



LEGAL SERVICES  
**BOARD**

# Legal Services Board Annual Report and Accounts 2011/2012



**Legal Services Board**

Annual Report and Accounts for the Year Ended 31 March 2012

Report presented to Parliament pursuant to Section 6 (4) of the Legal Services Act 2007  
and Accounts presented to Parliament pursuant to Schedule 1, Paragraph 25 (5) of the  
Legal Services Act 2007

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# 1

## Introduction from the Chairman



This is the fourth Annual Report of the Legal Services Board (LSB). Whilst it is an opportunity to look back at the year's activity, I also want briefly to reflect on our first three years of work in implementing the Legal Services Act 2007 ("the Act"). This is particularly timely as we move from the end of our first strategic planning period into a new one.

As we do so, we propose to build on the considerable progress we have already made in securing the public and consumer interest at the heart of legal services regulation. Our work derives from our founding statute. It is interesting that in some of the comment stimulated by the Ministry of Justice's (MoJ) Triennial Review of the LSB, the phrase "mission creep" has emerged. And the suggestion that we "micro-manage" has been mooted. I believe that both these phrases are wholly incorrect as a description of the work of the LSB.

Our statutory responsibilities derive from an Act comprising 214 sections and 24 schedules. We have little scope to extend our ambit, even if we had the inclination or the resources. Parliament did not establish us simply to introduce alternative business structures (ABS), separate regulatory and representative functions and establish the Office for Legal Complaints (OLC). These are vital foundations, but they account for only three of the Act's nine sections.

Nor are we the "ABS Implementation Board". I am satisfied with the speed and pace at which we have driven through ABS introduction in the first three years of our life, but that is only part of the story. I would emphasise that our central role is in driving improvements in regulation across the sector - ensuring that the principles of proportionality, accountability, consistency, targeting and transparency are at the heart not simply of what we do, but of the activities of the bodies which we oversee.

Oversight does not mean sitting and watching and reacting. For me, oversight means involvement and intervention, where necessary, and leadership in thinking about new ideas and directions. Whilst the embedding of independent regulation, for which we have been responsible, is making solid progress, let us not forget that we are operating in a sector where self-regulation was deemed by Parliament to have failed, and which no longer convinced the public that it had their interest at its core, rather than those of the providers of services.

The phrase “oversight regulator” does not appear in the Act. We are a regulator with duties and responsibilities and we interpret those. As a Board, we take a view based on our own judgement. We have strong and clear ethical standards. We may be a quango by definition, but we properly safeguard our independence. For example, we have a good working relationship with the MoJ and that is essential. But I do not ask Ministers for agreement to the policies that we adopt; nor, as a Board, have we ever faced pressure to take actions that we perceived to be unreasonable.

Our approach to regulation has a number of elements:

- ensuring best regulatory practice by those we oversee
- managing our statutory approval role properly
- ensuring that important issues are addressed by regulators, either individually or collectively
- developing and disseminating a comprehensive evidence base
- using our intervention powers proportionately and effectively when needed
- filling gaps in policy making
- abstaining from intervention in individual compliance activities.

This mixture of developmental, supervisory and decision-making work, undertaken by a small tightly-focused team, seems to me proportionate,

and the right response to the specific challenge thrown up by the legal services sector and its unique constitutional position.

The benefits of this approach are visible in terms of the increasingly robust health of the regulatory infrastructure. In particular, we commend the efforts of the Solicitors Regulation Authority (SRA) and Council for Licensed Conveyancers (CLC) who have used the opportunity of becoming licensing authorities for ABS to reform radically their regulatory practice. They are developing regulatory approaches that will start to see them ensure that they assess the risks posed by firms as well as by individuals in their part of the market and focus not simply on control of entry, but on proper supervision of risks in order to protect consumers. The introduction of ABS is resulting not simply in a fit for purpose regulatory regime being established for those new firms, but also to an improvement in standards of compliance in the market as a whole.

As our work on the regulatory infrastructure concludes, we now want the regulators we oversee to take the opportunities to use that improved independence and effectiveness to drive innovation in the legal services market. We want to remove restrictions and detailed rule books when they can no longer be justified and to liberate the creativity of both current legal businesses and new entrants. Access to justice can be enhanced by the development of new service models, while making sure that the incentives for ethical behaviour and the punishments of failing to behave properly are even more robust. There are specific developments which will support them in doing that:

- we are working with the regulatory and representative bodies to assess how effectively they can secure better regulatory results. We have developed, for the first time, a coherent approach to defining and assessing regulatory quality in the legal services sector. We look forward to receiving frank assessments from the regulators of where they currently stand against that template and their plans for improvement. The aim is not for us to move into quasi-disciplinary mode, but to make sure that all regulators have the right tools and resources to do the job that Parliament has set them
- one element of that has been to ensure that frontline regulation cannot be unduly influenced by professional bodies. We are pleased by progress. We reported in 2011/12 that all of the approved regulators were within sight of achieving full compliance with the Internal Governance Rules by the beginning of 2013. We have not hesitated to use more interventionist monitoring powers and will continue to be vigilant, but there is now a growing maturity in relationships between regulatory arms and professional bodies. In terms of outcomes for consumers, we have no doubt that the reform process triggered by alternative business structures – both amongst those who chose to use the new flexibilities themselves and those who compete against them ever more vigorously – will lead to wider service models emerging. There will be significant variety in the first ABS firms licensed by the CLC and the SRA. Our role has been to ensure that a robust framework for ABS exists, achieving the right level of protection. We also want the right incentives for quality and innovation. We are making sure that those who apply for licensing authority status have the right kind of rule book in place, and the right systems, resources and culture to deliver outcome-focused regulation in practice. This emphasis will continue. We will also build on the baseline evaluation which we have already put in place across the entire market, to see how this development and others relate to the key outcomes by which we will assess our effectiveness in the longer-term
- the work of the OLC under its Chair, Elizabeth France and Chief Ombudsman, Adam Sampson, and the team in Birmingham, has developed strongly and effectively. We have worked closely with the OLC to help them in discharging their responsibilities and build increasingly effective ways in which lessons from the Ombudsman's investigations can begin to inform wider policy making. It is important too that there is a robust first-tier complaints handling service in place, guaranteeing that consumers know and are properly signposted towards the Ombudsman at appropriate stages. Quality is also about encouraging the best professional practice and equipping consumers to make their own judgements about services. There is a real alignment of objectives here between regulators and professional bodies. We hope that all will engage with the work we have started this year stimulated by the report from the Legal Services Consumer Panel about voluntary quality accreditation schemes and our own discussion document on quality



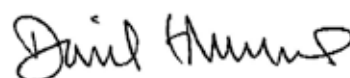
- we also continue to work with the SRA, Bar Standards Board (BSB) and ILEX Professional Standards Ltd (IPS) on specific quality improvements in the area of advocacy, a project to which we have devoted considerable effort in the course of the reporting period. I hope to be able to report in this document next year that the time-consuming and sometimes painful birth pangs of this project are now behind us and effective assessment is being rolled out across the country, backed by robust plans for data collection and evaluation to enable the scheme to be improved further over time
- we have begun to address the regulatory objective of securing a strong, independent, diverse and effective profession. Work we have done on the future of the legal workforce illustrates our methods of operation. We have used our statutory powers to issue guidance to insist on more robust identification of data on diversity in the workforce and action to address issues identified. And we have challenged regulators about the need for fundamental reviews of education and training and to add our own research and robust public debates to the mix of that debate. We have not sought to second guess the work. We look forward to considering the regulators' recommendations on the way ahead in the coming year.

There are many other issues to which I could have referred – the development of the most robust research programme on legal services in England and Wales, the achievement of all our key performance indicators in the sometimes intricate

scrutiny of complex rule approvals which come to us, and the growing interest in the English and Welsh model in other jurisdictions as a possible way forward for access to justice more generally. I believe that this report shows a strong record of achievement, on which we look forward to build over the next twelve months.

Our successes could not have been achieved without many contributions. In particular, I should thank my colleagues on the Board, who have offered the right balance of support and challenge throughout. I also pay tribute to Baroness Dianne Hayter, who stood down from the Chair of the Legal Services Consumer Panel in the course of the year to concentrate on her activities in the House of Lords. Dianne has left a strong team behind her on whom Elisabeth Davies has been able to rely as she takes up the role of Chair.

Above all, I would like to thank Chris Kenny, my Chief Executive, and our team at the LSB, who have faced a year which has been challenging in terms both of the intrinsic difficulty of their work and also the occasional critical comment which it attracts, for their creativity, determination and hard work in driving forward all of the progress reported in this document. I have worked with many organisations in my career and the team at the LSB stands comparison with the best of them.



**David Edmonds**  
Chairman



# About Us

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

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

We do this through our regulatory oversight of the ten approved regulators, who between them directly regulate approximately 147,000 lawyers operating throughout the jurisdiction.

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

## Who we regulate

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

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

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

We also oversee the OLC and its administration of the Legal Ombudsman scheme. The scheme resolves complaints about lawyers. Our relationship with the OLC is guided by a memorandum of understanding. We approve the OLC’s annual budget and are able to set or agree performance targets.

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

## Our regulatory responsibilities

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

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

The professional principles are further defined in the Act as:

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

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

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

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

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

- abstaining from intervention in individual regulatory compliance investigations and decisions.

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

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

## Our key non-regulatory relationships

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

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

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

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

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

## How we are funded

We are financed by a levy on the approved regulators. This is in accordance with the Act, which stipulates that the costs of the LSB should be recouped by means of a levy which it should collect from the approved regulators on behalf of HM Treasury. The methodology for calculating the levy is set out in the Statutory Instrument The Legal Services Act 2007 (Levy) (No.2) Rules 2010.

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





# Our activities in 2011/12

We set out the work we intended to deliver in 2011/12 in our Final Business Plan 2011/12<sup>1</sup>. The Plan set out a range of activities, the milestones we intended to meet in delivering them and why we believed the work was important. The Plan was finalised after public consultation.

## Work stream A: Developing regulatory standards

ROs supported: RO1, RO4, RO6, RO7

Our activities in this workstream built upon our initial work to ensure we had effective systems in place for regulatory arrangements and to ensure our approach to the regulation of approved regulators was consistent and appropriate, using thematic reviews where necessary.

