

Legal Services Board

Annual Report and Accounts for the Year Ended 31 March 2020

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Performance report

Overview

Statement from the Chair

We ended 2019/20 with our society being tested like never before, with the Covid-19 pandemic causing unprecedented uncertainty for everyone. I am proud of the efforts my colleagues at the LSB and those across the legal sector have made to maintain the effective regulation of legal services whilst supporting people and businesses.

We know from our research that too many people do not know their legal rights and responsibilities when faced with a legal problem, and do not know where to turn for support and advice. This Covid-19 crisis has led to an increased need for legal services in some areas, and for me the pandemic has reinforced the need for a strategic reshaping of legal services to ensure they meet the needs of society. Regulation that is carried out to protect and enable consumers to access the services they need will continue to be central to the LSB's plans as we support regulators through the challenging months ahead.

We will continue to deliver our statutory obligations and make progress on wider policy areas where they do not place unnecessary burden on others.

After the virus passes, we will all face the massive task of rebuilding our economy, of which the legal services sector is a significant part. The LSB will work with the regulators to do this and ensure that regulation underpins and promotes the recovery.

During 2019/20, we began a programme of stakeholder engagement as part of the development of our strategy from 2021 onwards. This is a somewhat different process to what we have done before.

We want to consider as many views as we possibly can from across the legal sector and beyond so that this is less a strategy for the LSB and more a strategy for the legal services sector and the contribution that regulation can make. A key part of the strategy will inevitably focus on Covid-19 recovery, with a focus on the sector's ability to fulfil its key role in society and to meet the needs of consumers.

We will continue our programme of extensive engagement, whether face-to-face or virtually, and when time allows, the Board and I plan to hold more meetings around England and Wales and to engage with more people and organisations.

We are also keen to increase our understanding of the views and needs of consumers. Later in 2020, we plan to begin recruiting members of the public to a panel for tapping into public attitudes to legal services. We are developing this resource with a view to making it available to others, certainly the Legal Service Consumer Panel and hopefully, on the basis of collaborative proposals, the regulators.

Technology is playing a vital role in enabling some parts of the legal sector to respond to the Covid-19 crisis. During 2020/21, we will explore further how regulation can support innovation that increases access to justice. If used ethically, technology should improve services for consumers and benefit businesses. However, it is important to ensure that people who are not able to use or access new technology are not left behind or denied access to legal help and advice.

The Legal Choices website is an example of how regulators can provide information to consumers to help them make better informed choices. The initial three-year development programme for the website ends in October 2020 and the LSB will consider options for future development.

Although some of our plans may adapt over the coming year, we will maintain a firm focus on regulatory performance. Our report on regulatory performance in January 2020 showed signs of progress on the range of actions agreed by the regulators, but generally the pace of delivery was slow.

One of the areas that we will monitor carefully is regulatory independence. We plan to do this by embedding it within the “well-led” standard of the existing regulatory performance assessment framework. Our consultation on this closed in April 2020. We will announce our response later in the year.

We are continuing to encourage the regulators to increase the transparency of their decision-making processes and we are also keen to improve our own openness. In the previous year, we started publishing the papers and agendas for our Board meetings ahead of the event. Following each meeting, we publish a decision paper and I also write a blog that covers the meeting. We publish the minutes of the meeting as soon as they are agreed. During 2020/21, the Board will consider whether to hold open Board meetings.

We will also continue to work with the Ministry of Justice to continue monitoring the Office of Legal Complaints (OLC). In March 2020, the LSB appointed Elisabeth Davies as the OLC’s new Chair and we have tasked her with rapidly improving performance at the Legal Ombudsman. The role of the Legal Ombudsman service is vital, and we expect it to rebuild and regain the confidence of service users and stakeholders quickly over the coming months.

As we turn our focus to the final year of our three-year strategy and continue developing a new one, we are by no means complacent about the challenges ahead and remain committed to improving outcomes for people who need legal services.

Dr Helen Phillips
Chair

12 June 2020

Overview

Statement from the Chief Executive

This Annual Report for 2019/20 describes the work we completed and the impact we have had in delivering the second year of our 2018-21 Strategic Plan. It is my first Annual Report since joining the LSB in August 2019.

During 2019/20, we made progress on our five-year policy objectives on public legal education, ongoing competence and legal technology. We also undertook projects that have put us in a strong position to work with the wider sector during the final year of our Strategic Plan and beyond to reshape legal services to meet the needs of society.

Like everyone across the legal sector and indeed the world, during the final weeks of the year under review, our people and our activities were impacted by the Covid-19 pandemic. As part of our response, we moved to remote working and carried out much of our planned engagement through video and telephone conferencing, only rescheduling those events where we considered it essential to have a physical presence.

Being mindful of the needs of both the regulators and consumers, we reviewed our planned activities to ensure we were not placing unnecessary burdens on others during the crisis whilst ensuring that effective regulation of legal services in the public interest continued.

Ongoing competence

Early in 2019, we began reviewing how legal regulators ensure that the professionals they regulate remain competent throughout their careers. Consumers should be able to trust that legal professionals have the necessary skills, knowledge and attributes to provide good quality legal services and that they are kept up to date and relevant over time.

Through the project we want to understand and build consensus on what works well in supporting legal professionals to demonstrate competence throughout their careers and explore whether existing frameworks meet public expectations and protect people from harm. The project involves a programme of stakeholder engagement to ensure we are able to hear and consider the widest range of views and evidence.

In October 2019, we held a roundtable event at Northumbria University in Newcastle. We were joined by solicitors, barristers and judges, representatives of consumers, the court service and legal academics from several law schools. This resulted in a valuable discussion that covered a range of issues, and the insights we gleaned are informing our thinking.

As part of the project we also hosted an event with representatives from the approved regulators and representative bodies to share some of the early findings from the desk research that we conducted as part of our preparation for a six-month public call for evidence.

We launched that call for evidence in January 2020, with the aim of capturing relevant information to help us understand current approaches to assuring competence and gain clarity on whether there are any gaps in the system or areas of concern that need to be addressed. We look forward to publishing our analysis later in 2020 together with proposals for any further action.

Public legal education

During the year, we used our convening power to engage with and increase our understanding of the range of organisations that are active in the public legal education (PLE) space. We also used our own and others' research to identify gaps in public knowledge and to establish a baseline of legal capability to allow impact monitoring in future years. We worked with many stakeholders to help achieve this, including actively taking part in the Solicitor General's PLE committee.

