



LEGAL SERVICES
BOARD

Legal Services Board

Annual Report and Accounts for
the Year Ended 31 March 2022



Legal Services Board

Annual report and accounts 2021-2022

For the period 1 April 2021 to 31 March 2022

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Performance report

Overview

Statement from the Chair

This Annual Report for 2021/22 describes the work we completed and our impact in delivering the first year of our strategy for the legal services sector – Reshaping Legal Services.

The golden thread of the strategy is the need to reshape legal services to better meet society's needs.

Our work focused on addressing nine challenges facing the legal services sector. We have grouped the nine challenges under three strategic themes: fairer outcomes, stronger confidence and better services.

When we published the strategy, we made clear the importance of joint working across the sector to deliver our vision. I am enormously encouraged by the levels of collaboration that we have seen over the last 12 months.

We worked closely with the regulators and the Legal Services Consumer Panel (LSCP) in response to the Competition and Markets Authority's recommendations on ensuring consumers have better access to information about the service and quality of legal services providers. We have developed a statement of policy on consumer empowerment that outlines how the regulators should ensure that those who need legal advice can better shop around and choose the provider most suited to their needs.

We engaged broadly and consulted on our review of ongoing competence, which will ensure regulators have effective frameworks to monitor and assure the ongoing competence of professionals throughout their careers, thereby ensuring high-quality legal services and stronger public confidence. We will finalise our statement of policy in 2022/23, which will help ensure consumers can trust

that legal professionals have the necessary skills, knowledge, and attributes to provide high-quality legal services and keep them up to date and relevant over time.

Our business plan for 2022/23 focuses on strengthening progress in overcoming the sector's challenges. It outlines the areas where the Legal Services Board (LSB) and robust independent regulation can significantly impact legal services, ensuring they work better for consumers and society.

We will continue to use our regulatory levers to drive up standards and implement a new approach to regulatory performance. The new framework will place greater emphasis on leadership, delivering the regulatory objectives and running effective operations. While it will set out the LSB's expectations more clearly than ever before, it will also provide much greater freedom to regulators to decide how best to meet those expectations.

This will be my final year as Chair, following a maximum eight year term on the Board, and I remain committed to delivering effective regulation that produces positive change for society.

As part of our commitment to openness and being a well-run organisation, we will commission an external evaluation of the Board to assess our effectiveness and performance as we did in 2018. This will help ensure we have the right governance and expertise to deliver our vision. We also conduct an internal review of our performance as a Board each year.

Through our equality, diversity and inclusion (EDI) work, we will continue to support a profession that reflects wider society and can meet consumers' differing needs. We will make sure

regulation plays its part in full in creating a more inclusive sector, for example, by supporting tough action on anti-inclusive misconduct and cultures and continuing to push for proper evaluation of EDI interventions. I will also continue to play an active role in the Judicial Diversity Forum and collaborate with others across the sector to create a more diverse judiciary and profession.

We will continue to set an open stance for regulation and technology through our technology and innovation workstream. As we have seen during the Covid-19 pandemic, technology has a vital role in enabling people to access legal services. We want to support the sector to build on what we have learned to benefit consumers and the profession.

We will encourage the legal regulators to actively look for opportunities to collaborate with innovators to identify and reduce barriers – be they technical, practical, or about confidence. Also, by developing appropriate regulatory frameworks, we can build public trust and confidence and help reduce unmet legal need.

Our new business plan includes projects devised in response to issues emerging in the sector. Our workstream on financial protection arrangements responds to mounting concerns about regulators' compensation fund arrangements and the professional indemnity insurance market. This project will build on work already started to help strike the right balance between protecting consumers and the associated costs of that protection. This will, in turn, support public confidence in the legal sector.

The business plan also outlines how we will continue to use research to support evidence-based decision making and support the work of others. This includes continuing to seek views directly from the public as part of our policy development.

Working with the Ministry of Justice, we will continue monitoring the Office for Legal Complaints (OLC), as is our statutory duty. The OLC is the board of the Legal Ombudsman, the free service that investigates complaints about lawyers in England and Wales. We remain committed to supporting its efforts to get it in the right long-term shape to discharge its statutory responsibilities to the highest possible standards

of quality and timeliness to build and maintain the trust of complainants and the profession.

In April 2022, we welcomed Habib Montani as a new non-lay (solicitor) member of the LSB, while Michael Smyth QC stepped down at the end of his second term of office. I want to thank Michael on behalf of the Board for the significant contribution he made to the LSB during his six years with us.

I was pleased that during 2021/22, we were able to continue meeting stakeholders around England and Wales. We plan to continue this next year and engage with the wide range of people who have a vital role in reshaping legal services to better meet society's needs.

Dr Helen Phillips
Chair

10 June 2022

Overview

Statement from the Chief Executive

We have made good progress since we published our consumer-focused strategy for the sector, Reshaping Legal Services, in March 2021. It was developed against the backdrop of the Covid-19 pandemic, and, as we've supported the sector's recovery, ensuring legal services are accessible and meet the needs of society have been front and centre of our work.

Discharging our statutory functions

We continued to discharge our statutory functions during the year, including considering applications for alterations to regulatory arrangements, practising certificate fee (PCF) applications in line with our new Practising Fee Rules 2021, and monitoring the regulators' performance. This included completing "well-led" reviews of the Bar Standards Board and the Faculty Office. We initiated them because we had concerns about leadership, decision-making, and governance. We shared the learnings of both reviews with the other legal regulators to help improve the effectiveness of regulation across the sector.

Robust leadership and strong governance are central to effective decision-making. It also builds trust among the public and the profession that the regulators are well-led and use learning to improve performance.

We completed an internal review of our regulatory performance framework before public consultation. This work is central to our duty to promote the regulatory objectives and have regard for the better regulation principles.

Listening to consumers and the public

We continued to ensure that our work was evidence-led and informed by the public's attitudes and views. We engaged what we call our "public panel" – essentially a market research tool focused on legal services – as part of our review of ongoing competence to test some of the findings from our call for evidence and understand public confidence in the current measures. The panel has been a successful innovation that helps keep the public at the heart of our policy development. It has been encouraging to see increased interest amongst the regulators in using the panel.

Diversity and inclusion

Improving diversity and inclusion across the legal services sector continues to be a significant focus, not only because it is the right thing to do but because it brings tangible benefits in terms of, for example, greater ability to innovate and drive higher standards. Diversity of thought enables new ideas to arise and will help the sector find different and better ways to meet consumers' needs. It will raise standards, promote competition, and all citizens' will reap the benefits.

We want to dismantle barriers to a diverse and inclusive profession so that the sector better reflects the society it serves. We published research on evaluation and best practices and strengthened our rules on equality and diversity impact assessments as part of our statutory decisions work.

We also developed a joint statement on "counter inclusive" practices, which the regulators and the legal disciplinary tribunals have signed up to.

Collaborating to drive consumer-focused change

When we published the Reshaping Legal Services strategy, we made clear the importance of collaboration to address the challenges in the legal services sector.

In that vein, we agreed to coordinate activity across the regulators and broker collaboration to improve consumer engagement in the market. Through the Market Transparency Co-ordination and Oversight Group, we worked with the regulators and the Legal Services Consumer Panel (LSCP) to progress our work to empower people to make informed choices when looking for legal services. This includes developing a draft statement on consumer empowerment.

Promoting the safe use of technology to increase access to justice

Technology has the potential to improve access to legal services. It can enable people and small businesses to get advice and support in a way, and at a time, that suits them. It can also help legal professionals carry out their work in new ways that make them more competitive, reduce costs and support growth.

As the oversight regulator for legal services, we have an important role in fostering the safe use of technology and working with others to promote public trust and confidence.

We maintained and promoted an open stance toward technology and worked with partners to understand public attitudes.

We are working with regulators to develop a “single digital register”, a central database of regulatory information. We also published research with our public panel on the social acceptability of technology.

For a second year, we supported the LawtechUK sandbox through our involvement in the Regulatory Response Unit. The sandbox fast tracks transformative ideas, products and services that address the legal needs of businesses and society.

Driving action through research

We also published joint research with LawtechUK on how SMEs address their legal problems and attitudes to legal technology solutions.

We published mystery shopper research showing that consumers are not getting the information they need from insurance comparison websites. We concluded that the insurance sector needs to make legal expenses insurance more accessible.

We called on the insurance industry and legal service providers to support consumers by raising awareness of legal expenses insurance, incentivising better quality products, and building trust through greater transparency. We will continue to engage stakeholders on this issue to increase access to justice.

Promoting an independent, strong, diverse and effective legal profession

In response to the Russian invasion of Ukraine, we moved swiftly to co-ordinate work with all of the regulators, the Office for Financial Sanctions Implementation, the Office for Professional Body Anti-Money Laundering and the Ministry of Justice (MoJ) to reinforce the sanctions regime. We all recognise the important role that the regulated community has to play to ensure the effectiveness of the regime as it applies to legal services and will do all we can to raise awareness and ensure compliance and enforcement.

Matthew Hill
Chief Executive

10 June 2022

Overview of our sector-wide strategy, regulatory objectives and behaviours in 2021/22

Sector-wide strategy: Reshaping legal services to better meet society's needs

Fairer outcomes

- Challenge (C1): Lowering unmet legal need across large parts of society
- Challenge (C2): Achieving fairer outcomes for people experiencing greater disadvantage
- Challenge (C3): Dismantling barriers to a diverse and inclusive profession at all levels

Stronger confidence

- Challenge (C4): Ensuring high quality legal services and strong professional ethics
- Challenge (C5): Closing gaps in consumer protection
- Challenge (C6): Reforming the justice system and redrawing the regulatory landscape

Better services

- Challenge (C7): Empowering consumers to obtain high quality and affordable services
- Challenge (C8): Fostering innovation that designs services around consumer needs
- Challenge (C9): Supporting responsible use of technology that commands public trust

Regulatory objectives

RO1 – Protecting and promoting the public interest

RO2 – Supporting the constitutional principle of the rule of law

RO3 – Improving access to justice

RO4 – Protecting and promoting the interests of consumers

RO5 – Promoting competition in the provision of services

RO6 – Encouraging an independent, strong, diverse and effective legal profession

RO7 – Increasing public understanding of the citizen's legal rights and duties

RO8 – Promoting and maintaining adherence to the professional principles

Discharging our statutory functions

Regulatory performance and reviews
Oversight of the Office for Legal Complaints
Oversight of the Solicitors Disciplinary Tribunal

Behaviours

Lead

Innovate

Transform

Communicate

Statement of the purpose and activities of the LSB

Our purpose

The LSB oversees the regulation of legal services in England and Wales. It is independent of both government and the legal profession. We monitor the performance of the approved legal regulators for the different branches of the profession to ensure they meet expected standards. When those standards are not met, we set action plans for regulators, and where necessary, undertake targeted performance reviews.

We put the public, who benefit from legal services, and the people who use or need those services at the heart of what we do and promote the public interest through ensuring independent, effective and proportionate regulation.

In March 2021, we published a sector-wide strategy centred around reshaping legal services to better meet society's needs. We contribute to this by:

- deploying regulatory incentives and levers that accelerate change
- making policy change tools available for consumers and innovators to use
- using our convening role to shape public debate and foster collaboration.

The Legal Services Act 2007 (the Act) established the LSB on 1 January 2009 and we took on most of our statutory powers and duties on 1 January 2010. We are publicly funded, although our costs are recovered from a statutory levy on the approved legal regulators. They in turn derive their funding from fees paid by the legal profession. Our funding mechanism helps preserve our independence of the legal profession. By way of illustration, if averaged across all those authorised to undertake reserved activities, our levy in 2021/22 corresponded to £22.11 per person (2020/21

£21.95). The average for the previous three years (2019/20 to 2021/22) is £21.78, down from over £34 at its peak in 2009/10.

