

Legal Services Board

Annual Report and Accounts for the Year Ended 31 March 2016

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Performance report

Overview

Statement from the Chairman and Chief Executive

This, the eighth annual report of the Legal Services Board (LSB), covers the 2015/16 year which is the first year of our 2015-18 strategic plan.

In developing our strategy, we took care to make sure we would focus our resources on the areas where we can have the most impact on the legal services market, bearing in mind the boundaries of our remit as an oversight regulator. We adopted three equally important elements:

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

The report that follows describes all that we have done over the past year in these important areas.

It is important to explain the context for our work. Legal services are vitally important to our shared national interest. They underpin our civil society, our economy and our democracy. It is a growing, economically significant market valued at £32 billion in 2015. It is also a hugely varied market, from large, corporate City firms operating globally, to small, local practitioners embedded in their communities. There are self-employed barristers and notaries providing highly tailored services and other specialists in the fields of costs, intellectual property and conveyancing. But irrespective of their operating environment or regulator, each practitioner

is expected to act at all times in line with their professional principles. It is important that regulation supports this whilst also allowing the business of providing legal services to grow and to innovate. These are not mutually exclusive objectives.

In reflecting on 2015/16, we feel it is important to highlight three developments.

Working with regulators

We remain clear that there needs to be action to meet the demands that citizens legitimately make of the legal sector. Regulators, representative bodies and service providers alike have to be willing to adapt, lead and help shape the future of the sector.

Throughout the year, the LSB worked closely and collaboratively with all of the legal services regulators to respond to the Government's cross-economy drive to find more opportunities for deregulation. All parties dedicated considerable time and energy to pinpoint specific proposals to materially reduce regulatory burdens and help regulation run more smoothly.

Collectively we identified *Progress on deregulation and market liberalisation since the Legal Services Act* (the Act) was passed in 2007. Jointly we agreed proposals for minor changes to the Act to reduce regulatory burdens and improve the efficiency of regulatory processes, and we shared knowledge and thinking on *Alternatives to the handling of client money*.

These were small but important steps. They showed that the legal services regulators can work together and cooperate whilst addressing fundamental and seriously challenging questions. It is a way of working that will continue into the future.

Building a strong evidence base

We have continued to pursue research into the functioning of legal services and the sector. Our research programme provides market information that is unavailable elsewhere and continues to generate insights and evidence which feeds directly into our, and others, policy and regulatory processes.

As an example, our report into the *Legal needs of small businesses* provided evidence that the legal needs of small businesses are not being satisfactorily met, suggesting that access to and use of legal services has improved little since we first looked at the issue in 2013.

This is unsatisfactory and unhelpful for the economy: legal needs are not being met for a significant section of the business community. But it also represents an enormous opportunity which legal services providers could - and should - be seizing!

Similarly, we published the results of our *In-depth study into the cost of regulation* which focused on those costs that are incurred solely to comply with legal services regulation and that do not serve any other business or wider regulatory purpose.

Only by establishing an evidence base about the cost of regulation can the LSB and the approved regulators review areas of regulation that appear disproportionately costly relative to the benefits derived, and do something about it. Whilst this was a small-scale study and it did not claim to be representative of costs for all practitioners, these findings are the first time that the real world cost of regulation experienced by practitioners in the legal sector has been quantified.

And as an example of the impact that can be achieved when regulators pool their resources, we commissioned jointly with the Solicitors Regulation Authority (SRA), the largest ever study of *Innovation in the legal services sector*. The findings suggested that legal practitioners are becoming more innovative in the organisation and management of their business but also indicated that more can be done to meet the significant unmet legal needs that continues to exist.

This is a very positive development because a market which welcomes innovation is attractive to investors and potential new entrants, and encourages existing businesses to differentiate and to compete.

Looking forward

In 2015/16, we welcomed a number of important initiatives that have the potential to have a powerful impact on the legal services sector.

First, in July 2015, the Lord Chancellor set out his expectation of a review of the Act during the lifetime of this Parliament. This was followed, in November 2015, by an HM Treasury (HMT) announcement that a consultation concerning independence of legal services regulation would begin in spring 2016.

The LSB has been at the forefront of engagement with these initiatives.

In July 2015, shortly after the Lord Chancellor's announcement, a paper exploring options for reform of the Act set out a series of issues and options for further discussion to help inform Ministers – and wider – discussion of a new legislative framework for legal services.

The paper described some of the choices ahead, offering a core set of issues that could frame possible future reform including; the case for fundamental changes to the Act: the rationale for sector-specific regulation; the dynamics and tension between regulation of activities, individuals, entities and titles; regulatory independence, and; the shape of the regulatory infrastructure.

We have continued to develop our own thinking on these important subjects and will have much more to say in due course.

Finally, a development that has the potential for far-reaching impact, irrespective of legislative change, at the start of 2016, the Competition and Markets Authority (CMA) announced the launch of a market study into the legal services sector in England and Wales to see if it is working well for consumers and small businesses.

The fact that this study is taking place reflects long-standing concerns about both the affordability and quality of legal services on offer today. Numerous reports and research projects initiated by the LSB, and analysed by the CMA, suggest that there is still an unacceptably large proportion of the population and small businesses who cannot afford such critical services.

While the functioning of the legal services market has certainly improved since the introduction of the Act, it still has a long way to go before it can be said that it is an effective market. The CMA's study provides a clear opportunity to assess where it stands today and to identify what needs to change going forward.

Conclusion

In concluding, we feel it is important to recognise the considerable contribution made by the Board and the staff of the LSB. It is their dedication, passion and commitment to the long-term health of this sector and its importance which allows us to achieve what we do. During part of this year the Chief Executive was Richard Moriarty, we would like to thank him for his work and the leadership he gave to the LSB.

Sir Michael Pitt
Chairman

Neil Buckley
Chief Executive

Statement of the purpose and activities of the LSB

Our purpose

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

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

Our vision is a legal services market characterised by:

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

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

We are funded by, but wholly independent of, the legal profession. Our levy in 2015/16 for each person authorised to undertake reserved legal activities was just over £21.50, down from over £34 at its peak in 2009/10.

Our regulated community

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

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

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

Figure 1.

Approved regulator	Regulatory body	Reserved Activities	Licensing Authority	No. of authorised persons***
Law Society	Solicitors Regulation Authority	The exercise of a right of audience The conduct of litigation Reserved instrument activities Probate activities The administration of oaths	YES	142,109
General Council of the Bar	Bar Standards Board	The exercise of a right of audience The conduct of litigation Reserved instrument activities Probate activities The administration of oaths	Application in progress	15,237
Chartered Institute of Legal Executives	CILEx Regulation	The exercise of a right of audience The administration of oaths The conduct of litigation Reserved instrument activities Probate activities	NO	7,848
Chartered Institute of Patent Attorneys	Intellectual Property Regulation Board	The exercise of a right of audience The conduct of litigation Reserved instrument activities The administration of oaths	YES	2,060 (includes 291 dual registered)
Institute of Trademark Attorneys			YES	872 (includes 291 dual registered)
Council for Licensed Conveyancers		Reserved instrument activities Probate activities The administration of oaths	YES	1,262
Faculty Office		Reserved instrument activities Probate activities The administration of oaths Notarial activities	NO	794
Association of Costs Lawyers	Costs Lawyer Standards Board	The exercise of a right of audience The conduct of litigation The administration of oaths	NO	598
Institute of Chartered Accountants in England and Wales (ICAEW)**		Probate activities	YES	92
Institute of Chartered Accountants of Scotland (ICAS)*		Probate activities	NO	N/A
Association of Chartered Certified Accountants (ACCA)*		Probate activities	NO	N/A

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

** The Institute of Chartered Accountants in England and Wales intends to apply to become an approved regulatory and licensing authority for all other reserved legal activities in 2016.

*** Figures show number of persons authorised by each regulator to undertake one or more legal activity as at 1 April 2015.

