me that the Board has sought the proper assurances from its Accounting Officer that it is not seeking recoupment of ultra vires spend. However, I have no direct Accounting Officer authority over the propriety of OLC spend and nor does the Board have any analogous corporate responsibility – this responsibility rightly rests with the Chief Ombudsman, who is the OLC's Accounting Officer, and through him with the MoJ's Principal Accounting Officer.

As an independent organisation sponsored by the Ministry of Justice, the OLC also has responsibilities directly to the Department. Both the LSB and the OLC's Framework Documents make reference to these so that there is no confusion over where responsibility for ongoing financial oversight (the MoJ) or OLC performance (the LSB) lies.

The Chairs and Chief Executives of the LSB and OLC meet on a regular basis to discuss issues of common interest and to ensure that the LSB can secure assurances during the course of the year as to the discharge of the OLC's duties. The Chairs of

the bodies' respective Audit and Risk Committees also meet regularly to discuss areas of mutual risk and relevant mitigations.

Members of the OLC are required to abide by key elements of the LSB's Governance Manual, including the Code of Practice, and policies on expenses, gifts and hospitality and interests.

Governance relationship with the Legal Services Consumer Panel

The LSB is required by the Act to establish a Consumer Panel to represent the interests of consumers. The Panel provides independent advice to the LSB about the interests of users of legal services. It does this by investigating issues that affect consumers and advising the Board on the consumer perspective of its decisions. The LSB is required to consider any representations made to it by the Panel and must publish its response. The Panel publishes information about its work programme on its own website at www.legalservicesconsumerpanel.org.uk.

As at 31 March 2013, the Panel consists of eight lay (non-lawyer) Members who bring expertise from a range of backgrounds, and is supported by a small policy secretariat of two staff, who are employed by the LSB. Elisabeth Davies was appointed permanent Chair of the Panel on 1 August 2012 following a period of time as interim Chair. The Chair receives a fixed fee of £15,000 for a minimum of 30 days per annum; Members receive a fixed fee of £3,380 for 13 days per annum.

The Chairman of the Board and Chair of the Panel meet on a regular basis to discuss issues of mutual interest and the adequacy of resourcing. This is underpinned by regular staff contact on management and planning issues and, where

appropriate, attendance at Board and Panel meetings to discuss both specific advice and to update and challenge on more general issues.

Members of the Consumer Panel are required to abide by key elements of the LSB's Governance Manual, including the Code of Practice, and policies on expenses, gifts and hospitality and interests. Details are recorded in the minutes of meetings, when appropriate. In addition, as the Panel is embedded in the Board, prevailing governance policies – for example, on Freedom of Information, Equality Act, Welsh language etc – apply.

Executive Group and other executive bodies

The LSB has four executive groups, each with its own terms of reference:

Executive Group: Comprising the Chief Executive, Corporate Director and Strategy Director, this is the senior management team of the LSB and is responsible for the overall delivery of the LSB's executive activity.

Gateway Group: Chaired by the Chief Executive, this group comprises the seven most senior LSB staff. It considers drafts of Board papers and acts as a resource for all projects and business as usual work when faced with a major policy issue.

Operations Group: This Group is chaired by the Chief Executive and its role is to consider cross-cutting corporate 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 of the Board, its Committees and individual Board Members is evaluated on an annual basis. The Committees also conduct a self-evaluation, the outcomes of which are reported to the Board. Each Board Member participates in an annual Board and Member appraisal process, which uses a combination of questionnaires, one-to-one sessions with the Chairman and group sessions to review and to evaluate the performance of the Board individually and collectively. New Board Members receive an induction and ongoing support to assist them in their roles. The LSB Chairman conducts annual appraisals with the Chairs of OLC and the Consumer Panel, who, in turn, undertake annual appraisals of the OLC members and Consumer Panel members respectively.

