

Legal Services Board

Annual Report and Accounts for the Year Ended 31 March 2019

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Performance report

Overview

Statement from the Chief Executive

I am pleased to present my third annual report and accounts as Chief Executive of the LSB. 2018/19 was a productive year with some significant developments.

In June 2018, the Lord Chancellor appointed Dr Helen Phillips as the permanent Chair of the LSB. Dr Phillips had previously been the Interim Chair, and lay member of the Board since 2015. She has provided continuity of leadership and helped drive forward the development of our 2018-2021 strategic plan and five-year objectives.

Standards

Everyone will have more confidence in legal services if regulation is, and is seen to be, independent. With this in mind, during 2018/19, we reviewed our Internal Governance Rules to enhance regulatory independence from the profession. We launched a consultation in November 2018, and expect to have new rules and a process for assuring compliance with them in place in 2019/20.

In October 2018, we published our progress report on frontline regulators' actions to increase transparency of prices for legal services. This followed the Competition and Market Authority's (CMA's) market study in 2017 which showed that competition in legal services is not working well for individual consumers and small businesses. In particular, there was not enough information available on price, quality, redress and regulation to help those who need legal support choose the best option.

Our progress report found that the regulators have made substantial progress in delivering against their action plans in response to the CMA's recommendations. This is good news for

consumers. The larger regulators were on track to introduce new transparency requirements and there had been positive developments on all the issues that we asked the regulators to address.

As part of this work, we approved applications from the Solicitors Regulation Authority (SRA), Council for Licensed Conveyancers (CLC) and CILEx Regulation to implement new price and service transparency rules.

In November 2018, we approved the application from the Solicitors Regulation Authority (SRA) to amend its regulatory arrangements in order to provide solicitors and law firms with greater flexibility over how they operate. Before we made our decision, we received representations from a number of individuals and organisations. Most of them expressed concern about two specific aspects of the reforms: allowing regulated solicitors to practise from unregulated firms, and allowing a new category of 'freelance' solicitor.

We considered all the information carefully and concluded that there were no grounds to refuse the application. The Board welcomed the SRA's move to modernise its regulatory arrangements which we believe will make it easier for consumers to access the services that they need. We will ensure that the SRA monitors the impact of the changes.

One of our core statutory functions is to hold regulators to account for their performance. This is key to delivering public confidence in legal services. In December 2017, we introduced a new performance framework, and in January 2019, we published our first assessment of regulators against it.

Performance has improved significantly since we started assessing regulators in 2011. The regulators have met the minimum required level of performance against the majority of the outcomes in our regulatory performance framework. However, there is still more work to be done by every regulatory body and we will monitor their progress through regular contact with each of them. We will continue to press them all to strive for continuous improvement, demonstrating that they are well-led organisations.

Last year we approved an application for the Bar Standards Board (BSB) to change the standard of proof applied when barristers, and others regulated by the BSB, face disciplinary proceedings for professional misconduct. The Standard of proof changed from the criminal standard (“beyond reasonable doubt”) to the civil standard (“on the balance of probabilities”), which will give consumers better protection.

Since 2014, it has been our position that all regulatory bodies should use the civil standard and the change brought the BSB’s disciplinary arrangements in line with most other professions

Stakeholder engagement

At the end of November 2018, I travelled to Cardiff with the Board, where we met Jeremy Miles AM, Counsel General for Wales, local and legal representatives, and others with an interest in legal services. We also held a roundtable discussion chaired by a member of the Commission for Justice in Wales, Sir Wyn Williams, which focused on access to justice and technology in legal services. I would like to thank everyone who took the time to meet us and who participated in our roundtable event. The visit was extremely productive, and it increased our understanding of the issues facing the legal sector in Wales.

Diversity

One of our regulatory objectives is to encourage an independent, strong, diverse and effective legal profession. A diverse profession should reflect the society that it serves – including understanding and responding to the differing needs of a varied range of clients.

In January 2019, we published a report on regulators’ progress against the four diversity outcomes we introduced in February 2017:

- Outcome 1: The regulator continues to build a clear and thorough understanding of the diversity profile of its regulated community (beginning at entry), how this changes over time and where greater diversity in the workforce needs to be encouraged.
- Outcome 2: The regulator uses data, evidence and intelligence about the diversity of the workforce to inform development of, and evaluate the effectiveness of, its regulatory arrangements, operational processes and other activities.
- Outcome 3: The regulator collaborates with others to encourage a diverse workforce, including sharing good practice, data collection and other relevant activities.
- Outcome 4: The regulator accounts to its stakeholders for its understanding, its achievements and plans to encourage a diverse workforce.

The legal services sector is becoming more diverse, but regulators still need to increase their understanding of the profile of their regulated community and to promote diversity within it. The LSB will continue to monitor developments and champion diversity.

Technology

The LSB supports innovation within the legal profession that meets consumer needs while maintaining standards and consumer protections. Technology can play a key role in improving access to justice by making legal services more accessible and cheaper for consumers. However, it also creates risks for consumers and providers. In November 2018, we published a report on the use of technology in legal services in England and Wales.

This research found that whilst levels of service innovation vary across firms, overall levels of service innovation are unchanged since we first conducted the research three years ago. We will continue to explore the regulatory implications of technology, guided by the principle that if technology is used ethically this will increase adoption by providers and consumers alike.

Our new policy objectives

In December 2018, we consulted on our three new policy objectives and our draft 2019/20 business plan – the second business plan of our 2018-21 strategic cycle.

Our three new policy objectives will address key gaps in protections for and information available to consumers of legal services, and they have been informed by our research and feedback from stakeholders. They are focused on:

- ensuring that regulators have appropriate frameworks **for continuing assurance of professional competence** throughout the careers of professionals they regulate;
- enhancing **public legal education (PLE)**; and
- promoting **responsible technological innovation** that carries public trust.

Conclusion

In February 2019, I announced that I would be stepping down from the LSB. I would like to thank a number of people. I am grateful to everyone who has worked with me, in particular to the Board for their support, commitment and expertise. I would also like to thank colleagues for their hard work and show my appreciation to everyone who has worked with us to help deliver our vision for legal services that everyone can access and trust.

Neil Buckley
Chief Executive

10 June 2019

Statement of the purpose and activities of the LSB

Our purpose

The LSB oversees the regulation of legal services in England and Wales. It is independent of both government and the legal profession. We monitor the performance of the ten approved legal regulators for the different branches of the profession to ensure they meet expected standards. When regulators do not meet those standards, we ask them to take steps to change.

We put consumers at the heart of what we do and promote the public interest through ensuring independent, effective and proportionate regulation.

Our vision is for legal services that everyone can access and trust. We seek to deliver this by:

- supporting the rule of law and the effective administration of justice – promoting the public interest.
- acting as an agent of change in the sector – enabling innovation and pursuing greater transparency and data collection to build a sound evidence base for progress.
- holding the regulatory bodies and the Office of Legal Complaints (OLC) – the body that administers the Legal Ombudsman scheme – to account – protecting consumers from harm and making sure redress is available if things go wrong.

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

We are funded by, but wholly independent of, the legal profession. Our levy in 2018/19 for each person authorised to undertake reserved legal activities was £20.01, in line with the average for the previous three years of £19.79.

Our regulated community

Details of the ten approved regulators, who they regulate, for which reserved legal activities, and whether they are also licensing authorities, are available on our website.

We also have a number of responsibilities in relation to the OLC. The Legal Ombudsman scheme which the OLC administers resolves complaints about lawyers. Our relationship with the OLC is set out in the Act and is guided by a Memorandum of Understanding and a three-way operating protocol with the OLC and the MoJ. We approve the OLC's annual budget, are able to set or agree performance targets, and appoint their Chair and Board.

The Act also provides us with some 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

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

- protect and promote the public interest (RO1)
- support the constitutional principle of the rule of law (RO2)
- improve access to justice (RO3)
- protect and promote the interests of consumers (RO4)
- promote competition in the provision of legal services (RO5)
- encourage an independent, strong, diverse and effective legal profession (RO6)

- increase public understanding of the citizen's legal rights and duties (RO7) and
- promote and maintain adherence to the professional principles. (RO8)

The professional principles are further defined in the Act as:

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

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

The expectations that guide our regulatory oversight are based on evidence and intelligence about the state of the market (including consumers' experience of legal services), as well as the theory and practice of better regulation.

When holding regulators to account, we have a wide range of formal and informal tools available to us. During 2017/18, we published our regulatory approach document, which sets out how we use those tools to promote our regulatory objectives and achieve our vision. Setting out our approach in a clear and accessible document supports transparency, consistency and predictability, in line with good regulatory practice.