Our regulatory responsibilities

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

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

The professional principles are further defined in the Act as:

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

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

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

All that we do is designed to ensure that regulators have the competence, capability and capacity to promote and adhere to the regulatory objectives, free from prejudicial representative influence. We have statutory responsibilities in relation to:

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

The Act also makes provision for the LSB to be a licensing authority “of last resort” ie if there is no existing licensing authority with licensing rules suitable for licensing a particular type of alternative business structure (ABS). In order for the LSB to take on this role, the Ministry of Justice (MoJ) was required to commence the relevant provisions of the Act (section 73 (1) and Schedule 12). In the event, this did not take place and it was determined that the licensing rules of the existing authorities are sufficiently broad to address all types of ABS.

Key issues and risks

In 2015/16, the LSB needed to manage actively two issues that presented risks to the LSB’s ability to successfully fulfil its statutory functions. First, the organisation experienced significant change at executive level during a time when the Board was operating with a reduced capacity. The Board maintained momentum, by paying close attention to resource constraints and taking firm and early decisions on work re-prioritisation where necessary.

Second, in light of the various factors affecting the OLC’s operating environment in June 2015, the Board took the decision to use its statutory powers to require OLC to meet a number of performance targets and to report against them. This action was judged necessary to achieve strong Legal Ombudsman scheme performance.

Going concern basis

Whilst the Act remains in place, the LSB will be required to fulfil its statutory functions. In order to fund our activities, the Lord Chancellor has agreed that a levy of £3.998m for 2016/17 may be raised from the approved regulators to fund our budget.

Performance summary

The Business Plan (the Plan) for 2015/16¹ was the first year of a new three-year strategy.² The Plan set out an ambitious programme of work, including a number of long-term projects designed to run across the three-year strategic planning period. The Plan was agreed on the understanding that external initiatives and other unforeseen occurrences were likely to mean some reprioritisation would be needed during the year.

As of 31 March 2016, alongside fulfilling its in-year obligations to make routine statutory decisions on matters emerging from the regulators, the OLC and the SDT, the LSB delivered a significant proportion of the proactive work set out in its Plan on the published schedule. As a consequence of in-year re-scoping and in response to external initiatives, some activities have taken slightly longer than planned and are due to be completed in the first few months of 2016/17. The table below demonstrates the status of projects scheduled for 2015/16 as at 31 March 2016.

More detail about individual projects is in the performance analysis section.

Project status	Number of projects
Complete	9
Deferred	2
Due to be completed in 2016/17	7
Work will commence in 2016/17	1
Cancelled	3

¹ http://www.legalservicesboard.org.uk/news_publications/LSB_news/PDF/2015/LSB_Business_Plan_2015_16.pdf

² http://www.legalservicesboard.org.uk/news_publications/LSB_news/PDF/2015/The_Strategy_2015_18.pdf

Financial performance

Our budget ceiling for the year was £4,298k and our actual outturn was: £3,587k. We continue to drive down our costs.

Historical Analysis of LSB Budgets	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
	£000	£000	£000	£000	£000	£000
Total including OLC Board costs	4,931	4,931	4,498	4,448	4,298	4,298
Total amount levied per person authorised to undertake reserved legal activities	34.38	31.65	27.97	25.36	24.71	21.55

Performance analysis

Measuring performance at the LSB

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

Detailed performance analysis

Performance against the Plan

One of our key measures is how we perform in delivering our annual Plan. For 2015/16, this outlined the work the LSB intended to undertake in the first year of its 2015-18 strategy, with work organised around the three outcomes the strategy wants to achieve:

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

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

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

We review the impact that our work and the wider impact of the Act's reforms are having on the legal services market through our market evaluation programme. This is a long-running research project which looks at how the legal services market is changing. It seeks to assess whether the market outcomes associated with the regulatory objectives are being achieved over the longer term, the areas where progress is limited, and what the issues might be. In 2016/17, we will be publishing work primarily undertaken during 2015/16 to update our 2012 market evaluation report. This includes analysis that draws on the findings of data produced and research commissioned by the LSB and others over the past three years.

A detailed breakdown of work carried out in 2015/16 is set out below.

Strategic element 1: Breaking down regulatory barriers

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

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

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

In 2015/16, we completed the following work to help break down regulatory barriers.

Reviewing and removing regulatory obligations

Review of regulatory restrictions that go beyond section 15 of the Act

Complete

Informed by the responses to our February 2015 consultation, we completed our thematic review into the regulatory restrictions on in-house lawyers.

We found little evidence to support current regulatory restrictions but three clear themes emerged:

- that the form and extent of the impact of the current regulation of in-house lawyers is too complicated and wide-ranging to be addressed with a simple, isolated change to a definition or rule
- that any changes to the current approach to regulating in-house lawyers would need to carefully consider the impact such changes might have on consumers
- that consistency in approaches across both regulators and across lawyers, working in-house or not, was a desirable outcome.

After taking account of plans by the Bar Standards Board (BSB) and SRA to review and revise their approaches to regulating in-house barristers and solicitors, the Board decided to use its powers under section 49 of the Act to issue a statement of policy setting out the high-level principles the LSB will consider relevant to the regulation of in-house lawyers. This statement was published in February 2016.

<p>Analyse the impact of ending of the different transitional periods in the Act</p> <p><i>Deferred</i></p>	<p>Transitional protections are used by a relatively small (and decreasing) number of commercial firms with non-lawyer involvement and these protect them from the need to be licensed as ABS.</p> <p>In April 2015, the Board decided that work planned to review the ending of these protections should be deferred after taking into account the limited evidence of risk associated with these firms, and noting that they can apply to be an ABS if they wish to do so. An update to this effect was provided on our website following the Board meeting.</p>
<p>Identify whether regulatory arrangements or cultural issues in regulators are impeding the development of services provided by special/non-commercial bodies</p> <p><i>Deferred</i></p>	<p>We had planned to build on discussions from 2014/15 in order to consider special bodies' experience of regulation and whether any improvements could be made. However, informal feedback gathered through regular stakeholder meetings and third party input to the 2015/16 <i>Regulatory Standards</i> exercise suggested that there were no issues that could be addressed without considering legislative change, including lifting the Act's transitional protections. As a consequence, this work has been deferred.</p>
<p>Cost of regulation</p> <p><i>Due to complete in 2016/17</i></p>	<p>Two strands of work were pursued in 2015/16: exploring the costs of the regulators, including the LSB; and research on the costs of regulation as experienced by providers.</p> <p><i>Costs of the regulators: benchmarking and transparency work</i></p> <p>In the absence of comparable information and the disproportionate costs of trying to obtain data, the LSB was unable to benchmark the costs of legal regulators against similar regulatory bodies in other sectors. As an alternative, we analysed their historic costs, and those of the LSB, based on published data. The emphasis on published data is important as we wanted to find out what information currently exists, which is easily accessible by providers and the public. The work focused on high-level areas such as size of regulator, income from practising certificate and firm fees, fee income allocated to non-regulatory permitted purposes, and an indication of unit cost. The findings of this work are due to be published in early 2016/17.</p> <p><i>Cost of regulation for providers</i></p> <p>The results of a small-scale qualitative survey that estimated broadly representative costs of legal services regulation across the market, based on financial information supplied by respondents was published in September 2015. The study examined both total regulatory costs and incremental costs – those which are for compliance with legal services regulation and not other general business or wider regulatory purposes.</p>