Some of the areas raised in the 2012/13 LSB Board evaluation, which have been or are being implemented, include:

- Developing a rolling programme of guest speakers at Board meetings, to include Chairs of approved regulators attending to speak on matters of mutual interest
- Increasing the opportunities for strategic discussions, either at each meeting or at more regular half day strategy sessions
- Strengthening the Board's role in relation to the initiation of policy

Risk and internal control framework

The LSB has comprehensive risk identification, management and escalation process in place, which is described in a Risk Management Strategy. This was reviewed and agreed by the Board in November 2012. The Strategy is maintained centrally and is accessible to all colleagues.

Colleagues identify and manage risks for their respective projects, and these are reviewed at monthly Programme Board meetings. New and increasing risks are reported to the Gateway Group,

which reviews the full Corporate Risk Register on a monthly basis.

The Board challenges the assumptions and risk classification made by the Executive, with risk forming part of each paper that is considered. The Board reviewed the full Corporate Risk Register twice in 2012/13, in October and March. The Audit and Risk Committee, on behalf of the Board, reviewed the Corporate Risk Register at each of its meetings in 2012/13 and took informal advice from Internal Audit to determine the way risk or change in risk had been identified, evaluated and controlled. The Audit and Risk Committee also reviews the overall system of risk identification and risk management regularly.

Response to risk

The LSB keeps under active review an appetite for risk that allows it to push itself to achieve the ambitious work programme that it has set itself. Its tolerance for risk varies depending on the nature and severity of individual risk. In general terms, an acceptable risk for the LSB is one in which:

- the likely consequences are insignificant, or
- the occurrence is extremely unlikely, or
- a large potential risk consequence is outweighed by the likelihood of a larger benefit and/or by larger risks arising from inaction, or
- the potential costs of minimising the risk outweighs the cost consequences and/or broader impact of the risk itself.

If the Board determines that a risk exceeds its appetite to accept it, it will put in place a strategy to mitigate the risk.

The LSB's risk profile and capacity to handle risk

As Accounting Officer, I am ultimately accountable for the management of risk. The Risk Management Strategy defines how risks will be identified, assessed and managed during their lifecycle to ensure that actual and potential risks are identified; risks are assessed and prioritised; where possible,

risks are avoided; or crystallised risks are actively managed and reduced to an acceptable level. Assumptions about risk are regularly revisited and reconsidered.

Assessment of Risk Management

Through its work in reviewing the LSB's Risk Management Strategy, Corporate Risk Register, and risk appetite, the Board and Audit and Risk Committee have evaluated the quality of the LSB's management of risk during 2012/13 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 requiring further disclosure. My assessment has been endorsed by the Board and Audit and Risk Committee.

Key Risks

The key risks facing the LSB in achieving its priorities in 2013/14 are generally ongoing, rather than specifically time-limited in nature. In assessing new risks we have reviewed those from 2012/13 and summarised both new and ongoing risks into three key themes:

People and resources

Risk: We remain committed to an ambitious programme of change and the loss of key staff would be likely to affect the ability of the organisation to function effectively. The timetable has little room for slippage and available resources are 100% committed. This means that emerging risks and issues have to be managed through reallocation and reprioritisation rather than additional resources. The differing priorities and resource profiles of the MoJ and LSB mean that careful planning is needed to ensure that, where MoJ input is required, the key objectives are delivered.

Mitigation: Diligent project management ensures that pressure points and capacity issues are identified early wherever possible. Projects are prioritised so that milestones are linked to importance. The Business Plan for 2013/14 has a strong focus on the activities that will deliver the better performance that we seek and avoids our resources being committed to activities that we do not deem as high priority and high impact. Segmentation of responsibility between the Strategy Director who has line responsibility for the delivery of the regulatory programme and the Corporate Director, whose responsibility includes systems development and performance reporting help to ensure that the overall programme is managed effectively; that I and the Board are well sighted and able to draw assurance; and that I and the Chairman can challenge and intervene where necessary. Ongoing discussions about the appropriate level of resource and skills mix take place regularly so that we use the budget resource flexibly between staff and non- staff expenditure to deliver the work programme. We continue to work closely with MoJ to ensure that they are engaged and briefed at all stages of our work and so that delays are kept to a minimum.