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

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

We have statutory responsibilities in relation to:

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

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

Key issues and risks

During 2018/19, the LSB maintained its active management of risks in line with the organisation's risk management strategy. The following three risks were of particular concern:

- During the course of the year, the LSB Board did not carry a lay majority. The risk identified was that of the LSB Board membership not being properly constituted and therefore a continued risk of Board decisions being delayed due to non-quorate meetings. However, recruitment for two lay members was launched by the Ministry of Justice in September 2018 and the rules of procedure reviewed and amended to ensure that the Board can continue to operate in line with them where a vacancy in membership does not allow for a lay majority
- The risk of the LSB failing to ensure that regulators are anticipating the regulatory consequences of EU withdrawal, leading to the sector being unable to operate optimally, was of particular concern in 2018/19. This risk was actively managed throughout the year in the form of its own LSB workstream which included ongoing monitoring and LSB engagement with the Ministry of Justice and the regulatory bodies. The LSB also developed and published an exemption direction to facilitate the necessary changes to regulatory arrangements by the frontline regulators in the event of a "no deal" exit from the EU.
- Over the past few years, the LSB has been managing a risk relating to the LSB's objective to deliver consumer protection due to performance issues facing the OLC and Legal Ombudsman. To mitigate this risk the LSB put in place voluntary assurance reporting by OLC to the LSB Board (see page 23) and held regular discussions of the Legal Ombudsman's performance with the OLC at Board level. The Board also held discussions

on 'what good looks like' with the OLC Chair. Over 2018/19 there have been encouraging signs of improvement in the performance of the Legal Ombudsman, although this still needs to be sustained so that it is securely achieving its performance targets. Reflecting this situation, the measures introduced last year have been continued and refined. The Board has also encouraged the OLC to explore potential alternative approaches to delivery of legal complaints handling within the existing legal framework.

Going concern basis

Whilst the Act remains in place, the LSB is required to fulfil its statutory functions. In order to fund our activities, the Lord Chancellor has agreed that a levy of just under £3.8m for 2019/20 may be raised from the approved regulators to fund our budget. The financial statements have therefore been prepared on a going concern basis.

Performance summary

The Business Plan (the Plan) for 2018/19¹ was the first year of a new three year strategy². The Plan set out an ambitious programme of work, including a number of longer-term projects designed to run across the three year strategic planning period. The Plan was agreed on the understanding that this is a period of uncertainty and therefore the LSB would remain agile, monitoring changes in its operating environment, reviewing its objectives and, if necessary, adapting its approach.

As of 31 March 2019, alongside fulfilling its in-year obligations to make routine statutory decisions on matters emerging from the regulators, the OLC, and the SDT, the LSB had delivered the majority of work set out in its Plan. There is a small element of work that will now be completed in the first few months of 2019/20.

¹ www.legalservicesboard.org.uk/news_publications/publications/pdf/2018/LSB_Business_Plan_2018-19_final.pdf

² [www.legalservicesboard.org.uk/news_publications/publications/pdf/2018/LSB_Strategic_Plan_2018-21_\(final\).pdf](http://www.legalservicesboard.org.uk/news_publications/publications/pdf/2018/LSB_Strategic_Plan_2018-21_(final).pdf)

Financial performance

Our budget ceiling for the year was £3,798k and our actual outturn was £3,725k, resulting in an underspend of £73k. Underspends in previous years have been significantly greater than this owing

largely to historic resourcing levels. This situation has been subject to constant review and, at the beginning of the 2018/19 financial year, we reached the minimum level of resourcing which we believe is necessary for the successful delivery of our work and which is reflected in the 18/19 actual outturn.

Historical Analysis of LSB Budgets	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
Total including OLC Board costs	4,298	4,298	3,998	3,848	3,798
Total amount levied per person authorised to undertake reserved legal activities	£24.71	£21.55	£18.83	£19.00	£20.01

Performance analysis

Measuring performance at the LSB

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

Detailed performance analysis

Performance against the Plan

One of our key measures is how we perform in delivering our Plan. For 2018/19, our Plan outlined the work the LSB intended to undertake in the first year of its 2018-21 Strategy, with work organised around the three strategic objectives which are to:

- promote the public interest through ensuring independent, effective and proportionate regulation
- make it easier for all consumers to access the services they need and get redress, and
- increase innovation, growth and diversity of services and providers.

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

Throughout the year, we track our performance against the Plan through a number of mechanisms.

Project teams report monthly to the LSB's Programme Board where progress, risks and issues are discussed. Programme reports are reviewed by the Senior Leadership Team (SLT) monthly and we prepare quarterly performance reports, which are scrutinised by the Board, and submitted to our sponsor department, the Ministry of Justice.

We review the impact that our work and the Act's reforms more broadly are having on the legal services market through our market evaluation programme³. This is a long-running research project which looks at how the legal services market is changing. It seeks to assess whether the market outcomes associated with the regulatory objectives are being achieved over the longer term, the areas where progress is limited, and what the issues might be.

During 2018/19 we started the development of a new framework, the Impact Tracker, to demonstrate the impact of the LSB's work against its three strategic objectives. From 2019/20 we expect to use the results of the Impact Tracker in the LSB's production of both the Business Plan and the Annual Report.

A detailed breakdown of work carried out in 2018/19 is set out in the following pages.

³ <https://research.legalservicesboard.org.uk/news/latest-research-14/>

Strategic element 1: Promoting the public interest through ensuring independent, effective and proportionate regulation

In 2018/19, we carried out the following work to help promote the public interest	
Regulatory performance	Our new approach to regulatory performance assessment is now in operation. Transitional assessments of the regulatory bodies and individual action plans have been published ahead of schedule with the regulatory bodies found to have met the minimum required level of performance against the majority of outcomes under our performance standards.
Internal Governance Rules review outcomes	This project focused on reporting on the findings of our 2017/18 IGR review and implementing the outcomes. In July 2018 we published our decision document in response to submissions received on our November 2017 consultation. This led to a new consultation on the text of proposed new IGR and supporting guidance, published in November 2018. We are considering the submissions we received in response to this consultation and expect to publish our decision document and final IGR in Q2 2019/20.
Technology and regulation	This project investigated the challenges that new technology creates for legal consumers, providers and regulators and aimed to develop approaches that regulators can use when regulating technology to ensure it benefits consumers and providers. Outputs, including papers, recorded interviews and events will be delivered throughout 2019 with a final summary paper being published in early 2020. This project was designed to contribute to the international standing of the legal system in England and Wales by helping to ensure that regulatory bodies are able to create an environment where providers are able to be innovative responsibly.
Enforcement end-to-end review	We completed our end to end review of the enforcement processes of the Solicitors Regulation Authority and Bar Standards Board and published a report on our findings in March 2019. Our report identified three new enforcement policy priorities for the LSB which we will focus on over the next three years, primarily through our regulatory performance framework. We also committed to work during 2019/20 to learn from approaches to enforcement in other sectors.

Strategic element 2: Making it easier for all consumers to access the services they need and get redress

In 2018/19, we were engaged in the following work to make it easier for all consumers to access the services they need and get redress

CMA action plans	<p>We have engaged with the regulatory bodies through the Remedies Programme Implementation Group and through bilateral discussions to monitor their progress on implementing the action plans following the Competition and Markets Authority's 2016 market study. In October 2018 we published a progress update report. During 2018/19 we approved applications by three regulatory bodies to make rules requiring greater transparency on price, service, redress and regulation. In the next business year we expect to receive further rule change applications and will continue to monitor the delivery of the reforms.</p>
Individual legal needs survey	<p>The individual legal needs research allows us to understand how individual consumers' access to legal services has changed over time. This project is being jointly funded by the Law Society, and for the first time in England and Wales, follows OECD guidance on measuring access to justice⁴. The survey went into the field in February 2019 and we expect to publish the full report in summer 2019. This work will provide an objective assessment on progress across a range of indicators of success around making it easier for individual consumers to access the services they need and to get redress.</p>
Small business legal needs	<p>The small business legal needs research allows us to understand how this group of consumers' access to legal services has changed over time. We published our third wave of this research in February 2018, and have since published further analysis of the survey data to investigate the main factors that drive advice-seeking behaviour. We also presented the findings of this research to wide audiences at the UCL International Access to Justice Conference in June 2018, and at the OECD Access to Justice Roundtable in Latvia in July 2018⁵. This activity supports an objective assessment on progress across a range of indicators of success around making it easier for small business consumers to access the services they need and to get redress.</p>
Consumer segmentation	<p>The LSB has continued to model a segmented approach to analysis of research. For example, our written evidence to the Commission on Justice in Wales and analysis of discrimination data for the EHRC inquiry into legal aid for victims of discrimination. In addition, implementation of our regulatory performance framework has provided the foundation to hold regulators to account for understanding the impact of its work on consumers.</p>

⁴ www.ucl.ac.uk/laws/news/2018/dec/professors-pascoe-pleasence-and-nigel-balmer-co-author-oecd-guide-legal-needs-surveys