In February 2020, we published a new analysis of legal capability. Our report was based on a further analysis of our Individual Legal Needs Survey, which we published in January 2020. The research used new Organisation for Economic Coordination and Development (OECD) guidance to estimate that 3 in 10 people facing a contentious legal issue did not have their legal need met. The data informed our view that there needs to be a strategic reshaping of legal services to ensure they meet the needs of everyone who needs them. Indeed, we recognised that while we refer in the report to "legal issues", actually for many this means real events that have a profound impact on their lives.

The findings were presented at a stakeholder event during Justice Week in February 2020. Panel speakers included representatives from the charity Just for Kids Law, the technology company Legal Beagles, and the Bingham Centre for the Rule of Law thinktank.

Later in 2020, we will develop the next stages of the project and continue to engage with partners to increase public knowledge of the legal system.

Legal technology

During the year under review, we continued to explore the opportunities and challenges that existing and emerging technologies present for consumers, providers and regulators. We commissioned experts to write four papers on legal technology and regulation, which were published with an accompanying podcast interview.

The first paper explored what the legal services sector can learn from medicine and the financial services sector. The second paper looked at what we can learn from other countries about how to regulate legal technology. The third paper considered whether the existing regulatory framework is sufficiently flexible to respond to the challenges presented by the increasing use of technology in legal services. The fourth paper charted the evolution of blockchain and other similar technologies as tools for simplifying common legal tasks.

Office relocation and IT transformation

In November 2019, we moved office because our lease ended and the building we were in was due to be redeveloped. Our new office is better value for money, and it is enabling us to be a more effective organisation.

The relocation coincided with an IT transformation project which saw us adopt a largely cloud-based IT model, rollout new laptops and upgrade software. This is supporting staff to work more collaboratively and flexibly. Indeed, while of course unforeseen, the project put us in a strong position to cope with the Covid-19 pandemic.

Internal Governance Rules

In May 2019, we launched a targeted consultation on amendments to the Internal Governance Rules (IGR) in order to enhance regulatory independence. This followed a consultation in November 2018 on our revised rules and supporting guidance.

We received constructive feedback from approved regulators, regulatory bodies and other respondents throughout the process of reviewing the IGR. We listened carefully and, in July 2019, we published our revised IGR and new accompanying statutory guidance, setting out the requirements for the approved regulators of legal services to ensure the separation of regulatory and representative functions.

The revised IGR and guidance came into effect immediately. Approved regulators and regulatory bodies were given a maximum 12 month transition period in which to comply with the new rules. The IGR reflect our commitment to setting a new framework which delivers the highest level of regulatory independence within the current legislative framework.

Regulatory performance

In December 2019, we published a progress report on the performance of the regulatory bodies in meeting the regulatory performance framework outcomes. This followed the publication of our transitional assessments in January 2019, and our interim performance review in August 2019. We are monitoring the regulatory bodies to ensure they make progress against their actions to improve their performance. We also launched a consultation in February 2020 on extending our framework to incorporate monitoring of regulatory independence as set out in the IGR.

Matthew Hill
Chief Executive

12 June 2020

Statement of the purpose and activities of the LSB

Our purpose

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

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

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

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

The Legal Services Act 2007 (the Act) established the LSB on 1 January 2009 and we took on 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, who 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 2019/20 corresponded to £21.27 per person (although it is important to bear in mind that the levy is not directly on individuals but on the legal regulators). The average for the previous three years was £19.28, down from over £34 at its peak in 2009/10.

Our regulated community

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

We also have responsibilities in relation to the 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 their 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. We share these objectives with the approved regulators and the OLC. The objectives are to:

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

The professional principles are further defined in the Act as:

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

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

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

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

to us. Our regulatory approach document sets out how we use those tools to promote our regulatory objectives and achieve our vision.¹ Setting out our approach in a clear and accessible document supports transparency, consistency and predictability, in line with good regulatory practice.

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

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

We have statutory responsibilities in relation to:

- approval and recognition – we consider a range of applications from both existing regulators (including applications to become a licensing authority, changes to regulatory arrangements and extension of scope) and those seeking to become an approved regulator
- monitoring and investigation – we monitor regulators' compliance with regulatory requirements; oversee aspects of the performance of the OLC; and perform some specific duties in relation to the SDT. We also examine the wider 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 powers include the power to set performance targets, give directions, publicly censure a body, impose a fine, intervene in the running of a regulatory

¹ https://www.legalservicesboard.org.uk/what_we_do/pdf/Regulatory_Approach.pdf

authority in relation to any of its regulatory functions and ultimately recommend cancellation of a body's designation as regulatory authority

- regulation, education and training – we have a duty to assist in the maintenance and development of standards of regulation by approved regulators and in the education and training of persons carrying out reserved legal activities
- scope of regulation – we have powers to make recommendations to the Lord Chancellor on the designation of new activities as reserved and the removal of existing designations.

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

Key issues and risks

During 2019/20, the LSB maintained its active management of risks in line with the organisation's risk management strategy. The following three risks were of particular concern:

- Over the past few years, the LSB has been managing a risk that public confidence in legal services regulation is being undermined because consumers continue to be underserved by the Legal Ombudsman. In the first half of 2019/20 performance improved, however it has since deteriorated again. To mitigate this risk, in conjunction with the MoJ, the LSB has been seeking to agree a roadmap with the OLC, setting out a path to a sustained level of acceptable performance. We have made a series of OLC Board appointments with significant experience of change management as well as various other specific steps to improve performance. Measures introduced in previous years have also been continued and refined, including voluntary assurance reporting by OLC to the LSB Board (see page 27) and regular discussions of the Legal Ombudsman's performance with the OLC at Board and working level.

- Over the last year the LSB has dealt with the risk of an unmanaged exit of the Cost Lawyers Standards Board (CLSB) from the market. This has arisen from the CLSB performing below expectations and concerns about the level of its resources. If it materialised, this risk could affect the delivery of the LSB's objective to promote the public interest through effective regulation. To mitigate this risk, the LSB has actively managed the CLSB's performance through our regulatory performance framework. In addition, the LSB has developed a bespoke contingency plan to be used in the event of the exit of a regulator, to ensure that associated risks and impacts are properly managed.

- Towards the end of 2019/20, the LSB started managing the risk of detriment to the regulatory objectives caused by the impact of Covid-19 on regulators, providers and consumers. We published our 2020/21 business plan with plans remaining flexible and initiated a Covid-19 project. The purpose of the project is to understand the impact of Covid-19 on the legal sector and contribute to its recovery, ensuring that the public interest and the interests of consumers are well served through recovery. This work is continuing in 2020/21 as the LSB continues to manage the risk.

Going concern basis

Whilst the Act remains in place, the LSB is required to fulfil its statutory functions. In order to fund our activities, the Lord Chancellor has agreed that a levy of just over £3.9m for 2020/21 may be raised from the approved regulators to fund our budget. The financial statements have therefore been prepared on a going concern basis.