Stakeholder relationships

Risk: Most of the projects and work streams require external input to succeed. Despite our common statutory objectives, approved regulators may, on occasion, have different short-term priorities that are not always aligned fully with the reform programme. Any threats to effective information flows between the OLC, regulators and the LSB would also fall within this risk, as regulators can be overly reliant on information from OLC to fulfil their obligations, including in reporting to us. In addition, overseeing OLC's performance is a core part of the LSB's role. A breakdown in the relationship between any of these parties could therefore impact on achieving our reform programme as well as our statutory duties.

Mitigation: The LSB retains a clear focus at both Board and executive level on the need for continuing reform of legal services. Clear prioritisation ensures that we do not lose focus on critical outcomes and milestones. We aim to build good relationships at multiple levels with regulators, rather than exclusively at Chair and Chief Executive level in order to facilitate regular informal cooperation. We are increasingly using external communications opportunities to get our message to profession and consumer stakeholders and commentators to ensure that any misperceptions are rapidly corrected. A similar approach is taken to managing the relationship with OLC; the Memorandum of Understanding between the LSB and OLC addresses information sharing requirements and regular contact at Chair, Chief Executive and Board Member level ensures regular and frank communication.

Regulatory capacity of legal sector

Risk: The increasing focus on performance has been evident through our regulatory standards work during the last year. Going forwards it will also be very evident through our designations and other statutory decisions. The main risk here is that regulators may lack the capacity to rise to these challenges or may wrongly perceive the LSB's activity in this area to be indicative of "regulatory creep". Additionally, there is a real danger that LSB may focus inappropriately closely on some specific issues rather than underlying causes.

Mitigation: A reworking of the programme to better focus on core competence and commitment of the regulators has helped us to focus on core issues. We seek to manage expectations with our own Board and externally as to the pace of change that might be achieved. We support regulators as much as we highlight their weakness and seek to balance public comment with more detailed and robust private exchange. We continue to ensure that we consider the appropriateness of any assessment against clear evidence, where it is available, as well as against our strategic objectives.

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 system of delegation and accountability.

In particular, in the period covered by this report, it included:

- a formal budgetary control system, reviewed and agreed by the Board, which includes monthly reports to the Executive Group
- regular reviews by the Board (at each meeting and with reports circulated in the months in which the Board does not meet) and Audit and Risk Committee of periodic financial reports which indicated financial performance against the forecasts
- systems of internal financial control covering procurement and the payment of suppliers and colleagues, the prompt collection of income that was due, appropriate safeguarding and management of assets and banking processes
- assurance statements from senior colleagues setting out their main areas of responsibility, including key elements of the risk control framework operating in their area together with an assessment of the effectiveness of the system and highlighted any weaknesses, if any, that need to be brought to my attention
- formal project and programme management disciplines and reporting.

Role of internal audit

The LSB's governance arrangements and risk management processes are supported by an internal audit function provided by KPMG LLP. The Head of Internal Audit changed in the course of the year, but contact between myself, the Chair of the Audit and Risk Committee and senior partners in KPMG ensured continuity of service and timely delivery of both specific audits and the HIA opinion.

An audit programme is developed on an annual basis, which seeks to focus on those LSB major risks which are susceptible to audit, and the Audit and Risk Committee are consulted on and then approve the final annual audit programme.

The work carried out by KPMG meets the requirements defined in the Government Internal Audit Standards. All audit reports include an independent opinion on the adequacy and effectiveness of the LSB's system of control together with any recommendations for improvements. Where weaknesses in the control environment are identified, action is taken to strengthen the controls.

The internal auditors reviewed the LSB's systems in accordance with the 2012/13 internal audit plan and in their opinion they were able to provide reasonable assurance as to the adequacy and effectiveness of the LSB's internal control and governance processes within the following areas:

- Research and Evaluation – this report, on the LSB's largest area of discretionary spend, was risk rated 'acceptable' with three Process Improvement Observations (PIO) (all were low priority). A separate qualitative review of research management was also undertaken and a management response agreed
- Human Resources – this report was risk rated 'good' with no PIOs
- Statutory Decision Making Process – this report was risk rated 'acceptable', with two PIOs (one was low priority and one was medium priority)

After review, the Audit and Risk Committee ensures that appropriate actions from previous internal audit reports are carried out and holds the executive to account accordingly. The Audit and Risk Committee also receive reports on internal audit's own controls.