⁵ <https://research.legalservicesboard.org.uk/news/latest-research-18/>

Strategic element 3: Increasing innovation, growth and the diversity of services and providers

In 2018/19, we were engaged in the following work to increase innovation, growth and diversity

Planning for EU exit	<p>During the year, we monitored the ongoing EU exit negotiations. We actively participated in Ministry of Justice (MoJ) coordinated meetings with the regulatory bodies to understand how EU exit might affect legal services regulation and to ensure the necessary steps were taken to ensure a successful transition for the legal sector in relation to regulatory requirements.</p> <p>Preparedness for EU exit was a standing item on the agenda of our regular senior level meetings with the Approved Regulators and their regulatory bodies.</p> <p>To mitigate risks and ensure continuity if the UK left the EU without a deal, in March 2019, we prepared an Exemption Direction to enable necessary 'no deal' regulatory rule changes (for example relating to mutual recognition of professional qualifications) to be made by the regulatory bodies in an expeditious but properly managed way. We will continue to monitor closely EU exit developments and respond appropriately.</p>
Diversity guidance	<p>In 2018, we conducted a formal review of the regulators' progress against the four diversity outcomes aimed at encouraging a diverse profession. These outcomes were introduced in our new diversity guidance in February 2017. A summary report of our assessment of each of the regulators' progress against these outcomes and our expectations for each of the regulators in 2019 (to continue to increase diversity in the profession) was published in January 2019.</p>
Technology and Innovation survey	<p>This research allows us to understand how levels of innovation in legal services are changing over time. We published research materials in November 2018 and launched them at the Legal Futures Innovation Conference⁶. This activity supports an objective assessment on progress across a range of indicators of success around increasing levels of service innovation, and the growth in new delivery models. The findings of this research have also been used extensively to develop our approach to the technology and regulation project⁷.</p>
Education and Training	<p>In July 2018, we updated our website to show what we do in relation to education and training in legal services. In the previous reporting year, we engaged with the wider education and training community, which we were able to consolidate in this reporting year. This in turn has enabled us to gain an informed approach to our oversight education and training role.</p>

⁶ <https://research.legalservicesboard.org.uk/news/tech-inno-2018/>

⁷ <https://www.legalservicesboard.org.uk/Projects/technology/index.htm>

Performance against statutory performance targets

Under the Act, the LSB must approve changes to regulatory arrangements and recommend if an applicant body should be designated an approved regulator, licensing authority or to extend an approved regulator's scope of regulation. This is a key part of our oversight role.

By approving new entrant regulators and designations, we allow more firms to start to provide or to expand their services and improve choice for consumers. We also encourage the approved regulators, in making changes to their handbooks and rules, to be more outcomes-focussed and to keep regulatory burdens to a minimum. In addition, we have a statutory responsibility to assess and,

where appropriate, approve the practising certificate fee application of each regulator and approve the annual budget of the SDT.

Some of these activities have statutory performance deadlines set out in the Act and we have also developed our own targets. We continually monitor performance against these deadlines and targets and record both in the monthly programme highlight report and the quarterly performance report.

The breakdown of our performance in 2018/19 is shown below. These figures are derived from ongoing records that the LSB maintains of our processing of applications.

Activity	How we performed
Publication of applications on our website	<ul style="list-style-type: none"> 100% (14 out of 14) of applications for approval of changes to regulatory arrangements were published within the two day working target
Decisions and recommendations on an application	<p>Changes to regulatory arrangements:</p> <ul style="list-style-type: none"> 13 decisions on applications to change regulatory arrangements were made Seven decisions were made in the initial decision period of 28 calendar days Six decisions were made within an extended decision period of 90 calendar days
Publish our decisions, extensions, warnings and refusals to consider applications	<ul style="list-style-type: none"> 100% (20 out of 20) of notices were published on our website within the target of two working days
Publish advice from mandatory consultees, written representation from applicants, and oral representations	None received during the reporting year.
Recommendations to the Lord Chancellor	<p>On 11 July 2018 the Lord Chancellor agreed our recommendation to make an order designating the Chartered Institute of Legal Executives an approved regulator and licensing authority.</p> <p>On 31 January 2019 we recommended the Lord Chancellor make an order under S.80 of the Legal Services Act to establish the First-tier Tribunal as the appellate body to hear appeals from licensing authority decisions made by the Chartered Institute of Legal Executives.</p>

In 2018/19, we received 14 new applications concerning a change of regulatory arrangements. 13 decisions were made. There was one ongoing application at the end of the year. Seven decisions were made in the initial decision period of 28 days and the average time to make a decision was 39 days (47 days in 2017/18). While the average time is down, nearly half of decisions were made after the initial 28-days, this was because we dealt with some substantial applications during the reporting year that required long periods of consideration. These included, for example, the SRA's application to bring in a new handbook, changes from a number of regulators to introduce greater price and service transparency, and a significant application from the BSB related to its Future Bar Training proposals.

Twelve exemption directions were issued, including the precautionary blanket EU no-deal exit exemption referred to earlier in this report.

Performance against budget

The financial performance measure for the LSB is to keep within its annual budget. In doing so, we aim to secure budget efficiencies wherever possible. At the beginning of the 2018/19 financial year, we reached the minimum level of resourcing which we believe is necessary for the successful delivery of our work and this is reflected in the 18/19 actual outturn. The comparative performance against budget is shown below:

	2018/19	2017/18
	£'000	£'000
Budget	3,798	3,848
Expenditure	3,725	3,470
Underspend	73	378

We have committed to achieving the same budgeted spend in 2019-20 of £3,798k but this will be challenging in light of inflationary pressures that will be experienced. The LSB is financed by a levy on the approved regulators. This is in accordance with the Act, which stipulates that our costs should be recouped by means of a levy to be collected from approved regulators on behalf of HM Treasury (HMT). The Legal Services Act 2007 (Levy) (No.2)

Rules 2010 as amended in 2014 enables the LSB to request funds from the approved regulators each year equal to its estimated net expenditure.

Income and expenditure is accounted for on an accruals basis. The levy amount billed to approved regulators in 2018/19 was £3,410k (£3,358k 2017/18). The amount of funds released from deferred income was £315k (£94k released from deferred income in 2017/18). Any underspend that the LSB achieves in one year reduces the amount it needs to collect through the levy in the subsequent year.

We recognise funds received as 'application fees', as defined in the Act at s175 (2), for designation and licensing authority applications. Such fees received are initially treated as 'deferred income' and released to the Statement of Comprehensive Net Expenditure in accordance with the value of work undertaken. These fees are set off against the LSB's expenditure and also reduce the levy payable by all approved regulators. No prescribed fees were received in 2018/19 (£22k 2017/18) and no balance remained in deferred income from prescribed fees as at the 31 March 2019 (£4k as at 31 March 2018).

We constantly strive for value for money when we purchase goods and services, and our ICT support is provided by a small enterprise, in line with government's aim of encouraging the use of SMEs for public sector services. Facilities services are provided by the LSB's current landlord, the Office of Rail and Road.

Outsourced arrangements have provided the LSB with some resilience, and have obviated the need for expensive consultancy, whilst ensuring that the organisation still receives a focussed bespoke service. This recognises both its independent status and unusual funding and remuneration models (for example the absence of defined benefit pensions) compared to many public sector organisations.

Payment of creditors

We are committed to paying all supplier invoices by the due date or within 30 days of receipt if no due date has been agreed. In line with guidance issued by the Department for Business, Energy and Industrial Strategy and the Cabinet Office, we aim to pay all authorised invoices that are not under dispute within 10 days from receipt. Throughout 2018/19 100% of these invoices were paid within 10 days.

Performance against other measures

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

Our view remains that the introduction of ABS continues to have a direct and positive impact, in particular, on the regulatory objectives of protecting and promoting the interests of consumers, promoting competition in legal services and encouraging a strong, diverse and effective legal profession. Their value has been to provide a structure for firms wishing to provide services differently to address legal need. Overall numbers have continued to grow over time breaking the 1,000 mark this year, and we have evidence of a wider variety of business models in the market than prior to the emergence of ABS. In November 2018 we published research showing that ABS are over three times more likely to use technology and are among the types of provider with the highest levels of service innovation. The research also indicated that legal services regulation is seen by significantly fewer providers as a barrier to innovation it was than three years ago. Looking forward, we will continue to break down regulatory barriers to competition, innovation and growth, empower consumers and enable the need for legal services to be met more effectively. In the longer-term we consider that legislative reform may be necessary to complete the liberalisation of the legal services market. As at March 2018, there were 714 ABS licensed by the SRA, 206 by ICAEW, 68 by the CLC, 40 by IPReg, and 8 by BSB.