Milestone/output	Description
Develop a consistent and proportionate approach to assessing standards in regulation	
<b>Quarter (Q)1:</b> Consult on proposed approach to assessing standards of regulation	<b>Completed</b>  In April 2011, we published a consultation paper on our proposed approach to assessing standards of regulation.  Our proposal was to regulate in line with the regulatory objectives, particularly centred on outcomes focused regulation (OFR), a risk identification framework, proportionate supervision and an appropriate enforcement strategy.
<b>Q2:</b> Publish decision document and way ahead	<b>Completed in Q3</b>  The Board considered the responses to the consultation and a decision document was published in December 2011. This provided a self-assessment template for each approved regulator to complete, allowing them to set-out their performance against each constituent part of regulation and an assessment of their capacity and capability.

<sup>1</sup>[http://www.legalservicesboard.org.uk/news\\_publications/publications/pdf/lbsb\\_business\\_plan\\_11\\_web\\_final.pdf](http://www.legalservicesboard.org.uk/news_publications/publications/pdf/lbsb_business_plan_11_web_final.pdf)

Regulatory decision making	
<b>Q1/3:</b> Consider requests for approval of Practising Certificate Fees as submitted	<p><b>Completed Q2/Q4</b></p> <p>We approved Practising Certificate Fees for all approved regulators during the period Q2 to Q4.</p>
<b>Q1:</b> Consider SDT budget	<p><b>Completed in Q3</b></p> <p>The Board approved the SDT budget in October 2011. This was granted subject to the development and submission of an action plan to improve SDT performance against KPIs and a quarterly KPI progress report.</p>
<b>Q4:</b> Approve OLC budget	<p><b>Completed</b></p> <p>The approval for the OLC's budget was granted.</p>
<b>Q1/4:</b> Process submissions for approval for changes to regulatory arrangements/extensions of reserved legal activities/approved regulator status/ licensing authority status as required	<p><b>Completed</b></p> <p>The table on page 23 sets out our performance in respect of regulatory decisions. During the year, we continued to monitor the performance of our rules approval process in order to make improvements where possible. We continued to work with the approved regulators to better understand how they approach their regulatory changes and helped them to make improvements where possible.</p>

Thematic review of appeals mechanisms	
<b>Q1:</b> Consultation on scope and process for appeals mechanisms	<p><b>Changed</b></p> <p>In Q2, we developed a plan to map approved regulator disciplinary processes and appeal mechanisms.</p> <p>In Q3, we considered the legal basis for approved regulator appeals mechanisms and identified barriers that might prevent a single appeals mechanism.</p> <p>In light of the information gathered we decided to extend the time period for the project into 2012/13 and re-scope the work.</p>
<b>Q2:</b> Appeals mechanisms self-assessment by approved regulators and appellate bodies	
<b>Q3:</b> Findings and recommendations for appeals mechanisms	
Thematic review of immigration	
<b>Q1:</b> Request for evidence and views on issues connected with the regulation of immigration	<p><b>Completed</b></p> <p>We held a workshop in June 2011 with approved regulators who regulate immigration advice, the Legal Ombudsman and the Consumer Panel, to seek their views and share information.</p>
<b>Q2:</b> Decision on next steps for immigration review	<p><b>Completed</b></p> <p>Based on the findings of a call for evidence, we started a review of the regulation of immigration advice and services and, in February 2012, we published a discussion document setting out the issues and proposals for addressing them.</p>
Thematic review of conveyancing	
<b>Q2:</b> Request for evidence and views on issues connected with the regulation of conveyancing	<p><b>Completed</b></p> <p>We asked for information to inform our approach and received this in September 2011.</p>
<b>Q3:</b> Decisions on next steps on conveyancing	<p><b>Changed</b></p> <p>We will consider regulatory issues in the conveyancing market in 2012/13 and whether further action is needed.</p>



## Work stream B: Ensuring effective redress for consumers

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

Our work in this area during 2011/12 focused in particular on overseeing approved regulators' arrangements in relation to complaints handling by their regulated communities (first-tier) and overseeing the OLC's performance management of the Legal Ombudsman (second-tier).

Milestone/output	Description
Undertake research into consumer perceptions of complaints-handling by legal services providers	
<b>Q1:</b> Complete and publish research	<b>Completed</b>  We published research by YouGov into consumers' experiences of complaints handling by lawyers in June 2011. The research highlighted the gap between what the regulatory framework expects to happen and what is actually happening in practice.
Review of approved regulators arrangements and regulatory activity for first-tier complaints handling	
<b>Q1:</b> Develop process	<b>Completed and ongoing</b>  We wrote to approved regulators signalling expectations of our review and proposed dates for procedural and qualitative assessments of their progress on first tier complaints handling.  During Q4, following the publication of the YouGov research, we asked approved regulators what they had learned from the research and what they were proposing to do to improve complaints handling. These responses will be reviewed by the Board in Q1 2012/13 and publication of progress will be considered at that point.
<b>Q2:</b> Consult with approved regulators	
<b>Q3:</b> Begin review	
<b>Q4:</b> Publish assessment	
Monitor Legal Ombudsman performance	
Ongoing review of quarterly data provided by OLC	<b>Completed and ongoing</b>  During the year, we received quarterly reports from the OLC which were reviewed by the Board to ensure that the OLC were robustly managing the operation of the Legal Ombudsman. Throughout the year, the Board also received regular performance reports from the OLC's Chair at its meetings.
Ongoing work to assess consumer satisfaction with Legal Ombudsman process and outcomes	<b>Ongoing</b>  We have monitored the development of the Legal Ombudsman's customer satisfaction surveys through the year.

## Work stream C: Widening access to the legal services market

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

This work stream encompassed our activities to ensure the framework was in place for the first licensing authorities and alternative business structures (ABS).

Milestone/output	Description
Processing of licensing authority applications	
<b>Q1:</b> Receive licensing authority applications	<p><b>Completed</b></p> <p>We received licensing authority applications from the CLC in February 2011 and the SRA in March 2011.</p>
<b>Q2:</b> Begin to issue recommendations for designation decisions about potential licensing authorities	<p><b>Completed</b></p> <p>The Lord Chancellor approved the Board's recommendations that CLC and the SRA be designated as licensing authorities, in April and June 2011 respectively.</p>
Work with MoJ to make the necessary Orders for ABS	
<b>Q1/2:</b> Orders to be made	<p><b>Completed</b></p> <p>The following Orders were in force by the end of Q2 to allow ABS to 'go-live':</p> <ul style="list-style-type: none"> <li>• CLC and SRA s69 (affirmative) Orders</li> <li>• Amendment to the Rehabilitation of Offenders (exemptions) Order (a further Order was in force in November 2011)</li> <li>• Maximum financial penalty (negative) Order</li> <li>• ABS commencement (negative) Order</li> </ul>
<b>Q3:</b> ABS 'go-live'	<p><b>Completed</b></p> <p>On 6 October 2011, the ABS designation Order came into force, which allowed the CLC to announce its first licensed ABS. The SRA was designated to accept applications in December 2011 and began accepting them from January 2012.</p>
Development work for market readiness and licensing authority readiness	
<b>Q2:</b> Orders to be made designating appellate bodies for ABS appeals	<p><b>Completed</b></p> <p>An Order designating the General Regulatory Chamber of the First Tier Tribunal as the CLC's appellate body was made in July 2011. In August 2011, the Board recommended to the Lord Chancellor that an Order be made designating the SDT as the SRA's appellate body for ABS appeals.</p>
<b>Q3:</b> Implementation	

Ongoing work with stakeholders	
	<p><b>Ongoing</b></p> <p>We worked with our partners throughout the year at ABS implementation group meetings to assess and understand the impact ABS might have on the market. This included publishing a report in August 2011 which set out our thinking on the likely impact.</p>
Development of approach to special bodies, working with special bodies and their representative bodies	
<p><b>Q1:</b> Commission research into special bodies</p>	<p><b>Completed</b></p> <p>We commissioned research into special bodies in March 2011, which was published in September 2011. We also undertook our own analysis of the current regulatory framework supported by information obtained from the Legal Services Commission, Charity Commission, SRA and BSB amongst others.</p>
<p><b>Q1/3:</b> Commission advice from the Consumer Panel about consumer protection for not-for-profit providers</p>	<p><b>Changed</b></p> <p>We held early discussions with the Consumer Panel in May 2011 and decided to seek ongoing input from the Panel.</p>
<p><b>Q4:</b> Development of options for approach to special bodies</p>	<p><b>Completed except for publication</b></p> <p>In November 2011, we held an event with stakeholders to include them in early stages of our developing approach. The Board was updated on the options in January 2012, where it was decided that consultation should be delayed until April 2012 to coincide with the consultation on the scope of regulation.</p>
Consumer research and initial evaluation into impact of opening markets	
<p><b>Q4:</b> Commission research</p>	<p><b>Changed</b></p> <p>The timing is too early to carry out a meaningful review on the impact of the introduction of ABS on the consumer experience. We have, however, compiled research to review the effectiveness of the Legal Services Act reforms as a whole and published the Interim Baseline Market Impact report.</p>

The Act also requires the Board's annual report to deal with how, in the Board's opinion, the activities of licensing authorities and licensed bodies have affected the regulatory objectives.

As at 31 March 2012 there remains only one ABS licensed by the CLC, and three ABS licensed by the SRA. The SRA also report strong interest from over 180 applicants. We have been encouraged by the enthusiasm of the approved regulators and expect further designation applications to be received in 2012/13.

As the number of ABS firms continues to grow, we will monitor closely how widening access to justice through these reforms has impacted on delivering our regulatory objectives. However, there has been no change in the market directly attributable to ABS in 2011/12.

## Work stream D: Securing independent regulation

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

This section covers our work to secure compliance with our Internal Governance Rules, ensuring the separation of regulatory and representative functions of regulators both on paper and in practice.

Milestone/output	Description
Submission by approved regulators of annual dual self-assessment	
<b>Q1:</b> Applicable approved regulators will return self-assessment certificates	<b>Completed with delay</b>  All regulatory dual self-assessment certificates were received by May 2011, with the exceptions of the SRA and The Law Society (TLS), and the BSB and Bar Council. While the BSB and Bar Council's arrangements were later approved alongside the other approved regulators, concerns were raised about the SRA and TLS's assessment.
<b>Q2:</b> Self-assessments to be reviewed and LSB assessment to be published	<b>Completed and ongoing</b>  We concluded our annual round of reviewing compliance by the approved regulators with the Internal Governance Rules in December 2011.  To assist with monitoring compliance of the SRA and TLS under section 55 of the Act, we developed a plan to capture and analyse the reports produced. We also continued to monitor risks through our ongoing regulatory standards work.

## Work stream E: Developing a changing workforce for a changing market

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

This section sets out a summary of our work with the approved regulators on the legal education and training framework, continual quality in provision of legal services, and diversity and social mobility in the legal sector.