Information risk and data security

The LSB is a data controller under the Data Protection Act 1998 and is subject to the Freedom of Information Act 2000. The LSB also has

appropriate 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 that enables the LSB to function effectively, safely and securely.

All of the LSB's electronic data and access to this data is managed securely through using the services of the Competition Commission IT Department, which also provides advice 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), Cabinet Office and the Centre for the Protection of the National Infrastructure (CPNI).

In March 2012, KPMG conducted a follow up audit of IT security and data privacy policies and business continuity planning. In June 2012, the Information Commissioner's Office conducted a one-day advisory visit, reviewing the LSB's security, records management and handling of personal data. The outcome of both reviews provided assurance that the LSB's information risk and assurance policies were broadly robust. However, the reviews highlighted that there were some minor gaps in coverage, as well as some shortcomings in relation to colleagues' awareness of the policies. A programme of workshops was carried out in 2012/13 to raise colleagues' awareness of the policies, together with discussion around implementation issues and how these could be overcome.

In March 2013, the Audit and Risk Committee approved new and updated policies for the LSB covering: Data Protection; Information Security; Information Retention and Disposal; and, Internet, Email, Computer and Telecommunications. The outputs from the colleague workshops fed into the revised policies.

During the period of this report, there were no reported data security incidents at the LSB.

Assessment of fraud risk

Together with the Audit and Risk Committee, I have reviewed the arrangements for 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 within the organisation. 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.

Review of the effectiveness of the risk and governance framework

The Audit and Risk Committee has advised me throughout the year 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 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 2012/13 and has no significant weaknesses to address.

Compliance with UK Corporate Governance Code and 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 outlined in the UK Corporate Governance Code and and Corporate Governance in central departments: Code of

Good 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 Audit and Risk Committee and the Board, is that the LSB complies with the Code insofar as it is applicable to it, with the exception of one area of non-compliance:

Code 5.9 – At least one, but preferably more, of (the Audit and Risk Committee) members has recent and relevant financial experience: Philip Lindsell, a chartered accountant, provides support to the Audit and Risk Committee on the basis that none of the three Board Members currently serving on the Committee have recent or relevant professional financial experience.

Conclusion

In conclusion, I commented last year on our role as custodian and exemplar of what constitutes good governance in legal regulation as a whole. The endorsement of our governance model through the Triennial Review published in July 2012 provided strong evidence that we continue to meet our aspirations in this area. I also commented on the need for the LSB to be mindful of the fact that our costs are funded by the regulated community and hence ultimately passed on to consumers and that therefore we need to be properly responsive to the legitimate interests of both groups. Our consultation practices and emphasis in particular on transparency of what is said to us and setting out our considered judgements on such points therefore constitute a vital part of our governance disciplines, over and above their importance as good practice in policy making.

Chris Kenny

Chief Executive and Accounting Officer
24 May 2013

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 2013 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 Report 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. 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 2013 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.
- the financial statements and the part of the Remuneration Report 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.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has 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 LSB Members' Report and the Management Commentary sections of the Annual 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

Report

I have no observations to make on these financial statements.

Amyas C E Morse

Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

03 June 2013

Statement of Comprehensive Net Expenditure for the period ended 31 March 2013			
	Note	2012/13 £'000	2011/12 £'000
Expenditure			
Staff costs	2	2,583	2,833
Depreciation/Amortisation	6 and 7	58	81
Other expenditure	3	1,623	1,664
		4,264	4,578
Income			
Levy income	4	4,244	4,502
Designation and application fees	5	20	76
		4,264	4,578
Net (income)/expenditure		-	-

All operations are continuing. There were no acquisitions or disposals of operations during the period. The notes on pages 49 to 59 are part of the financial statements.