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

All requests made under the FoIA must be responded to within 20 working days of receipt. We aim to respond to requests as soon as practicable within that period. In 2018/19, we received 31 requests, and on average these were responded to within 14 (excluding active requests which are yet to be replied to at all) days. The majority of these requests were dealt with within the 20-day statutory deadline, with the exception of five requests that took 21, 21, 39, 37 and 40 days⁸ respectively to respond to.

As a data controller under the Data Protection Act 2018, the LSB is required to respond to any subject access requests within 30 calendar days. One subject access request was received in 2018/19 and was dealt with within the statutory timeframe.

We continued our work during the course of 2018/19 to bring the LSB into compliance with the General Data Protection Regulations (GDPR).

⁸ Extensions were issued for the 39, 37 and 40 day requests so that they could be considered more fully, including in relation to the public interest test, and so that third parties could be consulted where appropriate. The 21-day responses were slips in response time.

Environment, social and community issues

The LSB is not required to produce a sustainability report⁹ but we are committed to working with the Office of Rail and Road (our landlord) to take account of the impact of our activities on the environment.

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

In 2018/19, our colleagues provided support to a local charity, Triangle playground. We also partnered with an organisation called Inspire! and in December 2018, we hosted a teacher from the charity to help them understand the world of work and enable them to pass this knowledge on to their students.

During the course of the year, our colleagues supported the London Legal Support Trust, by participating in the London Legal Walk, baking cakes and participating in a quiz night, raising in total £945. Colleagues also took part in the Christmas Jumper Day and donated £60 to Save the Children.

Neil Buckley
Accounting Officer

10 June 2019

⁹ The LSB is exempt from producing a sustainability report under the Greening Government Commitments because it is an arm's length body occupying less than 1000m² and has fewer than 250 FTE staff.

Accountability report

Corporate governance report

LSB Members' report

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

In 2018/19 the LSB oversaw regulation by ten approved regulators, who directly regulated almost 177,000 lawyers practising throughout the jurisdiction. There is one approved regulator for probate activities, Institute of Chartered Accountants of Scotland, who do not currently authorise anyone to offer the service.

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

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

Schedule 1 of the Act stipulates that:

The Board is to consist of the following members—

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

and

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

(2) The chairman must be a lay person.

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

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

The LSB requires each Board Member to provide details of any company directorships and other significant interests they hold and this is published on the LSB website.¹⁰ Members are also required to declare any conflicts or interests in any item being discussed and the Chair will determine whether they need to be excluded for that item. All and any such instances are recorded in the minutes of the Board, which are also published on the LSB website.

Members are also required to make a '*related party declaration*' to confirm whether they or any related party to them had undertaken any transactions with the LSB.

¹⁰ www.legalservicesboard.org.uk/about_us/our_board/board_interests_and_expenses/index.htm#Register

Statement of accounting officer's responsibilities

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

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

- observe the Accounts Direction issued by the Lord Chancellor with the approval of HMT, including the relevant accounting and disclosure requirements, and 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.

Under the Act, the Accounting Officer discharges his responsibilities on behalf of the Board who are required by legislation to keep proper accounts and records and to prepare a statement of accounts.

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

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

Professional financial advice

The LSB engaged the services of John Ward, a chartered accountant, to provide support to the Audit and Risk Assurance Committee in reviewing and challenging the policies and procedures instigated by the Executive. In 2018/19 the LSB paid him £2.6k (£2.3k in 2017/18) for these services.

Auditor

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

The LSB's annual financial statements are audited externally by the Comptroller and Auditor General (C&AG) in accordance with the Act, Schedule 1, paragraph 25(4)(a). For the period ended 31 March 2019 a fee of £19.5k will be charged for the audit work that has been performed.

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

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

The LSB's annual governance statement 2018/19

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

- complies with all statutory and administrative requirements on the use of public funds, including the principles and policies set out in the HMT publication *Managing Public Money*, relevant *Dear Accounting Officer* letters, and other directions from the Cabinet Office/ HM Treasury;
- meets its obligations under, and acts in line with regulatory objectives contained in the Legal Services Act 2007 ('the Act');
- operates within the limits of its statutory authority and in accordance with any delegated authorities agreed with the MoJ as the LSB's sponsoring department
- operates in line with the statutory requirements and spirit of the FOIA and complies with the Data Protection Act 2018.

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 all relevant statutory or administrative requirements for the use of public funds.

Corporate governance framework

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

The LSB is required, under section 5 of the Act, to have regard to generally accepted principles of good corporate governance. In this regard, the Board has adopted a Governance Manual which is published on the LSB's website at:

https://www.legalservicesboard.org.uk/about_us/our_board/board_code_of_practice/pdf/2019/20190110_LSB_Governance_Manual.pdf

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

LSB Board

The LSB Board comprises both non-executive Members (including the Chair) and the Chief Executive. The Board met formally on 9 occasions during the period 1 April 2018 to 31 March 2019 (not including extraordinary meetings).

Meeting attendance	
*Dr Helen Phillips (Chair, Lay Member)	9/9
Terry Babbs (Lay Member)	8/9
Marina Gibbs (Lay Member)	8/9
David Eveleigh (Non Lay Member)	8/9
Michael Smyth CBE QC (Hon) (Non Lay Member)	9/9
Jemima Coleman (Non Lay Member)	7/9
Jeremy Mayhew (Lay Member)	7/9
Catharine Seddon (Lay Member)	6/9
Neil Buckley (Chief Executive Non Lay Member)	9/9

* [Interim] Chair from May 2017 to 17 June 2018

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

An appointment process for a new Chair of the LSB was run by the MoJ on behalf of the Lord Chancellor during 2017 and 2018. On 18 June 2018, Dr Helen Phillips was appointed permanent Chair of the Board, following a period of 13 months as interim chair.

Board Committees

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

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

ARAC's ongoing activities in 2018/19 included: full scrutiny and review of the LSB's Annual Report and Accounts 2017/18; review of the activities of the external and internal auditors; risk management

and controls, including the annual review of the LSB risk management strategy; review of the LSB Governance Manual; and oversight of the Committee's business programme, terms of reference, and effectiveness.

Specific activities and matters considered in 2018/19 included: deep dives in relation to risks connected with the LSB's relations with the MoJ, appointments and recruitment, and LSB data management practices; the introduction of assurance mapping into the LSB; an update on the LSB's IT contract tender process and planned IT transformation; and, an update on the LSB's planned office move.

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

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

RNC's activities in 2018/19 included: considering proposals regarding the appointment of new members of the Consumer Panel and Office for Legal Complaints; considering the progress made by the MoJ as regards the appointment of new lay members of the LSB; considering the outcome of the performance review process and advising the Chief Executive on the distribution of the 2018 pay award; considering non-pay options for improving the LSB's offer to colleagues; receiving the annual governance review of the LSB's pension arrangements; reviewing resourcing trends including turnover, vacancy rates and sickness absence.

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

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

Membership and attendance records are given below.

Audit and Risk Assurance Committee	
Terry Babbs (Chair)	4/4
Marina Gibbs	4/4
Catharine Seddon	4/4
Michael Smyth	4/4

Remuneration and Nomination Committee	
Jemima Coleman (Chair)	2/2
Jeremy Mayhew	2/2
Marina Gibbs	2/2

Governance relationship with the Office for Legal Complaints

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

The relationship between the LSB and the OLC is underpinned by a *Memorandum of Understanding*, reflecting the respective bodies' independent and separate functions, and allows for the development and maintenance of constructive working relationships. There is also a three-way operating protocol with the OLC and the MoJ.

The MoJ has responsibility for oversight of the OLC in respect of matters relating to *Managing Public Money*.

In approving the OLC's budget, the LSB seeks a range of assurances and, for the budget year 2019/20, these cover:

- transparency about expected performance against the OLC's KPIs, including actual performance to data against KPIs in 2018/19 as well as the forecast trajectory for the 2019/20 year and beyond;
- an indication of the distribution of resources deployed in the operation of the ombudsman scheme and the amounts of income the OLC expect to raise from the operation of the scheme;
- a summary of the key risks to delivering the Plan for 2019/20 and proposed mitigation including confirmation that sensitivity analysis of key assumptions has been carried out, in relation to

the volumes predicted, any possible variation in predicted income and variations in anticipated levels of case complexity;

- a summary of changes to the budget as a result of stakeholder responses to consultation;
- the approximate split of expenditure between:
 - i. handling complaints about legal services
 - ii. work to analyse and feed back to the sector learnings from handling complaints
 - iii. other expenditure not covered by (i) and (ii)
- an estimate of the cost per case saving / the improvement in quality as a result of Modernising LeO initiatives;
- an explanation of case fee income and how case fees are set, including the status of the planned review of case fees.

