



Annual Report 2009/10

LEGAL SERVICES BOARD
Annual Report and Financial Statements for the Year Ended 31 March 2010

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

Ordered by the House of Commons to be printed 19 July 2010

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ISBN: 9780102966435

Printed in the UK for The Stationery Office Limited on behalf of the
Controller of Her Majesty's Stationery Office

ID P002369385 07/10

Printed on paper containing 75% recycled fibre content minimum.

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The Legal Services Board (LSB) came into being on 1 January 2009 and achieved its statutory powers on 1 January 2010. This report covers the period 1 April 2009 to 31 March 2010.

In the period under review we have achieved the following:

- Driven progress on priority areas for regulatory reform – regulatory independence, complaints-handling and competition in service provision – by setting challenging timetables and driving delivery.
- Developed, consulted on and put in place the 11 statements of policy and rules of procedure required by the Legal Services Act 2007 (the Act).
- Appointed the Chair and seven members of the independent Legal Services Consumer Panel and made our first formal request for advice of them – on the impact of referral fees on consumers’ interests.
- Identified the key challenges facing the regulation of legal services provision and helped to drive progress and new ways of thinking – most notably by brokering new partnerships around diversity and quality assurance.
- Put in place our Research Strategy Group to cement strong links with a broad range of people committed to investigating the wide variety of areas of interest in legal services.
- Consented to the Legal Ombudsman’s Scheme Rules and approved their budget.
- Worked hard to establish open, frank and constructive working relationships with those we regulate and oversee - approved regulators and the Office for Legal Complaints (OLC) - and those we regulate for - consumers, citizens and legal services providers.
- Worked swiftly and efficiently to approve four applications for changes to approved regulators’ regulatory arrangements – including permitting historic changes to the way barristers can practise.
- Built the LSB to be a modern, lean and efficient organisation. From a team of seven on 1 April 2009, made up of three permanent appointments and four secondments, we ended the year on 31 March 2010 with 30 permanent members of the team.
- Established a way of working that reflects our desired culture as an organisation:
 - i. to be independent and act with integrity in all of our dealings;
 - ii. to strive for excellence by being challenging, bold, robust and accountable for our work and our costs;
 - iii. to be open, accessible and clear about our role and how it relates to our stakeholders;
 - iv. to be passionate, reforming and innovative about the pursuit of the consumer interest in our work and the legal services sector.

This is our first full year annual report. Through it, we fulfil our responsibility to be accountable to Parliament and to all who have an interest in our work. If you want to find out more, please see www.legalservicesboard.org.uk or get in touch.

Chairman's introduction

1. I am delighted to introduce this Annual Report covering the first full year of the LSB's operations.
2. We can look back on a year that has seen the foundations laid for significant reform of the legal services market. Reforms that will deliver a vibrant, strong, innovative and competitive legal services sector delivering critically important services with a clear focus on meeting the needs and expectations of a just and democratic society and, as a consequence, the public and consumer interest.
3. We began 2009/10 with only three permanent staff and a small number of secondees. As I look back over the year I am pleased that we have been successful in both addressing the substantive tasks which Parliament has given us and in building the organisation.
4. My Board were rightly ambitious in the aspirations we set ourselves in our Business Plan for 2009/10. That ambition reflected our sense of the scale of task in making the legal services market more responsive to the needs of consumers, both individual consumers and businesses, but also of the scale of opportunity to be grasped in doing so.
5. Independence of regulation, competition and effective redress are vital in ensuring that the legal services market works for all citizens, with professional principles being enhanced and upheld. This is not simply a matter of meeting our statutory obligations under the Act, vital and energising though those regulatory objectives are. But is, above all, about ensuring that all sectors of society receive the best possible legal service at the point they need it, whether that is at a time of great personal stress or as a routine transaction that is nevertheless important to their personal or economic wellbeing.
6. We made very significant progress on those three key aims in our first year. We have established strong momentum in freeing up the market to ensure the widest range and best possible value of services to consumers, enabling new entrants and new partnerships to emerge and creating new opportunities for the imagination and creativity of all kinds of lawyers.
7. Our work this year has shown that it is possible to use the introduction of alternative business structures (ABS) as a means of reforming regulation to provide strong consumer protection by underpinning the outcomes we as citizens seek, whilst not putting in place unnecessary restrictions that get in the way of securing those outcomes. It is important to remember that ABS is about driving new and improved services for consumers and providing them with more access and choice. The new regulatory framework will create new and competitive pressures for the provision of legal advice – ABS should lead to a greater customer focus among legal services providers.

8. We expect to see the nature of the relationship between lawyers and the public changing – and changing in the interests of consumers and the wider public. To achieve this, we need a regulatory framework that encourages effective competition and more innovative ways of delivering legal services. It must enable consumers to receive the right quality of service at the right price and to have that service be provided in ways that meet their needs. This is especially important for those who may not currently have access to justice – perhaps because they do not know that they need legal advice, or they know that they do but cannot afford it. But the new framework must also allow a strong and independent legal profession to flourish, with legal services providers who are equipped to deliver services in new and more cost-effective ways.
9. Key to improving regulation is bolstering confidence, by making crystal clear to all, that regulation is undertaken firmly in the public, rather than the professional interest. We have led an intensive programme of activity to define internal governance rules which give the public those guarantees and are working hard with our partners to implement these rules in a proportionate way, recognising the different needs of different bodies we oversee, without compromising on the principle of regulatory independence.
10. But consumer confidence also depends on effective redress when things go wrong. I am delighted with the progress which Elizabeth France, her Board at the Office for Legal Complaints (OLC) and her Chief Ombudsman and Chief Executive, Adam Sampson, have made in building our sister organisation which plans to begin work in October 2010. We are complementing their activity by working with approved regulators to strengthen first-tier complaints handling.
11. Our vision of regulation - one that enables the highest possible standard of service - has driven us this year and will drive all our activities in future years. It is what has energised the members of my Board and I would like to take this opportunity to pay tribute to all of them for their contribution over the last twelve months. I particularly highlight the contributions of Michael Napier and Rosemary Martin, both of whom have stood down from the Board in the period covered by this report. We have sought to demonstrate ourselves the consistent focus on regulatory objectives, better regulation and excellence in governance that we expect to see in the bodies which we oversee and have brought critical challenge, informed by our range of different backgrounds and experience, to the scrutiny of proposals put forward by our Executive.
12. I am also grateful to the staff team which has been put in place over the last 12 months. We are and will remain a small, expert body, with high levels of intellectual rigour and commitment to achieving solid outcomes for the public. We have therefore drawn on a range of professional and managerial backgrounds in putting our staff team together and have put in place a range of strong project disciplines to ensure that we deliver the high ambitions we have set ourselves. As this report shows, our initial record is a good one and I would like to thank all of the Board's staff in making this possible.



David Edmonds Chairman

Chief Executive's overview

13. This first full annual report sets out a strong record of early delivery and, taken with our Business Plan for 2010/11, provides a springboard for further progress in the coming year. We have progressed quickly from being a start-up team, focused on practical operational issues to being an influential player in the legal services market, by virtue both of the determined pursuit of our statutory objectives and our wider impact on debate about the future shape of legal services in England and Wales.
14. This report explains what we have done to achieve this in 2009/10. It sets out how we have laid the foundations for market-reform, not just in the immediately vital areas of competition, redress and independence, but also in work in more long-term areas. This latter has included the diversity of the legal services workforce, the development of the strong evidence and research base on the impact of legal services regulation, the shift from detailed prescriptive rules to outcome-focused regulation, underpinned by better risk management and effective enforcement and much more. There is much to do to embed these changes and extract the maximum benefit for consumers and the public interest from them, but we have made the best possible start.
15. In doing so, we have constantly tracked our activities back to the regulatory objectives set out in Section 1 of the Act. Annex 1 illustrates how all of our activities contribute collectively to promoting the regulatory objectives. Annex 2 shows how we have delivered against the milestones laid out in our Business Plan for 2009/10.
16. At the heart of the objectives is a blend of responsibility to consumers whilst also maintaining the unparalleled importance of the rule of law and the wider public interest. This has guided all our activity through the year. We have not been daunted by the difficulty of achieving the appropriate balance between the objectives. It is our passionate belief that, not only can all of the objectives be addressed in a rigorous and disciplined way, but that the legal services market will not deliver for all citizens unless all the objectives are addressed.
17. The Act has not only given us a clear sense of mission, but, by making sure the objectives are shared with the bodies we oversee, it has given us a strong delivery mechanism as well. This unity of objectives has been vital to the Board in building strong effective partnerships with the approved regulators, the Legal Ombudsman, our Consumer Panel, the Ministry of Justice (MoJ) and others. As a regulator with oversight responsibilities we must ensure effective governance and high ambition in those we oversee, not micro-manage them or substitute our judgement for theirs.
18. That does not imply a woolly or sloppy minded approach, seeking consensus as an objective in itself: we would not be doing our job as an oversight regulator if our discussions were not challenging on occasion. But it does mean that our task is constantly driven back to achieving real outcomes in the real world, rather than engaging in theoretical, academic arguments or seeking conflict merely to reinforce our authority.
19. However, we will challenge the status quo where we believe it is essential for the achievement of the objectives. That can be seen already in our acceleration for the timetable to achieve ABS, the challenges and refinement we are bringing to approved regulators' models for independence and the new perspectives we are bringing on subjects as diverse as the make-up of the profession, the future of referral fees, the transparency to individual lawyers of their approved regulators' budgetary proposals and many more.
20. We want to both stimulate and share best practice within the sector between organisations and to introduce ideas from those outside of the sector. We have made clear our ambition on what we want the sector to look like in 2013. We want to see:
 - greater competition and innovation in service delivery
 - access to justice for all consumers

- empowered consumers, who receive the right quality of service at the right price
- improved customer experience with swift and effective redress when things go wrong
- constantly improving legal professions, as diverse as the community they serve
- clear regulatory structures, which command wide confidence in the public and the market.

21. I quote this verbatim from our first and second year business plans but make no apology for repeating it here. What this report shows is a consistency of purpose in pursuing these aims in the past year and our determination to carry on doing so over the coming years. We will continue to set our one-year operational plans in this kind of strategic context and will be transparent in reporting our progress against them.

22. We have set ourselves a high benchmark for delivery in our first four years of operation. There is no room for complacency in a world where pressures on lawyers and on all players in the economy will continue to be great. There is also no reason for pessimism, based on what we have achieved in our first year, the ambitions we have helped to stimulate in others and our clarity of purpose in holding on to this strong base of progress set out in this report.