The regulated community

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

We also have responsibilities in relation to the Office for Legal Complaints (OLC). The Legal Ombudsman scheme resolves complaints about lawyers. Our relationship with the OLC is set out in the Act and is guided by a Memorandum of Understanding and a three-way operating protocol with the OLC and the Ministry of Justice (MoJ). We approve the OLC's annual budget, can set or agree performance targets, and appoint its Chair and Board.

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

Our regulatory responsibilities

The regulatory objectives (RO) are set out in the Act (see page 8). We share these objectives with the approved regulators and the OLC.

The ROs include promoting and maintaining adherence to the professional principles, which are:

- 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, contained within the Act stipulate that in all our activities we must aim to be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed.

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

When holding regulators to account, we have a wide range of formal and informal tools available to us.

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

Our oversight of the regulators is designed to ensure that they have the competence, capability and capacity to promote the regulatory objectives, always in the interests of the public and free from undue influence of the professions.

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 marketplace 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 include the power to set performance targets, give directions, publicly censure a body, impose a fine, intervene in the running of a regulatory authority in relation to any of its regulatory functions and ultimately recommend cancellation of a body's designation as regulatory authority
- regulation, education and training – we have a duty to assist in the maintenance and development of standards of regulation by approved regulators and in the education and training of persons carrying out reserved legal activities
- scope of regulation – we have powers to make recommendations to the Lord Chancellor on the designation of new activities as reserved and the removal of existing designations.

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

Key issues and risks

During 2021/22, the LSB maintained its active management of risks in line with our risk management strategy. The following four risks were of particular concern:

- public confidence in legal services regulation being undermined because consumers continue to be underserved by the Legal Ombudsman
- poorer consumer outcomes and low confidence in the legal services sector owing to lack of diversity in the profession
- Board turnover during 2023 having a destabilising effect
- regulators lack capacity and/or capability to deliver against expectations

These risks are discussed in more detail in the Performance analysis section on page 24.

Performance summary

The Business Plan (the Plan) for 2021/22¹ was the first year of our sector-wide strategy². The Plan set out an ambitious programme of work, including longer-term projects designed to reshape legal services.

The Plan was agreed with the understanding that the LSB would remain agile during the Covid-19 pandemic, reviewing its objectives and, if necessary, adapting its approach.

As of 31 March 2022, alongside fulfilling its in-year obligations to make statutory decisions on matters emerging from the regulators, the OLC and the SDT, the LSB had delivered most of the work set out in its Plan. There are some elements of work that will be carried over into 2022/23, including workstreams in our business plan for 2022/23.

Financial performance

Our income this year, excluding deferred income, was £4.104m and our actual outturn was £4.053m excluding the release of the PAYE provision of £21k, resulting in an underspend of £51k. Significant underspends which for many years were a regular feature have been eradicated as a result of the introduction of robust, integrated processes of budgeting, forecasting and in-year management accounting. We have reached a broadly optimal level of resourcing which we believe is necessary for the successful delivery of our work but which keeps our costs at an acceptable level.

	2021/22	2020/21
	£'000	£'000
Budget	4,098	3,923
Income received	4,104	3,923
Expenditure	4,032	3,979
PAYE provision movement	(21)	74
Expenditure excluding PAYE movement	4,053	3,905
Underspend	51	18

The average levy of £22.11 per person is calculated based on £4.080m billed to approved regulators in 2021/22, up from £3.920m in 2020/21. Since any underspend that the LSB achieves in one year reduces the amount it needs to collect through the levy in the subsequent year, the increase in the budget underspend from £2k in 2019/20 to £18k in 2020/21 has helped reduce the increase in the average levy per authorised person to only 16p for 2021/22 (68p 2020/21).

¹ https://legalservicesboard.org.uk/wp-content/uploads/2021/03/Final-Business-Plan-2021-2022_FINAL-For-web2.pdf

² https://legalservicesboard.org.uk/wp-content/uploads/2021/03/Strategy_FINAL-For-Web2.pdf

Going concern basis

Whilst the Act remains in place, the LSB is required to fulfil its statutory functions. To fund our activities, the Lord Chancellor has agreed that a levy of £4.287m for 2022/23 may be raised from the approved regulators to fund our budget. The financial statements have therefore been prepared on a going concern basis.

We continued to keep the medium and longer-term potential impact of Covid-19 on the LSB as a going concern. We have not experienced any detriment to our operations as a result of Covid-19 in 2021/22.

Performance analysis

Demonstrating performance at the LSB

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

Performance against the Plan

One of our key measures is how we perform in delivering our Plan. 2021/22 is the first year that we are working towards our new sector-wide strategy. Our aim is to reshape legal services to better meet society's needs and our work is organised around the three strategic themes and nine key challenges (see page 8).

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

Throughout the year, we track our performance against the Plan through several mechanisms.

Project teams report monthly to the LSB's Programme Board where progress, risks and issues are assessed. The Programme Board report is reviewed by the Senior Leadership Team (SLT) monthly and we prepare quarterly performance reports, which are reviewed by the Board, submitted to our sponsor department, the MoJ, and published on our website.

We review the impact that our work and the Act's reforms more broadly are having on the legal services market through our market evaluation programme. In particular, in November 2020 we published our State of Legal Services 2020 report – a major study which reviewed progress over ten years of legal services regulation.

The report was underpinned by a long-running research programme which looks at how the legal services market is changing. This programme of research will continue as we monitor the impact of the strategy and build towards the 2025 edition of the State of Legal Services report.³

A detailed breakdown of work carried out in 2021/22 is set out in the following pages.

³ Our last State of Legal Services report was published in November 2020 and can be found on our website.
<https://legalservicesboard.org.uk/state-of-legal-services-report-2020>

Policy and research projects 2021/22

In 2021/22, we were engaged in the following work to reshape legal services

Equality, diversity and inclusion (EDI)				<p>In 2021/22, we continued our focus on EDI and strengthened our collaboration with the regulators and others.</p> <p>We developed a cross-sector statement of principles to tackle counter-inclusive misconduct, which we published in June 2022. We also continued to support the Judicial Diversity Forum in developing a high-level framework for the evaluation of judicial diversity initiatives by commissioning research and providing training on evaluation methodology. We strengthened the requirements in our new rules for regulators so that they demonstrate consideration of EDI when making changes to their regulatory arrangements and apply for approval for practising certificate fees.</p> <p>Additionally, we joined the Regulators EDI Forum to use our collective efforts to focus on areas such as: increasing our understanding of the barriers to entry, progression and retention in the legal sector and how to address the challenges; the evaluation of regulatory initiatives; and exploring how to pool our experiences to identify and eliminate counter-inclusive behaviour and practices.</p> <p>We will continue our EDI work in 2022/23.</p>
C3				
RO1	RO3	RO4	RO6	
RO8				
<p>This column outlines the challenges and regulatory objectives each project relates to – see page 8 for full description.</p>				
Consumer empowerment				<p>Many consumers do not have the right tools and information to engage effectively with the market and make informed choices. In 2021/22, we focused on driving progress by the regulatory bodies to empower consumers and improve their knowledge and understanding of the legal services market.</p> <p>In April 2021, we closed a discussion paper on quality indicators in legal services. This informed a draft statement of policy on empowering consumers, which we consulted on in September 2021. We published the final statement in April 2022.</p> <p>In 2021/22, we also introduced the Market Transparency Co-ordination and Oversight Group. This LSB-chaired group offers a forum for members to share insights and collaborate on issues relating to empowering consumers. The group meets quarterly and is attended by the regulators and Legal Services Consumer Panel. Workstreams this year include the scoping of a centralised database of regulatory information and a public legal education strategy.</p>
C1	C2	C4	C5	
C6	C7			
RO3	RO4	RO5	RO7	

In 2021/22, we were engaged in the following work to reshape legal services

Technology and innovation				In 2021/22, we focused on how legal services regulation can foster technological innovation that opens-up access to legal services.
C8	C9			In partnership with the Solicitors Regulation Authority, we commissioned research with the Public Panel on citizen and solicitor attitudes to technological innovation. This research was published in May 2022. We continued to support the LawtechUK Sandbox through our participation in the Regulatory Response Unit; we provided support to participants and worked with other regulators to develop a joint statement on digital identification tools. In October 2021, we published research, in collaboration with LawtechUK, into SMEs experience of using legal technology.
RO3	RO4	RO5	RO6	
				We will continue our technology and innovation project in 2022/23. This will include a public statement on how legal services regulators can foster technological innovation, and finalising recommendations on improving access to regulatory information.
Ongoing competence				In 2021/22, we continued our work to review how legal regulators ensure that the legal professionals they regulate remain competent throughout their careers.
C1	C2	C3	C4	We published independent research on the public's confidence in the current arrangements for ongoing competence (from the Public Panel) and international approaches to ongoing competence (Hook Tangaza).
C5	C7	C8		
RO1	RO2	RO4	RO6	We developed and consulted on proposed new expectations for how regulators ensure ongoing competence. We launched a consultation on a set of draft outcomes in December 2021 which closed in March 2022. We are currently analysing the responses.
RO8				
				We expect to finalise the new statement of policy in Q2 2022/23.
Scope of regulation				In 2021/22, we undertook work to better understand the unregulated legal services market to support a possible future review of the reserved legal activities.
C5	C6			We engaged with both regulated and unregulated providers and met with various Law Society committees, the Ministry of Justice, HM Treasury and the Intellectual Property Office. We also conducted a survey with the main will-writing trade associations, the Society of Professional McKenzie Friends, Institute of Paralegals and via the Legal Ombudsman. In a ground-breaking information sharing agreement, Citizens Advice gave us access to an extensive database of cases studies and we used Trustpilot to compare consumer feedback between regulated and unregulated providers.
RO3	RO4	RO5	RO7	
				We plan to publish the findings from our research mapping the unregulated legal services sector in Q1 2022/23, which will include a set of scorecards explaining the current status in different practice areas.

In 2021/22, we were engaged in the following work to reshape legal services

Legal expenses insurance				<p>The sector-wide strategy includes the aim that most households will have legal expenses insurance or other mechanisms enabling them to access a wide range of legal services free at the point of need within the next decade. We also want to ensure that consumers can exercise choice, access good quality products and are well protected.</p> <p>In June 2021, we published qualitative research with the Public Panel on attitudes towards legal expenses insurance and held an industry roundtable. In November 2021, we published the findings of a mystery shopping exercise that gathered information about legal expenses insurance on price comparison websites. In the same month, we published a document setting out our key asks of the sector. In April 2022, as a contribution to improving satisfaction with these products, we published an independent analysis of case decisions by the Financial Ombudsman Service.</p>
C1	C4			
RO3	RO4	RO7		
Legal support for small businesses				<p>In 2021/22, we carried out the fourth wave of our unique largescale research on the legal needs of small businesses using an updated methodology. The research provided new insights on: levels of legal need and unmet legal need; the impact of EU exit and Covid-19 on legal issues and dealing with them; levels of legal capability; and use of technology to access legal services. While regulators tend to focus on the legal needs of individuals, the research showed that small businesses also face a significant access to justice gap and struggle to engage in the market.</p> <p>We published this research in May 2022. We used the insights from the research to call for a small business legal support strategy and identified the key issues such a strategy should address.</p> <p>We also developed a segmentation model of adults in England and Wales based on legal capability using the 2019 Individual Legal Needs Survey dataset. This has helped us to identify particular groups who are more likely to have unmet legal needs. It is also informing segmentation work being started by two of the regulatory bodies.</p>
C1				
RO3	RO4			
People in vulnerable circumstances				<p>In October 2021, we moderated a session at the International Conference of Legal Regulators on how to address vulnerabilities to reduce unfairness and improve legal capability. We commissioned case study research that explored what vulnerabilities exist when people use legal services and the barriers that they experience. This research was published in June 2022. The research included a rapid review of existing literature and vulnerability in legal services and inclusive design, interviews with people working in support and advice organisations, and interviews with people who had used the services of a legal professional in the last eighteen months.</p> <p>In 2022/23, we will use the findings from this research to promote a more strategic approach to vulnerability in the design and delivery of legal services.</p>
C2	C4			
RO1	RO2	RO3	RO4	