Statement of Financial Position as at 31 March 2013			
	Note	31 Mar 13 £'000	31 Mar 12 £'000
Non-current assets			
Property, plant and equipment	6	36	74
Intangible assets	7	15	35
Total non-current assets		51	109
Current assets			
Trade and other receivables due within one year	10	213	51
Cash and cash equivalents	8	6,847	6,938
Total current assets		7,060	6,989
Total assets		7,111	7,098
Current liabilities			
Trade and other payables	11	744	731
Total current liabilities		744	731
Assets less liabilities		6,367	6,367
Taxpayers' equity			
Income and Expenditure Reserve		6,367	6,367
		6,367	6,367

Chris Kenny

Accounting Officer

24 May 2013

The notes on pages 49 to 59 are part of the financial statements.

Statement of Cash Flows for the period ended 31 March 2013

	Note	2012/13 £'000	2011/12 £'000
Cash flows from operating activities			
Net surplus		-	-
(Increase)/Decrease in trade and other receivables		(162)	1,552
Increase/(Decrease) in trade and other payables		13	(1,170)
Depreciation/Amortisation		58	81
Net cash (outflow)/inflow from operating activities		(91)	463
Cash flows from investing activities			
Purchase of property, plant and equipment		-	-
Purchase of intangible assets		-	-
Net cash (outflow) from investing activities		-	-
Net financing		(91)	463
Net (decrease)/increase in cash and cash equivalents in the period		(91)	463
Cash and cash equivalents at the beginning of the period	8	6,938	6,475
Cash and cash equivalents at the end of the period	8	6,847	6,938

The notes of page 49 to 59 are part of the financial statements.

Statement of Changes in Taxpayers' Equity for the period ended 31 March 2013

	Note	£'000
Income and Expenditure Reserve		
Balance at 31 March 2011		6,367
Changes in Taxpayer's Equity 2011/12		
Comprehensive net expenditure for the year		-
Balance at 31 March 2012		6,367
Balance at 1 April 2012		6,367
Changes in Taxpayer's Equity 2012/13		
Comprehensive net expenditure for the year		-
Balance at 31 March 2013		6,367

Notes to the financial statements

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2012/13 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 to account for the revaluation of non-current assets.

(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 net expenditure for the year is shown as accrued income and carried forward as a trade receivable.

Any cash received as "Prescribed Fees" relating to applications for designation 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.

(c) Capitalisation policy for non-current assets

Property, plant and equipment comprises major technology projects, information technology equipment such as servers, PCs, printers as well as office 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 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 fixtures and furniture, 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 economic and 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 4-6 years Fixtures and Furniture 5 years

Intangible non-current assets:

Software 3-6 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 assets and revised its depreciation/amortisation policy for information technology and software assets from 3 to 6 years. The effect of this change on the Statement of Comprehensive Net Expenditure is to reduce the charge for the year from £81,000 to £58,000.

(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 6.2.7(h). Revaluation would not cause a material difference.

(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 unless there are changes to primary legislation. The LSB has assurances from the MoJ that, in the unlikely event that this is necessary, Grant in Aid will be provided to meet the cash needs of the organisation. The LSB was subjected to a Triennial Review in 2012 and the outcome was that the functions of the LSB should continue. 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 excluding the Chief Executive, who receives a fixed contribution of 22.5%, and has no other liabilities. Such 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. In accordance with the principles of IAS 17 (*Leases*) and the supplementary guidance specified in SIC15 (*Operating leases incentives*) the LSB has spread the value of the rent free period for occupation of space at Victoria House over the initial five year term. This is expanded in note 13.

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

The LSB has considered IAS 1 *Presentation of Financial Statements*, IAS 19 (*Revised*) *Employee Benefits*, IFRS 9 *Financial Instruments*, IFRS 13 *Fair Value Measurements* together with amendments and 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 made an assessment of the proposed changes in the FReM for 2013/14 (Amendments to IAS 19 *Employee Benefits*, IFRS 7 *Offsetting*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*) and has determined that there would be no material effect on its current or prior period or a future period.