Performance summary

The Business Plan (the Plan) for 2019/20² was the second year of our three-year strategy³. The Plan set out an ambitious programme of work, including longer-term projects designed to run into the next strategic planning period.

The Plan was agreed with the understanding that the LSB would remain agile, monitoring changes in its operating environment, reviewing its objectives and, if necessary, adapting its approach.

As of 31 March 2020, alongside fulfilling its in-year obligations to make routine statutory decisions on matters emerging from the regulators, the OLC and the SDT, the LSB had delivered the majority of work set out in its Plan. There are some elements of work that will now be completed in 2020/21.

Financial performance

Our budget ceiling for the year was £3,798k and our actual outturn was £3,796k, resulting in an underspend of £2k. Underspends in previous years have been significantly greater than this, owing largely to historic resourcing levels. This situation has been subject to constant review and, at the beginning of the 2018/19 financial year, we reached the minimum level of resourcing which we believe is necessary for the successful delivery of our work and which is reflected in the 2019/20 actual outturn.

Historical Analysis of LSB Budgets	2015/16	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000
Total including OLC Board costs	4,298	3,998	3,848	3,798	3,798
Average levy per person authorised to undertake reserved legal activities (for illustration purposes only)	£21.55	£18.83	£19.00	£20.01	£21.27

The average levy of £21.27 per person is calculated based on £3,730k billed to approved regulators in 2019/20, up from £3,410k in 2018/19. 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 reduction in the budget underspend from £378k in 2017/18 to £73k in 2018/19 has led to the £1.26 increase in the average levy for 2019/20.

² www.legalservicesboard.org.uk/news_publications/publications/pdf/2019/Final_business_plan_2019-20.pdf

³ [www.legalservicesboard.org.uk/news_publications/publications/pdf/2018/LSB_Strategic_Plan_2018-21_\(final\).pdf](http://www.legalservicesboard.org.uk/news_publications/publications/pdf/2018/LSB_Strategic_Plan_2018-21_(final).pdf)

Performance analysis

Measuring performance at the LSB

The LSB measures 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.

Detailed performance analysis

Performance against the Plan

One of our key measures is how we perform in delivering our Plan. For 2019/20, our Plan outlined the work the LSB intended to undertake in the second year of its 2018-21 Strategy, with work organised around the three strategic objectives which are to:

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

The Plan is underpinned by the regulatory objectives. We balanced these competing and complementary objectives on a case-by-case basis, informed by the 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 scrutinised by the Board, and submitted to our sponsor department, the MoJ.

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. This is a long-running research project which looks at how the legal services market is changing. It seeks to assess whether the market outcomes associated with the regulatory objectives are being achieved over the longer term, the areas where progress is limited, and what the issues might be.

A detailed breakdown of work carried out in 2019/20 is set out in the following pages.

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

In 2019/20, we carried out the following work to help promote the public interest

Ongoing competence	We began reviewing how legal regulators ensure that the legal professionals they regulate remain competent throughout their careers. In 2019/20, we conducted desk research to prepare for our public call for evidence. This was published on 21 January 2020 and remained open until 26 June 2020. During this time, we will gather information about competence assurance practices in the legal services and other sectors. We intend to publish the conclusions from our analysis of the evidence and any proposals for further action, if required, during 2020/21. This will contribute to our objective by enabling an evidence-led discussion on whether the current approach adopted by legal regulators is promoting the public interest and protecting consumers from harm.
Regulatory performance	Our regulatory performance framework assesses the performance of regulatory bodies across a common set of standards and outcomes. Following publication of our transitional assessments of the regulatory bodies in January 2019, we completed an interim performance review, published in August 2019, and a full-year review, published in December 2019. All regulatory bodies made progress against their actions to improve their performance. One regulatory body has now met the minimum standard against all performance outcomes. However, four regulatory bodies failed to meet all their commitments to improve performance. We also published a consultation in February 2020, to extend the framework to incorporate monitoring of regulatory independence as set out in the IGR.
Internal Governance Rules review outcomes	This project reported the findings of our 2017/18 IGR review and implemented the revised Internal governance rules 2019. We consulted on proposed revised rules and supporting guidance in November 2018. A further targeted consultation was published in May 2019. We published our decision document, revised rules and supporting guidance on 24 July 2019, following which a 12 month compliance transition period commenced. Approved regulators and regulatory bodies must certify that they are fully compliant with the revised IGR by 23 July 2020 or obtain LSB approval for non-compliance. This has contributed to our objective by ensuring the separation of approved regulators' regulatory and representative functions to enhance regulatory independence.

In 2019/20, we carried out the following work to help promote the public interest

Review of Practising Certificate Fee including non-regulatory permitted purposes

The Practising Certificate Fee (PCF) review has enabled us to examine our current approach to the PCF approval process.

In 2019/20, we developed a proforma for PCF applications to streamline the existing process. We reviewed all PCF applications over the last two years and engaged with the approved regulators and regulatory bodies on initial proposals in the first quarter of 2020. This will inform a consultation on revisions to the PCF Rules and Guidance which, subject to the consultation, we intend to publish and implement in 2020/21.

This work will contribute to our objective by increasing the transparency of regulatory expenditure, driving debate on the purpose, costs and benefits of regulation and ensuring alignment with the regulatory performance framework.

Enforcement and disciplinary oversight

In 2019/20 we engaged with regulatory bodies in other sectors to identify any developments in their approaches to enforcement oversight that we could learn from. We considered the relevance of the different approaches to the regulated legal services sector and how far the approaches could be adopted within the Act's framework. As a result of this work, in 2020/21 the LSB will require each regulatory body to confirm that it has effective and up-to-date quality assurance procedures for their enforcement practices and that these are followed. We will develop an audit review process for the review of regulatory body enforcement practices and this approach will also be adopted more widely for assessments on other elements of the regulatory performance framework. This will contribute to our objective by ensuring that the regulatory bodies have effective enforcement procedures that, in particular, protect and promote the public interest.

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

In 2019/20, we were engaged in the following work to make it easier for all consumers to access the services they need and get redress

Public legal education

During the year we worked with a wide variety of stakeholders and actively participated in the Solicitor General's PLE committee's work on realising its seven goals for PLE. We mapped the PLE landscape and focused on what representative and regulatory bodies are doing.

Building on this work, in 2020/21 we intend to undertake further work to decide whether the LSB's regulatory levers need to be used to ensure the regulatory bodies actively promote PLE in carrying out their functions.

We published a standalone analysis of the legal capability dimensions of the Individual Legal Needs Survey in February 2020 at an event we hosted during Justice Week. This analysis supports our view that there needs to be a strategic reshaping of legal services to ensure they meet the needs of users.