Chris Kenny Chief Executive



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About us

23. The Legal Services Act 2007 established the LSB. Our goal is to reform and modernise 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. We are responsible for ensuring the highest standards of competence, conduct and service in the legal profession both for the benefit of individual consumers and the public generally.
24. We do this through our independent, regulatory oversight of the ten approved regulators, who between them directly regulate the circa 140,000 lawyers operating throughout the jurisdiction.
25. In addition, two further professional bodies from outside the traditional legal services sector were designated formally as approved regulators from 1 January 2010. Those bodies, which are both listed as approved regulators in relation only to reserved probate activities, are:
- Institute of Chartered Accountants in Scotland;
 - Association of Chartered Certified Accountants.
26. We are also accountable for the oversight of the OLC, and their administration of the Legal Ombudsman scheme due to open in October 2010, the new dispute-resolution body for people who have complaints about their lawyer. Our relationship is informed by a Memorandum of Understanding agreed with the OLC.

Who we regulate

25. 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 Institute of Legal Executives, who through the ILEX Professional Standards Board 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 Law Costs Draftsmen who regulate practising costs draftsmen;
 - The Master of the Faculties who regulates notaries.

What we do

28. We have a challenging set of regulatory objectives set out in Section 1 of the Act. We share these objectives with the approved regulators and the Legal Ombudsman. The objectives are to:
- protect and promote the public interest;
 - support the constitutional principle of the rule of law;
 - improve access to justice;
 - protect and promote the interests of consumers;
 - promote competition in the provision of legal services;
 - encourage an independent, strong, diverse and effective legal profession;
 - increase public understanding of the citizen's legal rights and duties;
 - promote and maintain adherence to the professional principles.

29. Section 1 further defines the professional principles 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; and
 - keeping clients' affairs confidential.
30. Section 4 also gives us a duty to assist in the maintenance and development of standards of regulatory practice and the education and training of lawyers.
31. Alongside our generic regulatory oversight responsibilities, we are responsible for approving any changes that approved regulators wish to make to their regulatory rules, approving any organisation that wishes to become an approved regulator, and monitoring all approved regulators' continued compliance with rules made by the LSB. From 2011, we will also be responsible for making recommendations to the Lord Chancellor on designating approved regulators as Licensing Authorities for alternative business structures.
32. The Act gives us power to do anything calculated to facilitate, or incidental or conducive to, the carrying out of any of our functions. We have a range of enforcement powers.

Our key relationships

33. 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 have worked, and continue to work, closely together to drive forward the legislation required for the LSB to undertake the challenging reforms outlined in the Act.
34. Our remit extends to both England and Wales and we have therefore established a relationship with the Welsh Assembly Government in order to ensure we understand the particular perspectives of consumers and providers in Wales.

How we are funded

35. As required by the Act, we are responsible for calculating and collecting funds to meet all of our costs (including the set up costs incurred by the Lord Chancellor and Legal Ombudsman expenditure) through a levy on the approved regulators.
36. After our consultation during April to October 2009, the Lord Chancellor consented to The Legal Services Act 2007 (Levy) Rules 2010, which gave us authority to collect the leviable expenditure.
37. The methodology for apportioning LSB costs reflects the number of authorised persons who hold practising certificates to carry out reserved legal activities with an approved regulator as at 1 April 2009. The methodology for apportioning OLC's costs reflects the number of complaints approved regulators have received about authorised persons for a three-year period ending 31 December 2008. Those approved regulators whose members generated less than 0.1 per cent of complaints are exempt from the OLC establishment costs levy.

Regulating in the interests of consumers

38. We are committed to understanding and taking into account consumers of legal services in all of our work. We believe that we can only put consumers and the wider public at the heart of legal services regulation if we understand and are able to articulate their needs, views and concerns. We therefore made it a priority in our first year of operation to put mechanisms in place to ensure consistency and challenge in our approach to consumer issues.
39. We did this in two main ways: the establishment of the independent Consumer Panel and the development of our approach to research. As we look ahead, we also expect to work closely with the Legal Ombudsman and others to ensure that the 'virtuous circle' of continuous improvement in service delivery is completed. By which we mean, learning from the experiences of consumers who have had problems with their lawyers so that common problems are identified, considered and addressed, whether that is by ourselves, by approved regulators or, most importantly, by legal services providers themselves.

Consumer Panel

40. The Consumer Panel plays an important role in ensuring that the views and interests of consumers are addressed in our work. Their advice and influence is vital to helping to inform our current and future work and we have welcomed their contribution to our work programme so far. The Panel is independent of the Board and our relationship is guided by a Memorandum of Understanding.

Dr Dianne Hayter was appointed Chair of the Consumer Panel on 17 July 2009. Panel members were appointed on 1 November 2009.

The Panel comprises eight lay people who bring expertise from a range of backgrounds, supported by a small secretariat.

Since November 2009, the Panel has established its own independent identity and website www.legalservicesconsumerpanel.org.uk which includes information on its current projects as well as copies of its publications, consultation responses and Panel meeting minutes.

In March 2010, the Panel published its 2010/11 work programme which sets out its focus and priorities for the year ahead.

The Panel met twice during the period January to March and has begun to make significant progress against its work programme, particularly in its response to the LSB's formal request, in November 2009, for advice on the consumer interest in referral arrangements. Following the Panel's 'Call for Evidence', the research phase of the project was completed at the end of March 2010.

The Panel has also provided formal responses to a number of LSB consultations – including ABS, first-tier complaints handling and Internal Governance Rules - which contributed significantly to our policy thinking.

Research

41. Central to our way of working is making sure that we take the widest range of consumers' interests and views into account in our work. In our first year, our priority has been to ensure that we understand consumers' views of the existing market and the challenges that they face getting the legal advice they need. We have achieved this through public consultation, direct engagement with organisations such as Consumer Focus and Which? and undertaking research with consumers directly.
42. In all of our work, however, we are conscious that there is no such thing as a 'typical consumer' and we aim to understand the implications of people's individual needs whether that be due to age, income, geographical location or other factor.

On 1 January 2010, the day we formally assumed our statutory powers, we published YouGov research into the perspective of legal services consumers.

The results revealed:

- almost 70% of consumers had little or no knowledge of what lawyers do - despite over 60% of those polled having personally used legal services, with 53% having used them at least once over the last five years;
- only 14% of consumers have 'shopped around' for the right lawyer, suggesting there is still a long way to go until we see legal consumers acting in as an informed way as consumers of other services;
- how ill-informed consumers feel about the options open to them when they need legal services, which can often be at a difficult time in their lives, despite the increasing number of ways for consumers to make better-informed choices about where they get their legal advice from;
- yet despite this, and encouragingly, 75% of people were satisfied or very satisfied with the legal advice that they had received.

43. In our first year we also commissioned research to understand how small businesses coped as customers of legal services. The results of this qualitative study, undertaken in January and February

2010, were published in June 2010. They show that this important consumer group faces many of the same challenges that we find with domestic customers of legal services. Small businesses were often unaware of the legal problems they faced, and even where they did realise that they faced a problem they tried to avoid using formal legal advice considering it expensive, serious and a last resort. Too often, the legal services available were simply not tailored to their needs and the flexibility they looked for when purchasing services.

44. Our approach over the year of our start up could have been dry and developmental. We could have focused on creating an overall approach to research without making any real steps in commissioning or undertaking any actual research. We rejected that approach in favour of moving quickly to improve the evidence base for our priority areas. We consulted widely on our research strategy and built strong links across academia, commercial research consultancies and approved regulators. This has enabled us to commission research swiftly and 2010 will see prompt publication of several research projects.
45. We are confident that our early work in this area is helping to stimulate wider research activity. This is important: cross cutting research, linking regulation, competition, workforce, legal need and diversity work is needed if we are, collectively, to build the most effective evidence base that we can to inform regulation.
46. It is worth stating that we will not always commission investigation and discovery of all of the evidence we need ourselves – that is neither affordable nor, in fact, necessary. A large body of literature on the use of legal services by individual consumers already exists. For a number of years the Legal Services Research Centre has carried out a consumer survey aimed at improving understanding of how consumers handle legal problems. This research provides an invaluable insight into the clustering of problems facing many people and the problems they find accessing the services they need. In the last year, the MoJ has also published research looking at consumers' experiences of legal services. We will be drawing on these studies and more to ensure that regulation benefits consumers and does not simply add an additional cost burden.

Our achievements so far

47. In this chapter, we describe the progress we have made in implementing the regulatory framework provided for by the Legal Services Act 2007 – an environment that will allow the vibrant, strong, innovative, consumer-focussed legal services market envisaged by the Act to flourish.

Widening access to the legal services market

48. The introduction of a regime to regulate ABS is the last major change of the Act to be realised. The Board has taken great strides to ensure that the regime is robust and adaptable to realise the potential of ABS in the market and provide the appropriate level of protection for consumers.
49. We do not envisage becoming a regulator of ABS directly (although we are able to be) rather, the regulation will be undertaken by Licensing Authorities (LAs), who will be approved regulators who apply to us for designation. In March 2010, following consultation we published the rules by which approved regulators could apply to us and the rules that apply if such a designation is ever cancelled.
50. In that same month, in order to set out expectations on licensing rules and to ensure that ABS are treated consistently, we also issued a set of guidance to potential LAs. This major document set out our preferred approach on wide range of issues.
51. Throughout the year, and as we move ahead, we have been working with all approved regulators through monthly ABS implementation groups as well as in more detailed conversations with the two approved regulators who have publically announced their intention to become LAs (the Solicitors Regulation Authority (SRA) and the Council for Licensed Conveyancers (CLC)).

52. Over 2009/10, we held three open forum events outside of London as well as speaking about ABS to many other audiences, including international audiences eg through meetings with the Council of Bars and Law Societies of Europe (CCBE) and engagement with the Conference of Regulatory Officers in Australia. We have started to see a change of mindset within the professions, with more practitioners now thinking of ABS less as “alternative” and more as “an alternative”. We continue to see ABS as one of a set of changes occurring in the legal services market.
53. One of the main expectations that we have about the regulation of ABS is that it should be flexible and adaptable to manage the diverse risks that emerge from a diverse set of business. As such we think that the regulation of ABS should be primarily on the basis of outcomes. We have been greatly encouraged by the moves made by a number of regulators including the SRA, ILEX and CLC towards a focus on outcomes.

Improving complaints-handling performance

54. Improving complaints handling is at the heart of our duty to support the regulatory objectives and improve consumer confidence in the legal services market. Establishing the Legal Ombudsman scheme and delivering improvements in the way lawyers handle complaints that they receive directly (first-tier complaints) have therefore been key objectives for the LSB in our first year. We have also taken steps to ensure that the transition to the new arrangements happens in such a way as to minimise detriment to complainants and lawyers, in particular as the work of the Legal Complaints Service (LCS), and other approved regulators, ends and the Legal Ombudsman takes on its responsibilities.