Milestone/output	Description
Education and training	
<p><b>Q2:</b> Consider the need for additional research to support the review led by the approved regulators</p>	<p><b>Ongoing</b></p> <p>We commissioned a report from Professor John Flood in October 2011 to review global lessons for education and training reform. We also approached the College of Law to gain an understanding of the historical development of legal education and training, as well as meeting with a wide range of academics and policy leaders on workforce development issues. We also supplied the results of our general legal consumer research to the Legal Education and Training Review Consultation Panel, to contribute to their understanding of the place of education and training in the current market.</p>
<p><b>Q1/3:</b> Engage with stakeholders to consider, develop and set out the key principles against which the reforms can be assessed</p>	<p><b>Completed</b></p> <p>In order to develop key principles, we continued to engage with stakeholders through the Legal Education and Training Review Consultation Panel meetings. As a result of these meetings, we agreed to hold five co-branded seminars on legal education and training in England and Wales based on themes that are relevant to the organisation that we are partnering with in each location. The first of these seminars were held in Q4 with the remaining seminars being held early in 2012/13.</p>
<p><b>Q4:</b> Publish the key principles</p>	<p><b>Delayed</b></p> <p>Following our series of seminars, emerging principles will be considered by the Board at its July 2012 meeting.</p>

Develop quality tool-kit and risk assessment framework and consider rule changes to enable Quality Assurance Scheme for Advocacy (QASA)

**Q1:** Commission advice from the Consumer Panel on quality schemes

**Completed**

In May 2011, we commissioned the Consumer Panel to identify the characteristics that voluntary quality schemes must have to give consumers confidence that they are a robust and reliable indicator of a good quality legal service and that operates in a way which is likely to give consumers confidence in the quality of participating providers.

**Q4:** Quality tool-kit and framework to be published

**Completed**

In March 2012, the quality toolkit was released for consultation. This included options for regulatory tools and interventions to maintain minimum quality standards.

**Q2:** Consider application by relevant approved regulators to change their regulatory arrangements to incorporate QASA for crime

**Delayed**

The QASA scheme is still being developed to ensure that concerns about the scheme highlighted during the consultation on changes to regulatory rules are addressed. With continued encouragement, we are hopeful that parties will come to an agreement on a common regulatory application in summer 2012 to enable implementation to commence towards the end of the year.

Increase transparency and improve the evidence base for diversity in legal services

**Q2:** Publish a decision document about transparency in diversity, outlining action expected of approved regulators

**Completed**

We published our decision document in July 2011. This included Statutory Guidance under section 162 of the Act, requiring regulators to gather more comprehensive diversity data to entity level. The document also included a requirement for the approved regulators to submit detailed plans by January 2012 setting out how they intended to deliver our expectations, including the embedding of diversity and social mobility requirements into their rules concerning ABS.

**Q4:** Review approved regulators' latest diversity data with a view to scoping work for 2012/13

**Completed**

We received plans from all approved regulators by February 2012. We expect that the first full cycle of data collection should be complete and publicly available by March 2013. On receipt, we will be able to collate cross-sector data to build a picture of the shape of the workforce across the eight diversity standards. We will then consider next steps.

## Work stream F: Improving access to justice: rationalising the scope of regulation

ROs supported: RO3, RO4, RO5, RO7

This work stream focused on examining regulation and reservation in order to be able to assess where regulation is required and when it is appropriate to initiate less regulatory intervention.

Milestone/output	Description
Develop an approach to deciding whether to regulate and, if so, the appropriate regulatory regime	
<p><b>Q1:</b> Seminars to discuss early thinking about our approach</p>	<p><b>Completed</b></p> <p>We held a range of information-gathering events to guide our approach on the scope of regulation and reservation, including:</p> <ul style="list-style-type: none"> <li>• sharing our project overview with the Consumer Panel at an early stage to seek its views on regulatory arrangements</li> <li>• internal workshops to link projects and stakeholders</li> <li>• joint seminars with the College of Law on future potential reserved activity which was attended by all approved regulators and a range of government departments and experts.</li> </ul>
<p><b>Q2:</b> Discussion document on proposed approach</p>	<p><b>Completed</b></p> <p>We published the discussion paper “Enhancing consumer protection, reducing regulatory restrictions” in July 2011. This was peer-reviewed by Professors Julia Black and Richard Moorhead, and was informed by separate research undertaken by the Legal Services Institute into the history and rationale for reservation, as well as research by the Regulatory Policy Institute into the economic rationale for legal services reservation.</p>
<p><b>Q4:</b> Publish approach for making regulatory decisions</p>	<p><b>Completed except for publication</b></p> <p>Due to the complexity of the work and to provide time for full consideration of the responses received, we delayed publication of our approach on scope of regulation and reserved activities to April 2012.</p>
Will-writing	
<p><b>Q2:</b> Receive Consumer Panel advice on will-writing</p>	<p><b>Completed</b></p> <p>We received the Consumer Panel’s report and recommendation in July 2011, based on mystery shopping and retrospective surveys. The Consumer Panel’s research found that standards across the will-writing sector were at an unacceptably low level and recommended that will-writing be regulated.</p>

<p><b>Q3:</b> Potential investigation into making will-writing a reserved activity under section 24 of the Act</p>	<p><b>Completed</b></p> <p>In July 2011, the LSB Board agreed to start statutory investigations into whether the scope of regulation needed to be altered in relation to will-writing – together with probate activity and estate administration, which were considered to be inextricably linked to will-writing. This decision was then communicated formally to Ministers and other statutory consultees.</p>
<p><b>Q4:</b> Consultation on the results of the will-writing investigation if required</p>	<p><b>Completed except for publication</b></p> <p>We launched a public consultation based on the findings of our analysis of will writing, probate activity and estate administration in April 2012.</p>
<p>Regulatory Information Review</p>	
<p><b>Q1:</b> Publication of summary report of published research and data on the legal services market</p>	<p><b>Delayed</b></p> <p>We completed the Regulatory Information Review and our research database in September 2011 and have shared it with the approved regulators. However, given the quantity and variety of sources of the information we have collected, we intend to disseminate this resource on our website by developing a user-friendly searching tool, which we expect to launch in the first half of 2012/13.</p>
<p><b>Q1:</b> Publication of research database</p>	
<p>Completion of market supply benchmarking studies to provide evidence base to understand how the regulatory changes have affected the supply of legal services</p>	
<p><b>Q2/4:</b> Summary reports of market segments to be published</p>	<p><b>Completed and ongoing</b></p> <p>During 2011/12, we commissioned a number of market segmentation summary reports to build a detailed picture of the legal services market and to examine how regulation interacts with supply and demand sides of the market. These reports included:</p> <ul style="list-style-type: none"> <li>• a framework that assessed change to the legal services market as firms and the overall market continue to develop</li> <li>• a pilot on large corporate solicitors, including the key features of regulatory risks</li> <li>• a pilot on special bodies, that reported on applicability of a segmentation model and identified regulatory risks</li> <li>• follow-up research on consumer complaints.</li> </ul> <p>We also reached agreement with the SRA and the MoJ to joint-fund research into the provision of High Street legal services.</p>



## Performance in making regulatory decisions

In our 2011/12 Business Plan, we set-out the service standards that we would work to when making our regulatory decisions. Performance against those decisions is set-out below.

Activity	How we performed
Publication of applications on our website	<ul style="list-style-type: none"> <li>93% (14 out of 15) applications for changes to regulatory arrangements were published within the two day target</li> <li>there were no new applications for designations in the year</li> </ul>
Decisions and recommendations on an application	<p><b>Changes to regulatory arrangements:</b></p> <ul style="list-style-type: none"> <li>15 decisions on applications to change regulatory arrangements were made</li> <li>3 decisions were made in the initial decision period of 28 calendar days</li> <li>12 were made in an extended period of 90 calendar days</li> <li>one warning notice was issued</li> </ul> <p><b>Designation applications:</b></p> <ul style="list-style-type: none"> <li>two decisions were made on licensing authority applications; both were completed within the target of 130 days</li> <li>one decision on an application from an existing approved regulator for additional reserved legal activities was not completed within the target of 130 days</li> </ul>
Publish our decisions, extensions, warnings and refusals to consider applications	<ul style="list-style-type: none"> <li>all notices were published on our website within the target of two days</li> </ul>
Publish advice from mandatory consultees, written representation from applicants, oral representations	<ul style="list-style-type: none"> <li>advice was received from mandatory consultees on two designation applications</li> <li>all advice and the applicants representations on them were published within the target of five days</li> </ul>
Recommendations to the Lord Chancellor	<ul style="list-style-type: none"> <li>recommendations to the Lord Chancellor in respect of the licensing authority applications were published on our website within the target of five days</li> </ul>

2011/12 was the second full year in which we have undertaken our decision making role. There was a small increase in the number of decisions on applications for approval of changes to regulatory arrangements (15 in 2011/12 compared to 10 in the previous year). Typically these took longer as the applications tended to be more complex (eg two completely revised Handbooks).

There has been increased use of our power to exempt changes to regulatory arrangements (19 in 2011/12 compared to 13 in the preceding year).

In relation to designations, licensing authority applications were completed in about half of the targeted 130 days (66 days and 60 days). In part, this was due to the extensive discussions we were able to have with the applicants as their applications were developed.

## Summary of research activity in 2011/12

The LSB is committed to developing the evidence base for legal services regulation and undertook or commissioned the following research in 2011/12. All research and data is made publicly available so that others can use the information as necessary.