<p>Thematic review of restrictions on choice of insurer</p> <p><i>Due to complete in 2016/17</i></p>	<p>By analysing regulatory requirements that restrict individual and entity choice of insurer, we aimed to identify the potentially positive or negative cost of such restrictions and the impact of removing them. Our work also set out to consider whether the restrictions identified were consistent with general competition law, the regulatory objectives and better regulation principles.</p> <p>Our conclusions on this work are expected to be published in Quarter 1 of 2016/17.</p>
<p>Thematic review of approved regulators' treatment of underspend of practising certificate fees</p> <p><i>Cancelled</i></p>	<p>In the context of permitted purposes under section 51 of the Act and reducing regulatory burdens (including costs) for practitioners, we wanted to look at those regulators that have representative and regulatory functions and analyse whether the treatment of any under-spend of practising certificate fees (PCF) by the regulator was consistent with accounting best practice and the requirements of section 51. This work would have built on our cost of regulation project and would have sought to identify the amounts of money involved since section 51 came into force and make recommendations for action if changes or improvements are necessary.</p> <p>In light of the outcome of our work on cost regulation, and the proposed changes to the LSB's practising certificate rules this work did not proceed.</p>
<p>Reviewing the LSB's statutory decision making process</p>	
<p>Review processes for handling our statutory decision making responsibilities</p> <p><i>Complete</i></p>	<p>As part of our commitment to improving our own effectiveness and efficiency as a regulator, we reviewed how we assess the legal services regulators' rule change applications under Part 3, Schedule 4 of the Act. Our aim was to identify areas for simplification and improved timeliness of the process so that the LSB does not:</p> <ul style="list-style-type: none"> • unnecessarily impede regulatory changes that could increase competition, growth and innovation or • otherwise unnecessarily impose burdens on the legal services regulators. <p>The review was informed by discussions with all of the regulators, LSB colleagues and some of the representative arms of the regulators. Additionally, we analysed completed rule change applications and their associated documentation; and reviewed and analysed our approach to the work including our rules for the process and related guidance. An internal report, setting out what works well and what can be improved was prepared and recommendations for change identified. We will implement the necessary changes to our process in 2016/17.</p>

Developing options for legislative change

Collaborative work with the regulators following the July 2014 Ministerial summit

Complete

Post-ministerial summit work streams – In July 2015, the LSB jointly with all of the legal services regulators published a collective response to the cross-economy drive to find more opportunities for deregulation. This comprised:

- a report setting out key achievements in reducing regulatory burdens since the introduction of the Act, but which also showed that there are limits in some circumstances to what can be achieved under the current regulatory framework
- proposals for relatively minor changes to the current legislative framework that will help deliver growth in the legal services market. We are pleased that the proposal for removing barriers to entry for alternative business models in legal services will be subject to Government consultation in the near future
- a report looking at alternatives to the handling of client money for practitioners who no longer wish to do so. This is important because handling client money is a significant source of risk that also attracts a significant volume of prescriptive regulation.

Later in July 2015, the LSB published a paper exploring options for more fundamental reform of the Act. Designed to inform future debate and discussion, this paper did not argue for a particular way forward. Shortly after the paper was published, the Lord Chancellor committed to a review of the Act in the lifetime of this Parliament.

Research

Innovation in the provision of legal services

Complete

Our joint research with the SRA, carried out in 2014/15 and Quarter 1 of 2015/16 and published in July 2015, was the largest ever study of innovation in the legal services market, based on interviews with 1,500 businesses and qualitative case studies. The project was designed to explore the factors driving innovation in this market, how innovative changes serve the needs of consumers, and it aimed to understand the barriers to innovation.

The research suggests that legal services providers are becoming more innovative in the organisation and management of their businesses, although more can be done to meet the significant unmet legal need that continues to exist. It found that ABS were 13-15% more likely to introduce new legal services than other types of regulated firms of solicitors. The research also underlined the importance of legislation and regulation – providers identified these factors as both the biggest enablers and barriers to innovation.

Strategic element 2: Tackling unmet legal need

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

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

In 2015/16, we completed the following work to help tackle unmet legal need.

Understanding consumer choices and decisions across the regulated and unregulated sector

Activities to understand the different legal needs of diverse types of consumers

Due to complete in 2016/17

In October 2015, we published a major research study focusing on the legal needs of small businesses looking at how their views have changed – and how the legal services market has responded – since 2013. We found that the volume of legal problems had fallen since the first study, but the financial annual losses remain costly – estimated at nearly £10bn. The research provided further worrying evidence that the legal needs of small businesses are not being satisfactorily met, with just 13% of small businesses viewing lawyers as cost effective. In light of this research, in November 2015, we held a panel discussion on the findings, hosted by the Department for Business, Innovation and Skills.

Throughout 2015/16, in partnership with the Law Society, we commissioned a large scale survey of the legal needs of individual consumers. This work should provide sufficient scale to analyse how consumers respond to legal problems within each of the different legal service market segments. The survey report and associated data sets will be published in Quarter 1/2, 2016/17. We will use the survey findings as part of our evidence base to assess how the market is delivering for consumers.

<p>Develop our understanding of different types of providers (regulated and unregulated)</p> <p><i>Due to complete in 2016/17</i></p>	<p>To inform our understanding of the full range of choices available to consumers, we set out to investigate the services offered by commercial ie <i>for profit</i> providers of legal services who do not require regulation under the Act and the benefits and risks associated with them.</p> <p>Our work comprised:</p> <ul style="list-style-type: none"> • in-house mapping of unregulated providers across all market segments (completed in Quarter 3) • in-depth research and analysis of <i>for profit</i> unregulated providers of will writing and estate administration, divorce and intellectual property services, commissioned from Economic Insight (ongoing into 2016/17) • analysis of section 163 of the Act regarding voluntary arrangements (completed in Quarter 4). <p>The conclusions of this work will be published in 2016/17, informed by the findings of our related work into the legal needs of consumers (see above).</p>
<p>Joint research into the impact of unbundled services for consumers</p> <p><i>Complete</i></p>	<p>Unbundling is where a package of legal services is separated into parts and the work shared between the consumer and lawyer. An example of unbundling is a consumer preparing the evidence and the court bundle themselves and then directly instructing the barrister who represents the consumer at the court hearing.</p> <p>In September 2015, we published joint research with the Legal Services Consumer Panel (Panel), conducted by Ipsos MORI, into unbundled services. Our aim in commissioning the research was to help ensure that the regulatory framework addresses the key risks and is informed by evidence of real consumer experience of using these services and real experience of providers offering them.</p> <p>The report, which was based on 55 interviews with consumers, providers and judges, paints a picture of law firms beginning to respond to consumer demand and changes in their commercial environment by developing affordable alternatives to full-service representation. No regulatory barriers to unbundling were identified, but some concerns were raised around assessing consumer capability, giving advice based on limited information and ensuring there is clarity on agreements about the scope of work.</p>

Understanding and helping to improve affordability

Develop an understanding of what 'affordable legal services' means

Re-scoped and due to complete in 2016/17

The affordability of legal services is one of the key factors contributing to the high levels of unmet legal need.

After reviewing approaches in other sectors, our work was re-scoped to focus on producing a method identifying areas of law which are at risk of being unaffordable for consumers. After gathering evidence to inform the model, we created illustrative examples to test it.

We expect to publish the conceptual model and illustrative examples in Quarter 1 2016/17 as a shared resource for regulators and others to inform thinking about affordability in the context of the legal services market.

Supporting increased accessibility of legal services

Explore innovations in related sectors that have made accessing services simpler and less daunting for consumers

Complete

After reviewing available evidence on barriers to access, we focused on approaches that could help to tackle the following three barriers:

- inaccessible language and communications
- lack of trust
- failure to cater for the needs of vulnerable consumers.

In March 2016, we published a report into the lessons that regulators could learn from other sectors to improve consumers' access to legal services. Our report was informed by published research, policy statements and evidence gathered from meetings with ten bodies, mainly within healthcare and financial services, in which we discussed their approaches. The report focuses on three factors (other than affordability) that contribute to unmet legal needs: inaccessible language and communications; lack of trust; and failure to cater for the needs of vulnerable consumers. We also explore how other sectors tackled these issues and developed guides, logos and customer information which made buying such services less daunting for consumers.

Helping consumers make informed choices

Improving our understanding of open data and markets

2015/16 work complete

In 2015/16, we commissioned the Panel to advise us on the kind of information regulators could collect from firms to aid consumers. We received this report in January 2016 and will respond to the LSB specific recommendations early in 2016/17.