The OLC is responsible for administering the Legal Ombudsman scheme. This will provide independent and impartial dispute resolution for those consumers who need to resolve disputes with their lawyer.

The OLC is accountable to Parliament through the Lord Chancellor and is sponsored by the MoJ. It is overseen by the LSB - we are responsible for appointing their Chair (with the approval of the Lord Chancellor) and members, approving their annual budget and we may set and monitor performance targets.

The Ombudsman team was appointed in February 2010 and following appointment of the executive management team, a full recruitment exercise is now underway. It will be based in new offices in Birmingham.

Over the past year, the OLC has consulted on and finalised its Scheme Rules which set a clear framework for how the new arrangements will operate. We approved these Rules in December 2009 and have since been working closely with the OLC to establish their performance indicators, which we will monitor on an agreed basis in the future.

Subject to the Parliamentary timetable, the Legal Ombudsman is on track to open its doors in October 2010, becoming the single body for all consumer complaints about the services provided by lawyers.

55. During the second half of 2009, we worked with approved regulators and others to develop our policy approach to first-tier complaints handling. In doing so, we took into account the changes brought about by the Act, including in particular the introduction of Legal Ombudsman, the separation of regulatory and representative functions and the requirement for approved regulators to implement effective first-tier complaints handling procedures having regard to the principles of better regulation and best regulatory practice.
56. Our view is that the responsibility for improving the handling of first-tier complaints rests firmly with authorised persons and firms. They have a legal, ethical and commercial obligation to do so. But approved regulators need to support them in doing so and hold them to account when they fail to act responsibly. This means that approved regulators must help those they regulate to embrace complaints as an opportunity to improve service quality to consumers – not becoming better at defending complaints. Approved regulators must now demonstrate that they are embedding requirements for effective first-tier complaints handling procedures into their regulatory arrangements that are proportionate and targeted to their individual circumstances and developing an evidence base to support progress. We have sent a strong signal that, absent this, we will not hesitate to use our powers under the Act to take a more prescriptive approach to first-tier complaints given the important issues of consumer protection and confidence it presents.
57. The one caveat however, is that we considered it necessary to introduce a specific signposting requirement using s112 (2) of the Act in the interests of consumer protection. This makes it mandatory for all legal service providers to make clear to consumers that they have a right to complain, how, to whom and when, in the first instance and, following that, to the Legal Ombudsman once the first-tier process has been exhausted.
58. In early 2010, we engaged with approved regulators to assess the current state of their regulation of first-tier complaints handling and will undertake a subsequent review of progress towards the complaints handling outcomes, implementation of the signposting requirement and effective first-tier complaints handling procedures and their monitoring and enforcement activity in late 2010. We will re-assess our approach to first-tier complaints handling for each approved regulator and across the sector in light of what we find.

Independence

59. One of the key drivers for the introduction of the Act was the need to separate legal regulation from representation. Parliament recognised that a system whereby a body could on the one hand represent their members whilst simultaneously acting as their regulator does not have a place in the modern regulatory world. It sends a confusing message to consumers of legal services and creates the perception of regulation being run by lawyers in the interests of lawyers, rather than the wider public. The Act therefore requires the LSB to ensure that regulation and representation are carried out independently from each other.
60. During 2009, we consulted with a wide range of interested parties across the sector to develop our understanding of how best to achieve this to encourage public confidence in our legal system. To their credit, many parts of the profession and their regulators were quick to accept the need for some level of independence of regulation to promote the public interest and in turn the commercial well-being of practitioners.
61. The internal governance rules we have introduced as a result of those discussions provide certainty on what is expected from approved regulators and promote changes in a systematic way. The package of measures includes providing freedom for regulatory arms to define regulatory strategy and have access to and control of the resources to deliver this. They also address ownership and appointment processes for regulatory boards and require a non-lawyer majority on regulatory boards – areas that consumer groups have repeatedly stressed, both to us and during the passage of the Act, are important to ensure consumer confidence in regulation.
62. Introducing rules is only the first step on the path to independence in regulation - we have also set a clear timetable for speedy implementation. Both the representative and regulatory function of the applicable approved regulators must assess both where they are and where they are not compliant, currently, with the internal governance rules. In areas of non-compliance, they must provide an action plan and route map for getting there in good time. By the end of July 2010, we will have published our initial reaction to the progress being made. We are

determined that compliance with the spirit of the rules must be immediate and compliance with the letter of the rules does not lag too far behind. This is no less than the public, consumers and many practitioners expect.

Assessing regulatory performance

63. In our 2009/10 business plan, we set out our intention to develop and publish an agreed methodology for use by both the approved regulators and the LSB to assess regulatory performance. In the event, our experience in working with the approved regulators during 2009/10, revealed the need to take a revised approach to this work which has required an alteration to the timetable. As a result, in 2010/11, we will be developing an assessment framework which has a greater focus on responding to the specific and actual risks that emanate from the way in which regulation currently operates. More detail of our revised plans for this area of work are set out in our Business Plan for 2010/11.
64. Our commitment to regulatory excellence remained undimmed throughout the year and we did make significant progress on the overall agenda through a combination of specific interventions and ongoing engagement. We have seen real progress in building support amongst approved regulators for a more targeted or outcomes focused approach to regulation. Similarly we have seen the work on independence of regulation drive a substantial focus on good governance and greater strategic focus.

Other priorities

65. Whilst our core priorities have been independent regulation, opening up the legal services market and improving complaints handling, we have maintained a substantial focus on other areas as set out in our business plan. Three areas are particularly worthy of comment:
- Diversity
 - Quality assurance
 - Public Legal Education

Diversity

66. Our core focus throughout this year has been to identify where the LSB can add most value. It has become increasingly clear that the legal profession has, overall, an excellent story to tell regarding diversity at entry to the profession. However, retention and progression remains a challenging area almost regardless of the area of diversity under consideration.
67. At the start of 2009/10, we set out a series of objectives we intended to achieve and we have made substantial progress on all of them. In particular, we have brought together the representative and regulatory arms of each approved regulator into a Diversity Forum which has delivered cross sector relationships that simply did not exist prior to the LSB's formation. This has enabled us to start reviewing systematically all of the work under way within the sector. This is being used to encourage greater collaborative working amongst approved regulators and to support a mapping of entry and qualification routes into the profession.

Quality assurance

68. There has been substantial pressure to deliver a quality assurance scheme for advocates (QAA) in criminal cases in recent years. The senior judiciary and Crown Prosecution Service (CPS) Inspectorate have raised concerns about the quality of defence and prosecution advocacy, whilst other stakeholders have suggested that standards are not high enough. Yet the absence of any quality assurance measure makes it difficult to assess the breadth of any problem. The CPS has been developing its own scheme, whilst the Legal Services Commission and Ministry of Justice have been working with a variety of stakeholders to progress a scheme. The LSB considers that a QAA scheme for criminal work will be good for consumers and support a competitive market. We also believe that the profession will benefit from an enhanced reputation when it can effectively weed out those that are not able to maintain its high standards. We have therefore corralled support amongst regulators (SRA, BSB, IPS) to deliver a scheme by the middle of 2011. To support this we have set out seven principles that we expect any scheme to adhere to.

Public legal education

69. That so many potential consumers know so little about their rights and responsibilities serves only to underline both the potential to grow the legal services market and the need for services to be more accessible to consumers. The LSB recognises that there are already many active stakeholders within the public legal education sphere. We do not seek to replicate the work of the third sector or Government but are supporting where we can add value. Our main contribution is to support the development of a legal services market that better connects consumers to services – we believe that this is the most effective way to ensure that the public can access information, support and advice about its rights. This is the central outcome that we seek from our work to open up the legal services market.
70. We recognise however that our regulatory objectives place a particular emphasis on this area and we continue to consider how best we can support the development of greater information for consumers such as through web and telephony services. This is primarily for Government to prioritise through the MoJ and legal aid but we will support it wherever we can.

4

Fulfilling our statutory powers and duties

71. We could not have achieved regulatory go-live on 1 January 2010 without the help and support of officials at the MoJ. The challenge of commencing all of the necessary statutory provisions required a degree of partnership working in order to ensure appropriate consultation and legislative requirements were met. An early decision to create a shared plan, reviewed at times on a weekly basis, allowed all parties to be aware of the latest state of play and to address risks and issues as they emerged.
72. The LSB 'Go-Live' Commencement Order, which provided the legislative framework for our powers and duties was laid on 9 December 2009. In all 12 sets of rules, policy statements or amendment orders contributed to the submission to minister, as figure one illustrates.

Approach to statutory requirements

73. In preparing to go-live on 1 January 2010, we consulted widely with stakeholders to ensure that the policies and processes that we adopted were not only consistent with the requirements of the Act and better regulation principles, but also responsive to the views of stakeholders.
74. The policies and processes that we have adopted cover a wide range of topics including our compliance and enforcement policy statement and the rules for assessing applications from approved regulators to alter their regulatory arrangements. Where appropriate, we intend to review our policies and processes to ensure that they are fit for purpose and remain relevant.

FIGURE 1



75. We acknowledge the weight of material that we have put out over the past year and are grateful to the approved regulators and wider stakeholders for their valuable input and engagement in both formal and informal consultation processes.
76. In 2009/10 we issued 13 consultations on subjects ranging from the proposed rules for the Levy, enforcement policy proposals, rules relating to the designation of approved regulators and options for ABS. As well as issuing consultation papers, we also had extensive engagement with stakeholders through public fora, round table events and workshops. We also had one to one meetings with a wide-range of both domestic and international organisations and individuals. In total, we received 208 written responses across all of our consultations.
81. We received a total of six applications in the period from January to 31 March 2010. By 31 March we had approved four of the six applications, two of which we processed and approved within the 28-day initial decision period, one within eight weeks of receiving the application and the other within seven weeks. The remaining two applications were approved in May, one within 12 weeks and one within 10 weeks.

Approving alterations to regulatory arrangements

77. In January 2010, the LSB took over responsibility from the MoJ for approving applications from approved regulators to alter any of their regulatory arrangements.
78. The Act defines regulatory arrangements broadly so as to apply to all rules and regulations and any other arrangements which apply to regulated persons apart from those made for representational or promotional purposes. This expands the range of the previous approval regime which was limited to certain types of rules and regulations. The only exceptions are where the LSB has directed the change to be exempt from the requirement for approval.
79. In December 2009, the LSB published supporting rules setting out our approach to the approval process and the manner in which approved regulators must submit their applications. The approach is to front-load the process by requiring the submission of well prepared and thought through applications.
80. Having spoken to approved regulators, we were aware of some frustration with the lack of certainty and time that it could take to approve applications under the previous statutory approval process. In comparison, the Act sets out clear timetables for our approval process and we have set ourselves more ambitious targets for processing applications.