2. Staff numbers and related costs**(a) The cost of staff remuneration was:**

	2012/13	2012/13	2012/13	2012/13	2012/13	2011/12
	£'000	£'000	£'000	£'000	£'000	£'000
	Permanent Staff	LSB Board	OLC Board	Consumer Panel	Total	Total
Wages and salaries	1,539	168	140	137	1,984	2,202
Social security costs	185	15	11	13	224	248
Pension and other costs	362	-	-	13	375	383
Total	2,086	183	151	163	2,583	2,833

(i) The remuneration of the Chief Executive is included in staff remuneration. The Chief Executive was granted a repayable interest free loan of £1,992 at the end of October 2012 to finance the purchase of an annual rail travel card. Repayment is by automatic deduction from salary over twelve months. As at 31 March 2013 £830 of the loan had been repaid and there was a balance of £1,162 outstanding. No tax is chargeable on this loan in compliance with HMRC guidance on section 180(1) of the *Income Tax (Earnings and Pensions) Act 2003*. The £1,162 is part of the total shown in note 10 "deposits and advances".

(ii) Other costs include death in service and payments for staff benefits e.g. childcare vouchers.

(iii) Consumer Panel costs include the fixed fees of the Panel as well as the supporting secretariat of two LSB colleagues.

(iv) The fees paid to Board members, which are disclosed in "wages and salaries" as above, are also included in the Remuneration Report.

(b) Number of staff

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

	2012/13	2012/13	2012/13	2011/12
	Permanent Staff	Other	Total	Total
Directly employed – LSB	28	-	28	30
Directly employed – Panel secretariat	2	-	2	2
Total	30	-	30	32

(c) Redundancy costs

As a result of restructuring in preparation for the LSB's new three year Strategic Plan three redundancy payments had been paid in accordance with the LSB Redundancy policy and decisions taken by the Chief Executive in consultation with the LSB Board in 2011/12. One of these had been a compulsory redundancy. Redundancy costs are accounted for in full in the year that a irrevocable decision has been made. There have been no redundancies in 2012/13.

Redundancy Band	2012/13	2011/12
£0 to 10k	-	1
£10k to 15k	-	1
£25k to 30k	-	1

The cost of redundancy payments in 2012/13 was £Nil (2011/12- £46,510) this amount is included in Wages and Salaries in (a) above.

3. Other expenditure

	2012/13	2011/12
	£'000	£'000
Rentals under operating leases (accommodation)	332	332
Research costs	445	482
Outsourced services	253	239
Other programme costs	69	56
Consumer Panel (non pay)	25	24
Legal library services & reference	29	28
Recruitment	58	89
Running costs – Victoria House	223	213
Training	47	33
Professional advisers	42	25
External legal costs	34	82
Travel, subsistence and hospitality LSB Staff	10	12
Travel, subsistence and hospitality LSB Board	8	5
Travel, subsistence and hospitality OLC Board	16	12
Audit fees for statutory audit work	21	21
Internal audit fees	11	11
Total cash items	1,623	1,664
Non-cash items		
- Depreciation	38	55
- Amortisation	20	26
Total non-cash items	58	81
Total other expenditure	1,681	1,745

4. Income

	2012/13 £'000	2011/12 £'000
Levy income from approved regulators	4,244	4,502
Total	4,244	4,502

5. Designation and application fees

	2012/13 £'000	2011/12 £'000
Change of designation fees:		
The Chartered Institute of Legal Executives	1	16
Council for Licensed Conveyancers	-	16
Sub total	1	32
Licensing authority – application fees:		
The Law Society (on behalf of the SRA)	-	22
Council for Licensed Conveyancers	-	22
Institute of Chartered Accountants in England and Wales	19	-
Sub total	19	44
Total	20	76