In 2021/22, we were engaged in the following work to reshape legal services

Policy framework assessment				<p>In 2021/22, we catalogued and analysed all the rules, guidance and policy statements made by the LSB to establish our priorities for future review.</p> <p>This work informed our proposed workplan for 2022/23.</p>
C1	C2	C3	C4	
C5	C7	C8		
RO1	RO2	RO3	RO4	
RO5	RO6	RO7		

Discharging our statutory functions

In 2021/22, we were engaged in the following work to discharge our statutory functions

Regulatory performance				<p>Our regulatory performance framework assesses regulators' performance against a common set of standards and outcomes to ensure that consumers can rely on regulators to provide good quality regulation.</p>
C4	C5	C7		
RO1	RO4	RO8		<p>In December 2021, we published our latest comprehensive annual review of the regulators' performance. Alongside our review of evidence of the regulators' performance over the year, our report also took account of the findings of our reviews of the performance of the Bar Standards Board (BSB) and the Faculty Office (FO) against the Well-led standard (see Well-led reviews below). The 2021 report also included our assessment of regulators' approaches to transparency. As was the case in 2020, our overall assessment of regulators' performance identified that several regulators continue to find it difficult to meet all the outcomes in the Well-led and Regulatory Approach standards. Regulators performed better against the Authorisation, Supervision and Enforcement standards.</p>
Well-led reviews				<p>In 2021/22, we concluded our reviews of the BSB and FO against the Well-led standard of the regulatory performance framework. The reviews were published in July and September 2021.</p> <p>Our BSB review found issues with its governance and decision-making processes, raising concerns that the interests of the public and consumers were unduly outweighed by those of the profession in respect of key decisions.</p> <p>Our FO review found that its processes for managing its recruitment, finances, and preventing conflicts of interest were not sufficiently documented or transparent and that it had limited insight about the issues notaries and consumers of notarial services faced.</p> <p>Both the BSB and FO developed action plans for addressing the findings from each review. The LSB continues to monitor the BSB and FO's progress against their respective action plans through its regular regulatory performance work (see Regulatory performance above).</p>
C4	C5	C7		
RO1	RO5	RO8		

In 2021/22, we were engaged in the following work to discharge our statutory functions

Regulatory performance framework review

C2	C3	C4	C5
----	----	----	----

C6	C8	C9	
----	----	----	--

RO1	RO2	RO3	RO4
-----	-----	-----	-----

RO5	RO6	RO7	RO8
-----	-----	-----	-----

In 2021/22, we began a review of our regulatory performance framework. Our current framework was introduced in 2018 with an expectation that it would be reviewed every three years. Since 2018, the LSB and the regulators have gained sufficient experience of the current framework's operation to consider how it might be improved.

Overall, we are seeking to develop a performance framework that:

- Places sufficient emphasis on effective leadership, capability and capacity
- Encourages regulators to take ownership of the regulatory objectives and holds them to account for putting these at the centre of what they do
- Is sufficiently flexible to account for developments in the market and the policy environment.

We will consult on our proposals and expect that our review will conclude in the second part of 2022 to enable assessment against the revised framework to begin in 2023.

Review of process for alterations to regulatory arrangements

C2	C3	C5	
----	----	----	--

RO1	RO4		
-----	-----	--	--

In December 2021, we completed a wholesale review of the materials and processes used for statutory decisions, including our Rules for applications to alter regulatory arrangements. This included specific consideration of our expectations for applications regarding evidence and assessment of impact.

Following the review and a consultation, we published updated rules and guidance to improve the quality of applications for alterations to regulatory arrangements. This will enable us to scrutinise applications robustly and efficiently.

Strategy development

In 2021/22, we were engaged in the following work to support our strategy

Curating the strategy

C1	C2	C3	C4
----	----	----	----

C5	C6	C7	C8
----	----	----	----

C9			
----	--	--	--

RO1	RO2	RO3	RO4
-----	-----	-----	-----

RO5	RO6	RO7	RO8
-----	-----	-----	-----

In 2021/22, we commenced work to maintain momentum to address the challenges identified in the 10-year sector-wide strategy that we published in March 2021. We also continued engaging with a broad range of stakeholders to collaborate and deliver on the strategy.

As part of our work on 'curating the strategy', we developed the Reshaping Legal Services microsite, a platform for regulators and other stakeholders to demonstrate how the sector is progressing against the nine challenges in the strategy. Stakeholders were involved in the site's design and are encouraged to continue to collaborate and share content.

The site will expand over the coming years with evidence and research aligned to the regulatory objectives, showing where we are having an impact and where we need to do more for consumers and the profession. We will also convene an annual conference in 2022/23 that brings together all those with a role in reshaping legal services and galvanises the sector to make a difference for society.

Enabling our business

In 2021/22, we were engaged in the following work to enable our strategy

Value for money

We continually strive to deliver value for money as an organisation. In 2021/22, the LSB's internal auditors reviewed our procurement policy and processes to ensure that we continue to procure goods and services efficiently and effectively and maintain value for money throughout the LSB.

In 2021/22, we also arranged training for our colleagues on theory of change and evaluation methodology. This will enable us to ensure that our policy outcomes are well-defined to help us reshape legal services in line with our sector-wide strategy. We also arranged for a version of this training for sector bodies to support our policy work on EDI (see page 14 for more information on our EDI work).

The increase in direct spend on programmes and projects through external research costs as a percentage of LSB total spend demonstrates effectiveness in how the LSB is increasing its budgetary commitment to direct activities.

	2021/22	2020/21
	£'000	£'000
Research costs	312	212
Total costs	4,032	3,979
Research costs as a % of Total costs	7.7%	5.3%

Information Technology

In 2021/22, we responded to the risk environment and acquired the Cyber Essentials Plus certification. This certification is the highest level of the Government-backed, industry-supported scheme to help protect against online threats, particularly important now given global events and the significantly increased cyber-security risks post-pandemic. It also demonstrates our commitment to technology and innovation (see page 15 for more information on our technology and innovation work).

Human resources

In 2021/22, we conducted our biennial colleague engagement and inclusion survey. Following this, we created an action plan to maintain our high engagement scores and improve on other areas.

In 2021/22 we also created bespoke learning and development plans for all colleagues to link our organisational development to our sector-wide strategy. This will help ensure that all colleagues have the necessary skills to meet our ambitions to reshape legal services. This work will continue in 2022/23.

See page 42 for more information on our staff policies, equality and colleagues involvement.

Performance against statutory performance targets

Under the Act, the LSB must approve alterations to regulatory arrangements before they come into effect. The Act prescribes an initial 28 day period for making a decision that can be extended by the LSB by up to 90 days via an extension notice or by a further year if the LSB is considering refusing an application and issues a warning notice. The LSB also has the power to exempt certain general or specific alterations from the approval process by issuing an exemption direction.

Under the Act, the LSB may recommend to the Lord Chancellor that an applicant body should be designated an approved regulator, licensing authority or an extension to an approved regulator's scope of regulation.

In addition, we have a statutory responsibility to assess and, where appropriate, approve the practising certificate fee application of each regulator and approve the annual budget of the OLC and SDT.

Some of these activities have statutory performance deadlines set out in the Act and we have also developed our own targets.

We continually monitor performance against these deadlines and targets and record both in the monthly programme highlight report and the quarterly performance report. The breakdown of our performance in 2021/22 is shown below. These figures are derived from ongoing records that the LSB maintains of our processing of applications.

Activity	2017/18	2018/19	2019/20	2020/21	2021/22
Decisions on applications to alter regulatory arrangements:					
• Total decisions made	15	13	14	11	17
• Decisions made in the initial decision period of 28 calendar days	7	7	7	5	10
• Decisions made within an extended decision period of 90 calendar days	8	6	7	6	6*
• Average decision time (calendar days)	45 days	39 days	52 days	53 days	41 days
Exemption directions issued	9	14	13	17	14
Publication within target of two working days (internal target):					
• applications to alter regulatory arrangements	100% (16/16)	100% (18/18)	100% (13/13)	89% (16/18)	87% (13/15)
• decisions	94% (15/16)	100% (13/13)	93% (14/15)	100% (11/11)	100% (17/17)
Publication of advice from mandatory consultees, written representation from applicants, and oral representations	100%	None received	None received	None received	None received
Recommendations to the Lord Chancellor	1	2	-	-	-

* One decision took in excess of 90 days – a warning notice was issued, and the decision took 151 days.

In 2021/22, we received 15 new applications concerning a range of regulatory arrangements and made 17 decisions, including 2 decisions on applications received in 2020/21.

2021/22 saw the most decisions made in a reporting year and included the highest number of decisions made during the initial 28-day period. The average time per decision, excluding the warning notice, was 41 days, lower than in recent years. The application from the SRA relating to proposals for its compensation fund took a total of 151 days to process. This included time beyond 90 days because a warning notice had been issued.

We dealt with several significant applications during the year. The aforementioned SRA application resulted in amendments to the SRA's proposals during the assessment period. One application from ICAEW relating to its Disciplinary Bye-Laws was part-granted and an application from ACCA to remove its regulatory arrangements was refused (a subsequent similar application has since been approved following action to ensure effective transfer of previously regulated entities).

Two applications were not published within our target of two working days because one of the applications required a query to be answered by the applicant prior to publication and another application was sent to the LSB as an application for cancellation of designation as an approved regulator and then later recognised as including an application to alter regulatory arrangements.

Performance against budget

The financial performance measure for the LSB is to keep within its annual budget. In doing so, we aim to secure budget efficiencies wherever possible.

The comparative performance against budget is shown below:

	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000
Budget	3,848	3,798	3,798	3,923	4,098
Income received	3,848	3,798	3,798	3,923	4,104
Expenditure	3,470	3,725	3,796	3,979	4,032
PAYE Provision movement	-	-	-	74	(21)
Expenditure excluding PAYE movement	3,470	3,725	3,796	3,905	4,053
Underspend	378	73	2	18	51

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

Income and expenditure are accounted for on an accruals basis. The levy amount billed to approved regulators in 2021/22 was £4.080m (£3.920m in 2020/21). The amount of funds released from deferred income was £18k (£2k released from deferred income in 2020/21). Any underspend that the LSB achieves in one year reduces the amount it needs to collect through the levy in the subsequent year.

We recognise funds received as 'application fees', as defined in the Act at s175(2), for designation and licensing authority applications. Such fees received are initially treated as 'deferred income' and released to the Statement of Comprehensive Net Expenditure in accordance with the value of work undertaken. These fees are set off against the LSB's expenditure and also reduce the levy payable by all approved regulators. There was a termination fee of £6k received from the Association of Chartered Certified Accountants (ACCA) in 2021/22. This has been treated as deferred income from termination fees as at 31 March 2022.

Payment of creditors

We are committed to paying all supplier invoices by the due date or within 30 days of receipt if no due date has been agreed. In line with guidance issued by the Department for Business, Energy and Industrial Strategy and the Cabinet Office, we aim to pay all authorised invoices that are not under dispute within 10 working days from receipt. Throughout 2021/22, 99% of these invoices were paid within 10 working days (2020/21: 98%). 100% of invoices were paid within 30 calendar days (2020/21 100%).

Collection of debt

For the levy relating to 2021/22, £4.077m (100%) was collected within 30 calendar days (2020/21 £3,920k, 100%). There was one overdue levy demand at year end, £3k from the Association of Chartered Certified Accountants (ACCA) which was received in the new financial year 2022/23.

The average time to pay was 21 calendar days (2020/21 23 calendar days).