Key performance indicators (KPIs) for approving regulatory arrangements

In our Business Plan for 2010/11 we published the KPIs we will work to in dealing with requests for approval for changes to regulatory arrangements. Opposite we show how we have performed against these targets over the period January – March 2010 ie had the targets been in place at the time.

KPI	Performance January – March 2010
Acknowledge rule change applications within two working days	We have acknowledged all six of the six applications received within two working days.
When acknowledging an application we will provide a named contact for that application	We have provided a named contact in the acknowledgement email for all six of the six applications received.
We will publish applications on our website within two working days of receipt so long as they are complete	Only one of the six applications received was published on our website within two working days of receipt. In future we will ensure that all applications are published within two working days of receipt.
We will either make a decision on a case within 28 days or provide an explanation as to why we need longer	Two of the four applications approved in this period were processed within the 28 day initial decision period. Two of the four applications approved in this period were approved after an extension beyond the 28 day initial decision period. In these cases the extension notice provided the reason for doing so. All extension notices have been published on our website.
We will publish our decisions on our website	Of the four applications approved in this period, all decision notices have been published on the website.
We will develop and publish KPIs for the processing of applications within certain timeframes by December 2010	We have already developed our first set of measures for approving changes to regulatory arrangements ahead of schedule. We will continue to measure our performance against them together with how quickly we process applications throughout the year. This will form the basis of us setting KPIs for next year. We will also be inviting ARs to begin considering KPIs for 2011 as part of a 'lessons learned' process.
We will provide feedback to approved regulators on their applications in order to help them submit applications that can be dealt with rigorously and quickly	We have provided feedback on applications throughout the assessment process. We also conducted a 'lessons learned' exercise following completion of the first raft of applicants received between January and March 2010.

5

Future challenges

82. The legal services market is entering a period of unprecedented change that could revolutionise the way that consumers access legal services. Changes in the use and application of information technology is slowly turning the historic models of the provision of legal services on its head, allowing many firms to offer low cost systematised services to the mass market for the first time. Meanwhile twin pressures of a Government desire to constrain the cost of legal aid, and the potential for increased legal process outsourcing to low cost economies, present a challenge to those who wish to maintain the 'high-street' model of legal provision - particularly in a time of economic downturn. These changes, allied with pressure on the Professional Indemnity Insurance market will potentially further shake up the current provision of legal services.
83. Changes in regulation will also have a significant impact on the future provision of legal services in England and Wales. The SRA has announced that it is moving towards outcomes-focused entity based regulation - a change that could lead to more efficient and better targeted regulation of solicitors. The BSB has announced changes to its rules to allow barristers to become managers of Legal Disciplinary Practices (LDPs) and work in partnerships for the first time. This will both increase the options available to barristers as well as increasing the choices available to consumers. This change will be extended further in October 2011 with the introduction of ABS for all lawyers.
84. It is perhaps also worth reflecting on the Jackson Civil Litigation Costs Review which is likely to continue to impact on the political agenda. The LSB has already started a major piece of work with the support of the Consumer Panel looking at referral fees one particular area where Lord Justice Jackson made recommendations. We will continue to work with the MoJ to ensure that all other changes to legislation arising from Lord Justice Jackson's recommendations take account of all of the regulatory objectives set out in the Act.
85. We will have to work hard to keep on top of this wide agenda and it will be important to make sure that we lay firm foundations for the work ahead. Over the coming year we will be ensuring that we have the statistical base to allow us to monitor changes in the market and measure the impact of the policies that we are developing. We will work closely with the approved regulators to understand where gaps in data exist and how we can improve data collection and transparency in some areas, for example diversity statistics.
86. A big question looking to the future is the correct test for deciding whether particular forms of legal activity need to be regulated – and if so, whether the traditional approach of saying that only regulated lawyers may carry out the work is the most effective route to protecting the public. Balancing the need for consumer protection and the impact of additional regulatory burdens will be a central objective for the LSB. The recent proposals to increase the scope of reserved activities to will writing in Scotland put this particular legal activity firmly in the spotlight. First, we will need to be absolutely clear about the role of regulation, the risks to consumers that regulation looks to offset and the potential impact of regulation on consumer access.
87. Consumer protection is a central goal of regulation, but we need to understand consumer attitudes to legal services they receive or would like to receive in order to regulate effectively. The Consumer Panel is located alongside the LSB to ensure that consumer views are always represented, but we need to ensure that consumers feel empowered to engage with legal services. Quality Assurance for Advocates is being developed to provide a Quality Mark to help the consumers of advocacy but should we do more to supplement the existing attempts at quality assurance elsewhere in the sector? Understanding what consumers mean by quality and how we can measure and monitor changes in quality over time is high up on our early agenda and we look forward to working with the Consumer Panel to address this.

88. Quality of service is at least in part a function of the skills and attributes of those already working in a profession. We will have a role to play in this debate and have already been engaging with leading academics to consider the key challenges they see and lessons we can learn from legal training outside of England and Wales.
89. Even with the best trained workforce there will always be complaints – law is after all in many cases an adversarial profession. 2010 will see the launch of the new Legal Ombudsman and the consequent closure of the Legal Complaints Service (LCS). This is both a huge opportunity to raise the quality of complaints handling and a challenge to ensure those being served by the LCS receive the best service even as the organisation closes. Seeking better treatment of those complaining about the service from lawyers was a key driver in making the changes to the regulation of legal services, it will be important for us to ensure we deliver this. We will be making sure that the data required to analyse the performance of complaints handling both by firms and by the Ombudsman is collected and analysed properly.
90. The socio-economic make-up and diversity of the legal profession is another key concern for the LSB. Seeking to improve the diversity of the sector has been a challenge that those within the profession have been trying to tackle for some time. Despite this, as one example the extent of the problem, the Legal Business survey of 100 law firms found that only 15% of firms' equity partners were female (Lewis, J. (2007) 'Principled profits.' *Legal Business*: 108-109). Our challenge is to persuade and cajole those within the profession to improve the current diversity mix, whether through research to identify the business benefits and dis-benefits or through encouraging better benchmarking of the performance of diversity initiatives. We are already working closely with academics, undertaking research to explore the drivers of lawyers' choices and understand the barriers they perceive to a more diverse sector.
91. The work of the LSB occurs within the bigger picture of substantial change occurring within the market. Regulators are changing the way and who they regulate to reflect the developing market for legal services. The political landscape is also changing, the new Government face a significant challenge to control and reduce the size of the public spending deficit while continuing to maintain the high standards of frontline services and in this case, access to justice. We are fated to live in interesting times - but the LSB is enthused at the prospect, not daunted by it.



Building an efficient, well-governed, cost-effective organisation

92. In April 2009, we were a small team working out of our permanent home in Victoria House, Holborn. By combining the first of our permanent employees with a small number of secondees from Government departments, law firms and approved regulators, we were able to focus on the critical tasks of achieving regulatory go-live on 1 January 2010.

People and culture

93. When we considered the recruitment of the people we needed to fulfil our functions our Board's Remuneration and Nomination Committee agreed to implement the principle of Total Reward - to consider all aspects of employment to ensure that a balanced and attractive 'deal' is offered. This was designed so that we would be able to attract, retain and motivate individuals with the required skills, capabilities and attitudes to enable us to meet our business imperatives in a way which is aligned to our culture.

Organisation design

94. The majority of our colleagues work in a 'matrix' style, having major roles in some projects and minor roles in others simultaneously. This provides opportunities to develop and take on leadership roles as well as the variation of providing support and challenge to project teams.

95. The Chief Executive has three Directors who are directly accountable to him: the Strategy Director, Crispin Passmore, who is responsible for policy and regulation, the Corporate Director, Julie Myers, who is responsible for all governance and support functions and the General Counsel, Bruce Macmillan who advises on all areas. They are supported by the Director of Regulatory Practice, Fran Gillon and the Director of Finance and Services, Edwin Josephs, who collectively comprise the Senior Management Team (SMT).

Systems and processes

96. We have outsourced our finance, facilities and IT functions to the Competition Commission who is also our landlord. An annual Service Level Agreement formally governs each of these services and our Director of Finance and Services manages this relationship on our behalf.

97. At the end of March 2010, we relinquished the services of our HR adviser, Sandra Jenner, and entered into an HR outsourced service provided by Deminos Ltd. For an organisation of 30 people, this is a very cost-effective method for delivering HR support.

98. These cost effective outsourced arrangements provide us with built in resilience which is normally not a feature of small organisations.

99. Although we have relatively little absolute discretionary spend, as most of our costs are currently fixed (staffing, premises, Board, outsourced services, depreciation etc.) we constantly strive for the best value for money in the goods and services we purchase fully cognisant that our funds come from the legal profession.

Governance controls

100. The Board is responsible for the strategic leadership and direction of LSB, as well as ensuring that LSB complies with principles of governance 'good practice'. The Board meets at regular intervals (usually monthly), with a quorum of not less than five lay-majority members. A Code of Practice requires the Board: to work to a clear performance framework; to adopt a clearly defined policy to risk management; to comply with all relevant statutory and regulatory obligations; to produce annual business plans and reports; and to agree a complaints policy (including a whistle blowing policy).

The Code of Practice also implements policies about gifts and hospitality and conflicts of interests. Board Members are obliged to conduct themselves in accordance with the Seven Principles of Public Life.

101. The SMT is responsible for the development and implementation of strategy and policy and the day-to-day management of LSB. It meets on a regular basis (usually weekly).
102. Minutes of all Board, Committee and SMT meetings are recorded and retained.

Freedom of Information

103. The LSB is a data controller under Data Protection Act 1998 and is subject to Freedom of Information Act 2000. We are committed to operating openly and transparently. A publication scheme of information that we will proactively and routinely make available on our website has been agreed and requests for additional information are considered as and when received. We publish details of Board and SMT members' expenses quarterly.

Annex 1

How we deliver the regulatory objectives

The matrix below shows how each of our areas of work contributes to meeting the regulatory objectives:

	Consumer and public interest	Opening the market	Complaints handling	Developing excellence	Independent regulation	Maximising opportunity	Developing research and public legal education strategies
The public interest	X	X	X	X	X	X	X
The rule of law			X		X		
Access to justice	X	X					X
Consumer interest	X	X	X	X	X	X	X
Enhancing competition		X			X		
Independent, strong and diverse profession	X	X	X	X	X	X	
Citizen's rights and duties			X				X
Professional principles		X	X	X	X	X	

Annex 2

A summary of our year

1. The following table describes the progress we made in delivering all of the milestones contained in our Business Plan for 2009/10.