During the year, we also reviewed developments in other markets including market investigations by the CMA, and participated in a study on comparison websites by the UK Regulators Network (UKRN). In Quarter 3 we met with two of the "big four" price comparison websites and new entrants specifically focused on the legal services market to understand the opportunities and barriers to the provision of comparison services in the legal services market.

<p>Thematic review of section 112 (informing consumers of their rights to complain) 2015/16 work complete</p>	<p>The LSB published requirements under section 112 of the Act in 2010. These requirements oblige regulators to have arrangements in place to ensure practitioners have complaints handling procedures and that they signpost clients to the Legal Ombudsman.</p> <p>In view of the time that has passed since these requirements were imposed, the LSB agreed that it was timely to review their effectiveness.</p> <p>Informed by an internal review of the current requirements and meetings with regulators, representative bodies and the Legal Ombudsman, we issued a consultation in March 2016 proposing ways in which the requirements might be updated to improve outcomes for clients.</p>
<p>Protecting consumers and the public interest</p>	
<p>Increase our knowledge of trading behaviour risk Work will commence in 2016/17</p>	<p>In Quarter 4, we undertook a high-level scoping exercise to explore the way we might approach this work and will develop this during 2016/17. Our aim is to identify whether regulators are alive to risks that might emerge in legal services as a result of developments in technology and business practices, so as to ensure they have the knowledge, skills and relationships they need to prevent and respond to potential consumer detriment.</p>
<p>Explore the scope for extension of redress to cover unregulated legal services Cancelled</p>	<p>We had indicated that there may be scope for joint working with the Legal Ombudsman to explore the scope for using sections 164–166 of the Act, to establish and operate a voluntary complaints scheme. Changed priorities for the Legal Ombudsman during the year meant that this work was cancelled.</p>
<p>Proactively champion the regulators' work on diversity 2015/16 work complete</p>	<p>Our work in 2015/16 has shown that all regulators have begun to collect diversity data, and that most have started to assess and evaluate the information they have collected.</p> <p>In Quarter 3, regulators were invited to share their progress on policy development based on the collected diversity data. They were asked whether it had informed day-to-day processes of the organisation, what the challenges were in collecting and using the data and what plans there were for further development in the future.</p> <p>In Quarter 4 the LSB hosted a well-attended diversity forum and a report on the progress regulators have made will be published in Quarter 1 2016/17. The Board has also agreed to review the guidance issued in 2011 and a consultation will be published in 2016/17.</p>

Strategic element 3: Performance, evaluation and oversight

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

In 2015/16, the LSB was also given new functions under The Alternative Dispute Resolution (ADR) for Consumer Disputes (Competent Authorities and Information) Regulations 2015. These provide that the LSB must act as the 'competent authority' for the OLC should it pursue an application under the Regulations to become an ADR entity. The OLC applied to the LSB to become an ADR entity in June but subsequently decided not to proceed with that application.

In 2015/16, we completed the following performance, evaluation and oversight work.

Projects	
<p>Consider applications from regulators</p> <p>Completed on request</p>	<p>Six regulators made requests for changes to their regulatory arrangements during the year, resulting in 12 applications overall. We made decisions on all of these within the requisite statutory time limits. We also determined one application, from the BSB, to become a licensing authority. We did not receive any requests from approved regulators to change the range of reserved legal activities that they can regulate.</p> <p>We approved all the applications we received seeking approval for PCF.</p>
<p>Review compliance with LSB's Internal Governance Rules</p> <p>Cancelled</p>	<p>We had anticipated reviewing the appointment processes for lay Chairs of regulatory governing bodies in 2015/16. However, we determined that as no issues have come to our attention from the processes used for the appointment of new chairs since the internal governance rules were changed, our resources would be more effectively used on other priorities.</p>
<p>Review and approve the Solicitors Disciplinary Tribunal budget</p> <p>Complete</p> <p>Discharging our regulatory oversight function</p> <p>Due to complete in 2016/17</p>	<p>The SDT submitted its budget for approval in September. This was approved by the Board at the October 2015 meeting.</p> <p>In 2015/16, we undertook an in-depth review of the performance of all the regulators against the regulatory standards. This has been informed by regulators' self-assessments and other relevant information, including the results of a questionnaire aimed at understanding the experiences of individual users of legal services, regulators and feedback from a range of the regulators' stakeholders. This widening of our evidence base has allowed us to produce reports which provide a more comprehensive picture of each regulator's performance.</p> <p>Due to resource constraints, our final regulatory standards reports will be published in early 2016/17.</p>

Overseeing the Office for Legal Complaints	
<p>Holding the OLC to account for their administration of the Legal Ombudsman scheme</p> <p><i>Ongoing responsibility</i></p>	<p>In light of the various factors affecting the OLC's operating environment, in June 2015, the LSB used its powers under sections 120 and 121 of the Act to set performance and reporting requirements for the OLC. The LSB and the OLC members continued to meet on a quarterly basis to review the way in which the OLC is making sure the Legal Ombudsman is administered in line with the principles of best practice in administering ombudsman schemes, and in a way which is compatible with the regulatory objectives.</p> <p>In Quarter 4, we began work on reviewing the governance protocols with the OLC including drafting a three-way operating protocol between ourselves, the OLC and the MoJ.</p> <p>Develop necessary protocols to deliver our competent authority function in relation to OLC</p> <p>In June, the OLC submitted an application to the LSB, as its competent authority, to become an approved ADR entity under the 2015 UK Regulations. Whilst we were still considering the application, in August, we received formal notification from the OLC that it was withdrawing its application. The primary reason for this was that the OLC Board sought advice and was informed that it needed to consult not just on the technical details of the <i>Scheme Rules</i> changes but on the principle of whether it should change its <i>Scheme Rules</i> at all. In December, the OLC announced that it would not proceed with the current proposal to become an ADR entity. This ended our responsibilities as a competent authority for the OLC until such time as the OLC choose to reapply.</p>
<p>Receiving the OLC's Annual Report and Accounts</p> <p><i>Complete</i></p>	<p>In Quarter 4 we fulfilled our statutory responsibilities to receive the OLC's Annual Report and Accounts and approve its annual budget.</p>
Research	
<p>Market evaluation: updating the 2012 baseline survey</p> <p><i>Due to complete in 2016/17</i></p>	<p>This ongoing project seeks to assess how the legal services market has changed over the 2006/07-2014/15 period, and updates work we produced in 2012 to baseline the market. It presents an analysis of market outcomes associated with the delivery of the regulatory objectives across the whole legal services market, rather than just one of the legal professions. It provides a summary of a wide range of information, research findings, and in house data analysis, considered against each outcome, alongside our interpretation of what that means in the context of the evaluation framework. The market evaluation report will be published in the first half of 2016/17.</p>

Performance against statutory performance targets

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

Some of these activities have statutory performance deadlines set out in the Act and we have also developed our own targets. We continually monitor performance against these deadlines and targets and record it both in the monthly Programme Highlight Report and the quarterly performance report. The breakdown of our performance in 2015/16 is shown below. These figures are derived from ongoing records that the LSB maintains of our processing of applications.

Activity	How we performed
Publication of applications on our website	<ul style="list-style-type: none"> 100% (12 out of 12) of applications for approval of changes to regulatory arrangements were published within the two day working target.
Decisions and recommendations on an application	<p>Changes to regulatory arrangements:</p> <ul style="list-style-type: none"> 13 decisions on applications to change regulatory arrangements were made 10 decisions were made in the initial decision period of 28 calendar days 2 decisions were made in an extended decision period of 90 calendar days 1 decision was made in two parts. The first was made after 44 days and the second (on which a warning notice had been issued to the applicant) was decided in 134 calendar days.
Publish our decisions, extensions, warnings and refusals to consider applications	<ul style="list-style-type: none"> 100% (27 out of 27) of notices were published on our website within the target of 2 working days.
Publish advice from mandatory consultees, written representation from applicants, oral representations	<ul style="list-style-type: none"> 100% of targets achieved Advice was received from the CMA, Panel, and Lord Chief Justice, all in respect of a designation application to become a licensing authority. A written representation was received from the applicant in respect of the same application. Publication for all of the advice and representation occurred within 5 working days following receipt of the applicant's representation.
Recommendations to the Lord Chancellor	No recommendations were made to the Lord Chancellor.