This will contribute to our objective by increasing public knowledge of the legal system so that it is easier for people to access the services they need and get redress.

Consumer transparency

We continued to monitor and engage with the regulators on progress implementing action plans produced following the Competition and Markets Authority's (CMA) 2016 market study. Following publications in previous years assessing the regulators' action plans and their implementation progress, during 2019/20 we monitored progress within our regulatory performance framework. We continued to attend the Remedies Programme Implementation Group, which coordinates implementation of the CMA's recommendations.

More specifically, we focused on ensuring continued support by regulatory bodies to the Legal Choices website and began work on proposals to help consumers choose a provider based on service quality information.

Working jointly with the CMA and MoJ, in December 2019 we commissioned research on the prices of legal services commonly purchased by individuals and expect to publish the findings in summer 2020. This will inform evaluation of the early impact of reforms by the regulatory bodies.

In 2019/20, we were engaged in the following work to make it easier for all consumers to access the services they need and get redress

Individual legal needs survey

We completed the individual legal needs survey in partnership with The Law Society. We published a summary report, technical report and online dashboards in January 2020. The survey provided the most detailed insights yet available into the legal issues people face, the responses they take and the help they use; levels of legal capability; and barriers to consumers using the legal services market successfully. The research used new OECD guidance to estimate that 3 in 10 people facing a contentious legal issue did not have their legal need met. Deploying the insights from the survey across our work will contribute to our objective. For example, the findings on shopping around provide a baseline to measure progress on market transparency remedies following the CMA's legal services market study.

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

In 2019/20, we were engaged in the following work to increase innovation, growth and diversity

Regulatory approaches to technology

We continued to investigate the challenges that new technology presents for legal consumers, providers and regulators.

During 2019/20, we published four substantive papers and recorded interviews with experts in legal services, technology and regulation. In January, the Board agreed proposals for the next phase of work on technology, including the establishment of an expert reference group to share knowledge, consider issues and act as a route for external partners to engage with legal regulators collectively. In April 2020, we published a collection of articles by a wide range of stakeholders offering different perspectives on legal technology and regulation. A further two substantive papers and recorded podcast interviews were published in May 2020. The planned work on sandboxes was also deferred until 2020/21.

This will contribute to our objective by assisting regulators to develop their own approaches to technology regulation so that consumer and providers benefit from innovation.

Responding to the regulatory consequences of EU exit

We continued to monitor EU Exit developments and participate in roundtable meetings with the MoJ and legal services regulators aimed at ensuring the necessary steps were taken in the lead up to exit. We coordinated our efforts on regulators' readiness for EU Exit and the possibility of a 'no deal' scenario closely with the MoJ.

All frontline regulators needing to make EU Exit related changes to their regulatory arrangements and those wishing to make use of our 'no deal' Exemption Direction notified us. We confirmed eight notifications in total under this exemption.

We continue to monitor developments post-EU Exit and will consider any further LSB action that may be necessary beyond the transition period.

Market evaluation exercise

This work has been subsumed into our plans for producing a 'state of the nation' analysis of the legal services sector, to be published in Autumn 2020, as part of the process for developing a new strategy covering the period 2021-24. In January 2020, we published interactive dashboards on our website which include key statistical information on the legal services market.

In 2019/20, we were engaged in the following work to increase innovation, growth and diversity

Diversity

Our approach to encouraging a diverse profession was published in 2017. A report on the progress made by regulatory bodies in meeting our policy outcomes was published in January 2019 and progress was monitored through relationship management meetings throughout 2019/20.

In the meantime, we have reflected on our general approach and decided that it would be helpful to regulatory bodies if we made clearer the characteristics we expect from well-performing regulators. A progress update has been commissioned from the regulatory bodies which will be published in Summer 2020.

This will contribute to our objective by increasing the focus on diversity.

Enabling our business

In 2019/20, we were engaged in the following work to support our objectives

In 2019/20 we moved offices, decreasing our office footprint from a 354 square metre office to a 223 square metre office. This was accompanied by a move to hot-desking.

This has contributed to our objective by delivering value for money and allowing colleagues to work in a more collaborative, flexible and agile way, with the aim of achieving greater staff retention and engagement.

IT transformation

In 2019/20, we undertook an IT transformation, moving from fixed IT infrastructure to a largely cloud-based IT model. This was accompanied by the rollout of upgraded software and laptops to replace fixed desktops.

This has contributed to our objectives by enabling us to work more collaboratively and flexibly, delivering value for money in our corporate functions. It has also enabled us to seamlessly transition to remote working during the Covid-19 pandemic.

Performance against statutory performance targets

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

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

we have a statutory responsibility to assess and, where appropriate, approve the practising certificate fee application of each regulator and approve the annual budget of the 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 2019/20 is shown below. These figures are derived from ongoing records that the LSB maintains of our processing of applications.

Activity	How we performed
Publication of applications on our website	100% (13 out of 13) of applications for approval of changes to regulatory arrangements were published within the two-day working target
Decisions and recommendations on an application	Changes to regulatory arrangements: • 14 decisions on applications to change regulatory arrangements were made • Seven decisions were made in the initial decision period of 28 calendar days • Seven decisions were made within an extended decision period of 90 calendar days
Publish our decisions, extensions, warnings and refusals to consider applications	100% (23 out of 23) of notices were published on our website within the target of two working days
Publish advice from mandatory consultees, written representation from applicants, and oral representations	None received during the reporting year.
Recommendations to the Lord Chancellor	None in 2019/20.

In 2019/20, we received 13 new applications concerning a change of regulatory arrangements. 14 decisions were made. Two applications were withdrawn during the LSB's consideration due to a lack of evidence to allow the LSB to make an informed decision. There was one ongoing application at the end of the year. Seven decisions were made in the initial decision period of 28 days and the

average time to make a decision was 52 days (39 days in 2018/19). Half of decisions were made after the initial 28-days. This was because we dealt with some substantial applications during the reporting year that required long periods of consideration, including requests for applicants to provide additional information with further changes to some proposals being made in the course of LSB consideration.

These included the Solicitors Regulation Authority's application to change its Professional Indemnity Insurance Rules and Compensation Fund Rules linked to its 2018 application for new Standards and Regulations, the Faculty Office's new transparency rules and the SDT's revised rules amending, amongst other things, the standard of proof applicable in disciplinary proceedings.

Thirteen exemption directions were issued, including two to make further minor amendments enabling the Solicitors Regulation Authority to implement its new Standards and Regulations.

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.