Consent to Scheme Rules changes

The Act requires the LSB to consent to changes the OLC proposes to make to the Scheme Rules. In March 2019 the Board approved technical changes to the rules to take account of the transfer of the claims management complaints jurisdiction to the Financial Ombudsman Service, as set out in the Financial Guidance and Claims Act 2018.

Voluntary assurance arrangements

The LSB has continued to operate and refine an approach to voluntary assurance agreed by the respective Chairs in June 2017. This comprises a series of elements:

- information about the Legal Ombudsman's performance is to be put on its website quarterly (completed, ongoing);
- OLC would continue to provide comprehensive information on scheme performance to the LSB through OLC Board papers and minutes (completed, ongoing);
- quarterly meetings to discuss performance, including attendance by an LSB Board Member and CEO at OLC Board meetings twice yearly (completed, ongoing – meetings attended in July 2018 and January 2019); and

- the OLC Chair would send a voluntary assurance note to the LSB, following each OLC Board meeting, explaining how the OLC has dealt with the Legal Ombudsman's performance at that meeting (completed, ongoing).

Governance relationship with the Legal Services Consumer Panel

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

<http://www.legalservicesconsumerpanel.org.uk>

Executive leadership and key business processes

Senior Leadership Team (SLT) Chaired by the Chief Executive, and comprising the Chief Executive's direct reports and other senior colleagues, its role is to provide oversight of the LSB's strategic and business plans, related performance and management information and to ensure delivery of all executive activity and key business processes. The SLT assesses and approves individual projects and serves as a resource for the consideration of major policy issues. The SLT also oversees, assesses and approves all significant finance and commercial processes, and HR matters.

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

Board performance

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

The Board Evaluation exercise for 2018 was conducted by an external consultancy, OE Cam Ltd, who commenced their review in March 2018 and concluded their report in June 2018. The outcomes were reported to the Board at its meeting on 24 May 2018. The external Board evaluation was overseen by the Chair with support from the Head of Corporate Services.

The outcome of this process confirmed that the Board observes principles of collective responsibility, support and respect. The Board also observed generally accepted principles of good corporate governance. Practical considerations such as induction, initial training, frequency and length of meetings were judged appropriate. The Board agreed a number of areas for development including:

- prioritise Board agendas around the strategic objectives;
- confirm the role of the Board Members leading key stakeholder relationships;
- appoint a Board Member as a Senior Independent Director;
- complete the new performance reporting framework set against the revised strategic objectives;
- make explicit how the Board applies its risk appetite for policy;
- consideration of more regular sector updates and briefings, particularly for lay members, so that they are appraised of legal sector developments and market context;
- each Board member to undertake annually a 360 degree feedback assessment and appraisal and review progress on development with the Chair;
- identify common themes arising from the individual development plans in order to build specific common development events such as a programme of development sessions, external speakers;
- work on improving the presentation of Board papers;
- establish a schedule of when to undertake external evaluation of the Board in future.

An action plan was developed based on these areas for development and is progressing well.

The Board committees, ARAC and RNC, assessed their effectiveness by reviewing their performance against their Terms of Reference each year.

Each committee reports after each meeting to the next Board meeting. Each committee prepared an annual report of its activities to the Board to inform this Report, and these reports were considered by the Board at its March 2019 meeting.

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

Risk and internal control framework

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

The Board reviewed the Corporate Risk Register at its meetings in May and November 2018.

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

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

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

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

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

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

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

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

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

Assessment of risk management

In reviewing the LSB's risk management strategy, the Board and the ARAC have evaluated the quality of the LSB's management of risk during 2018/19 and have confirmed their assessment that the LSB's approach identifies the correct risks, and that mitigating actions are appropriately focused and implemented so as to support the LSB's programme of work to deliver the regulatory objectives.

Reporting of risk

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

During 2018/19 the risk register underwent a zero based review by SLT, individual risks identified on the previous version where mapped across to the new register where appropriate. ARAC and the Board reviewed and agreed the new register in November 2018.

The Board also reviewed its approach to risk management in November 2018.

Key risks

Some of the key risks facing the LSB in achieving its priorities in 2018/19 are ongoing, while others arise in relation to the point that the Board has reached in its corporate life, and proposed changes in legislation which would have significant impact on the sector.

Specific risks managed in 2018/19 were as follows:

Lack of a sufficient lay majority on the Board

Following the interim Chair's appointment to the role permanently in June 2018, the Board of the LSB has carried a lay vacancy. This has meant that the LSB has carried a risk during the course of the year in relation to Board membership not being constituted properly.

Actions taken:

- regular communication with MoJ in relation to appointments and recruitment needs.
- ongoing review of Board appointments by RNC – most recently in February 2019.
- rules of procedure reviewed and amended to ensure the Board could continue to operate where membership does not allow for a lay majority.

Failure to anticipate regulatory consequences of EU exit

The LSB fails to ensure that the LSB and regulators anticipate the regulatory consequences of EU exit, leading to the sector being unable to operate optimally.

Actions taken:

- close monitoring of EU exit developments that are likely to have an impact on regulators;
- direct senior engagement with regulators seeking assurance on readiness, following up on MoJ scenario / contingency planning approach;
- consideration of new EU exit policy and / or project work in 2019/20 following consultation on business plan.

Delivery of consumer protection weakened

The LSB's objective to deliver consumer protection is weakened owing to performance issues facing the OLC / Legal Ombudsman.

Actions taken:

- Voluntary assurance reporting by the OLC to the LSB Board;
- quarterly performance reviews at Board level with OLC performance regularly discussed;
- twice yearly attendance by LSB CEO and Board Member at OLC Board;
- encouraged the OLC to explore potential alternative approaches to delivery of legal complaints handling within the existing legal framework.

The wider framework of control

As well as a risk and control framework, the LSB exercises a wider system of internal control which is based on a framework of regular management information, administrative procedures, including the segregation of duties, and processes for delegation and accountability.

Role of internal audit

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

Internal audit reviews carried out in 2018/19 were as follows:

- a review of the processes, policies and controls in place as regards financial systems;
- a review of the plans for LSB IT transformation;

- a review of plans for the LSB's office move later in 2019;
- a review of the LSB's data management processes and procedures.

The Head of Internal Audit has found that overall the LSB has an adequate and effective framework of governance, risk management and control within the areas of financial systems, IT and office move projects and data management.

Information security

The LSB is a data controller under the Data Protection Act 2018 and is subject to the FOIA. The LSB also has due regard to the requirements set out in *HMG Security Policy Framework* issued by the Cabinet Office. This focuses on the outcomes required to achieve a proportionate and risk managed approach to security that enables the LSB to function effectively, safely and securely.

The LSB made good preparations ahead of the introduction of the GDPR, which came into force on 25 May 2018. All corporate governance and HR policies were reviewed for GDPR compliance, introductory training for colleagues was undertaken, and information owners worked through data-cleansing in their areas of responsibility, according to a timetable. The Head of Corporate Services was appointed as the LSB's Data Protection Officer.

All of the LSB's electronic data and access to this data is managed securely with support provided by an IT managed service provider. This organisation helped to ensure that the LSB implements guidance on protection and security of its IT, physical and data assets from CESG (the National Technical Authority for Information Assurance), the Cabinet Office and the Centre for the Protection of the National Infrastructure (CPNI). The LSB is undertaking an IT transformation in 2019 and will continue to ensure information security remains a priority. As part of the transformation the LSB intends to attain *Cyber Essentials certification*.

During 2018/19 there was one data security incident when there was an accidental data loss of one double sided extract from a draft policy document. An incident report was completed and

it was concluded that the data loss did not need to be reported to the Information Commissioner's Office as there was no loss of personal data.

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

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

Assessment of fraud and error risk

Together with the ARAC, I have reviewed the arrangements for the LSB's assessment of the risk that the financial statements may be materially misstated due to fraud, the current processes for identifying and responding to the risks of fraud and any known instances of fraud. I consider that there is a low risk of misstatement due to fraud. The fact that appropriate segmentation of budgetary and authorisation processes are in place and that the organisation does not handle any physical cash both significantly reduce the risk of fraud. Appropriate processes for identifying and responding to the risks of fraud in day-to-day operations are nevertheless in place. There were no known instances of fraud to report.

During 2018/19, colleagues received face-to-face training on anti-fraud and corruption and the Bribery Act 2010, which was provided by the LSB's Legal Adviser.

Whistleblowing arrangements

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

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

Both policies are reviewed annually, as part of the Governance Manual review, to ensure that they are in line with current best practice. The most recent policy review was reported to ARAC in October 2018 and to the Board in November 2018.

There were no whistleblowing incidents reported during the year.

Review of the effectiveness of the risk and governance framework

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

Quality of the data used by the Board

The SLT, chaired by the Chief Executive, is responsible for making submissions to the Board on regular matters of business and specific governance issues referred to in this statement. Data assembled by the SLT and reviewed by the Chief Executive includes, but is not limited to: the corporate risk register; assurance mapping documentation; annual budget plans; strategic plans, and; detailed position papers on operational matters arising.