6. Property, plant and equipment

	2012/13 £'000	2012/13 £'000	2012/13 £'000
	Information technology	Furniture, fixtures and fittings	Total
Cost			
At 1 April 2012	229	117	346
Additions	-	-	-
Disposal	-	-	-
At 31 March 2013	229	117	346
Depreciation			
At 1 April 2012	200	72	272
Provision for the year	15	23	38
Released on disposal	-	-	-
At 31 March 2013	215	95	310
Net Book Value			
At 31 March 2013	14	22	36
At 31 March 2012	29	45	74

	2011/12 £'000	2011/12 £'000	2011/12 £'000
	Information technology	Furniture, fixtures and fittings	Total
Cost			
At 1 April 2011	229	117	346
Additions	-	-	-
Disposal	-	-	-
At 31 March 2012	229	117	346
Depreciation			
At 1 April 2011	168	49	217
Provision for the year	32	23	55
Released on disposal	-	-	-
At 31 March 2012	200	72	272
Net Book Value			
At 31 March 2012	29	45	74
At 31 March 2011	61	68	129

7. Intangible assets

Software licences	2012/13
	£'000
Cost	
At 1 April 2012	129
Additions	-
At 31 March 2013	129
Amortisation	
At 1 April 2012	94
Provision for the year	20
At 31 March 2013	114
Net Book Value	
At 31 March 2013	15
At 31 March 2012	35
Software licences	2011/12
	£'000
Cost	
At 1 April 2011	129
Additions	-
At 31 March 2012	129
Amortisation	
At 1 April 2011	68
Provision for the year	26
At 31 March 2012	94
Net Book Value	
At 31 March 2012	35
At 31 March 2011	61

8. Cash and cash equivalents

	2012/13	2011/12
	£'000	£'000
Balance at 1 April	6,938	6,475
Net change in cash and cash equivalent balances	(91)	463
Balance at 31 March	6,847	6,938

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	2012/13	2011/12
	£'000	£'000
Prepayments	185	29
Deposits and advances	28	22
Total trade and other receivables	213	51

	2012/13	2011/12
	£'000	£'000
Balances with other central government bodies	169	10
Balances with bodies external to government	44	41
Total trade and other receivables	213	51

11. Trade payables and other current liabilities

Amounts falling due within one year	2012/13 £'000	2011/12 £'000
Trade payables		
– External	2	6
– Competition Commission	-	-
Other taxation and social security	73	71
National Audit Office	21	21
Rent free creditor	38	31
Deferred income	289	353
Staff benefits accrual	27	27
Accruals	294	222
Total trade and other payables	744	731

	2012/13 £'000	2011/12 £'000
Balances with other central government bodies	125	103
Balances with bodies external to government	619	628
Total trade and other payables	744	731

12. Capital commitments

There are no capital commitments.

13. Commitments under leases

Operating leases	2012/13 £'000	2011/12 £'000
Buildings		
Not later than one year	194	332
Later than one year and not later than five years	-	194

The LSB has a Civil Estate Occupancy Agreement for Crown Bodies with the Competition Commission to use and occupy the office space on part of the seventh floor in Victoria House, Southampton Row, London. The start date of this agreement was 1 November 2008 for a total floor space of 5,969 square feet. Under the terms of the CEOA the Competition Commission permits the LSB to use and occupy this area for a "Prescribed Term" of five years and so on until ended by either party giving the appropriate notice under the terms of the CEOA.

The initial two month period, which was before the LSB was established under statute, was accounted for by MoJ. For the purposes of accounting the LSB has assumed that it is a fifty-eight month fixed lease agreement.

The LSB will not be able to continue to occupy space in Victoria House as the Competition Commission will be replaced by the Competition and Markets Authority from 1 April 2014 following the passing of the Enterprise and Regulatory Reform Act on 25 April 2013.

14. Contingent liabilities

There are no contingent liabilities to report.

15. Related party transactions

The LSB is a NDPB sponsored by MoJ. It does not receive any grant-in-aid from the Department. 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.

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 £167k (£155k 2011/12). The payments for fees for the OLC Board members for 2012/13 were £140k (£132k 2011/12).

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 material 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. This is interpreted as the date of the certificate and report of the Comptroller and Auditor General.

There are no events after the reporting period to report.



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