At the start of 2015/16 there was one ongoing application, and 12 new applications concerning change of regulatory arrangements were received. 13 decisions were made and there were no ongoing applications at the end of the year. The average time to make a decision (excluding the one case in which a warning notice was issued and which was decided in two parts), was 29 days (30 days in 2014/15).

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

Performance against budget

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

	2014/15	2015/16
	£000	£000
Budget	4,298	4,298
Expenditure	3,921	3,587
Underspend	377	711

The underspend for 2015/16 was due to a number of factors:

- holding some staff posts vacant for an extended period initially while new colleagues were working out their notice at previous employers and latterly as a result of the MoJ's emergency spend controls and the restrictions on recruitment
- maintaining salary increase within an overall 1% limit in line with public sector pay policy
- vacancies on the LSB Board, Panel and OLC
- delaying some work to 2016/17
- other ongoing efficiencies

The underspend for 2014/15 was mainly due to similar factors: vacant posts, limiting salary increases (in line with restrictions in the wider public sector) but also due to the fact that the LSB was unable to complete all of its planned research programme due to delays in agreeing joint funding arrangements for some projects.

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

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

Income and expenditure is accounted for on an accruals basis. The levy amount charged and collected in 2015/16 was £3,676k (£4,116k 2014/15). The amount of funds added to deferred income was £334k (£195k added to deferred income in 2014/15). Any underspend that the LSB achieves in one year reduces that amount it needs to collect from the levy in the subsequent year.

The LSB recognises funds received as “application fees”, as defined in the Act at section 175 (2), for designation and licensing authority applications. Such fees received are initially treated as deferred income and released to the Statement of Comprehensive Net Expenditure in accordance

with the value of work undertaken. These fees are set against the LSB's expenditure and also reduce the levy payable by all approved regulators. £22k was received as "prescribed fees" in 2015/16 (£Nil 2014/15) and there are no monies left in deferred income from "prescribed fees" as at the 31 March 2016.

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

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

Payment of creditors

The LSB has committed to pay all supplier invoices by the due date or within 30 days of receipt if no due date has been agreed. In line with guidance issued by the Department for Business, Innovation and Skills and the Cabinet Office, the LSB aims to pay all authorised invoices that are not under dispute within 10 days from receipt. Throughout 2015/16 100% of these invoices were paid within 10 days.

Performance against other measures

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

Our view is that the introduction of ABS continue to have a direct and positive impact in particular on the regulatory objectives of protecting and promoting the interests of consumers, promoting competition in legal services and encouraging a strong, diverse and effective legal profession. This has been achieved through the innovations they have introduced, and the competitive response they have prompted in mainstream businesses. This view has been validated by the research carried out this year on innovation in the legal services market. The research found that ABS were 13-15% more likely to introduce new legal services than other types of regulated solicitor firms.

As at November 2015, there were 437 ABS licensed by the SRA, 100 by the ICAEW, 48 by the CLC, and 20 by IPREG.

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

All requests made under the FOIA must be responded to within 20 working days of receipt. However, we aim to respond to requests within 15 working days. In 2015/16, we received 19 requests, and on average these were responded to within 11.7 days. All of these requests were dealt with within the 20 day statutory deadline, and only one request was handled in more than 15 days.

As a data controller under the Data Protection Act 1998, the LSB is required to respond to any subject access requests within 40 calendar days. No subject access requests were received in 2015/16.

Environment, social and community issues

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

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

Neil Buckley
Accounting Officer
29 June 2016

Accountability report

Corporate governance report

LSB Members' report

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

In 2015/16 the LSB oversaw regulation by nine approved regulators, who directly regulated the circa 170,000 lawyers practising throughout the jurisdiction. (There are two additional approved regulators, the Institute of Chartered Accountants of Scotland (ICAS) and the Association of Chartered Certified Accountants (ACCA), who do not currently have any approved regulatory arrangements or persons authorised to undertake reserved legal activities).

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

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

Schedule 1 of the Act stipulates that:

The Board is to consist of the following members—

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

and

- (1) In appointing persons as ordinary members the Lord Chancellor must ensure that a majority of the members of the Board are lay persons.*
- (2) The chairman must be a lay person.*

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

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

The LSB requires each Board Member to provide details of any company directorships and other significant interests they hold and this is published on the LSB website.³ Members are also required to declare any conflicts or interests in any item being discussed and the Chairman will determine whether they would need to be excluded for that item. All and any such instances are recorded in the minutes of the Board, which are also published on the LSB website.

Statement of accounting officer's responsibilities

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

³http://www.legalservicesboard.org.uk/about_us/our_board/board_interests_and_expenses/index.htm#Register

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

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

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

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

Professional financial advice

The LSB engaged the services of Philip Lindsell, a chartered accountant, up to June 2015, to provide support to the Audit and Risk Assurance Committee in reviewing and challenging the policies and procedures instigated by the Executive. In 2015/16 the LSB paid him less than £0.9k (£4k in 2014/15) for these services.

The LSB engaged John Ward, a chartered accountant, from November 2015 for this same role. In 2015/16 the LSB paid him £0.94k.

Auditor

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

The LSB's annual financial statements are audited externally by the Comptroller and Auditor General (C&AG) in accordance with the Act, Schedule 1, paragraph 25(4)(a). For the period ended 31 March 2016, a fee of £19.5k will be charged for the audit work that has been performed.

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

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

The Governance statement

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

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

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

Corporate governance framework

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

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

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

LSB Board

The LSB Board comprises both non-executive Members (including the Chairman) and the Chief Executive. The Board met formally on nine occasions during the period April 2015 to March 2016.

Meeting attendance	
Sir Michael Pitt (Chairman)	9/9
William Moyes (lay member) ⁴	2/4
Edward Nally (non-lay member) ⁵	3/4
Anneliese Day QC (non-lay member)	7/9
Terry Babbs (lay member)	8/9
Marina Gibbs (lay member)	9/9
David Eveleigh (non-lay member)	9/9
Dr Helen Phillips (lay member)	7/9
Richard Moriarty (member and Chief Executive)	7/7
Neil Buckley (member and Chief Executive)	2/2

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

⁴ Left the Board on 30 September 2015

⁵ Left the Board on 30 September 2015

Nally came to an end in September 2015 but the appointment process run by the MoJ on behalf of the Lord Chancellor had not at that time delivered appointable candidates. This meant that the Board was below its statutory minimum for the period up to 31 March 2016. The Act does state that the validity of any decision of the Board is not affected by a vacancy within its membership.

On 18 April 2016, two new non-lay members, Jemima Coleman and Michael Smyth CBE QC (Hon), joined the Board. An exercise to appoint two new lay members is ongoing, and it is expected that appointments would be made in July 2016, at which point, the Board would be at its statutory minimum.

Board Committees

The Audit and Risk Assurance Committee (ARAC) is responsible, on behalf of the Board, for advising me as Accounting Officer on the maintenance of appropriate audit and risk processes within the LSB, and the governance of the internal and external audit programmes. It met formally on three occasions during the period 1 April 2015 to 31 March 2016.

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

Both Committees are supported in their roles by external advisers.

Membership and attendance records are given below.

Audit and Risk Assurance Committee	
Terry Babbs (Chair)	3/3
Marina Gibbs	3/3
David Eveleigh	3/3

Remuneration and Nomination Committee

William Moyes (Chair)	1/1
Dr Helen Phillips (Chair wef 12/11/15)	2/2
Anneliese Day QC	2/2
Sir Michael Pitt (co-opted for two meetings)	2/2

Governance relationship with the Office for Legal Complaints

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

The relationship between the LSB and the OLC is governed by a Memorandum of Understanding, reflecting the respective bodies' independent and separate functions, and allows for the development and maintenance of constructive working relationships.