Q1 COMMITMENT	PROGRESS
Appoint the Consumer Panel Chair	Delivered Q2 Appointment announced 17 July 2009
Issue a consultation on the development of ABS	Delivered Q1 Discussion document issued 15 May 2009
Consult on the draft rules for the approval of ARs rules and applications for AR status	Delivered Q2 Consultation published 21 July 2009
Work with interested parties to identify areas of work within the diversity agenda where we can add value	Discussions with a variety of parties, including establishing the LSB's Diversity Forum
Q2 COMMITMENT	PROGRESS
Appoint the Consumer Panel members	Delivered Q3 Appointments announced 11 November 2009
Consult on the procedures and criteria we will apply when considering applications from ARs to become licensing authorities	Delivered Q3 Discussion document published on 18 November 2009
Consult on guidance to Licensing Authorities on the content of licensing rules	Delivered Q3 Discussion document published 18 November 2009
Issue a call for information from the ARs for information on complaints-handling, including a round-table event to review practice across the profession	Delivered in part July 2009 Call for information issued as part of a project undertaken on LSB's behalf by MBA student
Issue a consultation on core requirements of 'first-tier' complaint handing processes	Delivered Q2 An initial consultation included in OLC's draft Scheme Rules consultation issued in July 2009
Consult on the rationale for our approach and an outline methodology to assess regulatory performance	Re-scoping the timetable was necessary due to resource constraints and the need to prioritise other areas of work in the Business Plan
Begin to develop the detailed programme for performance reviews with individual ARs	As above

Develop proposals for consultation on regulatory performance accreditation with a view to consulting later in the year	As above
Develop proposals for consultation on the policy statement on enforcement and discipline rules	Delivered Q2 Consultation issued on 3 August 2009
Publish the findings of our consultation exercise and report on next steps for rules on internal governance mechanisms in ARs	Delivered Q2 Findings and further consultation on rules published on 16 September 2009
Develop and begin a series of research-based seminars on challenges for legal services regulators	We did not achieve this milestone because we did not recruit a Research Manager until the start of Q3
Consultation on detailed rules for split of costs for implementation and level of first year costs for both the OLC and LSB	Delivered Q1 Consultation issued on 9 April 2009
Q3 COMMITMENT	PROGRESS
Stakeholder Engagement Strategy	Delivered Q3 Communications approach agreed internally
Agree the workplan and terms of reference of the Consumer Panel	Delivered Q3 Panel workplan to end 2009/10 endorsed, and Terms of Reference agreed
Consult on a Policy Statement regarding alternative business structures (ABS)	Subsumed within consultations on Licensing Authorities and licensing rules
Publish rules on enforcement and regulatory arrangements	Delivered Q3 Published December 2009
Publish rules on approval of ARs and rule approval mechanism	Delivered Q3 Published December 2009
Make internal governance rules and rules under s51 requiring ARs to comply with those rules from 2010 onwards	Delivered Q3 Published December 2009

Arrange meetings and events throughout the country to highlight our work to encourage increased diversity, including our work to support the outcomes of the work of the Panel on Fair Access to the Professions

Overtaken by development of workforce strategy agreed at the November Board. But London-based Diversity Forum meetings have continued and CEO on post-Milburn implementation group and leading cross-sector work on regulatory implications

Q4 COMMITMENT

PROGRESS

Publish a set of core requirements for ARs to incorporate into the authorised persons complaints handling procedures

Delivered Q1 2010/11
Signposting requirements published in May 2010

Commence regulatory reviews and consider future approach in light of experience

See comments on Q2 as to re-scoping of regulatory review project.

Publish a paper on the challenges for legal services regulators

This was intended to be an output from our work to develop research and public legal education strategies. The approach to this work altered over the course of the year and the need to publish such a paper was revised

Research strategy published for consultation

Developed in Q4
The research strategy was developed in consultation with stakeholders through a series of research seminars

Discussion document on public legal education and Board's roles in driving improvement

This activity was subsumed into the Board's work on an approach to access to justice

Initial payment received from the levy

Because of the delay in the laying of the relevant SI, we received initial payments for the LSB levy by the end of June 2010

Financial
Statements
of the
Legal
Services
Board

for the year ended 31 March 2010

Legal Services Board Members' Report

Format of Accounts

The accounts have been prepared in a form directed by the Lord Chancellor and Secretary of State for Justice with approval of HM Treasury and in accordance with the Legal Services Act 2007.

Brief history of the Legal Services Board and principal activities

The Legal Services Board (LSB) is a new Non-Departmental Public Body, created by the Legal Services Act 2007 (LSA).

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 oversees the new organisation being established to handle consumer complaints about lawyers, the Office for Legal Complaints (OLC) and its ombudsman scheme the Legal Ombudsman.

The LSB has eight regulatory objectives, set out prominently in the Act. These are:

- protecting and promoting the public interest
- supporting the constitutional principle of the rule of law
- improving access to justice
- protecting and promoting the interests of consumers
- promoting competition in the provision of services in the legal sector
- encouraging an independent, strong, diverse and effective legal profession
- increasing public understanding of citizens' legal rights and duties
- promoting and maintaining adherence to the professional principles of independence and integrity; proper standards of work; observing the best interests of the client and the duty to the court; and maintaining client confidentiality.

The LSA and Commencement Orders

The LSA received Royal Assent on 30 October 2007 and the LSB became a legal entity following the laying of The Legal Services Act 2007 (Commencement No. 3 and Transitory Provisions) Order 2008 on 1 January 2009.

A further commencement order was laid during December 2009, Legal Services Act 2007 (Commencement No 6, Transitory, Transitional and Saving Provisions) Order 2009, which commenced the sections of the LSA giving the LSB its powers and coming into force on 1 January 2010.

The provisions of the LSA that were previously commenced include:

- the provision which sets out the regulatory objectives to which the LSB and the OLC, the Approved Regulators and Licensing Authorities must have regard when exercising their functions;
- the provisions which establish the LSB and set out the LSB's duty to promote the regulatory objectives, its governance and annual report requirements, and supplementary powers;
- the provisions which establish the OLC;
- the provisions which permit the Lord Chancellor to modify the functions of Approved Regulators on the recommendation of the LSB; and
- the provisions which provide for the Lord Chancellor to pay the LSB and the OLC monies for the purpose of meeting the expenditure of the LSB and the OLC.

Corporate Governance

LSB members are appointed by the Lord Chancellor in consultation with the Lord Chief Justice. They were appointed on the 1 September 2008 and met as a shadow board until 1 January 2009 when the LSB became fully constituted and took on the first tranche of its powers according to the provisions of the Legal Services Act 2007.

The Chairman, David Edmonds was appointed on 1 May 2008. In accordance with the LSA 2007 the Board has a lay majority.

LSB Board Members

The Board comprises both non-executives (including the Chairman) and the Chief Executive. The Chairman was appointed on 1 May 2008 and took part in the process of recruiting the other members. The Board met formally on 12 occasions during the period April 2009 to March 2010.

	MEETING ATTENDANCE
David Edmonds (Chairman)	12/12
Terry Connor (member)	11/12
Steve Green (member)	11/12
Rosemary Martin (member)*	11/12
William Moyes (member)	9/12
Michael Napier (member) +	1/2
Barbara Saunders (member)	12/12
Nicole Smith (member)	11/12
Andrew Whittaker (member)	11/12
David Wolfe (member)	11/12
Chris Kenny (Chief Executive)	12/12

+Michael Napier resigned as a member effective from 27 May 2009.

*Rosemary Martin resigned as a member effective from 31 March 2010

Register of members' interests

A register of the outside interests of the LSB's members is maintained on the LSB's public website: www.legalservicesboard.org.uk

Details of the backgrounds of individual board members are published on the LSB's public website: www.legalservicesboard.org.uk

Legal Services Consumer Panel

The role of the Panel is to provide independent advice to the LSB about the interests of users of legal services. They do this by investigating issues that affect consumers and by seeking to influence decisions about how lawyers are regulated.

The Panel consists of eight lay people, who bring expertise from a range of backgrounds, and is supported by a small policy secretariat. Dr Dianne Hayter was appointed as Chair of the Consumer Panel on 17 July and the members of the Panel were appointed on 1 November 2009.

The Legal Services Consumer Panel has its own website that includes information on its current projects, as well as copies of its publications, consultation responses and Panel meeting minutes. The Consumer Panel's website can be found at: www.legalservicesconsumerpanel.org.uk

Board Committees

The Board has established two committees. Their terms of reference – which were reviewed and revised in April 2010 – are available on the LSB website www.legalservicesboard.org.uk

The Audit and Risk Committee met formally on six occasions during the period April 2009 and March 2010. The Remuneration and Nomination Committee met formally on three occasions during the same period. Membership and attendance records are given below:

AUDIT AND RISK COMMITTEE	MEETING ATTENDANCE
William Moyes (Chairman)	6/6
Steve Green	6/6
Rosemary Martin	6/6
Barbara Saunders++	1/1

++Barbara Saunders was appointed as a member of the Audit and Risk Committee effective from 30 November 2009.

REMUNERATION AND NOMINATION COMMITTEE	MEETING ATTENDANCE
Terry Connor (Chairman)	3/3
Nicole Smith	3/3
Andrew Whittaker	3/3

Code of Practice

The LSB is committed to good governance. The Board has agreed a Code of Practice that sets out the responsibilities of the Board collectively and the standards of behaviour expected from individual Board members.

Details of this Code of Practice are published on the LSB's website: www.legalservicesboard.org.uk. This document also contains terms of reference for the LSB's two Board committees as well as details of its Expenses, Conflicts of Interest and Disciplinary Policies.

LSB Management Statement

The LSB is accountable to Parliament through the Lord Chancellor and is sponsored by the Ministry of Justice (MoJ). The relationship between the LSB and the MoJ is detailed in the Management Statement, which sets out the principles and strategic framework for how the relationship between 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; and
- support each other

An additional document, the Financial Memorandum, complements the Management Statement and sets out the financial relationship and accountabilities which exist between the MoJ and the LSB.

Both of these documents are published on the LSB's website: www.legalservicesboard.org.uk and are currently subject to review with the intention of the MoJ and the LSB agreeing a single framework agreement in line with

the guidance given in the HM Treasury (HMT) publication *Managing Public Money*.