While the completion of the IT transformation and office move projects resulted in one-off costs in the 2019/20 financial year, the same efficiencies ensured that these additional operating costs could be funded within the same budget envelope.

The comparative performance against budget is shown below:

	2019/20	2018/19
	£'000	£'000
Budget	3,798	3,798
Expenditure	3,796	3,725
Underspend	2	73

In 2020/21, there will be a modest budget increase from £3,798k to £3,923k. While efficiencies will result in either short-term or longer-term savings, there are other drivers which will increase our costs, including inflationary pressure on both pay and non-pay costs.

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

funds from the approved regulators each year equal to its estimated net expenditure.

Income and expenditure are accounted for on an accruals basis. The levy amount billed to approved regulators in 2019/20 was £3,730k (£3,410k in 2018/19). The amount of funds released from deferred income was £66k (£315k released from deferred income in 2018/19). Any underspend that the LSB achieves in one year reduces the amount it needs to collect through the levy in the subsequent year.

We recognise funds received as 'application fees', as defined in the Act at s175(2), for designation and licensing authority applications. Such fees received are initially treated as 'deferred income' and released to the Statement of Comprehensive Net Expenditure in accordance with the value of work undertaken. These fees are set off against the LSB's expenditure and also reduce the levy payable by all approved regulators. No prescribed fees were received in either 2019/20 or 2018/19 and no balance remained in deferred income from prescribed fees as at either 31 March 2020 or 31 March 2019.

We constantly strive for value for money as an organisation and have introduced improvements to our planning approach that has increased transparency on how resources are deployed on programmes and projects and improved clarity of the expected impact (and, by extension, value for money) of our work. We seek to maximise value for money when we purchase goods and services, and our ICT support is provided by a small enterprise, in line with government's aim of encouraging the use of SMEs for public sector services. Facilities services are provided by the LSB's current landlord, the Trades Union Congress.

Outsourced arrangements have provided the LSB with some resilience, and have obviated the need for expensive consultancy, whilst ensuring that the organisation still receives a focussed bespoke service. The LSB's independent status and unusual funding model, unlike that of many other public sector organisations, enables this.

Payment of creditors

We are committed to paying all supplier invoices by the due date or within 30 days of receipt if no due date has been agreed. In line with guidance issued by the Department for Business, Energy and Industrial Strategy and the Cabinet Office, we aim to pay all authorised invoices that are not under dispute within 10 days from receipt. Throughout 2019/20 98% of these invoices were paid within 10 days.

Performance against other measures

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

Our view remains that the introduction of ABS continues to have a direct and positive impact, in particular, on the regulatory objectives of protecting and promoting the interests of consumers, promoting competition in legal services and encouraging a strong, diverse and effective legal profession. Their value has been to provide a structure for firms wishing to provide services differently to address legal need. Overall numbers have continued to grow, reaching 1,413 at the end of 2019/20, and we have evidence of a wider variety of business models in the market than prior to the emergence of ABS. As at the end of 2019/20, there were 980 ABS licensed by the Solicitors Regulation Authority, 266 by Institute of Chartered Accountants in England and Wales, 77 by the Council for Licensed Conveyancers, 59 by Intellectual Property Regulation Board, and 31 by Bar Standards Board.

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 2019/20, we received 35 requests, and on average these were responded to within 12 days (excluding active requests). All requests were dealt with within the 20 working-day statutory deadline.⁴

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 2019/20.

We continued our work during 2019/20 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 report⁵ but we are committed to working with the landlord of our premises to take account of the impact of our activities on the environment.

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

During the course of the year, our colleagues supported the London Legal Support Trust by participating in the London Legal Walk, baking cakes and participating in a quiz night, raising in total £1,200. Colleagues also took part in the Christmas Jumper Day and donated £50 to Save the Children.

Matthew Hill
Accounting Officer

12 June 2020

⁴ There was one active request at the end of 2019/20. The request was received within 20 working-days of the end of the year.

⁵ The LSB is exempt from producing a sustainability report under the Greening Government Commitments because it is an arm's length body occupying less than 1000m² and has fewer than 250 FTE staff.

Accountability report

Corporate governance report

LSB Members' report

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

In 2019/20 the LSB continued to oversee ten approved regulators, collectively responsible for regulating almost 177,000 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 such a mixed market environment presents to consumers of legal services, to the public interest and to those seeking to provide regulated legal services in England and Wales.

Schedule 1 to the Act stipulates that:

The Board is to consist of the following members —

1(1) (a) a chairman appointed by the Lord Chancellor,

(a) the Chief Executive of the Board and

(b) 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 is published on the LSB website⁶. Members are also required to declare any conflicts or interests in any item being discussed and the Chair will determine whether they need to be excluded for that item. All and any such instances are recorded in the minutes of the Board, which are also published on the LSB website.

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

⁶ <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, 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.

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

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

Professional financial advice

The LSB engaged the services of John Ward, a chartered accountant, to provide support to the Audit and Risk Assurance Committee (ARAC) in reviewing and challenging the policies and procedures instigated by the Executive. In 2019/20 the LSB paid him £1.5k (£2.6k in 2018/19) for these services. His contract ended on October 2019 on the basis that the Board now has a financially qualified member who also is a member of ARAC.

Auditor

Internal audit services for the period of this report were provided to the LSB by KPMG LLP until June 2019 and by Crowe LLP from October 2019.

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 2020, a fee of £22.5k 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.

The LSB's annual governance statement 2019/20

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

- complies with all statutory and administrative requirements on the use of public funds, including the principles and policies set out in the HMT publication Managing Public Money, relevant Dear Accounting Officer letters, and other directions from the Cabinet Office/HMT
- meets its obligations under, and acts in line with regulatory objectives contained in the Legal Services Act 2007 ('the Act')
- operates within the limits of its statutory authority and in accordance with any delegated authorities agreed with the MoJ as the LSB's sponsoring department
- operates in line with the statutory requirements and spirit of the 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.⁷

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

⁷ <https://www.legalservicesboard.org.uk/wp-content/uploads/2019/12/Governance-Manual-approved-November-2019.pdf>

LSB Board

The LSB Board comprises both non-executive Members (including the Chair) and the Chief Executive. The Board met formally on eight occasions during the period 1 April 2019 to 31 March 2020.