In approving the OLC's budget, the LSB seeks a range of assurances, and for the budget year 2015/16, these covered:

- key risks to delivering the plan for 2015/16
- case volumes predicted for the year, along with a sensitivity analysis illustrating the organisation's response in the event that these fluctuate
- an indication of the distribution of resources deployed in the operation of the ombudsman scheme, and the amounts of income the OLC expects to raise from its operation, including a breakdown of staff costs by function
- a summary of changes to the plan and budget in response to stakeholder responses, including the outcome of discussions with the MoJ and the extent to which the final plan and budget took account of that input.

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

Governance relationship with the Legal Services Consumer Panel

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

Executive leadership

During the course of 2015/16, the LSB's executive leadership structure was simplified, and the previous Executive and Gateway Groups were replaced by a single Senior Leadership Team. The structure is now as follows:

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

Operations Group This Group is chaired by the Chief Executive and its role is to consider cross-cutting corporate issues. It meets on an ad hoc basis as issues emerge.

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

Board performance

The performance and effectiveness of the Board, its Committees and individual Board members are evaluated on an annual basis. For 2015/16, appraisals of individual Board members were carried out during March 2016. The unfilled Board

vacancies referred to earlier led to a postponement of the overall Board evaluation exercise, but this will be completed by May 2016. The results of the 2014/15 Board evaluation exercise were reported in July 2015 and comprised questionnaires, completed by Board members and senior managers, covering all aspects of the Board's role and remit. The outcome of this process confirmed that members have a good understanding of their non-executive role, work well as a team, and provide effective challenge and support to the Executive. A number of suggestions for improving the Board's effectiveness were put forward and have formed the basis of an ongoing action plan. The exercise also confirmed that the papers and other material provided to Board members in advance of meetings and other engagements are helpful and well understood. The ARAC and RNC assess the effectiveness of their work at each meeting and present their annual reports to the Board each year.

New Board members receive an induction, which covers the role of the LSB as well as the obligations of a Board member in relation to *Managing Public Money*, and ongoing support to assist them in settling into their new roles. All new members are asked to attend a course on accountability and governance for arm's length bodies.

Risk and internal control framework

The LSB Board scrutinises the plans and sets the overall strategic direction of the LSB. The ARAC, on behalf of the Board, assesses in detail, issues of risk at each of its meetings, providing constant challenge to the assumptions and risk classifications made by the Executive. Issues of risk are considered at Board meetings in the course of discussions of each of the papers presented. The Board reviewed the full Corporate Risk Register at their meetings in May and November 2015, and again in March 2016.

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

the Corporate Risk Register. Colleagues identify and record risks relating to their work. These are reported through the programme and corporate processes, as appropriate. Project and programme risks are reviewed at monthly Programme Board meetings and new and increasing risks are reported to the SLT as part of their monthly review of programme performance. The SLT also reviews the full Corporate Risk Register at each of its monthly meetings.

The Board is responsible for approving the LSB's approach to the management of risk. Its tolerance for risk varies, depending on the nature and severity of individual risk. The Board keeps under active review an appetite for risk that allows it to stretch itself to achieve its work programme and organisational objectives. The Board has determined that, in general terms, an acceptable risk for the LSB is:

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

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

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

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

Assessment of risk management

In reviewing the LSB's Risk Management Strategy, the Board and the ARAC have evaluated the quality of the LSB's management of risk during 2015/16 and have confirmed their assessment that the LSB's approach identifies the correct risks, and that mitigating actions are appropriately focused and implemented so as to support the LSB's programme of work to deliver the regulatory objectives.

During the course of the year, following the recommendation of the LSB's internal auditors, it was decided that an approach to risk management considering both inherent risk (the risk that an activity would pose if no controls or other mitigating factors were put in place) and residual risk (the risk that remains after controls are taken into account) would be piloted. The main purpose of this was to assess fully the impact that controls and mitigating factors have on each risk. This led to a zero-based review of the Corporate Risk Register and how it is reviewed by the SLT. The outcome of this pilot was reported to the ARAC in March 2016, and it has been decided that this risk management methodology is to be adopted for the future.

Reporting of risk

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

Key risks

Some of the key risks facing the LSB in achieving its priorities in 2016/17 are ongoing, while others arise in relation to the point that the Board has reached in its corporate life, and the progress that has been made across the sector in seeking to implement the changes initiated by the Act. These include:

Lack of evidence

Risk In order to deliver the significant savings expected of all public bodies at this time, the

Board has significantly reduced its budget for primary research and external data analysis for 2016/17. Whilst the LSB has done much to fill the evidence gaps in the legal services market during its existence, it remains a market that is data light.

Mitigation The 2016/17 Business Plan has been developed following a robust prioritisation exercise to identify those projects and work streams that are most directly relevant in promoting the regulatory objectives set out in the Act. Our research budget will be directed at those areas where primary evidence is required to complete it. We will also interrogate our existing evidence base, and that of others, to support our work.

Constraints on operating agility

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

Mitigation The LSB will continue to work constructively with our sponsor team in the MoJ to understand the full scope of the controls and how they apply to the LSB, taking into account our status as an independent regulator.

The wider framework of control

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

Role of internal audit

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

Internal audit reviews carried out in 2015/16 were as follows:

- processes for procuring research activities, including ensuring that the "value for money" proposition is considered and that good practices as well as relevant laws and regulations are complied with
- assessing the robustness of business continuity arrangements, both from an operational and IT perspective, particularly in light of the Kingsway fire incident, which occurred in April 2015.

The Head of Internal Audit has found that overall the LSB has adequate and effective internal control and governance arrangements within the areas of business continuity and research procurement considered in 2015/16.

Information risk and data security

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

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

In April 2015, the LSB self-referred a potential breach of the Data Protection Act to the Information Commissioners Office (ICO). The ICO responded to the referral in January 2016, indicating that no further action would be taken. This outcome was reported to the ARAC at its meeting in March 2016,

along with the steps that have been taken to avoid a recurrence. During the period of this report, there were no other reported data security incidents at the LSB and all new colleagues receive training on information assurance and security, with particular focus on the Government's security classification system and information assurance.

Assessment of fraud risk

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

Whistleblowing arrangements

The LSB has put in place an internal whistleblowing policy which sets out in detail the steps that will be taken in the event that a member of staff seeks to make a protected disclosure. This policy includes the identification of the personnel, including named Board members, to whom such disclosures can be made. This policy is reviewed annually to ensure that it is in line with current best practice and the most recent review, which was reported to the ARAC, was completed in October 2015. The policy is published internally and on the LSB website.

In addition, a Reporting and Investigation Scheme has been published setting out the process by which persons external to the LSB may report any allegations of fraud or corruption. Such disclosures

may also be made to a range of senior LSB staff as well as named Board members.

There were no whistleblowing incidents reported during the year.

Review of the effectiveness of the risk and governance framework

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

Significant control issues

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

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

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

Code 5.9 – At least one, but preferably more, of [the Audit and Risk Assurance Committee] members has recent and relevant financial experience –

Up to October 2015, Philip Lindsell, a chartered accountant, provided support to the ARAC on the basis that none of the three Board members who had served on the Committee during 2015/16 have relevant or professional financial experience. From November 2015, John Ward, also a chartered accountant, provided similar support to the Committee.

Conclusion

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

Remuneration and staff report

Appointments

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

The Chairman, Sir Michael Pitt, was appointed on 1 May 2014 for a three-year term. The Chairman is required to commit at least 70 days per annum to the work of the LSB.

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

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

As at 31 March 2016, there were seven Board Members - four men and three women.

Termination

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

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

Performance conditions

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

The remuneration of the Chief Executive is determined following a recommendation to the Board by its Remuneration and Nomination Committee and in consultation with the MoJ. The performance of the Chief Executive is reviewed annually by the Chairman. The first review for Neil Buckley will be in 2017/18.