Risk registers, assurance mapping data, annual business plans and strategic plans are subjected to scrutiny by ARAC on an ongoing basis before presentation to the board. Where new risks and new controls arise, discussions take place with the Head of Internal Audit to discuss the appropriateness and depth of reviews by Internal Audit. Given the independent scrutiny of data submitted to the board, I am satisfied with its quality and relevance.

Significant control issues

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

Compliance with Corporate Governance in central government departments: Code of Good Practice 2017

In drawing up the Governance Statement, I have assessed the LSB's governance arrangements against the requirements set out in *Corporate Governance in central government departments: Code of Practice 2017 ('the Code')*. Whilst the Code is specifically designed for Central Government departments, the requirement to 'comply or explain' also applies to any other bodies within the scope of *Managing Public Money*, including the LSB. My assessment, which has been endorsed by the ARAC and the Board, is that the LSB complies with the Code insofar as this is applicable to it, with the exception of one area of non-compliance:

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

John Ward, a chartered accountant, provided support to the ARAC on the basis that none of the Board Members who had served on the Committee during 2018/19 had relevant or professional financial experience.

Conclusion

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

- finance and commercial processes
- human resources
- key business processes
- management information
- information security and
- fraud, error and whistle-blowing policies.

Remuneration and staff report

Appointments

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

Board Member Dr Helen Phillips was appointed interim Chair on 1 May 2017 and, following completion of an appointment process undertaken by the Ministry of Justice on behalf of the Lord Chancellor and in consultation with the Lord Chief Justice, was formally appointed to the Chair on 18 June 2018. The LSB Chair is required to commit at least 70 days per annum to the work of the LSB.

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

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

As at 31 March 2019, there were nine Board Members - five men and four women.

Termination

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

The Chief Executive's contract of employment provides for six months' notice on either side. The current Chief Executive, Neil Buckley, has tendered his notice and the process for appointing his successor has commenced.

Performance conditions

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

The remuneration of the Chief Executive is determined following a recommendation to the Board by the RNC and in consultation with the MoJ. The performance of the Chief Executive is reviewed annually by the Chair. The most recent review undertaken in March 2019 resulted in the award of a bonus of £15k.

Name	Date appointed	Date appointment ends
Dr Helen Phillips (Chair)	9 March 2015	31 March 2023
Terry Babbs	1 April 2013	31 March 2019
Marina Gibbs	1 April 2014	31 March 2020
David Eveleigh	1 April 2014	31 March 2020
Michael Smyth CBE QC (Hon)	18 April 2016	17 April 2022
Jemima Coleman	18 April 2016	17 April 2023
Catharine Seddon	1 October 2016	30 September 2023
Jeremy Mayhew	1 October 2016	30 September 2019
Neil Buckley (Chief Executive)	4 January 2016	(see termination note above)

The table below has been audited and provides details of the remuneration of LSB Board Members who served during 2018-19:

Remuneration of Chair and Board members		2018/19				2017/18			
LSB Board Member	Annual salary Rate	Salary	Pension	Bonus	Total	Salary	Pension	Bonus	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Sir Michael Pitt (Chair until 30/4/17)	60-65	–	–	–	–	5-10	–	–	5-10
Dr Helen Phillips (Appointed Chair on 18/6/18)	60-65	60-65	–	–	60-65	55-60	–	–	55-60
Terry Babbs (resigned 31/3/19)	10-15	10-15	–	–	10-15	10-15	–	–	10-15
Marina Gibbs	10-15	10-15	–	–	10-15	10-15	–	–	10-15
David Eveleigh	10-15	10-15	–	–	10-15	10-15	–	–	10-15
Michael Smyth CBE QC (Hon)	10-15	10-15	–	–	10-15	10-15	–	–	10-15
Jemima Coleman	10-15	10-15	–	–	10-15	10-15	–	–	10-15
Catharine Seddon	10-15	10-15	–	–	10-15	10-15	–	–	10-15
Jeremy Mayhew	10-15	10-15	–	–	10-15	10-15	–	–	10-15
Neil Buckley	135-140	135-140	27	10-15	180-185	135-140	27	10-15	180-185

Remuneration of Chair and Board Members

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

Staff report

LSB employees are not civil servants but public servants. LSB colleagues do not have access to the Principal Civil Service Pension Scheme or any other defined benefit scheme. As at 31 March 2019 the LSB had 24 full time employees and 10 part time employees (2017/18: 26 full time employees and 9 part time employees). 56% of the staff complement was female (2017/18: 57%). The LSB supports a range of flexible working patterns.

The LSB's average sickness absence was 6.11 days per full time equivalent (2017/18: 7.23 days). One colleague was absent due to sickness for an extended period of time.

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

Pension liabilities

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

As at 31 March 2019 the seven Senior Civil Service equivalents on the Senior Leadership Team, excluding the Chief Executive, comprised three men and four women.

Senior civil servant equivalent by pay band

Salary band £'000	Number of senior civil service equivalent within band as at 31 March 2019	Number of senior civil service equivalent within band as at 31 March 2018
£50-£60	1	–
£60-£70	1	1
£70-£80	2	2
£80-£90	2	1
£90-£100	–	–
£100-£110	–	1

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

	Male	Female
LSB Board Members	5	4
Consumer Panel	3	6
Senior Civil Service equivalents	2	4
All others	11	15

Fair pay disclosures (audited)

The table below discloses the relationship between the remuneration of the highest-paid director and the median remuneration of all the organisation's colleagues.

Pay multiples	2018/19	2017/18
Band of highest paid director's total remuneration (£000) *	150 - 155	150 - 155
Median total remuneration (£)	46,695	45,339
Pay multiple	3.27	3.36

* The most highly paid director was also the most highly paid individual in the LSB

In 2018/19 the annual full-time equivalent rate of remuneration ranged from £15,000 - £20,000 to £150,000 - £155,000. (2017/18: £10,000 - £15,000 to £150,000 - £155,000). In 2018/19, a pay award of 1.5% of salary budget was distributed on a flat percentage basis to all eligible colleagues.

Staff policies, equality and colleague involvement

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

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

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

The LSB's seeks to engage fully with colleagues in all matters affecting them. It holds regular all-colleague meetings and consults with colleagues on matters affecting their employment and welfare. Following the full colleague engagement survey held in 2015/16, a colleague engagement 'pulse' survey was carried out in August 2017 and September 2018 and the LSB is committed to implementing the organisational development points that emerged. We will be undertaking another full colleague engagement survey in July 2019.

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

Staff numbers and related costs (audited)

Staff remuneration

	2018/19 Permanent Staff	2018/19 LSB Board	2018/19 OLC Board	2018/19 Consumer Panel	2018/19 Total	2017/18 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Wages and salaries	1,767	168	112	154	2,201	1,994
Social security costs	205	14	7	14	240	221
Pension costs	244	–	–	14	258	314
Other staff costs	22	–	–	–	22	15
Total	2,238	182	119	182	2,721	2,544

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

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

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

	2018/19	2018/19	2017/18
	Permanent staff	Total	Total
Directly employed – LSB	31	31	27.1
Directly employed – Panel secretariat	2.0	2.0	2.0
Total	33	33	29.1

Redundancy costs are accounted for in full in the year that an irrevocable decision has been made.

There was one redundancy in 2018/19 (2017/18: nil). Consequently the cost of redundancy payments in 2018/19 was £26k (2017/18: £nil).

Parliamentary accountability and audit report

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

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

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

It does this by working to improve the delivery of legal services by providing oversight of the regulation of the legal services sector. This includes ensuring that the performance of the approved regulators meets the standards expected of them by society. In relation to the approved regulators, this includes ensuring that the principles of better regulation are adopted and that the regulatory objectives outlined in the Act are promoted. In addition, the LSB has a number of responsibilities relating to the governance of the OLC.

Regularity of expenditure (audited)

Losses and special payments – there were no losses or special payments in 2018/19 (2017/18: nil).

Severance payments – a severance payment of £26k was made in respect of a single redundancy case during 2018/19 (2017/18: nil).

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

Long-term expenditure trends – budgeted expenditure for 2019/20 is £3,798k. The LSB continues to strive for efficiency improvements and this is a realistic level of expenditure provided that the underlying assumptions remain consistent with the LSB's ability to fulfil its statutory function.

Neil Buckley
Chief Executive and Accounting Officer

10 June 2019

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

Opinion on financial statements

I certify that I have audited the financial statements of the Legal Services Board for the year ended 31 March 2019 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, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of Legal Services Board's affairs as at 31 March 2019 and of its net (income)/expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Legal Services Act 2007 and Secretary of State directions issued thereunder by the Lord Chancellor with approval of HM Treasury.