Performance against other measures

Alternative business structures (ABS)

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

Our view remains that the introduction of ABS continues to have a direct and positive impact, in particular, on the regulatory objectives of protecting and promoting the interests of consumers, promoting competition in legal services and encouraging an independent, strong, diverse and effective legal profession. Their value has been to provide a structure for firms wishing to provide services differently to address legal need. Overall numbers have continued to grow over the last five years, from 746 at the end of 2015/16 to 1,633 at the end of 2021/22. We also have evidence of a wider variety of business models in the market than prior to the emergence of ABS. As at the end of 2021/22, there were 1,151 ABS licensed by the Solicitors Regulation Authority, 298 by the Institute of Chartered Accountants in England and Wales, 84 by the Council for Licensed Conveyancers, 69 by Intellectual Property Regulation Board and 31 by the Bar Standards Board.

Freedom of Information Act (FOIA)

The LSB is a public authority for the purposes of the FOIA, and compliance with our obligations includes routinely making information available through our Publication Scheme and responding to requests within the statutory timeframes.

All requests made under the FOIA must be responded to within 20 working days of receipt. In 2021/22, we received 31 requests, and on average these were responded to within 8 days.

Data

As a data controller under the Data Protection Act 2018, the LSB is required to respond to any subject access requests within 30 calendar days. No subject access requests were received in 2021/22.

We continued our work during 2021/22 to ensure the LSB continued to comply with the General Data Protection Regulations (GDPR).

Environment, social and community issues

The LSB is not required to produce a sustainability report⁴ but we are committed to working with the landlord of our premises to take account of the impact of our activities on the environment. Over the last five years our landlord has made several improvements to the energy efficiency of fixtures and fittings in the building and is intending to set up a green committee to generate ideas for future sustainability.

Within the constraints of business need, we allow colleagues flexibility with working patterns to enable them to undertake public service or other related duties as required. We will continue to be sensitive to the differing needs of different parts of the community. Further details on our staff policies and approach to colleague engagement, equality, diversity and inclusion is on page 42.

During the course of the year, our colleagues supported the London Legal Support Trust by participating in the virtual London Legal Walk, and participating in quiz nights, raising in total over £1,508. Colleagues also took part in the Christmas Jumper Day and donated £50 to Save the Children.

⁴ The LSB is exempt from producing a sustainability report under the Greening Government Commitments because it is an arm's length body occupying less than 500m² and has fewer than 50 FTE staff.

Key risks

During 2021/22, the LSB maintained its active management of risks in line with the organisation's risk management strategy (see page 34). The following four risks were of particular concern to our performance.

Risk	Description and mitigations
Public confidence in legal services regulation is undermined	<p>The LSB has for some time monitored a risk that public confidence in legal services regulation is being undermined because consumers continue to be underserved by the Legal Ombudsman. Mitigations introduced in previous years were refined and new mitigations were introduced.</p> <p>Mitigations:</p> <ul style="list-style-type: none"> • embedded changes to the voluntary assurance regime • approved the OLC's budget application with expectations on enhanced public reporting by OLC against agreed metrics • appointed new members to the OLC Board • sought budget assurances on transparency, performance and value for money • approved the OLC's in-year budget variation request to mitigate risks related to its performance and staff engagement • the LSB's Audit and Risk Assurance Committee (ARAC) undertaking a deep dive risk • helping to identify solutions on outsourcing.
Poorer consumer outcomes and low confidence in the legal services sector owing to lack of progress on diversity	<p>In 2021/22, LSB monitored the risk of poorer consumer outcomes and low confidence in the legal services sector owing to a lack of progress on diversity in the profession.</p> <p>Mitigations:</p> <ul style="list-style-type: none"> • commissioned an expert external evidence review of diversity in legal services including an assessment of initiatives which have resulted in a positive impact on diversity profiles • held a webinar in August 2021 for those who might be interested in current and future Board vacancies (including OLC and LSCP vacancies) to learn more about the work of the LSB and the role of a non-executive, with the aim of building a pipeline of suitable diverse candidates for future recruitment campaigns • held a meeting with the LSB Board Chair, ARAC Chair and Remuneration and Nomination Committee (RNC) Chair to consider further steps for implementation and action in relation to Board diversity • actively participated in the Judicial Diversity Forum.

Risk	Description and mitigations
Board turnover during 2023 having a destabilising effect	<p>The LSB identified a risk with the stability of the Board, as five board members come to the end of their terms of office in 2023 and three members cannot be reappointed.</p> <p>Mitigations:</p> <ul style="list-style-type: none"> • held initial discussions (and identifying the risk) at a three-way meeting of the LSB Board Chair, RNC Chair, ARAC Chair as part of succession planning and risk mitigation activity related to Board membership • highlighted and discussed the risk at the October 2021 business assurance meeting with MoJ • submission of early cases for the two Board members eligible for reappointment to Ministers, following Chair discussions with them. Proposed reappointments to be staggered to mitigate this risk in the future.
Regulators lack capacity and/or capability to deliver against LSB expectations	<p>In 2021/22, the LSB identified a risk that some regulators lack capacity and capability to delivery against expectations</p> <p>Mitigations:</p> <ul style="list-style-type: none"> • introducing new PCF rules and guidance – greater accountability for how regulators plan their work and deploy resources to promote the Regulatory Objectives • publishing BSB and FO well-led reviews with accompanying press release and letter to all regulatory bodies to note findings and encourage them to take learnings • Providing greater challenge and scrutiny under the existing regulatory performance framework • Introducing new rules and guidance for assessing applications to change regulatory arrangements which strengthen our ability to hold regulators to account and link up better with our other tools.

Matthew Hill
Accounting Officer

10 June 2022

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 most of its statutory powers and duties on 1 January 2010.

In 2021/22 the LSB continued to oversee ten approved regulators, collectively responsible for regulating almost 184,569 lawyers practising in England and Wales.

The Act provides for the LSB to recommend to the Lord Chancellor designation of additional bodies as approved regulators, on application, provided they demonstrate compliance with rules issued by the LSB for the purpose.

The LSB takes account of the full range of risks that exists in the legal services market to consumers of legal services, to the public interest and to those seeking to provide regulated legal services in England and Wales.

Schedule 1 to the Act stipulates that:

The Board is to consist of the following members —

1(1) (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

2 (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(2) The chairman must be a lay person.

The Board sets the strategic direction of the LSB and is solely responsible for decisions taken by the LSB.

The names and details of all members of the 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 information is published on the LSB website.⁵ Members are also required to declare any conflicts or interests in any item being discussed and the Chair will determine what action, including exclusion for an item or items, is appropriate to manage real or perceived conflicts. All instances are recorded in the minutes of the Board, which are published on the LSB website.

Members are also required to make a related party declaration to confirm whether they or any party related to them had undertaken any transactions with the LSB. Any such declarations are detailed in Note 17 to the financial statements.

⁵ <https://www.legalservicesboard.org.uk/about-us/our-board/board-interests-and-expenses>

Statement of Accounting Officer's responsibilities

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

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

- observe the Accounts Direction issued by the Lord Chancellor with the approval of HMT, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards as set out in the FReM have been followed, and disclose and explain any material departures in the financial statements
- prepare the financial statements on a going concern basis
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

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

The Principal Accounting Officer for the MoJ has appointed the Chief Executive as Accounting Officer for 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.

As Accounting Officer, I confirm that the Annual Report and Accounts as a whole are fair, balanced and understandable and I take personal responsibility for the Annual Report and Accounts and the judgements required for determining that they are fair, balanced and understandable.

Auditor

Internal audit services for the period of this report were provided to the LSB by Crowe 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 ending 31 March 2022, a fee of £25k was 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.

Overview of Board and executive structure

The Board

Board Responsibilities: The Board provides the strategic leadership and direction of the LSB and holding the executive to account in relating to Managing Public Money and executing the strategy for the sector. The Board upholds the highest standards in relation to corporate governance. Board Members hold specific responsibilities including providing strategic input to key projects as 'board leads', chairing committees, deputising for the Chair in their absence, and serving as the LSB's Senior Independent Director which includes leading an annual discussion on the Chair's performance with the Board without the Chair present.

Audit and Risk Assurance Committee (ARAC)

Responsibilities: ARAC provides, on behalf of the Board, advice to the Accounting Officer on the maintenance of appropriate audit and risk processes within the LSB, and the governance of the internal and external audit programmes. ARAC also provides assurance to the Board on audit and risk processes.

Remuneration and Nomination Committee (RNC)

Responsibilities: RNC provides advice to the executive and the Board Chair on a range of people and organisational issues, and has responsibilities relating to the appointment of Members of the Board, Legal Services Consumer Panel and OLC.

Senior Leadership Team Membership:

- Chief Executive,
- Director, Enabling Services,
- Director, Regulation and Policy,
- General Counsel,
- Head, Finance and IT,
- Head, Communications and Engagement,
- Head, Performance and Oversight,
- Head, Policy Development and Research

Responsibilities: Delivery of the LSB's strategic and business plans, related performance, management and financial information and ensures delivery of all executive activity and key business processes.

The LSB's annual governance statement 2021/22

As Accounting Officer for the LSB, I am responsible for maintaining a sound system of risk management, governance and internal control that enables the LSB to meet its statutory obligations, aims and objectives, while safeguarding the funds and assets for which I am 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 relevant directions from the Cabinet Office/HMT
- meets its obligations under, and acts consistently with the regulatory objectives contained in the Legal Services Act 2007 ('the Act')
- operates within the limits of its statutory authority and in accordance with any delegated authorities agreed with the MoJ as the LSB's sponsoring department
- operates in line with the statutory requirements and spirit of the Freedom of Information Act 2000 and complies with the Data Protection Act 2018.

I am an executive member of the Board of the LSB. 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.

Under section 5 of the Act, the LSB must 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.⁶ It includes a policy on interests that applies to Board Members and all staff.

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

⁶ <https://legalservicesboard.org.uk/wp-content/uploads/2021/12/Governance-Manual-2021-Final.pdf>

LSB Board

The LSB Board comprises both non-executive Members (including the Chair) and the Chief Executive. The Board met formally on 9 occasions during the period 1 April 2021 to 31 March 2022.

Meeting attendance	
Dr Helen Phillips (Chair, Lay Member)	9/9
Catherine Brown (Lay Member)	9/9
Gary Kildare (Lay Member)	9/9
Stephen Gowland (Non Lay Member)	7/9
Michael Smyth CBE QC (Hon) (Non Lay Member)	9/9
Jemima Coleman (Non Lay Member)	8/9
Ian Hamer (Lay Member)	9/9
Flora Page (Non Lay Member)	9/9
Catharine Seddon (Lay Member)	9/9
Matthew Hill (Chief Executive, Lay Member)	9/9

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

Board Member responsibilities

Board Members hold specific responsibilities including providing strategic input to key projects as 'board leads', chairing committees, deputising for the Chair in their absence, and serving as the LSB's Senior Independent Director, which includes leading an annual discussion on the Chair's performance with the Board without the Chair present.

Board Committees

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

The Committee's Terms of Reference (ToR) stated that it would meet on at least three occasions each year. In 2021/22, ARAC met on four occasions.

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

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

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

Membership and attendance records are given below.