Name	Date Appointed	Date Appointment Ends (actual date shown if appointment already expired)
Sir Michael Pitt (Chairman)	1 May 2014	30 April 2017
William Moyes	1 September 2008	30 September 2015
Edward Nally	14 February 2011	30 September 2015
Terry Babbs	1 April 2013	30 September 2017
Anneliese Day QC	1 April 2013	31 March 2016
Marina Gibbs	1 April 2014	31 March 2017
David Eveleigh	1 April 2014	31 March 2017
Dr Helen Phillips	9 March 2015	31 March 2018
Richard Moriarty (former Chief Executive)	2 February 2015	11 January 2016
Neil Buckley (Chief Executive)	4 January 2016	(see termination note above)

This table has been audited

LSB Board Member	Annual salary Rate	2015/16			2014/15		
		Salary	Pension	Total	Salary	Pension	Total
Sir Michael Pitt (Chairman)	63,000	63,000	-	63,000	57,750	-	57,750
David Edmonds (Chairman until 30/4/14)	63,000	-	-	-	5,250	-	5,250
Terry Babbs	15,000	15,000	-	15,000	15,000	-	15,000
Anneliese Day QC	15,000	15,000	-	15,000	15,000	-	15,000
Marina Gibbs	15,000	15,000	-	15,000	15,000	-	15,000
David Eveleigh	15,000	15,000	-	15,000	15,000	-	15,000
Dr Helen Phillips	15,000	15,000	-	15,000	966	-	966
William Moyes	15,000	7,500	-	7,500	15,000	-	15,000
Edward Nally	15,000	7,500	-	7,500	15,000	-	15,000
Chris Kenny (Chief Executive 1/1/09 to 30/11/14)	160,000	-	-	-	107,590	24,000	131,590
Richard Moriarty (Chief Executive 2/2/15 to 11/1/16)	142,500	99,984	32,437	132,421	22,596	3,475	26,071
Neil Buckley (Chief Executive from 4/1/16)	140,000	35,000	4,527	39,527	-	-	-

Remuneration of Chairman and Board Members

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

The LSB's employees

LSB employees are not civil servants but public servants. LSB colleagues do not have access to the Principal Civil Service Pension Scheme or any other defined benefit scheme. As at 31 March 2016 the LSB had 24 full time employees and 7 part time employees. 61% of the staff complement were women. The LSB supports a range of flexible working patterns.

The LSB's average sickness absence was 3.98 days per full time equivalent (4.1 days 2014/15).

Pension liabilities

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

Fair Pay Disclosures (audited)

As at 31 March 2016 the Senior Leadership Team, excluding the Chief Executive, comprised seven senior civil service equivalents– three men and four women.

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

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

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

	Male	Female
LSB Board Members	4	3
Consumer Panel	2	5
Senior Civil service equivalents	3	4
All others	8	15

In 2015/16 the annual full-time equivalent rate of remuneration ranged from £23,300 to £142,500. (2014/15 £23,000 to £160,000). In 2014/15, a pay award of 1% of salary budget was distributed on a flat percentage basis to all eligible colleagues bar the Chief Executive.

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

The contractual salary of the most-highly paid Director who was also the most highly paid individual at the LSB in the financial year 2014/15 was £142,500. This was 3.03 times the median salary of the workforce, which was £46,959.

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

**Staff policies, equality and
colleague involvement**

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

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

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

The LSB maintains an open management style and strives to involve colleagues fully in matters affecting them. It holds regular all-colleague meetings, and colleagues are consulted on matters affecting their employment and welfare. Building on the results from the first colleague engagement survey carried out in November 2012, the LSB continues to carry forward the learning and organisational development points that emerged. A new survey was conducted during the year and the executive are considering the new organisational development points from this.

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

Staff numbers and related costs (audited)

Staff remuneration

	2015/16 Permanent Staff	2015/16 LSB Board	2015/16 OLC Board	2015/16 Consumer Panel	2015/16 Total	2014/15 Total
	£000	£000	£000	£000	£000	£000
Wages and Salaries	1,598	153	116	127	1,994	1,934
Social security costs	187	13	8	11	219	215
Pension costs	309	-	-	10	319	319
Other staff costs	18	-	-	-	18	14
Total	2,112	166	124	148	2,550	2,482

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

- Wages and salaries include a 10% benefits allowance paid to all staff, excluding the Chief Executive, as part of the LSB's Total Reward Scheme. Staff can purchase benefits from a menu of choices or take this as cash and the LSB operates a salary sacrifice scheme.
- Other costs include death in service and payments and such items as childcare vouchers

- Consumer Panel costs include the fixed fees paid to the Panel members as well as the supporting secretariat of two LSB colleagues
- LSB Board fees, which are disclosed in 'Wages and salaries' are also included in Remuneration of Chairman and Board Members table

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

	2015/16	2015/16	2014/15
	Permanent staff	Total	Total
Directly employed – LSB	28.7	28.7	27.4
Directly employed- Panel secretariat	1.7	1.7	2.0
Total	30.4	30.4	29.4

Redundancy costs are accounted for in full in the year that an irrevocable decision has been made. There have been no redundancies in 2015/16 or 2014/15. Consequently the cost of redundancy payments in 2015/16 was £nil (2014/15- nil).

Parliamentary accountability and audit report

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

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

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

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

Regularity of expenditure (audited)

Losses and special payments - there were no losses or special payments in 2015/16 (2014/15- Nil).

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

Long-term expenditure trends - the LSB's initial budget for its' first full year of normal operations was £4,931k. The Accounting Officer has made an initial commitment to reduce this to £3,503k by 2019/20 subject to the functions of the LSB remaining the same as at present.

Neil Buckley
Chief Executive and Accounting Officer
29 June 2016

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 2016 under the Legal Services Act 2007. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures that is described in that report as having been audited.

Respective responsibilities of the Board, Accounting Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that

the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Legal Services Board's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Legal Services Board; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Legal Services Board's affairs as at 31 March 2016 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Legal Services Act 2007 and directions issued thereunder by the Lord Chancellor with the approval of HM Treasury.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

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

July 2016

Financial Statements

Statement of Comprehensive Net Expenditure for the year ended 31 March 2016			
	Note	2015/16 £'000	2014/15 £'000
Programme costs			
Staff costs	5	2,550	2,482
Depreciation/Amortisation	6 and 7	39	40
Other programme costs	2	998	1,399
		3,587	3,921
Income			
Levy income	3	3,342	3,921
Refund of legal costs	4	223	-
Designation and application fees	4	22	-
		3,587	3,921
Net (income)/expenditure		-	-

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

The notes on pages 47 to 55 are part of the financial statements.

Statement of Financial Position as at 31 March 2016			
	Note	31 March 16 £'000	31 March 15 £'000
Non-Current assets			
Property, Plant & Equipment	6	102	134
Intangible assets	7	27	34
Total non-current assets		129	168
Current assets			
Trade and other receivables due within one year	10	117	46
Cash and cash equivalents	8	7,081	7,061
Total current assets		7,198	7,107
Total assets		7,327	7,275
Current liabilities			
Trade and other payables	11	960	908
Total current liabilities		960	908
Assets less liabilities		6,367	6,367
Taxpayers' equity			
Income and Expenditure reserve		6,367	6,367
		6,367	6,367

Neil Buckley
Accounting Officer
29 June 2016

The notes on pages 47 to 55 are part of the financial statements.