Opinion on regularity

In my opinion, in all material respects the income and expenditure 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.

Basis of opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Legal Services Board in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Legal Services Board's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

Responsibilities of the Board and Accounting Officer for the financial statements

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.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Legal Services Act 2007.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Legal Services Board's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

Other Information

The Board and the Accounting Officer are responsible for the other information. The other information comprises information included in the annual report other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained

in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with Lord Chancellor's directions made under the Legal Services Act 2007;
- in the light of the knowledge and understanding of the Legal Services Board and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability 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.

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General

17 June 2019

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

Financial Statements

Statement of Comprehensive Net Expenditure for the year ended 31 March 2019			
	Note	2018/19 £'000	2017/18 £'000
Programme costs			
Staff costs	5	2,721	2,544
Depreciation/Amortisation	6, 7	35	38
Other programme costs	2	969	888
		3,725	3,470
Income			
Levy income	3	3,721	3,452
Designation and application fees	4	4	18
		3,725	3,470
Net (income)/expenditure		–	–

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

The notes on pages 42 to 50 form part of these financial statements.

Statement of Financial Position as at 31 March 2019			
	Note	31 March 19 £'000	31 March 18 £'000
Non-current assets			
Property & equipment	6	11	39
Intangible assets	7	6	13
Total non-current assets		17	52
Current assets			
Trade and other receivables due within one year	9	45	40
Cash and cash equivalents	10	6,703	6,905
Total current assets		6,748	6,945
Total assets		6,765	6,997
Current liabilities			
Trade and other payables	11	398	630
Total current liabilities		398	630
Total assets less total liabilities		6,367	6,367
Taxpayers' equity			
Income and Expenditure reserve		6,367	6,367
Total taxpayers' equity		6,367	6,367

The notes on pages 42 to 50 form part of these financial statements.

Neil Buckley
Accounting Officer

10 June 2019

Statement of Cash Flows for the year ended 31 March 2019			
	Note	2018/19 £'000	2017/18 £'000
Cash flows from operating activities			
Net (income)/expenditure		–	–
Decrease/(increase) in trade and other receivables		(5)	6
(Decrease)/increase in trade and other payables		(232)	(154)
Depreciation/amortisation		35	38
Net (outflow)/inflow from operating activities		(202)	(110)
Cash flows from investing activities			
Purchase of property and equipment		–	–
Purchase of intangible assets		–	–
Net cash outflow from investing activities		–	–
Net (decrease)/increase in cash and cash equivalents in the year		(202)	(110)
Cash and cash equivalents at the beginning of the year	10	6,905	7,015
Cash and cash equivalents at the end of the year	10	6,703	6,905

The notes on pages 42 to 50 form part of these financial statements.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2019		
Income and Expenditure Reserve		
	Note	£'000
Balance as at 1 April 2017		6,367
Changes in Taxpayers' Equity 2017/18		
Comprehensive net expenditure for the year		–
Notional transfer to Consolidated Fund		(3,470)
Notional receipt from sponsoring department		3,470
Balance at 31 March 2018		6,367
Balance at 1 April 2018		6,367
Changes in Taxpayers' Equity 2018/19		
Comprehensive net expenditure for the year		–
Notional transfer to Consolidated Fund	1.3	(3,725)
Notional receipt from sponsoring department	1.3	3,725
Balance at 31 March 2019		6,367

The notes on pages 42 to 50 form part of these financial statements.

Notes to the financial statements

1. Statement of accounting policies

1.1 Basis of preparation

These financial statements have been prepared in accordance with the 2018/19 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.

The functional and presentational currency of the LSB is the British pound sterling (£).

1.2 Accounting convention

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

1.3 Income

The Legal Services Act 2007 (the Act) makes provision for the costs of the LSB to be recovered through the imposition of a levy on approved regulators (ARs). Before the end of the financial year a levy is calculated and imposed on ARs based on an estimate of the LSB's aggregate net expenditure, as adjusted for the difference between previous estimates and actual expenditure. The total levy is apportioned pro rata to each regulator based on the number of practitioners certified to the LSB by ARs at the beginning of the period, subject to a minimum levy of £3,000 per AR. The levies

imposed are recognised as income in the Statement of Comprehensive Net Expenditure (SoCNE) and any excess of imposed levies over the LSB's actual aggregate net expenditure in the period is deferred to the following year while any shortfall in imposed levies below actual aggregate net expenditure is released to the SoCNE from funds deferred in previous periods. The effect of this treatment ensures that the total income recognised and leviable in the period corresponds to the LSB's actual aggregate net expenditure in the period as intended by the Act whilst timing differences between actual leviable expenditure and estimates billed are dealt with through the deferred income account.

Any cash received as "Prescribed Fees" (designation and application fees) relating to applications for designation or application to become an approved regulator or licensing authority are initially recognised in the Statement of Financial Position (SoFP) as deferred income and subsequently recognised as income in the SoCNE on a stage of completion basis.

IFRS 15: Revenue from contracts with customers requires entities to implement a 5-step approach to revenue recognition. The application of these steps in relation to LSB's income is outlined below:

1. Identify the contract with the customer: The FReM adaptation of IFRS 15 expands the definition of a contract to include legislation and regulations which enables an entity to obtain revenue. In LSB's case, as outlined above, this legislation is the Legal Services Act 2007 which stipulates that the costs of the LSB should be recouped by means of a levy imposed on the approved regulators no later than 31st March of the 12 month period to which the levy relates.
2. Identify the performance obligations in the contract: Under the Act the LSB's role is to monitor the performance of the approved regulators to ensure they meet expected standards.

3. Determine the transaction price: The total costs incurred by LSB in the financial year are allocated to approved regulators on the basis described above.
4. Allocate the transaction price to the performance obligation: The levy income is accrued and matched with the LSB's net expenditure in the period to ensure that expenditure incurred is recovered in the same period that the regulatory activity is performed.
5. Recognise revenue when (or as) the entity satisfies a performance obligation: Revenue is recognised over time as expenditure relating to the regulatory activity of the LSB is incurred.

The application of these steps has created no difference in the measurement and recognition of LSB's revenue compared to the previous standard IAS 18 revenue recognition, and therefore the transition requirements within IFRS 15 are not applicable.

Under a strict interpretation of s175 of the Act, the LSB is required to surrender all amounts it receives from the levy and prescribed fees to the Consolidated Fund. However, the LSB, the MoJ and HMT are in agreement that this was not the original intention of the parties and the current practice, as agreed between the parties, is for the LSB to retain all amounts received in order to fund its operations. Until a suitable legislative vehicle is devised to reflect the current practice and intention of all parties, the MoJ will be responsible for making a payment on behalf of the LSB to the Consolidated Fund equivalent to the income received by the LSB for the year from the levy and prescribed fees. Accordingly, a notional transfer to the Consolidated Fund has been shown in the Statement of Changes to Taxpayers' Equity. An equal amount is shown as a notional receipt from the sponsoring department.

1.4 Property and equipment

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

Initial recognition and capitalisation threshold

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

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

Consultancy expenditure over £30,000 is capitalised if it is directly attributable to bringing into operation a distinct asset with a life of more than one year. All other consultancy expenditure is charged to the SoCNE when incurred.

Assets under construction are recognised at cost and depreciated from the date that they become operational.

Impairment and revaluation

The LSB undertakes an annual impairment review of assets across all significant asset categories. If indicators of impairment exist, the assets in question are tested for impairment by comparing the carrying value of those assets to their recoverable amount. 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 and is charged to the SoCNE.

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

Depreciation and amortisation

Depreciation and amortisation is charged to the SoCNE on a straight-line basis at rates calculated to write off the value of assets, less any estimated residual value, over their expected useful lives.

Depreciation commences in the month following acquisition with a full month's charge in the month of disposal. Estimated useful asset lives are within the following ranges:

Tangible property and equipment	
Information technology	4-7 years
Furniture, fixtures and fittings	5-10 years
Intangible assets	
Software licences	3-7 years

1.5 Research

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

1.6 Value Added Tax

The activities of LSB are outside the scope of VAT. Output tax does not apply and input tax on purchases is not recoverable.

1.7 Employee benefits

Pension

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

Employee leave accrual

An accrual is made for untaken employee annual leave.

1.8 Operating leases

Payments made under operating leases (net of any incentives received from the lessor) are charged to the SoCNE on a straight-line basis over the period of the lease.

1.9 Going concern

The Act makes provision for LSB to receive funding from ARs through the levy and this arrangement is expected to continue until there are changes to primary legislation. The MoJ has confirmed an overall budget for the LSB of £3.798m for 2019/20. There are no current plans to alter the Act and it has therefore been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

1.10 Changes in accounting policy and disclosures

Changes in accounting policies

There have been no changes in accounting policies for the year ended 31 March 2019.