Financial Results

The LSB is currently financed by grant-in-aid from the MoJ. Grant in aid for the period from 1 April 2009 to 31 March 2010 was £4,057k. In line with HMT guidance grant in aid is shown as a movement in its reserves.

In accordance with the LSA the costs of the LSB will be recouped by means of a levy which it will collect from Approved Regulators on behalf of HMT. Following the laying of the Statutory Instrument *The Legal Services Act 2007 (Levy) Rules 2010* the LSB is due to receive £5,881k for the set up period (costs incurred by the Lord Chancellor from May 2008 to December 2008 and costs of the LSB from 1 January 2009 to 31 December 2009) and its first quarter running costs (January to March 2010); this has been accrued and shown as income.

Approved Regulators can defer payment of part of the amounts that are due until 31 March 2012; they can defer £1,565k until 31 March 2011 and the final £1,565k to 31 March 2012 and this explains why there are large figures disclosed for trade receivables.

Income and expenditure is accounted for on an accruals basis. In 2009/10 the surplus of income over expenditure was £785k before the notional cost of capital charge. This reflects the fact that the LSB is recouping monies that were spent and accounted for in previous financial years. In future years the annual income of the LSB will more closely match the annual expenditure.

Retention of the Levy

HM Treasury have consented to a 'netting off' arrangement whereby the LSB will retain all receipts from the Levy rather than paying these funds into the Consolidated Fund and this will be its main source of funding. From April 2011 the LSB will not require any routine grant in aid funding.

The MoJ will meet any unplanned cash needs for the LSB that it cannot meet from its own working capital until it is in a position to recoup these funds from the Levy and return the funds to the MoJ.

Financial performance measure

The initial financial performance measure for the LSB's expenditure was to keep within the target for set-up and first quarter (January to March 2010) running costs. This has been achieved.

In future the LSB will be measured on its ability to match its approved operating budget on a normal twelve month financial year basis.

Payment of creditors

The Late Payment of Commercial Debts Regulations 2002 became effective from 7 August 2002 and amended the Late Payment of Commercial Debts (Interest) Act 1998. The legislation charges interest or provides for compensation if payments are not paid by due dates.

The LSB is 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 from 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. 99% of invoices were paid within 10 days.

Pension Liabilities

The LSB has established a defined contribution group personal pension scheme in which the LSB makes fixed contributions 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 2009/10 the LSB paid £6.8k for these services.

Equal opportunities and employee involvement

The LSB is committed to equality of opportunity in employment and advancement. This is on the basis of ability to do the job, irrespective of race, nationality, colour, ethnic or national origins, sex, marital status, disability, sexual orientation, age, gender reassignment, work pattern, or membership / non-membership of a trade union. All colleagues are entitled to be treated with respect in an environment free from discrimination, harassment, victimisation and bullying.

The LSB consulted on its Single Equality Scheme alongside its Business Plan for 2010-11 in December 2010 and the final version was published in May 2011.

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.

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 LSA 2007, Schedule 1, paragraph 25(4)(a). For the period ended 31 March 2010 the C&AG has estimated that the cost of work performed would be £22k and this amount has been provided for in the financial statements. This is split between one off work to certify the 2008/09 restated accounts for IRFS purposes in December 2009 for £1k and the annual charge for the audit of the 2009/10 financial statements of £21k. The audit services provided by the C&AG's staff related only to statutory audit work.

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

Chris Kenny Accounting Officer

5 July 2010

Management Commentary

Future Developments

The LSB has a challenging programme of work ahead as it takes on its full range of powers and embarks on its work programme to deliver the eight regulatory objectives. The LSB's Business Plan for 2010/11, consulted on in December 2009 and published in April 2010, describes the programme, and the context in which it will be undertaken.

It has developed a vision of the way in which it wants to see the legal services market deliver for consumers in five years' time. Its components are simple:

- greater competition in service delivery and the development of new and innovative ways of meeting consumer demand;
- a market that allows access to justice for all consumers, in particular bridging the divide for those whose incomes exceed legal aid thresholds but fall below the level required to purchase essential legal services;
- empowered consumers receiving the right quality of service at the right price;
- an improved customer experience with swift and effective redress if things go wrong;
- legal services professions which are as diverse as the community they serve and which constantly strive to improve standards of practice, quality and education; and
- certainty and confidence in the regulatory structures underpinning the market.

The LSB believe that current market challenges make achieving this vision a higher priority than ever for both the professions and consumers and that it needs to work with the Approved Regulators, alongside all who have an interest in a well-functioning legal services market, to begin the programme of radical reforms anticipated by Parliament in passing the Legal Services Act 2007.

The LSB and its external environment

The LSB was formally constituted as a Non Departmental Public Body on 1 January 2009. It was established by the Legal Services Act 2007 to be the oversight regulator for the legal services profession in England and Wales. During its first year of operation, its primary function was to prepare itself for assuming its full range of statutory powers and duties on 1 January 2010.

The LSB is now 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. As an oversight regulator, the LSB expects to deliver the eight regulatory objectives assigned to it by the Act, through partnership working with the Approved Regulators, who also have a duty to deliver the regulatory objectives, consumer groups and other stakeholders.

The LSB's employees

As at 31 March 2010, the LSB had 30 full time employees and one part time employee. 53% of the staff complement as at 31 March 2010 were women.

Environmental matters

The LSB 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.

Social and community issues

Social and community issues, broadly defined, are at the heart of the LSB's mission. 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.

Key Performance Indicators

The LSB will conduct itself in an open and transparent way to allow for public scrutiny. As it takes on its full powers, it will develop and set out clear indicators of progress against each of its regulatory objectives. It expects to publish its progress against these on its website and in future Annual Reports.

Objectives and strategy for achieving them

The LSB's Business Plan was published in April 2010 and is available on its website www.legalservicesboard.org.uk. This document sets out in detail its objectives for the year ahead, 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

- Built up a modern, lean and efficient organisation from a small core project team to 31 permanent members of staff.
- Developed, consulted and put in place 11 statements of policy and rules of procedure as required by the LSA 2007
- Set the framework for Alternative Business Structures
- Set up and appointed the members of the Consumer Panel
- Identified the key challenges facing the regulation of legal services provision and helped to drive progress and new ways of thinking – most notably by brokering new partnerships around diversity and quality assurance
- Appointed the Board of the Office for Legal Complaints (who have established the Legal Ombudsman scheme) and addressed areas for improvement within First Tier Complaints

- Driven progress on priority areas for regulatory reform – regulatory independence, complaints-handling and competition in service provision – by setting challenging timetables and driving delivery

The main trends and factors that the LSB considers likely to impact on future prospects

The LSB is acutely aware that the prevailing economic climate is likely to have a major impact on the legal services market, but believes that this intensifies the need for reform to protect the interests of consumers and citizens and also the health of the legal services industry itself. It intends to work for the long-term, being sensitive to the current climate, but ensuring that its agenda focuses on future opportunities rather than present difficulties.

It will also be sensitive to broader policy issues arising in the law – for example, the progress of legal aid reform and the experience of similar regulatory reform programmes in other jurisdictions – and more widely – for example, in the elaboration of the Better Regulation agenda.

The LSB's resources and how they are managed

The LSB currently finances its operating costs through grant-in-aid from the MoJ but ultimately all of its operational costs will be met by a levy on the Approved Regulators in accordance with sections 173-4 of LSA 2007. The LSB has launched a consultation on how to apportion its ongoing operational costs and the outcome of this will not be known until the autumn of 2010.

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

The LSB has appointed 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.

In its first year the Board's attention was focused on key corporate risks to the operation of the organisation in terms of securing and maintaining resource, accommodation and such matters. The risk management approach has now been broadened to capture and assess risks in relation to all key policy delivery, project and operational areas.

Remuneration Report

Remuneration Policy

Remuneration of the Chairman and Non Executive Board members is set by the Secretary of State for Justice. The remuneration of the Chief Executive is determined following a recommendation to the Board by the Board's Remuneration and Nominations Committee.

Appointments

The Chairman and members of the Board are appointed by the Secretary of State for Justice for a fixed term of three to five years and members may apply for one subsequent term of office.

Termination

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

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

	DATE APPOINTED	DATE APPOINTMENT ENDS <small>(actual date shown if appointment already terminated)</small>
David Edmonds (Chairman)	01 May 2008	30 April 2011
Terry Connor (member)	01 September 2008	31 August 2011
Steve Green (member)	01 September 2008	31 August 2011
Rosemary Martin (member)	01 September 2008	31 March 2010
William Moyes (member)	01 September 2008	31 August 2011
Michael Napier (member)	01 September 2008	28 May 2009
Barbara Saunders (member)	01 September 2008	31 August 2011
Nicole Smith (member)	01 September 2008	31 August 2011
Andrew Whittaker (member)	01 September 2008	31 August 2011
David Wolfe (member)	01 September 2008	31 August 2011
Chris Kenny (Chief Executive)	01 January 2009	(see termination note above)

Chairman and Board Members remuneration

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.

	REMUNERATION				
	Annual Salary Rate	April to March 2010		Jan to March 2009	
		Salary	Pension	Salary	Pension
David Edmonds (Chairman)	63,000	63,000	-	\$19,125	-
Terry Connor (member)++	15,000	15,000	-	3,750	-
Steve Green (member)*	15,000	15,000	-	3,750	-
Rosemary Martin (member)*	15,000	15,000	-	3,750	-
William Moyes (member)**	15,000	15,000	-	3,750	-
Michael Napier (member) ‡	15,000	2,500	-	3,750	-
Barbara Saunders (member)*	15,000	15,000	-	3,750	-
Nicole Smith (member)+	15,000	15,000	-	3,750	-
Andrew Whittaker (member)+	15,000	15,000	-	3,750	-
David Wolfe (member)	15,000	15,000	-	3,750	-
Chris Kenny (Chief Executive)	152,000	†157,333	24,000	†45,000	-

++ Chairman of Remuneration and Nominations Committee

+ Member of Remuneration and Nominations Committee

** Chairman of Audit and Risk Committee

* Member of Audit and Risk Committee

§ includes an additional payment in the first year to reflect additional time required to recruit the Board Members

† includes an additional payment to compensate for pension contributions as scheme not set up until 1 July 2009.

‡ Resigned from the LSB with effect from 28 May 2009

Statement of Accounting Officer's Responsibilities

The accounts direction given to the LSB by the Lord Chancellor and the Secretary of State for Justice, with the approval of the HM Treasury, in accordance with the LSB's financial memorandum, requires the Accounting Officer to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the LSB and of its income and expenditure, recognised gains and losses and cash flows for the period.

In preparing those financial statements, the Accounting Officer is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to assume that the LSB will continue in business.