### Research Reports published 2011/12 (commissioned prior to 1 April 2011)

	Undertaken by	Date published	Summary
Legal needs of consumer groups	LSB	April 2011	Literature review to summarise understanding of individual consumers' legal needs
First tier complaints investigation	YouGov	June 2011	Investigation into complaints handling processes
Aptitude testing and the legal profession	Dr Chris Dewberry	June 2011	Investigation into how aptitude tests might be used in legal services education and training
Smaller approved regulators investigation	Nick Smedley, Smedley Consultancy Services	June 2011	Investigation into the capacity of the smaller approved regulators to meet the demands of the Legal Services Act
Understanding consumer experience of will writing	IFF Research	July 2011	Analysis of the quality of wills provided by different types of service providers
Alternative Business Structures research note	LSB	August 2011	Analysis of available information to look at likely impacts of ABS
A framework to monitor the legal services sector	OXERA	September 2011	Publication of a framework and range of possible indicators to analyse change in the legal services sector over time
Benchmarking the supply of legal services by city law firms	Charles River Associates	September 2011	Research into 'city' solicitors' firms, their interaction with regulation, and testing of the OXERA framework

## Research Reports published 2011/12 (commissioned prior to 1 April 2011) continued

	Undertaken by	Date published	Summary
Legal services provided by special bodies	Frontier Economics	September 2011	Research into not for profit legal services providers, their interaction with regulation, and testing of the OXERA framework
Legal education in a global context	Professor John Flood	October 2011	Review of challenges facing legal education in England and Wales
Quality in legal services and other regulated professions	LSB	November 2011	Reviews have sought to gather evidence to inform policy on measures to ensure quality in legal services
Probate and estate management services survey	IFF Research	March 2012	Report on a survey of businesses offering these services
Use of probate and estate management services	YouGov	March 2012	Research looking at why some people pay for probate and estate management services and others do not

## Research in progress (commissioned in 2011/12 but yet to complete)

	Undertaken by	Planned Publication Date	Summary
Small business framework	Professor Pascoe Pleasence, Dr Nigel Balmer and the Small Business Research Centre, Kingston University	May 2012	Research framework to understand how small businesses experience and respond to legal problems. Precursor to a future main stage research project
Professional principles	Professor Richard Moorhead	May 2012	Research framework to understand how to assess professional principles in the changing legal market. Precursor to a future main stage research project

**Research in progress (commissioned in 2011/12 but yet to complete)**  
continued

Consumer needs from regulation	Opinion Leader	May 2012	Report on a series of focus groups looking at what consumers want from regulation and the value they attach to different elements of regulatory protection
Consumer benchmarking survey	BDRC Continental	May 2012	Report on a large scale survey of individual consumers' experience of and response to legal problems
Cost protection	Hogan Lovells	May 2012	Review of the range of cost protection regulations in place for consumers of legal services
Consumer information testing	Vanilla Research	July 2012	Research looking at information consumers seek from online legal services
Survey of high street solicitors firms (joint research with The Law Society and Ministry of Justice)	TNS-BMRB, Professor Pascoe Pleasence, Dr Nigel Balmer and Professor Richard Moorhead	September 2012	Joint survey to baseline the activity and business models of solicitor legal services, providing information to enable analysis of changes in this type of legal service provision

# Financial Statements of the Legal Services Board

for the year ended 31 March 2012

# LSB Members' Report

## LSB Framework Agreement

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

It does this by working to improve the delivery of legal services by providing oversight regulation of the legal services sector. This oversight responsibility includes ensuring that the performance of the approved regulators, and the OLC, meet 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, for both the approved regulators and OLC, that the regulatory objectives outlined in the Act are promoted.

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

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

## Financial performance measure and results

The financial performance measure for the LSB was to keep within its annual budget. This has been achieved as shown below:

	2011/12	2010/11
	£000	£000
<b>Budget</b>	4,931	4,931
<b>Expenditure</b>	4,578	4,734
<b>Underspend</b>	353	197

The underspend for 2011/12 was mainly due to the early implementation of cost reductions to core expenses in preparation for a reduced budget for 2012/13 in line with the LSB's strategic and business plan.

The LSB is financed by a levy on the approved regulators. This is in accordance with the Act, which stipulates that the costs of the LSB should be recouped by means of a levy, which it should collect from approved regulators on behalf of HM Treasury. Following the laying of the Statutory Instrument, The Legal Services Act 2007 (Levy) (No.2) Rules 2010, the LSB is able to request funds from the approved regulators each year equal to its estimated net expenditure.

Income and expenditure is accounted for on an accruals basis. The levy amount charged and collected in 2011/12 was £4,655k (£4,931k 2010/11). The amount of income deferred to the following year was £353k (£197k 2010/11). This treatment results in neither a deficit nor a surplus and a reduced levy for the subsequent year.

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

The LSB has recognised £76k that it has received as “prescribed fees”, as defined in the Act section 175 (2), for designation and licensing authority applications. Such fees received are initially treated as deferred income and released to the Statement of Comprehensive Net Expenditure once the application has been processed and completed. These fees are set against the LSB’s expenditure and will also reduce the levy payable by all approved regulators.

Although the LSB has relatively little absolute discretionary spend, as most of its costs are currently fixed (staffing, premises, Board, outsourced services, depreciation etc), it is constantly striving for the best value for money in the goods and services it purchases, fully cognisant that its funds come from the legal profession.

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

These outsourced arrangements provide the LSB with built in resilience, which is normally not a feature of small organisations. This obviates the need for expensive consultancy or temporary staff cover.

## Payment of creditors

The LSB has committed to pay all supplier invoices by the due date or within 30 days of receipt if no due date has been agreed. In line with guidance issued by the Department for Business, Innovations and Skills and the Cabinet Office, the LSB aims to pay all authorised invoices that are not under dispute within 10 days from receipt. The LSB has contracted with the Competition Commission through a shared services agreement to meet this target as part of its financial transaction processing service. In 2011/12, 100% of these invoices were paid within 10 days.

## Pension liabilities

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

## Professional financial advice

The LSB has engaged the services of Philip Lindsell, a chartered accountant, to provide support to the Audit and Risk Committee in reviewing and challenging the policies and procedures instigated by the Executive. In 2011/12, the LSB paid £2.9k (£3.9k 2010/11) for these services.

## Equality and employee involvement

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

As an employer, we aim to recruit, motivate, develop and retain outstanding people from diverse backgrounds to deliver our priorities. Even as a relatively small organisation, we strive to support and promote equality both within our organisation and in delivering our external responsibilities. In addition to our organisational commitment to integrate diversity and equality into our work and organisational culture, we have statutory obligations under The Equality Act 2010. During 2011/12 we developed our Equality Objectives for 2012/13 which describe how these apply to internal processes as well as external outcomes.

The LSB maintains an open management style and involves colleagues in the management of change. It holds regular all-colleague meetings and colleagues are consulted on matters affecting their employment and their welfare.

During the course of the year, the LSB maintained its commitment to professional development for all colleagues by providing both internal and external training as required.

## Auditor

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

The LSB's annual financial statements are audited externally by the Comptroller and Auditor General (C&AG) in accordance with the Act, Schedule 1, paragraph 25(4)(a). For the period ended 31 March 2012, a fee of £21k will be charged for the audit work that has been performed. The audit services provided by the C&AG related only to statutory audit work.

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

**Chris Kenny**

Accounting Officer

31 May 2012



# Management Commentary

## The LSB and its external environment

The LSB was established by the Act to independently 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 and is responsible for overseeing all approved regulators who have primary responsibility for direct regulation of the different branches of the legal profession.

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

In 2011/12, the LSB oversaw regulation by ten approved regulators, which themselves directly regulated the circa 147,000 lawyers practising throughout the jurisdiction. The year saw the foundations for significant change in the way in which legal services are provided to consumers with the designation of two approved regulators as licensing authorities for alternative business structures – the Council for Licensed Conveyancers (CLC) and the Solicitors Regulation Authority (SRA).

In June 2011, the LSB published an independent report into the operations of the smaller legal services regulators. This was commissioned to inform the LSB's understanding of these bodies – including who they regulate, how they regulate and how they understand the risks of their market. The LSB is alive to the risk that small regulators may face particular constraints in adapting to the

requirements of the Act and works to ensure that it adopts a proportionate approach to its oversight.

The LSB is aware that legal services providers are facing challenging decisions as they react and adapt to the changing funding environment for legal aid. The risks that may accrue to consumers of legal services as a result of the changing environment, as providers adjust their delivery models, need to be anticipated by approved regulators and the LSB alike. The LSB expects to deliver the eight regulatory objectives assigned to it by the Act, through partnership working with the approved regulators, OLC – who also have a duty to deliver the regulatory objectives – consumer groups and other stakeholders. In light of the importance we attach to hearing a balanced range of views, we contributed to the Government's consultation on possible reform of the regime for consumer advocacy. One outcome of this might have seen the Legal Services Consumer Panel subsumed into another agency – an outcome we believe would have detrimental impact on our work and that of the approved regulators.

## The LSB's employees

As at 31 March 2012, the LSB had 29 full time employees and one part time employee, as well as two vacancies in the course of recruitment. 50% of the staff complement as at 31 March 2012 were women. The LSB's average sickness absence (excluding absence for planned operations) was 4.0 days per full time equivalent (4.5 days 2010/11).

## Environment, social and community issues

The LSB is not required to produce a sustainability report but it is committed to working closely with the Competition Commission, as its landlord and supplier of its IT, facilities and financial transactional processing services, to ensure that it takes proper account of the impact of all of its activities on the environment. In conjunction with In Midtown, the local Business Improvement District, the LSB has achieved the status of sending “zero waste to landfill”.

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

## Objectives and strategy for achieving them

The LSB’s Business Plan for the year covered by this Report was published in April 2011 and is available at [www.legalservicesboard.org.uk](http://www.legalservicesboard.org.uk). The Plan for the year ahead was published in April 2012. This latter document sets out in detail the LSB’s objectives for the next three years 2012-2015 and the 2012/13 detailed plan, the medium-term implications for its work and the way in which it intends to deliver them.

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

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

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

The LSB’s work to date has laid the foundations for a regulatory system for the legal services sector that is able to command continuing public confidence. The consequences of this work - independence in regulation, improved complaints resolution through the Legal Ombudsman and a market open to liberalisation – have and will continue to deliver benefits to consumers, the public, the legal profession and the economy over the years ahead. To the LSB, they are intrinsically linked: independent regulation will focus on consumer outcomes and harness competitive forces to improve them. These links are as important now as they were in 2009 when the LSB started its work and they inform our approach to delivering our statutory responsibilities.

The legal services market - those who provide services, receive services and all who rely on its crucial role in supporting the rule of law - need a regulatory regime that is dynamic, flexible and focused on key risks. This is a shift that is already underway. The work we will do in 2012/13, in particular to ensure that regulatory standards meet the requirements of a modern society and economy, is designed to fulfil the ambitions of the Act: to protect and promote the regulatory objectives – and to make the market work well.

Part of making the market work well for consumers must inevitably include addressing the complex jurisdictional issues that have been bequeathed by the passing of the Act – the most well-known being the differing regimes for the writing of wills. These jurisdictional issues are not at all new but they have become more visible with the advent of the Legal Ombudsman and the changing market for legal services. There will be an inevitable tension between better regulation, that rightly requires rolling back from regulation where it is not justified against the regulatory objectives, and the argument that complete consistency is essential to avoid public confusion, which can be used to argue for significant “regulatory creep”. The LSB will work through the issues in detail, not being forced to either of the unrealistic ends of the spectrum.