Audit and Risk Assurance Committee	
Catherine Seddon (Chair)	4/4
Gary Kildare	4/4
Catherine Brown	4/4
Michael Smyth	3/4

Remuneration and Nomination Committee	
Jemima Coleman (Chair)	2/2
Ian Hamer	1/2
Gary Kildare	2/2

Governance relationship with the Office for Legal Complaints

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

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

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

In approving the OLC's budget, the LSB seeks a range of assurances and, for the budget year 2022/23, these included:

- an indication of the amount and distribution of resources deployed in the operation of the ombudsman scheme and the amounts of income OLC expects to arise from the operation of the scheme. These included a clear breakdown, explanation and justification of:
 - a. assumptions around the volumes predicted for 2022/23, including data on the number of new cases in the current year to date and an assessment of the likely impact of Covid-19 on demand. Further, information about how the organisation would respond in the event of volume fluctuation
 - b. staff costs and numbers broken down by function, making reasonable assumptions for vacancies
 - c. estimated split of expenditure between:
 - i. handling complaints about legal services
 - ii. policy and impact work, in particular to analyse and feed back to the sector learnings from handling complaints
 - iii. anything else not covered by (i) and (ii).
- transparency about performance:
 - a. analysis of actual performance in 2021/22, with reference to the minimum delivery expectations in the 2021/22 budget application
 - b. risks and how they were managed and mitigated, for: i) the remainder of 2021/22; ii) 2022/23, including an overview of sensitivity analysis of key assumptions around income prediction, case complexity and other factors
 - c. the forecast performance trajectory from the present until sustainable acceptable performance is expected to be achieved mapped against different budget scenarios (analysis by month)
 - d. a summary of key current and planned initiatives designed to achieve sustained acceptable performance, including specific actions and timeframe
 - e. contingency plans should the forecast performance trajectory not be met.
- a robust business case that clearly demonstrates the linkages between any additional resources sought to the expected benefits across operational performance (including staff morale), policy and impact, and other relevant activities.
- an explanation of how value for money would be delivered and measured.
- an explanation of how the proposed budget would promote equality, diversity and inclusion for both colleagues and the Legal Ombudsman's customers. As part of this, details of any plans to measure for any disproportionality of complaint outcomes.
- a summary of where the budget had changed in response to stakeholder responses to consultation and a summary of any responses to that consultation.
- confirmation that the OLC submitted a medium-term financial plan that reflected these acceptance criteria to the MoJ, and that wider engagement with the department had taken place consistent with the tripartite operating protocol.

- a summary of the governance processes involved in preparing the submission, including confirmation that the submission had the formal support of the OLC board.

Budget application for 2022/23

The OLC's draft application indicated two possible budget proposals for 2022/23: Option 1 representing a 3.8% increase or Option 2 representing a 5.1% increase. Following public consultation the OLC submitted a final proposal for a 5.8% increase to £15.317m (from £14.471m in 2021/22). The Board agreed this proposal.

In approving the budget, the Board made clear that it was disappointed that delivery expectations in 2021/22, which were agreed on a significant injection of funds, had not been met. However, it recognised the need to focus on pursuing a pathway of stabilisation and recovery so that the Legal Ombudsman is delivering sustainable and acceptable performance; and that the budget should be set at the level which supports the OLC to deliver its goals for improvement.

Consent to Scheme Rules changes

The Act requires the LSB to consent to changes the OLC proposes to make to the Scheme Rules. There were no applications received during 2021/22, although the OLC consulted on changes which it expects to apply for consent to in 2022/23.

Voluntary assurance arrangements

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

- information about the Legal Ombudsman's performance is published on its website quarterly (completed, ongoing)
- OLC provides comprehensive information on scheme performance to the LSB through a monthly dataset, OLC Board papers and minutes (completed, ongoing)
- the OLC Chair sends a voluntary assurance letter to the LSB, following each OLC Board meeting, explaining how the OLC has dealt with the Legal Ombudsman's performance at that meeting (completed, ongoing)
- observing OLC ARAC meetings (ongoing)
- a regular schedule of meetings at board and senior executive level, as set out in the tripartite operating protocol (completed, ongoing)

Governance relationship with the Legal Services Consumer Panel

The LSB is required by the Act to establish a Consumer Panel (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:

www.legalservicesconsumerpanel.org.uk

Executive leadership and key business processes

Senior Leadership Team (SLT)

Chaired by the Chief Executive, and comprising the Chief Executive's direct reports and other senior colleagues, its role is to ensure delivery of the LSB's strategic and business plans, related performance and management information and key business processes. The SLT assesses and approves individual projects and serves as a resource for the consideration of major policy issues. The SLT also oversees, assesses and approves all significant finance and commercial processes, and HR matters. LSB staff have an open invitation to observe SLT meetings.

The SLT also monitors external factors and their implications for LSB performance and the legal services market.

Programme Board

Chaired by the Director, Regulation and Policy, this group provides assurance that the LSB work programme remains on track against the milestones in the Business 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 annually. Appraisals of individual Board Members are carried out by the Chair in the final quarter of the year and include 360 feedback from other Board Members.

The Board structures its business and agendas to focus on key strategic workstreams, taking by consent more routine items. This includes looking outwards at the legal and regulatory environment in general in England and Wales as well as a focus on specific matters in legal services regulation. Decisions are made based on the risks and evidence available with consideration to how the decision interacts with those the Board oversees and how it evidences continuous improvement in holding those it regulates to account. At least two substantial strategic sessions are held annually to allow the Board time to review progress and horizon scan.

The Board Evaluation exercise for 2021 was conducted internally by way of an online survey.

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

- The Board speaker programme to be kept under review, to ensure a diverse range of speakers with a variety of experience are heard from
- Consider the effectiveness of Board to Board meetings with regulators including their purpose and value
- Tailoring the induction programme to ensure it was sufficient to meet the needs of appointees of different backgrounds and to use induction as an opportunity for annual refresher training to existing Board members.

An action plan was developed based on these areas for development and progress is monitored and reported via ARAC.

The Board committees – ARAC and RNC – assess their effectiveness by reviewing their performance against their Terms of Reference each year. This includes 360 feedback. Non-committee Board Members have a standing invitation to attend the meetings of each committee and receive a full set of papers prior to each meeting. The Board Chair may attend no more than one of each committee meeting in each year as an observer. The Chair of each committee provides an oral update following each committee meeting to the Board at the next Board meeting. The full minutes of the committee meetings are circulated to Board Members once approved. The Board receives each committee's annual report in March. The annual reports for 2021/22 were presented at the 22 March 2022 Board meeting and are published on the LSB website as part of the published Board papers.

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

Risk and internal control framework

The Board scrutinises the plans and sets the overall strategic direction of the LSB. The Board is responsible for the LSB's risk management strategy, sets the tone for and influences the culture of risk management. The risk management strategy and risk appetite is reviewed by the Board annually. The Corporate Risk Register is an executive document.

The Board reviewed the Corporate Risk Register at its meetings in July 2021 and in November 2021.

ARAC, on behalf of the Board, assesses in detail issues of risk at three of its meetings each year, providing constructive challenge to the executive's risk classifications, assumptions and mitigations. This extends to the Corporate Risk Register, and, periodically, to topics brought to ARAC for a deep dive. Deep dive topics brought to ARAC in 2021/22 included OLC and Project Management. ARAC also conducts risk horizon scanning at each of its meetings. Issues of risk are considered at Board meetings in the course of discussions of each of the papers presented.

The LSB assesses and manages its risks proactively at the corporate, programme and operational level.

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 relevant risk registers. These are reported through the corporate, programme and operational risk management processes.

The SLT reviews the full Corporate Risk Register each month and conducts a horizon-scanning exercise quarterly. Programme risks are reviewed at

monthly Programme Board meetings. Operational risks are reviewed at bi-monthly review meetings.

Risk is managed on a 'priority only' model based on risk appetite. The effect of this is that the Corporate Risk Register is an active management tool. The Board's appetite for risk is dependent on the area of business to which the risk is attached. Risk appetite is mapped on a five-point scale: "avoid" (1), "minimal" (2), "cautious" (3), "open" (4), "seeking" (5). The Board has agreed that its current appetite for:

- governance risk is cautious
- financial risk is cautious
- people risk is open
- delivery risk is cautious
- policy and legal risk is open
- relationship risk is seeking.

Where the SLT determines that a risk exceeds the Board's appetite, it puts in place a strategy to mitigate the risk which will include one or more of the following elements:

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

As Chief Executive and 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 ARAC have evaluated the quality of the LSB's management of risk during 2021/22 and have confirmed their assessment that the LSB's approach identifies the correct risks, and that mitigating actions are appropriately focused and implemented to support the LSB's programme of work to deliver the regulatory objectives.

Reporting of risk

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

Key risks

Some of the key risks facing the LSB in achieving its priorities in 2021/22 are ongoing, while others arise in relation to the point that the Board has reached in its corporate life.

Specific risks managed in 2021/22 were as follows:

- public confidence in legal services regulation being undermined because consumers continue to be underserved by the Legal Ombudsman
- poorer consumer outcomes and low confidence in the legal services sector owing to lack of diversity in the profession
- the prospect of Board turnover during 2023 having a destabilising effect
- regulators lack capacity and/or capability to deliver against expectations

These risks are discussed in more detail in the Performance analysis section (page 24).

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 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. This was provided by Crowe LLP.

Internal audit reviews carried out in 2021/22 by Crowe LLP were as follows:

- a review of the business planning process (substantial assurance)
- a review of communications (substantial assurance)

- a review of procurement arrangements (substantial assurance)
- review of payroll arrangements (substantial assurance)

The Head of Internal Audit provided substantial assurance in respect of governance, risk management and internal controls in operation for the 2021/22 year, as aligned to the assurance definitions utilised in its internal audit reports.

Overall, Crowe LLP considered that "there is a generally sound system of internal control, risk management and governance designed to meet the organisation's objectives, and controls are generally being applied consistently. However, some weaknesses in the design or inconsistent application of controls put the achievement of particular objectives at risk".

Crowe confirmed that the internal audit programme and workplan had been undertaken in accordance with the Public Sector Internal Audit Standards.

We are working through a plan of management actions in response to internal audits, and an action tracker is considered at each ARAC meeting reporting on progress.

Review of the effectiveness of the risk and governance framework

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.

Information security

The LSB is a data controller under the Data Protection Act 2018 and is subject to the Freedom of Information Act.

The LSB has due regard to the requirements set out in HM Government Security Policy Framework issued by the Cabinet Office. This focuses on the outcomes required to achieve a proportionate and risk managed approach to security that enables the LSB to function effectively, safely and securely. The Director, Enabling Services is the LSB's Data Protection Officer.

All of the LSB's electronic data, and access to this data, is managed securely with support provided by an IT managed service provider. This organisation ensures that the LSB implements guidance on protection and security of its IT, physical and data assets from the National Cyber Security Centre, the Cabinet Office and the Centre for the Protection of the National Infrastructure. The LSB continues to ensure information security remains a priority. The LSB attained Cyber Essentials Plus certification in June 2021.

During 2021/22 there were no data security incidents that needed to be reported to the Information Commissioner's Office.

All new colleagues receive training on information assurance and security. Annual refresher training is completed by all relevant staff. An annual review is carried out which measures colleagues' adherence to retention and disposal and wider data management good practice – a report on which is presented to ARAC. Learning is shared and consolidated throughout the year, led by an executive data champions group which brings together representatives of all areas of the organisation.

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

Assessment of fraud and error risk

Together with 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 separation 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.

The Board approves the LSB's counter fraud strategy annually as part of the Governance Manual review and the executive provides counter fraud updates to ARAC at each of its meetings. We also engage regularly with the MoJ counter-fraud team. There were no known instances of fraud to report.

During 2021/22, new colleagues received face-to-face training on the Bribery Act 2010, which was provided by the LSB's Senior Legal Adviser.

For existing colleagues, a targeted approach was adopted, whereby colleagues for whom anti-bribery and corruption training is of particular relevance, received details of self-study training materials. All other colleagues received a summarised version of similar resources.

Whistleblowing arrangements

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

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

Both policies are reviewed annually, as part of the Governance Manual review, to ensure that they are in line with current best practice. The most recent policy review was reported to ARAC in November 2021 and to the Board in November 2021.

There were no whistleblowing incidents reported during the year.