The Accounting Officer is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the LSB and enable them to ensure that the financial statements are prepared to comply with the directions made by the Secretary of State for Justice and HM Treasury's Financial Reporting Manual (FReM); the Accounting Officer is also responsible for safeguarding the assets of the LSB and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Accounting Officer for the MoJ has appointed the Chief Executive of the LSB as Accounting Officer. His relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances and for keeping proper records, are set out in the Accounting Officer Memorandum issued by HM Treasury.

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have the responsibility for maintaining a sound system of internal control that supports the achievement of the LSB's policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

As Accounting Officer, I have responsibility for ensuring that the LSB meets regularly with its sponsor department, MoJ. At these meetings, MoJ is informed of all high level risks, and in particular those affecting our financial situation and ability to fulfil our oversight regulator function

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the LSB for the period ended 31 March 2010 and up to the date of approval of the Annual Report and Accounts and accords with HM Treasury guidance.

Capacity to handle risk

The LSB Board met twelve times in the period April 2009 to March 2010 to consider the plans and the overall strategic direction of the LSB. In this period of start-up the Audit and Risk Committee, on behalf of the main LSB Board has considered issues of risk in detail. The Audit and Risk Committee reviewed the Risk Register on a quarterly basis and took advice from Internal Audit to determine the way risk or change in risk has been identified, evaluated and controlled.

The LSB's internal auditors, KPMG LLP held a risk training workshop for the entire Board and the Senior Management Team (SMT) in December 2009. This process, which followed a separate informal discussion with the full Board, has ensured that there is a

consistent view of risk across the organisation. Risk is regularly discussed at Board meetings as part of each paper that is considered, with risk explicitly identified in the standard template. The Audit and Risk Committee, consisting of members of the Board and an external advisor, supported by internal and external auditors, is well established with clear Terms of Reference and reviews the system of risk identification and management at each of its meetings.

Together with my colleagues I was responsible for initially identifying the major risks, which were set out in the Risk Register, and for implementing a system to continuously assess and monitor them. This has been refined following regular reviews and a new Risk Management Strategy has now been agreed and implemented. All colleagues within LSB are trained on the strategy, which is maintained centrally by the Board Secretary and accessible by all. The Strategy cascades down from Corporate Risk to Project Risk and cuts across the organisational Performance Management Operating Model and organisational Project Management Methodology.

Colleagues involved in projects are required to identify and record risk for their respective project, which feeds up into progress and performance reporting and, if appropriate, corporate risk reporting. Project risks are reviewed at monthly programme board meetings and to the SMT as part of their monthly review of risks. Clear roles and responsibilities for managing risks are defined in the Strategy which may mean taking appropriate action to mitigate, anticipate or exploit the threats or opportunities that arise. Further improvements to the implementation of these arrangements are in hand following an internal audit report.

Risk and Control Framework

The Risk Management Strategy defines how risks will be managed and handled during their lifecycle ensuring 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 and damage to the organisation is minimised.

It recognises that risks will change throughout their lifecycle as the environment they are in and their importance alters. Assumptions about risk are regularly revisited and reconsidered.

Risks are classified as either:

- Corporate Risk – a risk that affects the organisation as a whole and is therefore regularly brought to the Board's attention. Risks with the highest scores will be flagged up on the heat map, so that the SMT, Audit and Risk Committee and Board are able to focus on the key risks; or
- Project Risk – a risk that could prevent any individual project achieving its agreed deliverables and is therefore regularly brought to the attention of the Programme Board and SMT. A project risk may be of such importance and/or severity that it is escalated to a corporate risk.

Risk identification is an on-going process with collective responsibility. As Accounting Officer I am ultimately accountable for the management of risk.

Risks that relate to either the MoJ or the OLC, and/or which require mitigating actions to be taken by either, will be reported to the respective organisations and ownership of risks in areas of ambiguity will be defined in the regular tri-partite meetings between the organisations.

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

- Strategic – failure to deliver policies that meet the regulatory objectives
- Legal – successful challenges to the LSB's (in)actions
- Financial – lack of finances to carry out its activities or lack of formal control
- Political – changes to government policy in respect to the activities of the LSB
- Operational – the ability of the internal process of the LSB to function effectively
- 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:

- The **likelihood** of the risk - assessed as either being Remote/Possible/Likely/Certain based on the information about the risk that is available.
- The **impact** of the risk - evaluated as the effect of the risk occurring against the framework of Minor / Low/Moderate/Serious/Severe. The impact of risk is determined by the effect on the LSB in respect to some or all of the following:
 - Cost – financial
 - Quality
 - Reputation
 - Resources
 - Scope to fulfil the regulatory objectives/ obligations under the Act
 - Time

In the context of agreeing the ambition of the Business Plan, the Board discussed the level of risk appetite (residual risk remaining after internal controls have been exercised and which they deemed to be acceptable and justifiable). Risks of doing and not doing particular work were considered in all proposals and at each level of drafting the LSB business plan, which was circulated for consultation in December 2009.

The wider system of internal control 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:

- formal budgeting systems with a start-up budget which was reviewed and agreed by the Board;
- regular reviews by the Board 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
- scrutiny by the Audit and Risk Committee;

- assurance statements from senior colleagues setting out their main areas of responsibility, including key elements of the risk control framework operating in their area together with an assessment of the effectiveness of the system and highlighted any weaknesses, if any, that need to be brought to my attention; and
- as appropriate, formal project management disciplines.

All colleagues are required to be trained on the Information Assurance e-learning package made available through the MoJ. Colleagues are required to maintain familiarity with the way information is handled on an on-going basis. This comprises, but is not limited to, assurance that

- Information is handled securely (with confidentiality protected)
- Information is as accurate as possible (with integrity maximised)
- Information is made available to the right people, at the right time, for the right reasons.

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, who also provide advice to ensure that the LSB implements guidance on protection and security of its IT, physical and data assets from CESG (the National Technical Authority for Information Assurance), Cabinet Office and Centre for the Protection of the National Infrastructure (CPNI).

During the period there were no reported security data incidents at the LSB.

Together with the Audit and Risk Committee and the NAO I discussed the arrangements for LSB's assessment of the risk that the financial statements may be materially misstated due to fraud, the current processes for identifying and responding to the risks of fraud and any known instances of fraud. I consider that there is a low risk of misstatement due to fraud and that appropriate processes for identifying and responding to the risks of fraud are in place. There were no known instances of fraud to report.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the LSB who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the

result of my review of the effectiveness of the system of internal control by the Board, the Audit Committee and Risk Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Board provided constant challenge to the assumptions and risk classification made by the executive and this was captured in discussions on papers presented to the Board.

The Audit and Risk Committee which met six times in the year has advised me on the adequacy of audit arrangements (internal and external) and on the implications of assurances provided in respect of risk and control in the LSB.

Internal audit services were initially provided by MoJ internal audit and from the autumn of 2009 KPMG LLP. The internal auditors ran the risk workshop for the Board and SMT in December and provided valuable challenge and support to our revised risk management strategy and processes but did not undertake any other internal audit activity during the year. They did conduct a review of internal financial controls in April which did not highlight any significant control issues. Additionally, also in April, they have carried out a review of strategic planning and performance management and made some helpful recommendations on how these can be further enhanced.

I have appointed a Business Planning Associate who has particular responsibility for improving and documenting the risk management processes and procedures and for advising colleagues of their responsibilities. This dedicated resource has been invaluable in helping the LSB to develop its robust system of risk identification and control.

For the majority of the financial year the LSB was still in set-up mode and consequently controls and processes were still being embedded

Significant control issues

As part of the review of effectiveness, I am required to disclose any actions taken/ proposed to deal with significant control issues. Taking into account the tests in Managing Public Money, I can confirm that the LSB has not had any significant control issues during 2009/10 and had and currently has no significant weaknesses to address.

Chris Kenny Accounting Officer
5 July 2010

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 2010 under the Legal Services Act 2007. These comprise the Net Expenditure Account, the Statement of Financial Position, the Statement of Cash Flows, the Statement of 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 Chief Executive and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive is 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 the financial statements in accordance with applicable law and 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 am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions 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 2010 and of its net income, changes in taxpayers' equity and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Legal Services Act 2007 and the accounts direction issued thereunder by the Lord Chancellor and the Secretary of State for Justice, 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 the Legal Services Act 2007 and the accounts direction issued by the Lord Chancellor and the Secretary of State for Justice with the approval of HM Treasury; and

- the information given in the Management Commentary and Legal Services Board Members' Report 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
- the financial statements 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 Statement on Internal Control 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 July 2010

NET EXPENDITURE ACCOUNT FOR THE PERIOD ENDED 31 MARCH 2010			
		12 months	3 Months
		2009/10	2008/09
	Note	£'000	£'000
EXPENDITURE			
Staff costs	3	2,175	301
Depreciation /Amortisation	4	127	25
Other expenditure	4	1,719	428
Total LSB expenditure for the year		4,021	754
Setup expenditure incurred by MoJ	6	1,075	-
		5,096	754
INCOME			
Levy income	5	4,806	-
Levy income due to MoJ	5	1,075	-
		5,881	-
Net (income)/expenditure		(785)	754
Cost of capital		88	4
Net (income)/expenditure after cost of capital		(697)	758

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

The notes on pages 49 to 58 are part of the financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2010

		2009/10	2008/09
	Note	£'000	£'000
NON-CURRENT ASSETS			
Property, plant and equipment	7	221	320
Intangible assets	8	52	80
Trade receivables due after one year	11	1,565	-
		1,838	400
CURRENT ASSETS			
Trade receivables due within one year	11	4,432	-
Cash and cash equivalents	9	1,624	134
		6,056	134
Total assets		7,894	534
CURRENT LIABILITIES			
Trade and other payables	12	1,591	73
		1,591	73
Non-current assets plus net current assets		6,303	461
Assets less liabilities		6,303	461
RESERVES			
Income and Expenditure Reserve		6,303	461
		6,303	461

Chris Kenny Accounting Officer

5 July 2010

The notes on pages 49 to 58 are part of the financial statements

The LSB financial statements for the year ended 31 March 2010 are the first financial statements that comply with IFRS as adapted and interpreted in the FReM. As the LSB did not become a legal entity until 1 January 2009 there are no opening balances to report at this time nor any changes resulting from the transition from UK GAAP to IFRS.

STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 MARCH 2010			
		12 months	3 months
		2009/10	2008/09
	Note	£'000	£'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net surplus/(deficit) after cost of capital		697	(758)
Adjustment for cost of capital charge		88	4
Increase in trade receivables	11	(5,997)	-
Increase in trade payables	12	1,518	73
Depreciation/Amortisation	4	127	25
Net cash outflows from operating activities		(3,567)	(656)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		-	(86)
Net cash outflow from investing activities		-	(86)
CASH FLOWS FROM FINANCING ACTIVITIES			
Grant from parent department	18	4,057	876
Other cash received	18	1,000	-
		5,057	876
Net financing		1,490	134
NET INCREASE IN CASH AND CASH			
Equivalents in the period		1,490	134
Cash and cash equivalents at the beginning of the period	9	134	-
Cash and cash equivalents at the end of the period	9	1,624	134

The notes on pages 49 to 58 are part of the financial statements

**STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE PERIOD
ENDED 31 MARCH 2010**

	Income and Expenditure Reserve	
	Note	£'000
Balance at 1 January 2009		-
Changes in accounting policy		-
Restated balance as at 1 January 2009		-
CHANGES IN RESERVES 2008-09		
Non-cash charges - cost of capital		4
Transfer of MoJ assets		339
Retained Deficit		(758)
Total recognised income and expense for 2008-09		(415)
Grant from parent	18	876
Balance at 31 March 2009		461
CHANGES IN RESERVES 2009/10		
Non-cash charges - cost of capital		88
Retained surplus		697
Total recognised income and expense for 2009/10		785
Grant from parent	18	5,057
Balance at 31 March 2010		6,303

The notes on pages 49 to 58 are part of the financial statements

Notes to the financial statements

LSB's accounts

1. Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2009-10 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 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.

1.1 Accounting Convention

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

Income

The net cash needs of the LSB have been financed by grant-in-aid from MoJ, which, in line with the FReM, cannot be shown as income.

Receipts due under the Levy rules have been accrued as income.

Plant, Property and Equipment

Expenditure on non-current assets is capitalised. Non-current assets comprise software licenses, information technology equipment such as servers, PCs, printers as well as office fixtures and fittings and office leasehold improvements. The capitalisation threshold limits and depreciation policy are explained below and at note (d).

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

Consultants' expenditure is generally charged to the Net Expenditure Account when incurred. However, where the level of expenditure is over £100,000 and creates a distinct asset for the LSB which has a life of more than one year, consultants' costs that are directly attributable to the asset are capitalised.

CONT OVERLEAF

(d) 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 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	3 years
Fixtures & Furniture	5 years

Intangible non-current assets:

Software	3 years
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(e) Notional Cost of Capital

A charge, reflecting the cost of capital utilised by the LSB, is included in the Net Expenditure Account. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the average carrying amount of all assets less liabilities.

(f) Taxation

Costs shown for capitalised non-current assets include related Value Added Tax (VAT). Expenditure in the Net Expenditure Account is also shown inclusive of VAT, which is irrecoverable for the LSB.

The LSB does not have any trading income or bank interest and is therefore not subject to corporation tax

(g) Going concern

The LSB receives funding from the MoJ for its operating costs. The MoJ has confirmed that they will continue to finance the LSB through grant-in-aid for the period up to 31 March 2011. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

(h) Pensions

The LSB has established a defined contribution group personal pension scheme in which the LSB makes fixed contributions but has no other liabilities. The LSB makes contributions of 10% for all colleagues except for the Chief Executive who receives a 12.5% contribution. LSB colleagues are able to increase the amounts paid into their pension plan through contractual salary sacrifice.

From 1 March 2010 the percentage amount the LSB contributes to the pension for the Chief Executive was increased to 22.5% 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 a balanced and attractive 'deal' is offered.

2. First Time Adoption of IFRS

	Income & Expenditure reserve
	£'000
Taxpayers' equity at 31 March 2009 under UK GAAP	461
Adjustments	-
Taxpayers' equity at 1 April 2009 under IFRS	461
Net Expenditure for 2008-09 under UK GAAP	758
Adjustments	-
Net Expenditure for 2008-09 under IFRS	758

3. Staff Numbers and Related Costs

(a) The cost of staff remuneration was:

	2009/10 (12 Months)						3 months 2008/09
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	Permanent Staff	LSB Board	Consumer Panel	OLC Board	Other Staff	Total	Total
Wages and salaries	1,205	178	67	133	250	1,833	284
Social security costs	139	16	6	12	-	173	17
Pension costs	164	-	5	-	-	169	-
Total	1,508	194	78	145	250	2,175	301

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

(b) Number of Staff

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

				2008/09
	Total	Permanent Staff	Others	Total
Directly Employed	19	19	-	3
Other	2	-	2	4
Total	21	19	2	7

4. Other Expenditure

	12 months 2009/10	3 months 2008/09
	£'000	£'000
Rentals under operating leases (accommodation)	379	100
Research costs	274	-
Outsourced services	248	55
Other administration	191	29
Staff recruitment	190	127
Running costs - Victoria House	172	46
Consultants' Fees	108	31
Legal Costs	81	19
Travel, subsistence and hospitality	43	6
Audit fees for statutory audit work	22	15
Other audit fees	11	-
Total cash items	1,719	428
Non-cash items		
- Depreciation	99	20
- Amortisation	28	5
Total non-cash items	127	25
Total other expenditure	1,846	453

5. Income

	2009/10	2008/09
	£'000	£'000
Accrued levy income from 1 Jan 2009 to 31 March 2010	4,806	-
Accrued levy income due to MoJ for setup costs	1,075	-
	5,881	-

6. MoJ Spending

The MoJ incurred expenditure up to 31 December 2008 in connection with the establishment of the LSB (referred to as Lord Chancellor's Expenditure in the LSA 2007). The MoJ has informed the LSB that this amounted to £1,075k.

This is included to show the total cost of establishing the LSB. It was incurred in 2008-09 before the LSB was established under statute and before its Accounting Officer was appointed.

7. Property plant and equipment

	2009/10	2009/10	2009/10
	£'000	£'000	£'000
	Information technology	Fixtures & fittings	Total
Cost			
At 1 April 2009	231	109	340
Additions	-	-	-
At 31 March 2010	231	109	340
Depreciation			
At 1 April 2009	15	5	20
Provision for the year	77	22	99
At 31 March 2010	92	27	119
Net Book Value			
At 31 March 2010	139	82	221
At 31 March 2009	216	104	320
	2008/09	2008/09	2008/09
	£'000	£'000	£'000
	Information technology	Fixtures & fittings	Total
Cost			
At 1 April 2008	-	-	-
Additions	231	109	340
At 31 March 2009	231	109	340
Depreciation			
At 1 April 2008	-	-	-
Provision for the year	15	5	20
At 31 March 2009	15	5	20
Net Book Value			
At 31 March 2009	216	104	320
At 1 January 2009	-	-	-

8. Intangible assets	
	2009/10
	£'000
	Software licences
Cost	
At 1 April 2009	85
Additions	-
At 31 March 2010	85
Amortisation	
At 1 April 2009	5
Provision for the year	28
At 31 March 2010	33
Net Book Value	
At 31 March 2010	52
At 31 March 2009	80
	2008/09
	£'000
	Software licences
Cost	
At 1 April 2008	-
Additions	85
At 31 March 2009	85
Amortisation	
At 1 April 2008	-
Provision for the year	5
At 31 March 2009	5
Net Book Value	
At 31 March 2009	80
At 1 January 2009	-

9. Cash and cash equivalents

	12 months	3 months
	2009/10	2008/09
	£'000	£'000
Balance at 1 April	134	-
Net change in cash and cash equivalent balances	1,490	134
Balance at 31 March	1,624	134
The following balances at 31 March were held at:		
Office of HM Paymaster General	1,624	134

The LSB's bank account is a current account with the HM Paymaster General's Office.

10. Financial instruments

As the cash requirements of the LSB are met through grant-in-aid provided by MoJ, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with the LSB's expected purchases and usage requirements and the LSB is therefore exposed to little credit, liquidity or market risk.

11. Trade receivables and other assets

Amounts falling due within one year	2009/10	2008/09
	£'000	£'000
Levy amounts due	4,316	-
Prepayments	107	-
Deposits and advances	9	-
	4,432	-
Amounts falling due after one year	2009/10	2008/09
	£'000	£'000
Levy amounts due	1,565	-
	1,565	-

12. Trade payables and other current liabilities

	2009/10	2008/09
	£'000	£'000
Amounts falling due within one year		
Trade payables		
<i>External</i>	14	39
<i>Intra Government - Competition Commission</i>	13	5
<i>Intra Government - HM Revenue and Customs</i>	76	-
<i>Intra Government - Ministry of Justice</i>	1,075	-
National Audit Office	22	15
Deferred income	12	7
Staff benefits accrual	27	-
Accruals	352	7
	1,591	73

13. Capital commitments

There are no capital commitments.

14. Commitments under leases

Operating leases	2009/10	2008/09
	£'000	£'000
Buildings		
Not later than one year	271	271
Leases that expire within 1 - 5 years	732	1,003

The LSB has a 5 year Memorandum Of Terms Of Occupation (MOTO) with the Competition Commission for the use of office space in Victoria House, Southampton Row, London, WC1B 4AD. The MOTO start date was the 1st November 2008 and is for a total space of 5,969 square feet.

15. Contingent liabilities

There are no contingent liabilities to report.

16. Related party transactions

The LSB is a Non-Departmental Public Body (NDPB) sponsored by the Ministry of Justice (MoJ) and funded by a grant-in-aid from that Department. The MoJ is regarded as a related party. During the year, the LSB had various material transactions with MoJ all of which were conducted at arm's length prices.

The LSB has a direct relationship with the Office for Legal Complaints and agrees the key performance indicators for the Ombudsman Scheme that the OLC establishes. Under the LSA 2007 the LSB is responsible for appointing and paying the salaries and expenses of OLC board members, which for the whole reporting period amounted to £162,724.

The OLC did not become a legal entity until 1 July 2009 and prior to this date the LSB made payments to OLC board members against timesheets for work done whilst the Board and Committee met in shadow form.

The payments for fees for the OLC board members from 1 July 2009 to 31 March were £97,500.

During the whole period there were no material transactions with the OLC itself.

None of the LSB 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.

17. 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.

18. Grant from parent

This is grant in aid provided by the Ministry of Justice to finance the operational needs of the LSB until the Levy is in full operation.

	2009/10	2008/09
	£000	£000
Grant in aid provided by MoJ	4,057	876
Additional cash received from MoJ	*1,000	0
	5,057	876

* The MoJ erroneously transferred a sum of £1m in the LSB main account on 15 March 2010. Although these funds had not been requested, LSB agreed with the Department that the LSB would retain the funding to meet its running costs in 2010/11.



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ISBN 978-0-10-296643-5



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