The LSB will also play its part in enabling a market for education and training which is similarly diverse in the provision offered and the students and practitioners it attracts.

Both of these issues represent activity explicitly provided for by the Act. Each is an example of where coherent, cross-sector thinking is required to make sure that there are no perverse incentives or unintended consequences of regulation, or the lack of it, for providers or purchasers. The advent of ABS, and the attendant likelihood of delivery models that do not fit the mould of traditional legal services providers or which blur even further the “bright line” to any one particular regulator or redress scheme, are all consequences of reform which the regulatory system must be alive to. This reaffirms the need

for active intelligence gathering – not just about those operating in the market today – but for trends, themes and innovations in linked markets that may transfer to the legal sector in due course.

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

None of these developments can be predicted with certainty and it would be wrong of a regulator to attempt to do so. They will also be affected by a range of external factors, most of which will be outwith the remit of either the LSB or the approved regulators to control or influence. These include the overall state of the economy, both domestic and global, business and public finances, technological developments and consumer behaviour and preferences.

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

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

Whilst delivering its regulatory responsibilities, the LSB is also conscious of its place within the disciplines of the wider public sector. Starting at the beginning of 2012, the functions of the LSB (including the Legal Services Consumer Panel) and the OLC have been subject to Triennial Review, a Cabinet Office mandated process for reviewing the functions of NDPBs, the appropriateness of the body's delivery mechanism and its governance arrangements. The LSB continues to engage closely with that process, which is taking place just as the substantive component of the reform programme become real with the start of ABS licensing by the SRA.

Although the LSB is not a government organisation, it recognises that it is a public sector body and so has complied with the spirit of the Government's spending restrictions as first announced at the end of May 2010. The main consequences of this are that the LSB has implemented both the recruitment freeze and pay freeze that apply to civil servants (although LSB staff are not civil servants), restrictions on travel and limitations on marketing and publication expenses.

The LSB has established an Audit and Risk Committee, the remit of which includes ensuring a consistent Board overview of the effectiveness of management action to identify and mitigate risk. The risk management approach captures and assesses risks in relation to all key policy delivery, project and operational areas. This is considered in more detail in the Governance Statement on page 39.

# Remuneration Report

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

The remuneration of the Chief Executive is determined following a recommendation to the Board by its Remuneration and Nomination Committee. The Committee determined in 2008 that the LSB should not make any performance related payments and so the remuneration of the Chief Executive is not subject to any performance conditions. The performance of the Chief Executive is reviewed annually by the Chairman. The LSB has been subject to a pay freeze since April 2010.

## Appointments

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

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

No new Board Members were appointed during the period but some of the existing members were re-appointed for varying terms as shown below. Members are required to commit at least 30 days per annum to their work with the LSB.

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

## Termination

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

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

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

## Remuneration of Chairman and Board Members

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

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

	Annual salary Rate	Remuneration					
		2011/12			2010/11		
		Salary	Pension	Total	Salary	Pension	Total
David Edmonds (Chairman)	63,000	63,000	-	63,000	63,000	-	63,000
Terry Connor (Member)	15,000	6,250	-	6,250	15,000	-	15,000
Steve Green (Member)	15,000	15,000	-	15,000	15,000	-	15,000
William Moyes (Member)	15,000	15,000	-	15,000	15,000	-	15,000
Barbara Saunders (Member)	15,000	15,000	-	15,000	15,000	-	15,000
Nicole Smith (Member)	15,000	15,000	-	15,000	15,000	-	15,000
Andrew Whittaker (Member)	15,000	15,000	-	15,000	15,000	-	15,000
David Wolfe (Member)	15,000	15,000	-	15,000	15,000	-	15,000
Edward Nally (Member)	15,000	15,000	-	15,000	1,885	-	1,885
Chris Kenny (Chief Executive)	160,000	152,004 <sup>1</sup>	45,043	197,047	151,405 <sup>1</sup>	45,024 <sup>2</sup>	196,429

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

<sup>2</sup>The contractual pension contribution that the LSB makes to the pension for the Chief Executive is 17.5% with an additional 5% non contractual contribution, in line with the decision of the LSB Board to implement the principle of Total Reward to consider all aspects of employment, to ensure that an appropriate remuneration policy is applied.

The Chief Executive was granted an interest free loan of £1,880 for the purchase of an annual rail travelcard. As at the year end there was an outstanding balance of £1,115 (see note 2(a) (i) to the financial statements).

In 2011/12 remuneration ranged from £24,000 to 160,000 (2010/11 £24,000 to £160,000). Salaries at the LSB have been frozen for two years.

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

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**Chris Kenny**

Accounting Officer

31 May 2012

# Statement of Accounting Officer's Responsibilities

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

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the FReM and in particular to:

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

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



# Governance Statement

## Brief history of the LSB and principal activities

The Legal Services Board (LSB) is an executive NDPB, created by the Legal Services Act 2007.

The LSB is responsible for overseeing all approved regulators of legal services in England and Wales. It is independent of Government and of the legal profession. The LSB also oversees the Office for Legal Complaints (OLC), which administers the Legal Ombudsman scheme, established to resolve disputes between consumers and lawyers, and has some responsibilities in relation to the Solicitors Disciplinary Tribunal.

The LSB is required to act in way that is compatible with, and which is most appropriate to meet, the eight regulatory objectives, set out in the Act and at page 9 of this Annual Report, and the Better Regulation Principles.

## Scope of Responsibility

As Accounting Officer for the LSB, I have responsibility for maintaining a sound system of risk management, governance and internal control that supports the achievement of the LSB's statutory obligations, policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible. In particular, I take personal responsibility to ensure that the LSB:

- complies with all statutory and administrative requirements on the use of public funds, including the principles and policies set out in the HM Treasury publication Managing Public Money, relevant Dear Accounting Officer letters and other directions and controls from the Cabinet Office and HM Treasury
- operates within the limits of its statutory authority and in accordance with any delegated authorities agreed with the MoJ as the LSB's sponsoring department
- operates in line with the statutory requirements and spirit of the Freedom of Information Act 2000 and complies with Data Protection legislation
- meets its obligations under and acts in line with the regulatory objectives contained in its founding statute, the Legal Services Act 2007.

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

## Corporate Governance framework of the LSB

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

The LSB welcomes its duty under section 5 of the Act to have regard to generally accepted principles of good corporate governance. In accordance with this, the Board has adopted a Governance Manual, which was reviewed and updated in November 2011. The Manual follows the requirements set out in the Corporate Governance Code and other good practice guidance provided by various authorities.

The Manual comprises:

- a Code of Practice, which sets out the responsibilities of the Board collectively and the standards of behaviour expected from individual Board Members
- Rules of Procedure (relating to meetings, minutes, papers, quorums, delegations of powers and conflicts of interest)
- a schedule of matters reserved to the Board
- a Scheme of Delegations (these were further reviewed and updated in March 2012)
- the Terms of Reference of the Board's Committees
- policies on expenses, gifts and hospitality, interests, and complaints
- the LSB's Framework Agreement with the MoJ and
- Finance Regulations.

These documents are published on the LSB's website: [www.legalservicesboard.org.uk](http://www.legalservicesboard.org.uk). In addition, the website includes details of Board Members' biographies and information about their LSB-related expenses, interests and any corporate gifts or hospitality they have received or given. Board Members are required to declare any interest they may have in Board meeting discussions at the start of each meeting and these are recorded within the minutes. In the spirit of transparency, any potential conflicts of interest with Board Members and their other activities are recorded in the Register of Interests, which is available on the LSB's website. A Register of Interests is also kept for senior executives of the LSB.

The LSB Code of Practice requires the Board:

- to comply with the Act and other relevant legislation and statutory or administrative requirements
- to agree the overall strategic direction of LSB and the policy and resource framework for the delivery of that strategy
- to monitor and to report performance against an annual business plan and agreed performance indicators
- to agree and to oversee the implementation of the LSB's risk management strategy
- to ensure that generally accepted principles of good corporate governance are observed at all times. The Code of Practice also sets out the Board's responsibilities in relation to its role as an employer and Board Members' individual responsibilities.

## LSB Board

The Lord Chancellor, and after consultation with the Lord Chief Justice, appoints the Chairman and non-executive Board Members. The Chairman takes part in the process of recruiting the other members. The Board comprises both non-executives (including the Chairman) and the Chief Executive. The Board met formally on ten occasions during the period April 2011 to March 2012.

## Board Committees

The Board has established three committees. The terms of reference for the Audit and Risk and Remuneration and Nomination Committees were revised and agreed by the Board in November 2011. The terms of reference for the Licensing

Authority Committee were agreed by the Board in January 2011.

Meeting attendance	
David Edmonds (Chairman)	10/10
Terry Connor (Member) *	3/4
Steve Green (Member)	9/10
William Moyes (Member)	9/10
Edward Nally (Member)	9/10
Barbara Saunders (Member)	9/10
Nicole Smith (Member)	9/10
Andrew Whittaker (Member)	8/10
David Wolfe (Member)	10/10
Chris Kenny (Chief Executive)	10/10

\*Terry Connor concluded his term of office on 31 August 2011

The Audit and Risk Committee is responsible, on behalf of the Board, for advising me as Accounting Officer on the maintenance of appropriate audit and risk processes within the LSB and the governance of the internal and external audit programmes. It met formally on four occasions during the period April 2011 and March 2012. Representatives from the LSB's internal (KPMG LLP) and external (National Audit Office) auditors attended all relevant meetings.

The Remuneration and Nomination Committee is responsible, on behalf of the Board, for reviewing the terms and conditions of service of the Chief Executive and making recommendations to the Board, reviewing the process for determining the terms and conditions of employment of LSB colleagues and other matters relating to appointments. It met formally on two occasions

during the period April 2011 to March 2012 (in September and November 2011).

Both Committees are supported in their roles by external advisers. In particular, Philip Lindsell, a chartered accountant, provides support to the Audit and Risk Committee. His term will end in May 2013 and the Audit and Risk Committee will be considering succession arrangements during 2012/13. This appointment, together with the adviser to the Remuneration and Nomination Committee, assist with challenging the policies and procedures of the executive from expert financial and human resources perspectives respectively.

The papers and minutes of the Audit and Risk Committee and Remuneration and Nomination Committee are circulated to the Board respectively before and after each meeting.

Membership and attendance records are given below. Membership of the two Committees rotated following the departure of Terry Connor from the Board.