Quality of the data used by the Board

The SLT, chaired by the Chief Executive, is responsible for making submissions to the Board on regular matters of business and specific governance issues referred to in this statement. Information considered by the SLT includes, but is not limited to: the corporate risk register; annual budget plans; strategic plans; programme and project reports; quarterly performance reports and detailed position papers on operational matters.

Risk registers, annual business plans and strategic plans are subjected to scrutiny by ARAC on an ongoing basis before presentation to the Board. Where new risks and new controls arise, discussions take place with the internal auditors in relation to amending the forward plan of internal audits. Given the independent scrutiny of data submitted to the Board, I am satisfied with its quality and relevance.

Significant control issues

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

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

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

Conclusion

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

- finance and commercial processes
- human resources
- key business processes
- management information
- information security
- fraud, error and public interest disclosure policies.

Remuneration and staff report

Appointments

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

The LSB Chair is required to commit at least 70 days per annum to the work of the LSB.

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

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

As at 31 March 2022, there were ten Board Members – five men and five 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 Chair and other non-executive Board Members is set by the Lord Chancellor and is not subject to performance conditions.

The remuneration of the Chief Executive is determined following a recommendation to the Board by the RNC and in consultation with the MoJ. The performance of the Chief Executive is reviewed annually by the Chair.

Name	Date appointed	Date appointment ends
Dr Helen Phillips (Chair)	9 March 2015	31 March 2023
Catharine Seddon	1 October 2016	30 September 2023
Catherine Brown	1 April 2019	31 March 2027
Flora Page	1 August 2020	31 July 2024
Gary Kildare	1 April 2021	31 March 2025
Ian Hamer	1 October 2019	30 September 2026
Jemima Coleman	18 April 2016	17 April 2023
Matthew Hill (Chief Executive)	20 August 2019	(see termination note above)
Michael Smyth CBE QC (Hon)	18 April 2016	17 April 2022
Stephen Gowland	1 August 2020	31 July 2024

The table below has been audited and provides details of the remuneration of LSB Board Members who served during 2021/22:

Remuneration of Chair and Board Members	2021/22					2020/21			
	Annual salary Rate	Salary	Pension	Bonus	Total	Salary	Pension	Bonus	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Dr Helen Phillips	60-65	60-65	-	-	60-65	60-65	-	-	60-65
Catherine Brown	15-20	15-20	-	-	15-20	10-15	-	-	10-15
Ian Hamer	10-15	10-15	-	-	10-15	10-15	-	-	10-15
Michael Smyth CBE QC (Hon)	10-15	10-15	-	-	10-15	10-15	-	-	10-15
Jemima Coleman	10-15	10-15	-	-	10-15	10-15	-	-	10-15
Catharine Seddon	10-15	10-15	-	-	10-15	10-15	-	-	10-15
Matthew Hill	140-145	140-145	14	10-15	170-175	140-145	14	10-15	170-175
Flora Page	10-15	10-15	-	-	10-15	5-10	-	-	5-10
Stephen Gowland	15-20	15-20	-	-	15-20	5-10	-	-	5-10
Gary Kildare (from 1 April 2021)	15-20	15-20	-	-	15-20	-	-	-	-
Marina Gibbs (until 31 March 2021)	-	-	-	-	-	10-15	-	-	10-15
David Eveleigh (until 31 July 2020)	-	-	-	-	-	5-10	-	-	5-10

In response to the legacy issue with PAYE and Employer National Insurance contributions, all expenses related to Board attendance in London are reviewed to ensure the correct contributions are paid to HMRC. Dependent on Board members' location, these contributions have caused some variation in the salary band category between LSB Board members.

The table does not include information on expenses paid to Board Members.

Remuneration of Chair and Board Members

The remuneration of the Chair and Board Members is shown in the table above. The remuneration of the Executive directors can be found in the Staff Report.

Staff report

LSB employees are not civil servants but public servants. LSB colleagues do not have access to the Principal Civil Service Pension Scheme or any other defined benefit scheme. As of 31 March 2022, the LSB had 29 full-time employees and 10 part-time employees (2020/21: 29 full-time employees and 6 part time employees). 62% of the staff complement was female (2020/21: 57%) and 38% was male (2020/21: 40%). The LSB supports a range of flexible working patterns.

The LSB's average sickness absence was 3.4 days per full-time equivalent (2020/21: 1.5 days). Although the figure is higher than in 2020/21, it is lower than in previous years (sickness absence averages were lower across all sectors in 2020/21 owing to Covid restrictions and the relative lack of seasonal illnesses such as colds and flu). The LSB's turnover rate was 21% in 2021/22 (2020/21: 15%).

The LSB does not engage any 'off payroll' staff. No specialist contractors were employed during 2021/22 (one specialist contractor was used in 2020/21, paid via the LSB payroll).

Pension liabilities

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

As at 31 March 2022, the seven Senior Civil Service equivalents on the Senior Leadership Team, excluding the Chief Executive, comprised four men and three women.

Senior civil servant equivalent by pay band

Salary band £'000	Number of senior civil service equivalent within band as at 31 March 2022	Number of senior civil service equivalent within band as at 31 March 2021
70-80	4	4
80-90	–	–
90-100	3	3

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

	Male	Female	Non-binary
LSB Board Members	5	5	0
Consumer Panel	5	3	0
Senior Civil Service equivalents	4	3	0
All others	10	21	0

Diversity information on LSB Board Members, the Consumer Panel and the executive is available on our website.⁷

⁷ <https://legalservicesboard.org.uk/about-us/our-staff>

Fair pay disclosures (audited)

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the lower quartile, median and upper quartile remuneration of the organisation's workforce.

This is outlined in the table below.

Pay multiples	2021/22	2020/21
Band of highest paid director's total remuneration (£000) *	155-160	155-160
Upper quartile total remuneration (£)	66,300	69,508
Median total remuneration (£)	51,038	51,609
Lower quartile total remuneration (£)	40,000	41,298
Pay Multiple to Upper Quartile	2.38	2.27
Pay Multiple to Median	3.09	3.05
Pay Multiple to Lower Quartile	3.94	3.81

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

In 2021/22 the annual full-time equivalent rate of remuneration ranged from £25,000- £30,000 to £155,000 - £160,000 (2020/21: £25,000 - £30,000 to £155,000 - £160,000). Other than a small number of cases where pay adjustments were made to address pay inequalities, there was no pay award to eligible colleagues in 2021/22, in line with the 2021 pay remit directive from HM Treasury.

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

Remuneration of Executive directors					2021/22
LSB Executive directors	Annual salary rate	Salary	Pension	Bonus	Total
	£000s	£000s	£000s	£000s	£000s
Chris Nichols	100 -105	100 -105	9	-	105-110
Danielle Viall*	100 -105	90-95	17	-	105-110
Holly Perry**	100 -105	90-95	20	-	110-115

					2020/21
LSB Executive directors	Annual salary rate	Salary	Pension	Bonus	Total
	£000s	£000s	£000s	£000s	£000s
Chris Nichols	100 -105	100 -105	9	-	110-115
Danielle Viall*	100 -105	65 - 70	15	-	80 - 85
Holly Perry**	100 -105	90 - 95	14	-	105 - 110

Executive directors have access to the LSB Choices scheme to flex salary and pension contributions and to buy and sell holiday.

* took parental leave in 2020/21 and went part time from 1 February 2022 to 0.86 FTE

** took unpaid leave in 2020/21

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 their disability. Shortlisted candidates are selected purely on the basis that their skills and experiences match the job description and colleague specification.

As an employer the LSB aims to recruit, motivate, develop and retain outstanding people from diverse backgrounds to deliver its priorities. Even as a relatively small organisation, it strives to support and promote equality both within the organisation and in fulfilling its responsibilities to external stakeholders. In addition to the LSB's organisational commitment to integrate diversity and equality into its work and organisational culture, it has statutory obligations under The Equality Act 2010. Diversity information on LSB Board Members, the Consumer Panel and the executive is available on our website.⁸

The LSB seeks to engage fully with colleagues in all matters affecting them. We hold regular all-colleague meetings and consult with colleagues on matters affecting their employment and welfare. During 2021/22, we carried out regular pulse surveys to assess colleagues' welfare and followed these surveys with conversations, at the individual and organisational level. We also carried out a full colleague engagement survey in Autumn 2021 and the LSB is committed to implementing the organisational development points that emerged from the survey to ensure we address development

8 <https://legalservicesboard.org.uk/about-us/our-staff>

areas and also maintain the very high scores that we saw ahead of our next full colleague engagement survey scheduled for Autumn 2023.

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.

Staff numbers and related costs (audited)

(a) The cost of staff remuneration was:

	2021/22 Permanent Staff	2021/22 LSB Board	2021/22 OLC Board	2021/22 Consumer Panel	2021/22 Total	2020/21 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Wages and salaries	1,984	187	117	162	2,450	2,384
Social security costs	234	15	9	15	273	264
Pension costs	265	0	0	15	280	257
Other staff costs	16	0	0	0	16	14
Total	2,499	202	126	192	3,019	2,919

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. The LSB operates a salary sacrifice scheme.
- Other costs include the cost of insurance for death-in-service and items such as childcare vouchers.
- Consumer Panel costs include the fixed fees paid to Panel members as well as the supporting secretariat of two LSB colleagues.
- LSB Board fees, which are disclosed in 'Wages and salaries' are also included in Remuneration of Chair and Board Members table.

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

	2021/22	2021/22	2021/22	2020/21
	Permanent staff	Specialist contractor	Total	Total
Directly employed – LSB	31.7	0	31.7	32.2
Directly employed – Panel secretariat	2.2	0	2.2	2.0
Total	33.9	0	33.9	34.2

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

There were no redundancies in 2021/22 (2020/21: none).

There were no costs of redundancy payments in 2021/22 (2020/21 £0k).

Parliamentary accountability and audit report

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

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

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

It does this by working to improve the delivery of legal services by providing oversight of the regulation of the legal services sector. This includes ensuring that the performance of the approved regulators meets the standards expected of them by society.

In relation to the approved regulators, this includes ensuring that the principles of better regulation are adopted and that the regulatory objectives outlined in the Act are promoted. In addition, the LSB has a number of responsibilities relating to the governance of the OLC.

Regularity of expenditure (audited)

Losses and special payments – there were no losses or special payments in 2021/22 (2020/21: nil).

Redundancy payments – there were no redundancy payments made during 2021/22 (2021/21: £0k).

Contingent liabilities – there were no contingent liabilities in 2021/22 (2020/21: nil).

Long-term expenditure trends – budgeted expenditure for 22/23 is £4,287k. The LSB continues to strive to achieve value for money and this is a realistic level of expenditure provided that the underlying assumptions remain consistent with the LSB's ability to fulfil its statutory function.

Matthew Hill
Chief Executive and Accounting Officer

10 June 2022

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

Opinion on financial statements

I certify that I have audited the financial statements of the Legal Services Board for the year ended 31 March 2022 under the Legal Services Act 2007.

The financial statements comprise the Legal Services Board's

- Statement of Financial Position as at 31 March 2022;
- Statement of Comprehensive Net Expenditure, Statement of Cash Flows and Statement of Changes in Taxpayers' Equity for the year then ended; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and UK adopted International Accounting Standards.

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 2022 and its net income for the year then ended; and
- have been properly prepared in accordance with the Legal Services Act 2007 and directions issued by the Lord Chancellor thereunder.

Opinion on regularity

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

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs UK), applicable law and Practice Note 10 *Audit of Financial Statements and Regularity of Public Sector Entities in the United Kingdom*. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's *Revised Ethical Standard 2019*. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the Legal Services Board in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the Legal Services Board's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Legal Services Board's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Board and Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the Legal Services Board is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it is anticipated that the services which they provide will continue into the future.

Other Information

The other information comprises information included in the Annual Report, but does not include the financial statements nor my auditor's certificate thereafter. The Board and Accounting Officer is responsible for the other information.