New and amended standards adopted

IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customers were adopted in the period ended 31 March 2019. Neither of these standards had any impact on LSB and there was no impact on prior periods' reported Statements of Comprehensive Net Expenditure or Statements of Financial Position as a result of these adoptions.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2018 and not early adopted

IFRS 16: Leases will change the way LSB recognises, measures, presents and discloses leases that it holds. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

The only current lease to which IFRS 16 might apply in LSB's circumstances is the premises lease which has less than 12 months to run before expiry. The standard is not yet effective for public sector reporting and HM Treasury has recommended deferral of implementation to years beginning on or after 1 April 2020. The full impact of IFRS 16 will therefore not be determined until it has been formally adopted for use in the public sector by the FReM and new accommodation arrangements have been agreed in the next financial year.

2. Other programme costs

	2018/19 £'000	2017/18 £'000
External legal costs	63	58
Accommodation – licence to occupy fee	167	165
Accommodation – rates, services and other costs	131	57
Outsourced services	114	98
Research costs	97	118
Other programme costs	60	61
Recruitment LSB Staff	56	93
Recruitment OLC Members	26	41
Recruitment Consumer Panel	37	11
Legal library services & reference	37	36
Consumer Panel (non pay)	36	44
Professional advisers	46	35
Training	46	21
Travel and subsistence – LSB Staff	5	2
Travel and subsistence – LSB Board	10	11
Travel and subsistence – OLC Board	7	8
Audit fees for statutory audit work	20	20
Internal audit fees	11	9
Total cash items	969	888
Non-cash items		
– Depreciation	28	31
– Amortisation	7	7
Total non-cash items	35	38
Total other programme costs	1,004	926

3. Levy income

	2018/19 £'000	2017/18 £'000
Levy income from approved regulators	3,721	3,452
Total	3,721	3,452

4. Designation and application fees

	2018/19 £'000	2017/18 £'000
Licensing authority application fees: CILEx	4	18
Total	4	18

5. Staff costs

	2018/19 Permanent Staff	2018/19 LSB Board	2018/19 OLC Board	2018/19 Consumer Panel	2018/19 Total	2017/18 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Wages and salaries	1,767	168	112	154	2,201	1,994
Social security costs	205	14	7	14	240	221
Pension costs	244	–	–	14	258	314
Other staff costs	22	–	–	–	22	15
Total	2,238	182	119	182	2,721	2,544

6. Property and equipment

	2018/19 £'000	2018/19 £'000	2018/19 £'000
	Information technology	Furniture, fixtures & fittings	Total

Cost			
At 1 April 2018	85	137	222
Additions	–	–	–
Disposals	–	–	–
At 31 March 2019	85	137	222
Depreciation			
At 1 April 2018	58	125	183
Charged in year	17	11	28
Disposals	–	–	–
At 31 March 2019	75	136	211
Carrying amount at 31 March 2019	10	1	11
Carrying amount at 31 March 2018	27	12	39

	2017/18 £'000	2017/18 £'000	2017/18 £'000
	Information technology	Furniture, fixtures & fittings	Total
Cost			
At 1 April 2017	85	137	222
Additions	–	–	–
Disposals	–	–	–
At 31 March 2018	85	137	222
Depreciation			
At 1 April 2017	41	111	152
Charged in year	17	15	31
Disposals	–	–	–
At 31 March 2018	58	125	183
Carrying amount at 31 March 2018	27	12	39
Carrying amount at 31 March 2017	44	26	70

7. Intangible assets

Software licences	
	2018/19 £'000

Cost	
At 1 April 2018	36
Additions	–
Disposals	–
At 31 March 2019	36

Amortisation	
At 1 April 2018	23
Charged in year	7
Disposals	–
At 31 March 2019	30

Carrying amount at 31 March 2019	6
Carrying amount at 31 March 2018	13

Software licences	
	2017/18 £'000

Cost	
At 1 April 2017	36
Additions	–
Disposals	–
At 31 March 2018	36

Amortisation	
At 1 April 2017	16
Charged in year	7
Disposals	–
At 31 March 2018	23

Carrying amount at 31 March 2018	13
Carrying amount at 31 March 2017	20

8. Financial instruments

The LSB is party to financial instrument arrangements as part of its normal operations. These financial instruments include bank accounts, receivables and payables which are all measured at amortised cost.

IFRS 7: 'Financial Instruments: Disclosures', requires disclosure of the role that financial instruments have had during the year in creating or changing risks an entity faces in the course of its operations. As a levy funded body which collects all of the levy imposed on ARs within a short time frame (less than 30 days), the LSB is not exposed to the same degree of financial, credit or liquidity risk faced by typical commercial entities. The LSB has no powers to borrow or invest surplus funds. Its financial assets and liabilities which arise from normal operating activities are not held to manage risks arising from these activities. Consequently the LSB is not exposed to significant liquidity, credit, interest rate or foreign currency risk.

a) Carrying amount and fair values

The fair value of cash balances approximates their carrying amount largely owing to the short-term maturity of this financial instrument which is less than three months.

The fair values of receivables and payables approximate their carrying amount at initial recognition and these assets are not revalued subsequent to initial recognition as they are simple instruments with short-term maturities.

b) Liquidity risk

Liquidity risk is the risk that the LSB will encounter difficulty raising liquid funds to meet its commitments as they fall due. Through effective budgetary planning and controls, the LSB's operational expenditure corresponds to the amount it collects in levies from ARs.

Additionally, the LSB has built up surplus funds from Grants in Aid received in earlier years of operation to cater for adverse timing differences between payment of liabilities as they fall due and collection of levies imposed on ARs. Consequently, it does not have significant liquidity risk.

c) Credit risk

Credit risk is the risk that a third party will default on its obligation to the LSB, thereby causing it to incur a loss. Credit risk arises from deposits with banks and receivables. The maximum exposure to credit risk at the balance sheet date is:

	2018/19 £'000	2017/18 £'000
Cash at bank	6,703	6,905
Trade receivables	–	3
Total	6,703	6,908

Cash at bank comprises liquid bank balances held with a commercial bank in a Government Banking Service account. Cash balances are maintained with strong investment grade banks. The LSB has not recorded impairments against cash balances and nor have any recoverability issues been identified with such balances.

9. Trade and other receivables

Amounts falling due within one year	2018/19 £'000	2017/18 £'000
Levy income receivable	–	3
Prepayments	34	33
Deposits and advances	11	4
Total trade and other receivables	45	40

10. Cash and cash equivalents

	2018/19 £'000	2017/18 £'000
Cash and cash equivalents recorded in the SoFP and Statement of Cash Flows include deposits held at call with banks representing short-term highly liquid investments with maturities of less than three months.		
Balance at 1 April	6,905	7,015
Net change in cash and cash equivalent balances	(202)	(110)
Balance at 31 March	6,703	6,905
Balances at 31 March were held at:		
Government Banking Service	6,703	6,905

11. Trade and other payables

Amounts falling due within one year	2018/19 £'000	2017/18 £'000
Trade payables	12	13
Payroll tax and social security	79	80
Statutory external audit fee	20	20
Deferred income	68	383
Employee leave accrual	36	23
Accruals	183	111
Total trade and other payables	398	630

12. Capital commitments

Subsequent to the year end, the LSB committed to spending £40k on IT hardware as part of its IT renewal programme.

13. Commitments under leases

Operating leases	2018/19 £'000	2017/18 £'000
Buildings		
Not later than one year	125	165
Later than one year and not later than five years	–	121

The LSB signed a *Crown Estate Occupancy Agreement (CEOA)* with the Office of Rail and Road in September 2013 and moved to One Kemble Street at the beginning of January 2014. The occupancy agreement terminates on 21 December 2019. Lease terms for new accommodation have not yet been signed and there are therefore no commitments under leases beyond this date.

14. Contingent assets/liabilities

There are no contingent assets or liabilities to report.

15. Related party transactions

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

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

The LSB has a direct relationship with the OLC and has some oversight responsibilities for the Ombudsman Scheme established by the OLC. Under the Legal Services Act 2007, the LSB is responsible for appointing OLC Board members and paying their salaries and expenses which amounted to £126k for 2018/19 (2017/18 – £128k). During 2018/19 OLC Board members were paid fees of £112k (2017/18 – £112k).

There were no other material transactions with the OLC during the year or with any of the members of the OLC.

During the year there were no related party transactions with LSB members, Legal Services Consumer Panel members or key managerial staff, except for remuneration paid for their services and reimbursement of business travel and subsistence expenses.

16. Events after the reporting period

In accordance with IAS 10: *Events After the Reporting Period*, post Statement of Financial Position events are considered up to the date on which the accounts are authorised for issue. The date the accounts are authorised for issue is interpreted as the same date the accounts are certified by the Comptroller and Auditor General.

There are no significant events after the reporting period to report.



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