Audit and Risk Committee meeting attendance	
William Moyes*	1/1
Steve Green**	4/4
Barbara Saunders	4/4
Andrew Whittaker***	3/3

\*Chairman from 1 April to 31 August 2011

\*\*Chairman from 1 September 2011

\*\*\* Appointed a member from 1 September 2011

Remuneration and Nomination Committee meeting attendance	
Terry Connor*	0/0
William Moyes**	2/2
Nicole Smith	2/2
Andrew Whittaker***	0/0
Edward Nally	2/2

\*Chairman from 1 April to 31 August 2011

\*\* A member and Chairman from 1 September 2011

\*\*\*A member until 31 August 2011

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

## Licensing Authority Committee

William Moyes (Chairman)

Edward Nally

Barbara Saunders

Chris Kenny

## Governance relationship with the Office for Legal Complaints

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

- with the consent of the Lord Chancellor, appoint and if necessary remove the OLC Chair
- after consultation with the Chair, appoint and if necessary remove the other members of the Board
- remunerate the OLC Chair and members of the Board
- give consent to scheme rules made by the OLC, and where necessary, direct the OLC to take steps to modify its scheme rules
- make rules in consultation with the OLC providing for the imposition of a levy on leviable bodies
- set performance targets for the OLC or directing such targets to be set
- approve the annual budget of the OLC, and any subsequent variations to it.

The relationship between the LSB and OLC is governed by a Memorandum of Understanding, which reflects the respective bodies' independent and separate functions, and facilitates constructive communication, co-operation and co-ordination in the performance of the bodies' respective responsibilities. The Memorandum of Understanding, which is publicly available on both the LSB and OLC websites, details the core principles underpinning the relationship, and the detailed arrangements for:

- budget management
- scheme rules
- performance monitoring and reporting

- information exchange
- communication.

In respect of annual budget approval, the LSB seeks a range of assurances from the OLC to underpin the annual budget approval process.

In respect of my Board's responsibility to issue levy bills to leviable bodies for the expenditure of the OLC, as LSB Chief Executive and Accounting Officer, I seek a range of assurances from the OLC to underpin the annual budget approval process to reassure me that the Board is not seeking recoupment of ultra vires spend. However, I have no direct Accounting Officer authority over the propriety of OLC spend – this responsibility rightly rests with the Chief Ombudsman, who is the OLC's Accounting Officer.

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

The Chairs and Chief Executives of the LSB and OLC meet on a regular basis to discuss issues of common interest and to ensure that the LSB can secure assurances during the course of the year as to the discharge of the OLC's duties. The Chairs of the bodies' respective Audit and Risk Committees also meet regularly to discuss areas of mutual risk and relevant mitigations.

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

## Governance relationship with the Legal Services Consumer Panel

The LSB is required by the Act to establish a Consumer Panel to represent the interests of consumers. The role of the Consumer Panel is to provide independent advice to the LSB about the interests of users of legal services. It does this by investigating issues that affect consumers and advising the Board on the consumer perspective of its decisions.

The Panel consists of seven lay (non-lawyer) Members who bring expertise from a range of backgrounds, and is supported by a small policy secretariat of two staff, who are employed by the LSB. Elisabeth Davies was appointed interim Chair of the Panel on 1 August 2011 following the departure of the former Chair of the Panel Baroness Dianne Hayter, who stood down in order to focus on her commitments in the House of Lords. The Chair receives a fixed fee of £15,000 for a minimum of 30 days per annum; the Members were appointed on 1 November 2009 and receive a fixed fee of £3,380 for 13 days per annum.

The Panel has its own website that includes its Workplan, Annual Report, information on its current projects, as well as copies of its publications, consultation responses and Panel meeting minutes. The website can be found at [www.legalservicesconsumerpanel.org.uk](http://www.legalservicesconsumerpanel.org.uk).

The LSB is required to consider any representations made to it by the Panel, and where the Board disagrees with a view or proposal, it must give the Panel a notice to that effect stating its reason for disagreeing.

The Panel may, at the request of the Board, carry out research for the Board and give advice to the Board. The Board responds formally to all such advice.

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

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

## Executive Group and other executive bodies

In December 2011, I announced a restructure of the LSB's senior management groups to reflect senior staffing changes and to improve their effectiveness. The LSB now has four executive groups, each with its own terms of reference:

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

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

**Operations Group:** This Group is chaired by the Chief Executive and its role is to consider cross-cutting corporate issues.

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

## Board performance

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

Some of the areas raised in the 2011/12 LSB Board evaluation, which have been or are being implemented, include:

- annual joint sessions of the LSB and OLC Boards
- a cycle for rotating the membership of the Board's Committees
- feedback to the Remuneration and Nomination Committee about the Board Member induction process
- invitations being extended to all Board Members to represent LSB at external events, to ensure broad engagement with our wide range of stakeholders.

## Risk and internal control framework

The LSB Board considers the plans and the overall strategic direction of the LSB, and the Audit and Risk Committee, on behalf of the Board, considers issues of risk in detail. The Board provides constant challenge to the assumptions and risk classification made by the Executive and risk is regularly discussed at Board meetings as part of each paper that is considered, with risk explicitly required to be identified in every Board paper. The Board reviewed the full Corporate Risk Register twice in 2011/12, in November and March. The March 2012 review involved a thorough refresh of the risk register involving a wide range of colleagues in the light of final decisions about the corporate and strategic plan for 2012-2015.

The Audit and Risk Committee reviewed the Corporate Risk Register at each of its meetings in 2011/12 and took informal advice from Internal Audit to determine the way risk or change in risk had been identified, evaluated and controlled. The Audit and Risk Committee also reviews the system of risk identification and risk management regularly.

Together with my colleagues, I was responsible for initially identifying the major risks, which are set out in the Corporate Risk Register, and for implementing a system of continuous assessment and review. Our approach has been refined following regular reviews and an updated Risk Management Strategy was agreed by the Board in November 2011, following which the thorough review of the Corporate Risk Register was undertaken. The Strategy is maintained centrally and is accessible to all colleagues.

Colleagues involved in projects identify and record risks for their respective projects, which feed up into programme and corporate risk reporting, if appropriate. Project and programme risks are reviewed at monthly Programme Board meetings and new and increasing risks are reported to the Gateway Group as part of their monthly review of programme performance. The Gateway Group also reviews the full Corporate Risk Register on a regular basis.

Clear roles and responsibilities for managing risks are defined in the LSB's Risk Management Strategy which may mean taking appropriate action to mitigate, anticipate or exploit the threats or opportunities that arise.

## Response to risk

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

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

If the Board determines that a risk exceeds its appetite to accept, it 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 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.

## Risk profile and capacity to handle Risk

As Accounting Officer, I am ultimately accountable for the management of risk. The Risk Management Strategy defines how risks will be identified, assessed

and managed during their lifecycle, to ensure that actual and potential risks are identified; risks are assessed and prioritised; where possible, risks are avoided; or risks are reduced to an acceptable level. Assumptions about risk are regularly revisited and reconsidered.

Risks are classified in the following way:

- **Corporate Risk** – a risk that affects the LSB as a whole – these are the most significant risks that threaten the achievement of the LSB's objectives
- **Programme Risk** – a risk created due to the combined impact of a number of Project Risks
- **Project Risk** – a risk that could prevent any individual project achieving its agreed deliverables.

Risks to the LSB fall into one or more of the following categories:

- **Strategic** – failure to deliver policies that meet the regulatory objectives or the LSB delivers the “wrong” outcomes
- **Financial** – lack of finances to carry out our activities or lack of formal control or the LSB exceeds its financial limitations
- **Environmental** – changes to government policy in respect to the activities of the LSB or other external events impact on the LSB meeting its objectives
- **Operational** – the ability of the internal process of the LSB to function effectively or failure of internal processes causes the LSB to deliver the “wrong” outcomes



- **Reputational** – justifiable attacks on the credibility of the LSB which diminishes its overall effectiveness.

Risk evaluation is concerned with assessing the likelihood and impact of a risk happening.

## Assessment of Risk Management

Through its work in reviewing the LSB's Risk Management Strategy, Corporate Risk Register, and risk appetite, the Board and Audit and Risk Committee have evaluated the quality of the LSB's management of risk during 2011/12 and have confirmed their assessment that the LSB's approach identifies the correct risks, and that mitigating actions are appropriately focused and implemented so as to support the LSB's programme of work to deliver the regulatory objectives.

## Reporting of Risk

I have assessed that there are no significant omissions in relation to risk requiring further disclosure. My assessment has been endorsed by the Board and Audit and Risk Committee.

## Newly identified risks

A summary of the emerging risks facing the LSB in achieving its priorities in 2012/13 have been assessed as follows (with a summary of mitigation activity accompanying each risk):

- major policies fail to deliver (LSB governance processes are robust and ensure that decision-making is sound – the Gateway Group flushes out issues early in the their life cycle and programme governance identifies and escalates potential

risks; the business plan makes clear what we plan to undertake in regulatory activity and when)

- regulatory reform changes require secondary legislation and therefore need to secure parliamentary time prior to implementation (we will continue to work closely with MoJ to ensure that they are engaged and briefed at all stages of our work)
- independent regulation does not happen in practice (self-assessment by regulators, validated by systematic pooling of LSB intelligence, will help to identify gaps and areas of weakness, and will form the basis of action plans to deliver identified performance improvement)
- OLC performance or the LSB's oversight of OLC falters (Memorandum of Understanding between the LSB and OLC addresses information sharing requirements and regular contact at Chair, Chief Executive and Board Member level ensures regular and frank communication)
- the loss or absence of key staff affecting the ability of the organisation to function effectively (the LSB succession plan is regularly reviewed and updated – programme management processes are in place for early identification of capacity problems).

## The wider framework of control

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

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

- a formal budgetary control system, reviewed and agreed by the Board
- regular reviews by the Board and Audit and Risk Committee of periodic financial reports which indicated financial performance against the forecasts
- systems of internal financial control covering procurement and the payment of suppliers and colleagues, the prompt collection of income that was due, appropriate safeguarding and management of assets and banking processes
- assurance statements from senior colleagues setting out their main areas of responsibility, including key elements of the risk control framework operating in their area together with an assessment of the effectiveness of the system and highlighted weaknesses, if any, that need to be brought to my attention
- formal project management disciplines.

## Role of internal audit

The LSB's governance arrangements and risk management processes are supported by an internal audit function provided by KPMG LLP. An audit programme is developed on an annual basis, which seeks to focus on those LSB major risks which are susceptible to audit, and the Audit and Risk Committee are consulted on and then approve the final annual audit programme.