My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters

In my opinion the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with the Legal Services Act 2007 and the Lord Chancellor directions issued thereunder.

In my opinion, based on the work undertaken in the course of the audit:

- the parts of the Accountability Report subject to audit have been properly prepared in accordance with the Legal Services Act 2007 and the Lord Chancellor directions issued thereunder; and
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements and is in accordance with the applicable legal requirements.

Matters on which I report by exception

In the light of the knowledge and understanding of the Legal Services Board and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance and Accountability Report.

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

- I have not received all of the information and explanations I require for my audit; or
- adequate accounting records have not been kept by the Legal Services Board or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report subject to audit are not in agreement with the accounting records and returns; or
- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual have not been made or parts of the Remuneration and Staff Report to be audited is not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Responsibilities of the Board and Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Board and Accounting Officer are responsible for:

- maintaining proper accounting records;
- the preparation of the financial statements and Annual Report in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- ensuring that the Annual Report and accounts as a whole is fair, balanced and understandable;
- internal controls as the Board and Accounting Officer determines is necessary to enable the preparation of financial statements to be free from material misstatement, whether due to fraud or error; and
- assessing the Legal Services Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board and Accounting Officer anticipates that the services provided by the Legal Services Board will not continue to be provided in the future.

Auditor's responsibilities for the audit of the financial statements

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

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

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, we considered the following:

- the nature of the sector, control environment and operational performance including the design of the Legal Services Board's accounting policies.
- Inquiring of management, the Legal Services Board's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Legal Services Board's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Legal Service Board's controls relating to the Legal Service Board's compliance with the Legal Services Act 2007 and Managing Public Money.
- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the Legal Services Board for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals and accounting estimates. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override of controls.

I also obtained an understanding of the Legal Services Board's framework of authority as well as other legal and regulatory frameworks in which the Legal Service Board operates, focusing on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the Legal Service Board. The key laws and regulations I considered in this context included Legal Services Act 2007, Managing Public Money and employment law.

Audit response to identified risk

As a result of performing the above, the procedures I implemented to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading and reviewing minutes of meetings of those charged with governance and the Board and internal audit reports;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and

- and testing the appropriateness of expenditure incurred and ensuring that the levy charged is to approved bodies and in line with the Legal Services Act 2007.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

Other auditor's responsibilities

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

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

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General
13 June 2022

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

Financial Statements

Statement of Comprehensive Net Expenditure for 12 months ended 31 March 2022

	Note	2021/22 £'000	2020/21 £'000
Programme costs			
Staff costs	5	3,019	2,919
Depreciation/amortisation	6, 7, 8	214	92
Other programme costs	2	799	968
		4,032	3,979
Income			
Levy income	3	4,047	3,905
Other income	4	6	-
		4,053	3,905
Net (income) / expenditure		(21)	74

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

The notes on pages 53 to 67 form part of these financial statements.

Statement of Financial Position as at 31 March 2022			
	Note	31 March 2022 £'000	31 March 2021 £'000
Non-current assets			
Property and equipment	6	169	230
Right of use asset	7	243	-
Intangible assets	8	18	61
Total non-current assets		430	291
Current assets			
Trade and other receivables due within one year	10	133	93
Cash and cash equivalents	11	6,516	6,469
Total current assets		6,649	6,562
Total assets		7,079	6,853
Current liabilities			
Trade and other payables	12	448	462
Lease liabilities	15	132	-
Total current liabilities		580	462
Non-current liabilities			
Provisions	13	24	98
Lease liabilities	15	161	-
Total non-current liabilities		185	98
Total assets less total liabilities		6,314	6,293
Taxpayers' equity			
Income and expenditure reserve		6,314	6,293
Total taxpayers' equity		6,314	6,293

The notes on pages 53 to 67 form part of these financial statements.

Matthew Hill
Accounting Officer

10 June 2022

Statement of Cash Flows for the year ended 31 March 2022			
	Note	2021/22 £'000	2020/21 £'000
Cash flows from operating activities			
Net operating income / (cost)		21	(74)
Adjusted for:			
Depreciation/Amortisation	6, 7, 8	214	92
Finance costs	2	3	–
Decrease/(increase) in trade and other receivables	10	(40)	1
Increase/(decrease) in trade and other payables	12	(14)	4
Non-cash reclassification of lease incentive liability to ROU asset		112	–
Non-cash reclassification of prepaid rent to ROU asset		(33)	–
Use of provisions	13	(74)	74
Net cash inflow from operating activities		189	97
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(10)	(12)
Purchase of intangible assets	8	–	(9)
Net cash outflow from investing activities		(10)	(21)
Cash flows from financing activities			
Capital element of payments in respect of leases		(132)	–
Net cash outflow from financing activities		(132)	–
Net increase in cash and cash equivalents in the year		47	76
Cash and cash equivalents at the beginning of the year	11	6,469	6,393
Cash and cash equivalents at the end of the year	11	6,516	6,469

The notes on pages 53 to 67 form part of these financial statements.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2022		
Income and Expenditure Reserve		
	Note	£'000
Balance as at 1 April 2020		6,367
Changes in Taxpayers' Equity 2020/21		
Comprehensive net expenditure for the year		(74)
Notional transfer to Consolidated Fund		(3,905)
Notional receipt from sponsoring department		3,905
Balance at 31 March 2021		6,293
Balance at 1 April 2021		6,293
Changes in Taxpayers' Equity 2021/22		
Comprehensive net income for the year		21
Notional transfer to Consolidated Fund	1.4	(4,053)
Notional receipt from sponsoring department	1.4	4,053
Balance at 31 March 2022		6,314

The notes on pages 53 to 67 form part of these financial statements.

Notes to the financial statements

1. Statement of accounting policies

1.1 Basis of preparation

These financial statements have been prepared on a going concern basis and in accordance with the 2021/22 Government Financial Reporting Manual (FReM). The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy that is judged to be most appropriate to the particular circumstances of the LSB for the purpose of giving a true and fair view has been selected. The particular policies adopted by the LSB are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

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

1.2 Accounting convention

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

1.3 Critical accounting estimates and judgements

Provisions

The LSB will provide for legal or constructive obligations which are of uncertain timing or amount at the date of the Statement of Financial Position based on the best estimate of the expenditure required to settle the obligation.

1.4 Income

The Legal Services Act 2007 (the Act) makes provision for the costs of the LSB to be recovered through the imposition of a levy on approved regulators (ARs). Before the end of the financial year a levy is calculated and imposed on ARs based on an estimate of the LSB's aggregate net expenditure, as adjusted for the difference between the previous estimate and actual expenditure for the prior year. The total levy is apportioned pro rata to each regulator based on the number of practitioners certified to the LSB by ARs at the beginning of the period, subject to a minimum levy of £3,000 per AR. The levies imposed are recognised as income in the Statement of Comprehensive Net Expenditure (SoCNE) and any excess of imposed levies over the LSB's actual aggregate net expenditure in the period is deferred to the following year while any shortfall in imposed levies below actual aggregate net expenditure is released to the SoCNE from funds deferred in previous periods.

The effect of this treatment ensures that the total income recognised and leviable in the period corresponds to the LSB's actual aggregate net expenditure in the period as intended by the Act whilst timing differences between actual leviable expenditure and estimates billed are dealt with through the deferred income account.

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

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

1. Identify the contract with the customer: The FReM adaptation of IFRS 15 expands the definition of a contract to include legislation and regulations which enables an entity to obtain revenue. In LSB's case, as outlined above, this legislation is the Legal Services Act 2007 which stipulates that the costs of the LSB should be recouped by means of a levy imposed on the approved regulators no later than 31st March of the 12 month period to which the levy relates.
2. Identify the performance obligations in the contract: Under the Act the LSB's role is to monitor the performance of the approved regulators to ensure they meet expected standards.
3. Determine the transaction price: The total costs incurred by LSB in the financial year are allocated to approved regulators on the basis described above.
4. Allocate the transaction price to the performance obligation: The levy income is accrued and matched with the LSB's net expenditure in the period to ensure that expenditure incurred is recovered in the same period that the regulatory activity is performed.
5. Recognise revenue when (or as) the entity satisfies a performance obligation: Revenue is recognised over time as expenditure relating to the regulatory activity of the LSB is incurred.

Under a strict interpretation of s175 of the Act, the LSB is required to surrender all amounts it receives from the levy and prescribed fees to the Consolidated Fund. However, the LSB, the MoJ and HMT are in agreement that this was not the original intention of the parties and the current practice, as agreed between the parties, is for the LSB to retain all amounts received in order to fund its operations. Until a suitable legislative vehicle is devised to reflect the current practice and intention of all parties, the MoJ will

be responsible for making a payment on behalf of the LSB to the Consolidated Fund equivalent to the income received by the LSB for the year from the levy and prescribed fees. Accordingly, a notional transfer to the Consolidated Fund has been shown in the Statement of Changes to Taxpayers' Equity. An equal amount is shown as a notional receipt from the sponsoring department.

1.5 Expenditure

Expenditure is accounted for on an accruals basis when either the goods have been received or the service performed. Irrecoverable VAT is included with the item of expense to which it relates. Where a payment is made in advance of the accounting period to which it relates, the accounts show an asset for the amount that has been prepaid.

1.6 Property and equipment

Property and equipment comprise major technology projects, information technology equipment such as laptops and remote desktops as well as office furniture, fixtures and fittings and office leasehold improvements.

Intangible assets comprise software licenses and consultancy expenditure directly attributable to bringing an asset into operation which has a life of more than one year.

Initial recognition and capitalisation threshold

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

Non-current assets are capitalised where the cost is £1,000 or more. However, for grouped purchases of IT equipment, IT software or furniture, fixtures and fittings, individual items are also capitalised where the total grouped purchase is £1,000 or more.

Consultancy expenditure over £10,000 is capitalised if it is directly attributable to bringing into operation a distinct asset with a life of more than one year. All other consultancy expenditure is charged to the SoCNE when incurred.

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

Impairment and revaluation

The LSB undertakes an annual impairment review of assets across all significant asset categories.

If indicators of impairment exist, the assets in question are tested for impairment by comparing the carrying value of those assets to their recoverable amount. An impairment reflects a permanent diminution in the value of an asset as a result of a clear reduction of economic benefits or service potential and is charged to the SoCNE.

Depreciated historical cost is used as a proxy for fair value as this realistically reflects consumption of the assets as allowed by the FReM.

Revaluation would not cause a material difference and the total value of all asset classes is defined as 'low'.

Depreciation and amortisation

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

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

Tangible property and equipment	
Information technology	4 years
Furniture, fixtures and fittings	5 years
Leasehold improvements	over the remainder of the lease or if shorter, over their estimated useful asset lives
Right of use asset	
Office lease	over the remainder of the lease
Intangible assets	
Perpetual software licences	4 years
Consultancy	4 years

1.7 Research

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

1.8 Value Added Tax

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

1.9 Employee benefits

Pension

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

Employee leave accrual

An accrual is made for untaken employee annual leave.

1.10 Going concern

The Act makes provision for the LSB to receive funding from the ARs through the levy and changes to this arrangement would require primary legislation, which is not expected in the next financial year (or indeed, to the best of our knowledge, in the subsequent year). The MoJ has confirmed an overall budget for the LSB of £4.287m for 2022/23. In light of the impact of Covid-19, rising inflation and global events on the UK economy, we have reviewed the mechanism by which the LSB is funded and assessed what the impact on our funding might be. We have noted that as at 1 April 2021, the numbers of regulated professionals actually increased from same point in the previous year, thus giving assurance on the income streams of the ARs who in turn fund LSB. It is therefore appropriate to adopt a going concern basis for the preparation of these financial statements.

1.11 Leases

Scope and exclusions – LSB as Lessee

In accordance with IFRS 16 Leases, contracts, or parts of contracts, that convey the right to control the use of an asset for a period of time are accounted for as leases.