Meeting attendance	
Dr Helen Phillips (Chair, Lay Member)	8/8
Catherine Brown (Lay Member)	6/8
Marina Gibbs (Lay Member)	8/8
David Eveleigh (Non Lay Member)	6/8
Michael Smyth CBE QC (Hon) (Non Lay Member)	8/8
Jemima Coleman (Non Lay Member)	8/8
Ian Hamer ⁸ (Lay Member)	4/4
Jeremy Mayhew ⁹ (Lay Member)	4/4
Tim Sawyer ¹⁰ (Lay Member)	1/4
Catharine Seddon (Lay Member)	7/8
Neil Buckley ¹¹ (Chief Executive Non Lay Member)	3/3
Matthew Hill ¹² (Chief Executive, Lay Member)	5/5

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

Board Committees

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

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

The Remuneration and Nomination Committee (RNC) is responsible for advising me as Accounting Officer and the Board Chair on a number of HR issues, and has responsibilities relating to the appointment of Members of the Board, 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	
Catharine Seddon (Chair)	3/3
Marina Gibbs	3/3
Catharine Brown	3/3
Michael Smyth	3/3

Remuneration and Nomination Committee	
Jemima Coleman (Chair)	2/2
Ian Hamer	1/1
Marina Gibbs	2/2
Jeremy Mayhew	1/1

8 Joined the Board on 1 October 2019

9 Retired from the Board on 30 September 2019

10 Appointed to the Board for a term of appointment commencing 1 April 2019. Stepped down from the Board in September 2019.

11 Retired from the Board in August 2019

12 Joined the Board in August 2019

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 three-way operating protocol with the LSB, OLC and the MoJ.

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

In approving the OLC's budget, the LSB seeks a range of assurances and, for the budget year 2020/21, these include:

- transparency about performance
 - i. analysis of actual performance to date against KPIs in the balanced scorecard in 2019/20
 - ii. the forecast trajectory on targets and performance by month, at each stage of the process, from the present until sustainable acceptance performance has been achieved (to include, but not limited to, the size of the pre-assessment pool and timeliness KPIs)
 - iii. key actions and timeframes for delivery of the roadmap
 - iv. risks and how they are being managed and mitigated for 2019/20, particularly on how the quality of decisions is being safeguarded and monitored when targets are being considered
 - v. a business case that clearly links any additional resources sought to the expected benefits including the impact on the roadmap if the budget were to be increased by smaller amounts.
- an indication of the distribution of resources deployed in the operation of the ombudsman scheme and the amounts of income the OLC expect to raise from the operation of the scheme
 - i. staff costs and numbers broken down by function – for instance: enquiries; investigations; ombudsman team; corporate, others
 - ii. explanation and justification of assumptions around the volumes predicted for the year, including data on the number of new cases in the current year to date. Information about how the organisation would respond (including in terms of its resourcing strategy in the climate of recruitment and spend controls) in the event of volume fluctuation.
- a summary of the key risks to delivering the Plan for 2020/21 and proposed mitigation including confirmation that sensitivity analysis of key assumptions has been carried out
 - i. any possible variation around the income prediction, for example (but not limited to) due to changes in volume (up or down), or if changes to the case fee structure are introduced in-year
 - ii. the impact of variations in anticipated levels of case complexity.
- a summary of changes to the budget as a result of stakeholder responses to consultation, a summary of any responses to that consultation and cover the outcome of discussions with MoJ and the extent to which the final budget takes account of MoJ's input.
- equality and diversity considerations.
- the estimated split of expenditure between:
 - i. handling complaints about legal services
 - ii. work to analyse and feed back to the sector learnings from handling complaints – including an explanation and justification of this figure
 - iii. anything else not covered by (i) and (ii).

The OLC had initially requested a 21% budget increase for a total budget of £14.949m (from £12.346m in 2019/20). The LSB executive's recommendation was that the Board did not approve the submission, however the OLC subsequently withdrew the original application and presented a revised budget proposal of a standstill budget plus inflation. This was in light of the impact of Covid-19, which had not been apparent when the original budget was being prepared. The Board agreed this revised proposal.

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 2019/20.

Voluntary assurance arrangements

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

- information about the Legal Ombudsman's performance is put on its website quarterly (completed, ongoing)
- OLC provide comprehensive information on scheme performance to the LSB through OLC Board papers and minutes (completed, ongoing);
- quarterly meetings to discuss performance, including attendance by an LSB Board Member and CEO at OLC Board meetings twice yearly, now increased to quarterly (completed, ongoing – meetings attended in October 2019 and March 2020)
- the OLC Chair would send a voluntary assurance note to the LSB, following each OLC Board meeting, explaining how the OLC has dealt with the Legal Ombudsman's performance at that meeting (completed, ongoing).

In addition to the measures above, working with the MoJ, we have asked the OLC to produce a draft roadmap setting out a path to a sustained level of acceptable performance.

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

Executive leadership and key business processes

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

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

Board performance

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

The Board Evaluation exercise for 2019 was conducted by way of an online survey.

The outcome of this process confirmed that the Board observes principles of collective responsibility,

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

- continue to seek a wide perspective of the legal sector, particularly for lay members
- consider opportunities for more engagements with a wider range of stakeholders, including consumer bodies, and other regulated individuals
- more face-to-face training opportunities.

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

The Board committees, ARAC and RNC, assessed their effectiveness by reviewing their performance against their Terms of Reference each year. 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 each year. The annual reports for 2019/20 were presented at the 26 March 2020 Board meeting, and are published on the LSB website.

Board Members receive an induction covering the role of the LSB and their obligations as a Board Member in relation to Managing Public Money, and ongoing support to assist them in settling into their new roles. All new members are required to attend courses on accountability and governance for arm's length bodies. All Board members participated in equality, diversity and inclusion training in February 2020. 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

owns the risk management strategy, sets the tone and influences the culture of risk management. Executives are the owners of the risk register.

The Board reviewed the Corporate Risk Register at its meetings in June and November 2019.

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

The LSB proactively assesses and manages its risks at both the corporate and programme 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 as appropriate.

Colleagues identify and record risks relating to their work. These are reported through the corporate and programme processes. Programme risks are reviewed at monthly Programme Board meetings. Each month the SLT review the programme highlight report and the full Corporate Risk Register.

During 2019/20, the Board refined its approach to risk management by introducing a 'priority only' risk model based on risk appetite. The effect of this is that the Corporate Risk Register has become a more 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 appetite for:

- governance risk is minimal (2)
- financial risk is cautious (3)
- people risk is cautious (3)
- policy and legal risk is open (4)
- relationship risk is open (4).

Where the Board determines that a risk exceeds its 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 Accounting Officer, I am ultimately accountable to the Board for the management of risk.

Assessment of risk management

In reviewing the LSB's risk management strategy, the Board and the ARAC have evaluated the quality of the LSB's management of risk during 2019/20 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 the ARAC.

Key risks

Some of the key risks facing the LSB in achieving its priorities in 2019/20 are ongoing, while others arise in relation to the point that the Board has reached in its corporate life.