Statement of Cash Flows for the year ended 31 March 2016			
	Note	2015/16 £'000	2014/15 £'000
Cash flows from operating activities			
Net operating cost		-	-
(Increase)/Decrease in trade and other receivables		(71)	(9)
Increase/(Decrease) in trade and other payables		52	392
Depreciation/Amortisation		39	40
Net inflow/(outflow) from operating activities		20	423
Cash flows from investing activities			
Purchase of property, plant and equipment		-	(76)
Purchase of intangible assets		-	(36)
Net cash outflow from investing activities		-	(112)
Net increase/(decrease) in cash and cash equivalents in the period		20	311
Cash and cash equivalents at the beginning of the period	8	7,061	6,750
Cash and cash equivalents at the end of the period	8	7,081	7,061

The notes on pages 47 to 55 are part of the financial statements.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2016		
Income and Expenditure Reserve		
	Note	£'000
Balance as at 1 April 2014		6,367
Changes in Taxpayers' Equity 2014/15		
Comprehensive net expenditure for the year		-
Notional transfer to Consolidated Fund		3,921
Notional receipt from sponsoring department		(3,921)
Balance at 31 March 2015		6,367
Balance at 1 April 2015		6,367
Changes in Taxpayers' Equity 2015/16		
Comprehensive net expenditure for the year		-
Notional transfer to Consolidated Fund	1b	3,364
Notional receipt from sponsoring department	1b	(3,364)
Balance at 31 March 2016		6,367

Notes to the financial statements

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2015/16 Government Financial Reporting Manual (FReM). The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy that is judged to be most appropriate to the particular circumstances of the LSB for the purpose of giving a true and fair view has been selected. The particular policies adopted by the LSB are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

(a) Accounting convention

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

(b) Income

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

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

Comprehensive Net Expenditure by reference to the stage of completion.

The LSB, in conjunction with the MoJ and HMT, are seeking to identify a suitable legislative vehicle to make an amendment to s175 of the Act. This is to confirm the current practice whereby the LSB retains all amounts received through the levy and any prescribed fees rather than passing this over to the Consolidated Fund and then having the same amounts returned to it by the MoJ. The LSB believes that this was the intention of Parliament when debating the Bill setting up the LSB although some of the drafting of s175 does not capture this intent correctly. To comply with the strict requirements of s175 for the year ended 31 March 2016 the MoJ will be responsible for making a payment on behalf of the LSB to the Consolidated Fund equivalent to the income received by the LSB for the year from the levy and prescribed fees. Accordingly, a notional transfer to the Consolidated Fund has been shown in the Statement of Changes to Taxpayers' Equity. An equal amount is shown as a notional receipt from the sponsoring department.

(c) Capitalisation policy for non-current assets

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

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

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

and fittings individual items with a cost of £500 or greater are capitalised where the total grouped purchase is £2,500 or more.

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

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

(d) Research

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

(e) Depreciation/amortisation

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

Tangible PPE	
Information Technology	4-7 years
Furniture, fixtures and fittings	5-8 years
Intangible non-current assets	
Software licences	3-7 years

In line with IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets, the LSB has reviewed the useful economic lives and residual values of its PPE and extended its depreciation/amortisation period by an additional year. The effect of this

change on the Statement of Comprehensive Net Expenditure is to reduce the charge for the year from £41k to £39k.

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

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

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

(g) Taxation

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

(h) Going concern

The LSB receives funding from the approved regulators through the levy for its operating costs. This arrangement has been enshrined in legislation through a Statutory Instrument and levy funding will continue until there are changes to primary legislation. The MoJ has confirmed an overall budget for the LSB (£3.998m) for 2016/17. The Lord Chancellor has announced a review of the Act during the life of this Parliament but any change or decision to abolish our functions and bring our operations to an end would require primary legislation. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

(i) Pensions

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

(j) Operating leases

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

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

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

The LSB has also considered new standards, amendments and interpretations issued but not yet effective for the financial year beginning 1 April 2016 and not early adopted IFRS 15 (Revenue from contracts with customers), IFRS 9 (Financial Instruments) and IFRS 16 (Leases) and has determined that there would be no material effect on its current or prior period or a future period.

2. Other expenditure

	2015/16 £'000	2014/15 £'000
External legal costs	13	238
Rentals under operating leases (accommodation)	171	153
Outsourced services	99	129
Research costs	330	313
Running costs -One Kemble Street	126	121
Other programme costs	54	57
Recruitment LSB Staff	49	169
Recruitment OLC Members	3	55
Legal library services & reference	32	26
Consumer Panel (non pay)	32	29
Professional advisers	27	18
Training	13	17
Travel and subsistence - LSB Staff	4	6
Travel and subsistence - LSB Board	10	19
Travel and subsistence - OLC Board	10	15
Audit fees for statutory audit work	20	19
Internal audit fees	5	15
Total cash items	998	1,399
Non-cash items		
- Depreciation	32	30
- Amortisation	7	10
Total non-cash items	39	40
Total other expenditure	1,037	1,439

3. Levy income

	2015/16 £'000	2014/15 £'000
Levy income from approved regulators	3,342	3,921
Total	3,342	3,921

4. Sundry income and Designation and application fees

	2015/16 £'000	2014/15 £'000
Refund of costs incurred defending QASA judicial review	223	-
<i>Licensing Authority - application fees: Bar Council</i>	22	-

5. Staff costs

	2015/16 Permanent Staff	2015/16 LSB Board	2015/16 OLC Board	2015/16 Consumer Panel	2015/16 Total	2014/15 Total
	£000	£000	£000	£000	£000	£000
Wages and Salaries	1,598	153	116	127	1,994	1,934
Social security costs	187	13	8	11	219	215
Pension costs	309	-	-	10	319	319
Other staff costs	18	-	-	-	18	14
Total	2,112	166	124	148	2,550	2,482

6. Property, plant and equipment

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

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

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

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

	2014/15 £'000	2014/15 £'000	2014/15 £'000
	Information technology	Furniture, fixtures & fittings	Total

Cost			
At 1 April 2014	217	137	354
Additions	76	-	76
Disposals	(208)	-	(208)
At 31 March 2015	85	137	222

Depreciation			
At 1 April 2014	202	64	266
Provision for the year	13	17	30
Released on disposals	(208)	-	(208)
At 31 March 2015	7	81	88

Net Book Value			
At 31 March 2015	78	56	134
At 31 March 2014	15	73	88

7. Intangible assets

Software licences		Software licences	
	2015/16 £'000		2014/15 £'000
Cost		Cost	
At 1 April 2015	36	At 1 April 2014	129
Additions	-	Additions	36
Disposals	-	Disposals	(129)
At 31 March 2016	36	At 31 March 2015	36
Amortisation		Amortisation	
At 1 April 2015	2	At 1 April 2014	121
Provision for the year	7	Provision for the year	10
Released on disposals	-	Released on disposals	(129)
At 31 March 2016	9	At 31 March 2015	2
Net Book Value		Net Book Value	
At 31 March 2016	27	At 31 March 2015	34
At 31 March 2015	34	At 31 March 2014	8

8. Cash and cash equivalents

	2015/16 £'000	2014/15 £'000
Balance at 1 April	7,061	6,750
Net change in cash and cash equivalent balances	20	311
Balance at 31 March	7,081	7,061

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

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

9. Financial instruments

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

10. Trade receivables and other assets

Amounts falling due within one year		
	2015/16 £'000	2014/15 £'000
Sundry debtors	66	-
Prepayments	34	31
Deposits and advances	17	15
Total trade and other receivables	117	46

11. Trade payables and other current liabilities

Amounts falling due within one year		
	2015/16 £'000	2014/15 £'000
Trade payables		
- External	9	6
Other taxation and social security	69	65
National Audit Office	20	19
Deferred income	711	377
Staff benefits accrual	27	24
Accruals	124	417
Total trade and other payables	960	908

12. Capital commitments

There are no capital commitments (2014/15 - nil).

13. Commitments under leases

Operating leases		
	2015/16 £'000	2014/15 £'000
<i>Buildings</i>		
Not later than one year	166	154
Later than one year and not later than five years	452	419

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

14. Contingent assets/liabilities

There are no contingent assets or liabilities to report.

15. Related party transactions

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

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

The LSB has a direct relationship with the OLC and has some oversight responsibilities for the Ombudsman Scheme that the OLC established. Under the Act the LSB is responsible for appointing and paying the salaries and expenses of the OLC Board members, which for the whole reporting period amounted to £134k (£145k 2014/15). The payments for fees for the OLC Board members for 2015/16 were £116k (£122k 2014/15).

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

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

16. Events after the reporting period

In accordance with IAS 10 *Events After the Reporting Period* events after the reporting period are considered up to the date on which the accounts are authorised for issue. The Accounting Officer authorised these financial statements for issue on 29 June 2016.

There are no events after the reporting period to report.



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