Contracts for services are evaluated to determine whether they convey the right to control the use of an identified asset, incorporating both the right to obtain substantially all the economic benefits from the asset and to direct its use. If so, the relevant part of the contract is treated as a lease.

Initial recognition

At the commencement of a lease (or on the date of transition to IFRS 16, if later), the LSB recognises a right-of-use asset and a lease liability.

The lease liability is measured at the value of the remaining lease payments discounted either by the interest rate implicit in the lease, or where this is not readily determinable, the department's incremental rate of borrowing. This rate is advised annually by HM Treasury.

The right-of-use asset is measured at the value of the lease liability, adjusted for: any lease payments made before the commencement date; any lease incentives received; any incremental costs of obtaining the lease; and any costs of removing the asset and restoring the site at the end of the lease.

When making the assessment, the LSB excludes low value item leases. These are leases which LSB considers as those where the underlying asset would have a cost of less than £10,000 when new, provided those items are not highly dependent on or integrated with other items.

Subsequent measurement

The lease liability will be adjusted for the accrual of interest, repayments, reassessments and modifications.

After initial recognition, the right-of-use asset will be measured using the fair value model. The LSB considers that the cost model (measurement by reference to the lease liability) is a reasonable proxy for fair value, in the case of non-property leases, and for property leases of less than five years or with regular rent reviews. For other

leases, the asset will be carried at a revalued amount.

The value of the asset will be adjusted for subsequent depreciation and impairment, and for reassessments and modifications of the lease liability as described above. Where the amount of a reduction to the asset exceeds the carrying value of the asset, the excess amount is recognised in expenditure.

Expenditure for each financial year includes interest on the lease liability and a straight-line depreciation charge on the right-of-use asset, together with any impairment of the right-of-use asset and any change in variable lease payments, that was not included in the measurement of the lease payments during the period in which the triggering event occurred. Rental payments in respect of leases of low value items, or with a term under twelve months, are also expensed.

Transitional arrangements

IFRS 16 Leases is due for adoption across government bodies reporting under the FReM from 1 April 2022, however the Ministry of Justice Group (MOJ Group) have taken the option to early adopt the standard from 1 April 2021, in these accounts. IFRS 16 introduces a single lease accounting model that requires a lessee to recognise assets and liabilities for all leases. This replaces the previous standard, IAS 17 Leases. Further details of the impact of the new standard are disclosed at Notes 7 and 15.

IFRS 16 has been adopted retrospectively using the 'cumulative catch-up' approach, without restatement of comparative balances. Consequently, the financial statements for 2020-21 have been prepared in accordance with the previous standard, IAS 17 Leases.

There has been no reassessment of existing contracts that the department had previously assessed as containing or not containing a lease. However, new contracts will be classified according to the criteria given in IFRS 16.

For leases previously treated as operating leases, the right-of-use assets have been measured at the present value of the remaining lease payments, adjusted for any prepayment or accrual balances in respect of the lease payments. The department has used hindsight in determining the remaining term of leases and no adjustment has been made for leases whose term ends within twelve months of the date of first adoption.

The only current lease to which IFRS 16 applies in the LSB's circumstances is the London premises lease, which has an expiry date of 3 September 2024. For the material arrangements within the scope of IFRS 16, the impact of implementation is an increase in assets and liabilities of £343k and £423k respectively as at 1 April 2021.

2. Other programme costs

	2021/22 £'000	2020/21 £'000
External legal costs	24	41
Accommodation – licence to occupy fee	27	127
Accommodation – rates, services and other costs	15	125
Outsourced services	139	115
LSB Research costs	267	168
Other programme costs	102	101
Recruitment LSB Staff	41	33
Recruitment OLC Members	27	28
Recruitment Consumer Panel	7	–
Legal library services & reference	6	6
Consumer Panel (non pay)	46	44
Professional advisers	15	24
Training	51	43
Travel and subsistence – LSB Staff	0	0
Travel and subsistence – LSB Board	3	(1)
Travel and subsistence – OLC Board	6	0
Fees for statutory external audit work	25	23
Internal audit fees	15	17
Dilapidations	–	–
HMRC tax provision movement	(21)	74
Finance costs	3	–
Loss / (Gain) on disposal	1	(0)
Total cash items	799	968
Depreciation	170	69
Amortisation	44	23
Total non-cash items	214	92
Total other programme costs	1,013	1,060

There has been an 88% reduction in the 'Accommodation - rates, services and other costs' line as a result of the release of previously accrued business rates which were accrued at a higher estimated rate than the final demands received in January 2022, which were backdated to the start of the lease in September 2019.

3. Levy Income

	2021/22 £'000	2020/21 £'000
Levy income from approved regulators	4,047	3,905
Total	4,047	3,905

4. Other income

	2021/22 £'000	2020/21 £'000
Licensing authority application fees	–	–
Termination fee	6	–
Other income	–	–
Total	6	–

5. Staff costs

	2021/22 Permanent Staff £'000	2021/22 LSB Board £'000	2021/22 OLC Board £'000	2021/22 Consumer Panel £'000	2021/22 Total £'000	2020/21 Total £'000
Wages and salaries	1,984	187	117	162	2,450	2,384
Social security costs	234	15	9	15	273	264
Pension costs	265	0	0	15	280	257
Other staff costs	16	0	0	0	16	14
Total	2,499	202	126	192	3,019	2,919

6. Property and equipment

	2021/22 £'000	2021/22 £'000	2021/22 £'000	2021/22 £'000
	Information technology	Furniture, fixtures & fittings	Leasehold improvements	Total
Cost				
At 1 April 2021	79	200	57	336
Additions	4	6	–	10
Disposals	(2)	–	–	(2)
At 31 March 2022	81	206	57	344
Depreciation				
At 1 April 2021	27	63	16	106
Charged in year	17	42	11	70
Disposals	(1)	–	–	(1)
At 31 March 2022	43	105	27	175
Carrying amount at 31 March 2022	38	101	30	169
Carrying amount at 31 March 2021	52	137	41	230

	2020/21 £'000	2020/21 £'000	2020/21 £'000	2020/21 £'000
	Information technology	Furniture, fixtures & fittings	Leasehold improvements	Total
Cost				
At 1 April 2020	70	197	57	324
Additions	9	3	–	12
Disposals	–	–	–	–
At 31 March 2021	79	200	57	336
Depreciation				
At 1 April 2020	10	22	5	37
Charged in year	17	41	11	69
Disposals	–	–	–	–
At 31 March 2021	27	63	16	106
Carrying amount at 31 March 2021	52	137	41	230
Carrying amount at 31 March 2020	60	175	52	287

7. Right of use

	2021/22 £'000
Cost	Land and buildings
At 1 April 2021	343
Additions	0
Disposals	–
At 31 March 2022	343
Depreciation	
At 1 April 2021	0
Charged in year	100
Disposals	–
At 31 March 2022	100
Carrying amount at 31 March 2022	243
Carrying amount at 31 March 2021	343

The right of use asset relates to the lease on the London office of LSB.

The lease term is 5 years and the lease will mature in September 2024.

There is no break clause in the lease.

The maturity analysis for the lease can be found in Note 15 Lease liabilities.

8. Intangible assets

Intangible assets	
	2021/22 £'000
Cost	
At 1 April 2021	93
Additions	1
Disposals	–
At 31 March 2022	94
Amortisation	
At 1 April 2021	32
Charged in year	44
Disposals	–
At 31 March 2022	76
Carrying amount at 31 March 2022	18
Carrying amount at 31 March 2021	61

Intangible assets	
	2020/21 £'000
Cost	
At 1 April 2020	84
Additions	9
Disposals	–
At 31 March 2021	93
Amortisation	
At 1 April 2020	9
Charged in year	23
Disposals	–
At 31 March 2021	32
Carrying amount at 31 March 2021	61
Carrying amount at 31 March 2020	75

9. Financial instruments

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

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

Consequently, the LSB is not exposed to significant liquidity, credit, interest rate or foreign currency risk.

a) Carrying amount and fair values

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

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

b) Liquidity risk

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

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

c) Credit risk

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

Maximum exposure to credit risk

	2021/22 £'000	2020/21 £'000
Cash at bank	6,516	6,469
Levy income receivable	3	—
Other receivables	23	—
	6,542	6,469

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

10. Trade and other receivables

Amounts falling due within one year	2021/22 £'000	2020/21 £'000
Levy income receivable	3	–
Other receivables	23	–
Prepayments	107	93
Deposits and advances	0	–
Total trade and other receivables	133	93

11. Cash and cash equivalents

	2021/22 £'000	2020/21 £'000
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Cash and cash equivalents recorded in the SoFP and Statement of Cash Flows include deposits held at call with banks representing short-term highly liquid investments with maturities of less than three months.

Balance at 1 April	6,469	6,393
Net increase in cash and cash equivalents	47	76
Balance at 31 March	6,516	6,469
Balances at 31 March were held at:		
Government Banking Service	6,516	6,469

12. Trade and other payables

Amounts falling due within one year	2021/22 £'000	2020/21 £'000
Trade payables	–	–
External suppliers	146	1
Payroll tax and social security	87	89
Statutory audit fee	25	23
Deferred income	51	18
Employee leave accrual	42	46
Accruals	97	285
Total trade and other payables	448	462

13. Provisions for liabilities and charges

	2021/22 £'000	2021/22 £'000	2021/22 £'000
Provisions	Dilapidations	Tax	Total
At 1 April 2021	24	74	98
Provision raised	–	–	–
Provision utilised	–	(53)	(53)
Provision written back	0	(21)	(21)
At 31 March 2022	24	–	24

The dilapidations provision is non current

	2020/21 £'000	2020/21 £'000	2020/21 £'000
Provisions	Dilapidations	Tax	Total
At 1 April 2020	24	–	24
Provision raised	–	74	74
Provision utilised	–	–	–
Provision written back	–	–	–
At 31 March 2021	24	74	98

A legacy issue with PAYE and Employer National Insurance contributions relating to non-executive expenses was identified and we recognised a PAYE provision of £74,100 in the 2020/21 Annual Report and Accounts, to cover six years' liability for National Insurance Contributions (2014 - 2020) and four years for Income Tax (2016 - 2020). The provision also included an estimated amount for interest and any penalties.

The liability calculation was submitted in the form of a voluntary disclosure to HMRC in January 2021.

HMRC responded in November 2021 with a settlement letter, which confirmed our liability in respect of this matter as £53,175 including interest of £4,676 but with no penalties or fines.

LSB accepted the settlement finding and paid £53,175 in full to HMRC in December 2021 to discharge this liability.

We utilised LSB reserves to fund the PAYE provision of £74,100 and so the surplus amount of £20,925 has been returned to LSB Reserves.

14. Capital commitments

There are no capital commitments.

15. Lease Liabilities

Current	119
Non current	388
Operating commitments disclosed under IAS17 as at 31 March 2021	507
Impact of discounting	
Low value short term leases	0
Non-recoverable VAT	(84)
Lease Liabilities recognised under IFRS16 as at 1 April 2021	423
Current	132
Non current	161
Lease Liabilities recognised under IFRS16 as at 31 March 2022	293
Maturity analysis	
2022-23	133
2023-24	133
2024-25	27

LSB does not face a significant liquidity risk with regard to its lease liabilities.

16. Contingent liability

There are no contingent liabilities.

17. Related party transactions

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

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

The LSB has a direct relationship with the OLC and has some oversight responsibilities for the Ombudsman Scheme established by the OLC. Under the Legal Services Act 2007, the LSB is responsible for appointing OLC Board members and paying their salaries and expenses which amounted to £132k for 2021/22 (2020/21 - £118k). During 2021/22 OLC Board members were paid fees of £117k (2020/21 - £111k).

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

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

18. Events after the reporting period

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

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



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