The work carried out by KPMG meets the requirements defined in the Government

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

KPMG has reviewed the LSB's systems in accordance with the 2011/12 audit plan and is satisfied that it can provide reasonable assurance as to the adequacy and effectiveness of the LSB's internal control and governance processes for the work subject to internal audit in 2011/12. Internal audit work carried out in 2011/12 was as follows:

- Internal Audit report of IT systems security and information assurance - this report was risk rated "acceptable", with four Performance Improvement Observations (PIO) (three were low priority and one was medium priority)
- follow up Internal Audit report relating to corporate governance and risk management – this follow up report concluded that five PIOs had been implemented, one had been partially implemented (low priority) and two had not been implemented (low priority)
- a review of contingency plans in the event of the failure of an approved regulator - this was an advisory report and the internal auditors made eight recommendations to improve the process.

After review, the Audit and Risk Committee ensures that appropriate actions from previous internal audit reports are carried out and holds the executive to account accordingly.

## Information risk and data security

The LSB is a data controller under the Data Protection Act 1998 and is subject to the Freedom of Information Act 2000. The LSB also has appropriate regard to the requirements set out in HMG Security Policy Framework issued by the Cabinet Office. This focuses on the outcomes required to achieve a proportionate and risk managed approach to security that enables the LSB to function effectively, safely and securely.

All of the LSB's electronic data and access to this data is managed securely through using the services of the Competition Commission IT Department, which also provides advice to ensure that the LSB implements guidance on protection and security of its IT, physical and data assets from CESA (the National Technical Authority for Information Assurance), Cabinet Office and the Centre for the Protection of the National Infrastructure (CPNI).

During 2011/12, all colleagues renewed or completed a mandatory Information Assurance e-learning package made available through the MoJ.

In October 2011, the Audit and Risk Committee approved new and updated policies for the LSB covering: Data Protection; Information Retention and Disposal; Internet, Email, Computer and Telecommunications and a scheme for Reporting and Investigation. In January 2012, KPMG conducted an audit of IT security and data privacy policies and business continuity planning which found there were no significant areas of concern; one medium point was highlighted concerning the lack of a formal business continuity plan which the executive is addressing.

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

## Assessment of fraud risk

Together with the Audit and Risk Committee, 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 within the business. 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 in 2011/12.

## Review of the effectiveness of the risk and governance framework

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

## Significant control issues

I can confirm that that the LSB has not had any significant control issues during 2011/12 and has no significant weaknesses to address.

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

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

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

## Conclusion

In conclusion, I note two points of particular importance to the LSB's very rare constitutional position.

Firstly, we have an important role as the custodian of what constitutes good governance in legal regulation as a whole. Thus, our approach to governance not only reflects our specific statutory responsibilities, but takes account of the need to act as an exemplar of best practice, for example in the balance between executive responsibility and non-executive challenge to the regulatory community.

Secondly, we need to be constantly alive to the fact that not only are we properly bound by the proper disciplines on control of public money, but that the source of that money is the regulated community and thus ultimately their consumers. This places more than normal responsibility in ensuring that we are properly responsive to the views of that community, without ever improperly allowing their judgement to substitute for our overall assessment of how best to pursue our functions and objectives. This is not an easy balance to strike, especially in cases where the professional voice is heard more stridently than some others, but it is important that we continue to work to do so in a variety of ways, not least careful and comprehensive feedback to points made in consultation exercises.

**Chris Kenny**

Chief Executive and Accounting Officer

31 May 2012

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

I certify that I have audited the financial statements of the Legal Services Board for the year ended 31 March 2012 under the Legal Services Act 2007. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

## Respective responsibilities of the Board, Accounting Officer and auditor

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

## Scope of the audit of the financial statements

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

Services Board's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Legal Services Board; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

## Opinion on regularity

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

## Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Legal Services Board's affairs as at 31 March 2012 and of the net expenditure for the year then ended; and

- the financial statements have been properly prepared in accordance with the Legal Services Act 2007 and directions issued thereunder by the Lord Chancellor with the approval of HM Treasury.

## Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with directions made by the Lord Chancellor with the approval of HM Treasury under the Legal Services Act 2007; and
- the information given in the LSB Members' Report and the Management Commentary sections of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or 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.

### **Amyas C E Morse**

Comptroller and Auditor General

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

7 June 2012

<b>Statement of Comprehensive Net Expenditure for the period ended 31 March 2012</b>			
	<b>Note</b>	<b>2011/12 £'000</b>	<b>2010/11 £'000</b>
<b>Expenditure</b>			
Staff costs	<b>2</b>	2,833	2,819
Depreciation/Amortisation	<b>6 and 7</b>	81	133
Other expenditure	<b>3</b>	1,664	1,783
Profit on disposal of assets		-	(1)
		<b>4,578</b>	<b>4,734</b>
<b>Income</b>			
Levy income	<b>4</b>	4,502	4,734
Designation and application fees	<b>5</b>	76	-
		<b>4,578</b>	<b>4,734</b>
<b>Net (income)/expenditure</b>		<b>-</b>	<b>-</b>

All operations are continuing. There were no material acquisitions or disposals of operations during the period. The notes on pages 57 to 67 are part of the financial statements.

## Statement of Financial Position as at 31 March 2012

	Note	31 Mar 12 £'000	31 Mar 11 £'000
<b>Non-current assets</b>			
Property, plant and equipment	6	74	129
Intangible assets	7	35	61
<b>Total non-current assets</b>		<b>109</b>	<b>190</b>
<b>Current assets</b>			
Trade and other receivables due within one year	10	51	1,603
Cash and cash equivalents	8	6,938	6,475
<b>Total current assets</b>		<b>6,989</b>	<b>8,078</b>
<b>Total assets</b>		<b>7,098</b>	<b>8,268</b>
<b>Current liabilities</b>			
Trade and other payables	11	731	1,901
<b>Total current liabilities</b>		<b>731</b>	<b>1,901</b>
<b>Assets less liabilities</b>		<b>6,367</b>	<b>6,367</b>
<b>Taxpayers' equity</b>			
Income and Expenditure Reserve		6,367	6,367
		<b>6,367</b>	<b>6,367</b>

**Chris Kenny**

Accounting Officer

31 May 2012

The notes on pages 57 to 67 are part of the financial statements.



<b>Statement of Cash Flows for the period ended 31 March 2012</b>			
	<b>Note</b>	<b>2011/12 £'000</b>	<b>2010/11 £'000</b>
<b>Cash flows from operating activities</b>			
Net surplus		-	-
Decrease in trade and other receivables		1,552	4,447
(Decrease)/increase in trade and other payables		(1,170)	321
Disposal of assets		-	(1)
Depreciation/Amortisation		81	134
<b>Net cash inflow from operating activities</b>		<b>463</b>	<b>4,901</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		-	(8)
Purchase of intangible assets		-	(44)
Proceeds of disposal of property, plant and equipment		-	2
<b>Net cash (outflow) from investing activities</b>		<b>-</b>	<b>(50)</b>
<b>Net financing</b>		<b>463</b>	<b>4,851</b>
<b>Net increase in cash and cash equivalents in the period</b>		<b>463</b>	<b>4,851</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>8</b>	<b>6,475</b>	<b>1,624</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>8</b>	<b>6,938</b>	<b>6,475</b>

The notes of page 57 to 67 are part of the financial statements.

**Statement of Changes in Taxpayers' Equity for the period ended 31 March 2012**

	Note	£'000
Income and Expenditure Reserve		
<b>Balance at 31 March 2010</b>		<b>6,367</b>
<b>Changes in Taxpayer's Equity 2010/11</b>		
Comprehensive expenditure for the year		-
<b>Balance at 31 March 2011</b>		<b>6,367</b>
<b>Balance at 1 April 2011</b>		<b>6,367</b>
Changes in Taxpayer's Equity 2011/12		
Comprehensive expenditure for the year		-
<b>Balance at 31 March 2012</b>		<b>6,367</b>

## 1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2011/12 Government Financial Reporting Manual (FReM). The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy that is judged to be most appropriate to the particular circumstances of the LSB for the purpose of giving a true and fair view has been selected. The particular policies adopted by the LSB are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

### (a) Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment.

### (b) Income

Receipts from the levy on the approved regulators are classified as income. Any levy amounts received in excess of the LSB's net expenditure for the year are deferred to the following year. Any shortfall between levy amounts received and the LSB's net expenditure for the year is shown as accrued income and carried forward as a trade receivable.

Any monies received as "Prescribed Fees" under the Act are released to the Comprehensive Net Expenditure Account once the corresponding work under LSB rules for applications for designations or licensing authority has been undertaken and completed. Until this occurs, any cash received as "Prescribed Fees" are also shown as deferred income.

### (c) Capitalisation policy for non-current assets

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

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

Non-current assets are capitalised where the cost is £1,500 or over. However, for grouped purchases of IT equipment, IT software or fixtures and furniture, individual items with a cost of £200 or greater are capitalised where the total grouped purchase is £1,500 or more.

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

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

#### (d) Research

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

#### (e) Depreciation/Amortisation

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

##### Tangible non-current assets:

Information Technology 4 years

Fixtures and furniture 5 years

##### Intangible non-current assets:

Software 4 years

In line with IAS 16, Property, Plant and Equipment, the LSB has reviewed the useful economic lives and residual values of its assets and revised its depreciation/amortisation policy for information technology and software assets from 3 to 4 years. The effect of this change on the Statement of Comprehensive Net Expenditure is to reduce the charge for the year from £123,000 to £81,000.

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

The LSB undertakes an annual impairment review of assets to ensure that they are carried at no more than their recoverable amount. The recoverable amount is the amount to be recovered through use or sale of the asset. An impairment reflects a permanent diminution in the value of an asset as a result of a clear reduction of economic benefits or service potential. Depreciated historical cost is used as a proxy for fair value as this realistically reflects consumption of the assets as allowed by the FReM paragraph 6.2.7(h). Revaluation would not cause a material difference.

#### (g) Taxation

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

#### (h) Going concern

The LSB receives funding from the approved regulators through the levy for its operating costs. This arrangement has been enshrined in legislation through a Statutory Instrument and levy funding will continue unless there are changes to primary legislation. The LSB has assurances from the MoJ, in the unlikely event this is necessary, Grant in Aid will be provided to meet the cash needs of the organisation. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

#### (i) Pensions

The LSB has established a defined contribution group personal pension scheme in which the LSB makes fixed contributions of 10% for all colleagues excluding the Chief Executive, who receives a fixed contribution of 22.5%, and has no other liabilities. Such contributions are charged to the Comprehensive Net Expenditure Account in the year in which they are incurred.

**(j) Operating Leases**

Rentals are charged to the Statement of Comprehensive Net Expenditure in equal amounts over the lease term. In accordance with the principles of IAS 17 (Leases) and the supplementary guidance specified in SIC15 (Operating leases incentives) the LSB has spread the value of the rent-free period for occupation of space at Victoria House over the initial five year term. This is expanded in note 13.

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

The LSB has considered IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IFRS 13 Fair Value Measurements together with amendments and annual improvements and new interpretations to existing standards and has determined that there would be no material effect on its current or prior period or a future period.

The LSB has made an assessment of the proposed changes in the FReM for 2012/13 (Accounting for Loans, Public Dividend Capital outside the Departmental boundary, Effective date of EU adopted IFRS for standards applied by the FReM and Discount rate for provisions) and has determined that there would be no material effect on its current or prior period or a future period.

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

	2011/12	2011/12	2011/12	2011/12	2011/12	2010/11
	£'000	£'000	£'000	£'000	£'000	£'000
	Permanent Staff	LSB Board	OLC Board	Consumer Panel	Total	Total
Wages and salaries	1,760	174	132	136	2,202	2,211
Social security costs	208	16	11	13	248	245
Pension and other costs	372	-	-	11	383	363
<b>Total</b>	<b>2,340</b>	<b>190</b>	<b>143</b>	<b>160</b>	<b>2,833</b>	<b>2,819</b>

(i) The remuneration of the Chief Executive is included in staff remuneration. The Chief Executive was granted a repayable interest free loan of £1,880 at the end of October 2011 to finance the purchase of an annual rail travel card. Repayment is by automatic deduction from salary over twelve months. As at 31 March 2012 £765 of the loan had been repaid and there was a balance of £1,115 outstanding. No tax is chargeable on this loan in compliance with HMRC guidance on section 180(1) of the Income Tax (Earnings and Pensions) Act 2003. The £1,115 is part of the total shown in note 10 "deposits and advances".

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

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

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

### (b) Number of staff

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

	2011/12	2011/12	2011/12	2010/11
	Permanent Staff	Other	Total	Total
Directly Employed - LSB	30	-	30	31
Directly Employed - Panel secretariat	2	-	2	2
<b>Total</b>	<b>32</b>	<b>-</b>	<b>32</b>	<b>33</b>

### (c) Redundancy costs

As a result of restructuring in preparation for the LSB's new three year Strategic Plan three redundancy payments have been paid in accordance with the LSB Redundancy policy and decisions taken by the Chief Executive in consultation with the LSB Board. There was one compulsory redundancy. Redundancy costs are accounted for in full in the year that a irrevocable decision has been made.

Redundancy Band	2011/12	2010/11
£0 to 10k	1	-
£10k to 15k	1	-
£25k to 30k	1	-

The cost of redundancy payments in 2011/12 was £46,510 (2010/11- Nil) and this is included in Wages and Salaries in a) above.

### 3. Other expenditure

	<b>2011/12</b>	<b>2010/11</b>
	<b>£'000</b>	<b>£'000</b>
Rentals under operating leases (accommodation)	332	332
Research costs	482	611
Outsourced services	239	249
Other administration	114	115
Recruitment	89	3
Running costs - Victoria House	213	190
Training	25	87
Professional advisers	25	64
External legal costs	82	57
Travel, subsistence and hospitality	31	41
Audit fees for statutory audit work	21	20
Internal audit fees	11	14
<b>Total cash items</b>	<b>1,664</b>	<b>1,783</b>
Non-cash items		
- Depreciation	55	99
- Amortisation	26	35
- Released on disposal	-	(1)
<b>Total non-cash items</b>	<b>81</b>	<b>133</b>
<b>Total other expenditure</b>	<b>1,745</b>	<b>1,916</b>

#### 4. Income

	2011/12 £'000	2010/11 £'000
Levy income from approved regulators	4,502	4,734
	4,502	4,734

#### 5. Designation and application fees

	2011/12 £'000	2010/11 £'000
Change of designation fees:		
The Chartered Institute of Legal Executives	16	-
Council for Licensed Conveyancers	16	-
<b>Sub total</b>	<b>32</b>	<b>-</b>
Licensing authority - application fees:		
The Law Society (on behalf of the SRA)	22	-
Council for Licensed Conveyancers	22	-
<b>Sub total</b>	<b>44</b>	<b>-</b>
<b>Total</b>	<b>76</b>	<b>-</b>



## 6. Property plant and equipment

	2011/12 £'000	2011/12 £'000	2011/12 £'000
	Information technology	Furniture, fixtures and fittings	Total
<b>Cost</b>			
At 1 April 2011	229	117	346
Additions	-	-	-
Disposal	-	-	-
At 31 March 2012	229	117	346
<b>Depreciation</b>			
At 1 April 2011	168	49	217
Provision for the year	32	23	55
Released on disposal	-	-	-
At 31 March 2012	200	72	272
<b>Net Book Value</b>			
<b>At 31 March 2012</b>	<b>29</b>	<b>45</b>	<b>74</b>
<b>At 31 March 2011</b>	<b>61</b>	<b>68</b>	<b>129</b>
	2010/11 £'000	2010/11 £'000	2010/11 £'000
	Information technology	Furniture, fixtures and fittings	Total
<b>Cost</b>			
At 1 April 2010	231	109	340
Additions	-	8	8
Disposal	(2)	-	(2)
At 31 March 2011	229	117	346
<b>Depreciation</b>			
At 1 April 2010	92	27	119
Provision for the year	77	22	99
Released on disposal	(1)	-	(1)
<b>At 31 March 2011</b>	<b>168</b>	<b>49</b>	<b>217</b>
<b>Net Book Value</b>			
<b>At 31 March 2011</b>	<b>61</b>	<b>68</b>	<b>129</b>
<b>At 31 March 2010</b>	<b>139</b>	<b>82</b>	<b>221</b>

## 7. Intangible assets

<b>Software licences</b>	<b>2011/12</b>
	<b>£'000</b>
Cost	
At 1 April 2011	129
Additions	-
At 31 March 2012	129
Amortisation	
At 1 April 2011	68
Provision for the year	26
At 31 March 2012	94
<b>Net Book Value</b>	
<b>At 31 March 2012</b>	<b>35</b>
<b>At 31 March 2011</b>	<b>61</b>

<b>Software licences</b>	<b>2010/11</b>
	<b>£'000</b>
Cost	
At 1 April 2010	85
Additions	44
At 31 March 2011	129
Amortisation	
At 1 April 2010	33
Provision for the year	35
At 31 March 2011	68
<b>Net Book Value</b>	
<b>At 31 March 2011</b>	<b>61</b>
<b>At 31 March 2010</b>	<b>52</b>

## 8. Cash and cash equivalents

	<b>2011/12</b>	<b>2010/11</b>
	<b>£'000</b>	<b>£'000</b>
Balance at 1 April	6,475	1,624
Net change in cash and cash equivalent balances	463	4,851
Balance at 31 March	<b>6,938</b>	<b>6,475</b>

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

2010/11 was the first full year of operating the levy. Approved regulators pay their share of the levy by 31 March each year and these funds are then used to finance the LSB's operating costs for the following year.

## 9. Financial instruments

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

## 10. Trade receivables and other assets

<b>Amounts falling due within one year</b>	<b>2011/12</b>	<b>2010/11</b>
	<b>£'000</b>	<b>£'000</b>
Levy amounts due	-	1,395
Prepayments	29	182
Deposits and advances	22	26
	<b>51</b>	<b>1,603</b>

	<b>2011/12</b>	<b>2010/11</b>
	<b>£'000</b>	<b>£'000</b>
Balances with other central government bodies	10	162
Balances with bodies external to government	41	1,441
<b>Total trade and other receivables</b>	<b>51</b>	<b>1,603</b>

## 11. Trade payables and other current liabilities

Amounts falling due within one year	2011/12 £'000	2010/11 £'000
Trade payables - external	6	55
Competition Commission	-	12
Other taxation and social security	71	79
Ministry of Justice	-	1,075
National Audit Office	21	21
Rent free creditor	31	25
Deferred income	353	269
Staff benefits accrual	27	30
Accruals	222	335
	<b>731</b>	<b>1,901</b>

The LSB's trade creditor days, calculated as the proportion that is the aggregate amount owed to trade creditors at 31 March 2012 compared with the aggregate amount invoiced by suppliers during the period, expressed as a number of days when compared with the 365 day period of account, is 1.11 days.

	2011/12 £'000	2010/11 £'000
Balances with other central government bodies	103	1,191
Balances with bodies external to government	628	710
<b>Total trade and other payables</b>	<b>731</b>	<b>1,901</b>

## 12. Capital commitments

There are no capital commitments.

### 13. Commitments under leases

Operating leases	2011/12 £'000	2010/11 £'000
Buildings		
Not later than one year	332	332
Later than one year and not later than five years	194	526

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

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

### 14. Contingent liabilities

There are no contingent liabilities to report.

### 15. Related party transactions

The LSB is a NDPB sponsored by MoJ. It does not receive any grant-in-aid from the Department. The MoJ is regarded as a related party solely due to its sponsorship responsibility. During the year, the LSB had no material transactions with MoJ, with the exception of a cash repayment of £1,075k that it previously held for the MoJ from monies it had received from the levy collection.

The LSB has a direct relationship with the OLC and has some oversight responsibilities for the Ombudsman Scheme that the OLC has established. Under the Act the LSB is responsible for appointing and paying the salaries and expenses of the OLC Board members, which for the whole reporting period amounted to £155k. The payments for fees for the OLC Board members for 2011/12 were £132k (£130k 2010/11).

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

None of the LSB or Consumer Panel members or key managerial staff undertook any material transactions with the LSB during the year, except for remuneration paid for their services and, in the case of members, reimbursement of home to office travel expenses.

The LSB has benefited from the loan of nine pictures, on display in the office, painted by the artist Jane Giacone, who is the daughter of the Chairman. No payment was asked for or made. The LSB's only liability is for any damage, loss or theft of these pictures, which is limited to the agreed value of the materials comprised within the pictures (£1.4k if all of the pictures are completely destroyed).

### 16. Events after the reporting period

In accordance with IAS 10 Events After the Reporting Period, events after the reporting period are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the certificate and report of the Comptroller and Auditor General.

There are no events after the reporting period to report.







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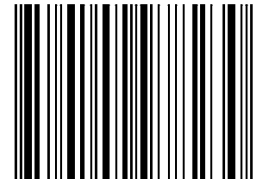
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