Specific risks managed in 2019/20 were as follows:

Risk: Public confidence in legal services regulation is undermined

The LSB identified a risk that public confidence in legal services regulation is being undermined

because consumers continue to be underserved by the Legal Ombudsman.

Actions taken:

- series of OLC Board appointments with significant experience of change management
- working with the MoJ, the LSB sought to agree a roadmap with the OLC, setting out a path to a sustained level of acceptable performance
- voluntary assurance reporting by the OLC to the LSB Board
- quarterly performance review at Board level with OLC performance regularly discussed
- twice yearly increasing to quarterly attendance by LSB CEO and Board Member at OLC Board
- monthly working level meetings to review performance
- active management of the OLC's performance and resources.

Risk: The LSB's objective to promote the public interest is weakened

The LSB identified a risk related to its objective to promote the public interest owing to the potential regulatory exit of CLSB as a result of poor performance and inadequate resources.

Actions taken:

- active management of CLSB's performance
- active management of CLSB's resources
- development of a contingency plan to be used in the event of CLSB's exit.

Risk: Detriment to the regulatory objectives

The LSB identified a risk of detriment to the regulatory objectives caused by the impact of Covid-19 on regulators, providers and consumers.

Actions taken:

- initiated a project to understand the impact of Covid-19 on the legal sector and contribute to its recovery
- developed a data hub with key evidence from a wide range of sources on the impact of Covid-19 on the sector

- active management of the regulatory bodies
- published a flexible 2020/21 business plan
- published an exemption direction in April 2020 for alterations to regulatory arrangements in connection with Covid-19.

From an operational perspective, the LSB has not experienced any impacts related to Covid-19 to date. The organisation moved seamlessly to remote working in March 2020, and work programmes have continued without interruption. We continue to monitor the risk of staff sickness due to the virus, particularly as lockdown is gradually lifted. We plan to continue to work remotely for the foreseeable future.

While we are not experiencing detriment to our business arising directly from the current Covid-related restrictions, I have also considered the medium and longer-term potential impact on the LSB as a going concern. In my assessment, because of the statutory nature of the LSB and its funding mechanism, the risk of the LSB ceasing to remain a going concern without significant advance notice (and therefore opportunity to plan accordingly) is very low. It is more likely, however, that we are faced with circumstances in which we have to make further choices about the activities we pursue, either because of reduced capability across the sector or because our own access to resources is reduced. I am confident that the advances we have made in terms of our business planning and prioritisation processes put us in a strong position to manage should such circumstances arise. Indeed, while not within the period covered by this report, the LSB has already published an outline Covid-related prioritisation scheme to assist the regulators we oversee to engage with us more effectively.

The wider framework of control

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

Role of internal audit

The LSB's governance arrangements and risk management processes are supported by an internal audit function. This was provided by KPMG LLP until June 2019 and by Crowe LLP from October 2019.

Internal audit reviews carried out by Crowe LLP in 2019/20 were as follows:

- a review of processes in place to monitor the OLC (limited assurance)
- a review of the process for practising certificate approval (substantial assurance)
- a review of business planning / performance management (substantial assurance)
- a review of processes in the area of Managing Public Money (substantial assurance).

The Head of Internal Audit provided "Substantial Assurance" in respect of governance, risk management and internal controls in operation for the 2019/20 year, as aligned to the assurance definitions utilised in its internal audit reports.

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

Its work with LSB commenced in October 2019, although it undertook the full workplan from the point of appointment.

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

We are working through a plan of management actions in response to Crowe's assessment of limited assurance in relation to our arrangements for monitoring the OLC.

Information security

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

The LSB also has due regard to the requirements set out in HMG Security Policy Framework issued by the Cabinet Office. This focuses on the outcomes required to achieve a proportionate and risk managed approach to security that enables the LSB to function effectively, safely and securely. The 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 helped to ensure 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 completed an IT transformation in 2019 and continues to ensure information security remains a priority. As part of the transformation the LSB has attained Cyber Essentials certification.

During 2019/20 there was one data security incident when there was a temporary data loss of working documents containing personal information. An incident report was completed, and it was concluded that the potential data loss did not need to be reported to the Information Commissioner's Office as there was no permanent loss of personal data.

All new colleagues receive training on information assurance and security. Annual refresher training is completed by all relevant staff.

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

Assessment of fraud and error risk

Together with the ARAC, I have reviewed the arrangements for the LSB's assessment of the risk that the financial statements may be materially misstated due to fraud, the current processes for identifying and responding to the risks of fraud and any known instances of fraud. I consider that there is a low risk of misstatement due to fraud. The fact that appropriate segmentation

of budgetary and authorisation processes are in place and that the organisation does not handle any physical cash both significantly reduce the risk of fraud. Appropriate processes for identifying and responding to the risks of fraud in day-to-day operations are nevertheless in place. There were no known instances of fraud to report.

During 2019/20, colleagues received face-to-face training on the Bribery Act 2010, which was provided by the LSB's Senior Legal Adviser. A separate training session on anti-fraud and corruption was provided by Crowe LLP.

Whistleblowing arrangements

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

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

Both policies are reviewed annually, as part of the Governance Manual review, to ensure that they are in line with current best practice. The most recent policy review was reported to ARAC in October 2019 and to the Board in November 2019.

There were no whistleblowing incidents reported during the year.

Review of the effectiveness of the risk and governance framework

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

the annual opinion provided to me by the Head of Internal Audit.

Quality of the data used by the Board

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

Risk registers, assurance mapping data, annual business plans and strategic plans are subjected to scrutiny by the 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 the 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 whistle-blowing policies.

Remuneration and staff report

Appointments

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

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 2020, there were nine Board Members - four 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
Catherine Brown	1 April 2019	31 March 2023
Marina Gibbs	1 April 2014	31 July 2020 (extension of second term)
David Eveleigh	1 April 2014	31 July 2020 (extension of second term)
Ian Hamer	1 October 2019	30 September 2023
Michael Smyth CBE QC (Hon)	18 April 2016	17 April 2022
Jemima Coleman	18 April 2016	17 April 2023
Catharine Seddon	1 October 2016	30 September 2023
Matthew Hill (Chief Executive)	20 August 2019	(see termination note above)

The table below has been audited and provides details of the remuneration of LSB Board Members who served during 2019/20:

Remuneration of Chair and Board members		2019/20				2018/19			
LSB Board Member	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	10-15	10-15	–	–	10-15	–	–	–	–
Marina Gibbs	10-15	10-15	–	–	10-15	10-15	–	–	10-15
David Eveleigh	10-15	10-15	–	–	10-15	10-15	–	–	10-15
Ian Hamer (from 1 October 2019)	10-15	5-10	–	–	5-10	–	–	–	–
Michael Smyth CBE QC (Hon)	10-15	10-15	–	–	10-15	10-15	–	–	10-15
Jemima Coleman	10-15	10-15	–	–	10-15	10-15	–	–	10-15
Catharine Seddon	10-15	10-15	–	–	10-15	10-15	–	–	10-15
Jeremy Mayhew (until 30 September 2019)	10-15	5-10	–	–	5-10	10-15	–	–	10-15
Tim Sawyer (until 12 September 2019)	10-15	5-10	–	–	5-10	–	–	–	–
Neil Buckley (until 26 August 2019)	120-125	55-60	5-10	–	65-70	135-140	27	10-15	180-185
Matthew Hill (from 20 August 2019)	135-140	85-90	5-10	–	90-95	–	–	–	–

The table does not include information on expenses paid to Board Members. An issue has been identified where neither tax nor NI has been paid in relation to costs incurred by Board Members when travelling to Board and committee meetings held at the LSB's offices. These payments would be deemed by HMRC to be a taxable benefit and part of remuneration. However, whilst the net sums paid are known, work is yet to be completed to establish the gross sums, including the tax and NI payable.

Remuneration of Chair and Board Members

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

Staff report

LSB employees are not civil servants but public servants. LSB colleagues do not have access to the Principal Civil Service Pension Scheme or any other defined benefit scheme. As at 31 March 2020, the LSB had 26 full-time employees and 8 part-time employees (2018/19: 24 full-time employees and 10 part-time employees). 68% of the staff complement was female (2018/19: 56%). The LSB supports a range of flexible working patterns.

The LSB's average sickness absence was 4.25 days per full-time equivalent (2018/19: 6.11 days). One colleague was absent due to sickness for an extended period of time.

The LSB does not engage any 'off payroll' staff but one specialist contractor was used in 2019/20 and the vacant position it covered has now been filled permanently.

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 2020, the eight Senior Civil Service equivalents on the Senior Leadership Team, excluding the Chief Executive, comprised three men and five women. One was on adoptive leave from January 2020.

Senior civil servant equivalent by pay band

Salary band £'000	Number of senior civil service equivalent within band as at 31 March 2020	Number of senior civil service equivalent within band as at 31 March 2019
50-60	–	1
60-70	–	1
70-80	5	2
80-90	3	2

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

	Male	Female
LSB Board Members	3	5
Consumer Panel	5	3
Senior Civil Service equivalents	3	5
All others	8	18

Diversity information on LSB Board Members, the Consumer Panel and the executive is available on our website.¹³

¹³ <https://www.legalservicesboard.org.uk/about-us/our-staff#diversity-survey>

Fair pay disclosures (audited)

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

Pay multiples	2019/20	2018/19
Band of highest paid director's total remuneration (£000) *	135 - 140	150 - 155
Median total remuneration (£)	51,302	46,695
Pay multiple	2.68	3.27

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

In 2019/20 the annual full-time equivalent rate of remuneration ranged from £25,000 - £30,000 to £135,000 - £140,000 (2018/19: £25,000 - £30,000 to £150,000 - £155,000). In 2019/20, a pay award of 2% of salary budget was distributed on a flat percentage basis to all eligible colleagues.

The reduction in the highest paid director's total remuneration was because neither the outgoing nor incoming director was paid a bonus in 2019/20. The increase in median total remuneration is due to new staff commanding higher salaries on joining the organisation. Both factors combined have resulted in a reduction in the pay multiple in 2019/20.

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.¹⁴

The LSB seeks to engage fully with colleagues in all matters affecting them. It holds regular all-colleague meetings and consults with colleagues on matters affecting their employment and welfare. We carried out a full colleague engagement survey in Summer 2019 and we will be undertaking a pulse survey in 2020. The LSB is committed to implementing the organisational development points that emerged.

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

14 <https://www.legalservicesboard.org.uk/about-us/our-staff#diversity-survey>

Staff numbers and related costs (audited)

Staff remuneration

	2019/20 Permanent Staff	2019/20 LSB Board	2019/20 OLC Board	2019/20 Consumer Panel	2019/20 Total	2018/19 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Wages and salaries	1,768	175	112	163	2,218	2,201
Social security costs	203	14	7	14	238	240
Pension costs	226	–	–	15	241	258
Other staff costs	21	–	–	–	21	22
Total	2,218	189	119	192	2,718	2,721

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

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

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

	2019/20	2019/20	2019/20	2018/19
	Permanent staff	Specialist contractor	Total	Total
Directly employed – LSB	28.66	0.75	29.41	31
Directly employed – Panel secretariat	2.0	0	2.0	2.0
Total	30.66	0.75	31.41	33

Redundancy costs are accounted for in full in the year that an irrevocable decision has been made. There was one redundancy in 2019/20 (2018/19: one). Consequently, the cost of redundancy payments in 2019/20 was £29k (2018/19: £26k).

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 2019/20 (2018/19: nil).

Redundancy payments – a redundancy payment of £29k was made in respect of a single redundancy case during 2019/20 (2018/19: £26k).

Remote contingent liabilities – a potential issue has been identified in relation to the treatment, for tax and National Insurance purposes, of the reimbursement of Board Members for travel and subsistence costs, incurred when attending meetings held at their usual place of business. The liability is uncertain since it is dependent on the tax rate applicable to the Board Members involved and work is under way to determine this. However, our best estimate for the liability, which includes an estimate for penalties and interest that could be charged, is £74,100, which will be funded from reserves in 2020/21.

Long-term expenditure trends – budgeted expenditure for 2020/21 is £3,923k. The LSB continues to strive for efficiency improvements and this is a realistic level of expenditure provided that the underlying assumptions remain consistent with the LSB's ability to fulfil its statutory function.

Matthew Hill
Chief Executive and Accounting Officer

12 June 2020

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 2020 under the Legal Services Act 2007. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Legal Services Board's affairs as at 31 March 2020 and of its net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Legal Services Act 2007 and Secretary of State directions issued thereunder by the Lord Chancellor with approval of HM Treasury.

Opinion on regularity

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

Basis of opinion

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

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the Legal Services Board's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Legal Services Board have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Legal Services Board's ability to continue to adopt the going concern basis.

Responsibilities of the Board and Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Board and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

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

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Legal Services Board's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Conclude on the appropriateness of the Legal Services Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Legal Services Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the Legal Services Board to cease to continue as a going concern.

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

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

Other Information

The Board and the Accounting Officer are responsible for the other information. The other information comprises information included in the annual report, but does not include the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Gareth Davies

Comptroller and Auditor General

17 June 2020

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

Financial Statements

Statement of Comprehensive Net Expenditure for the year ended 31 March 2020			
	Note	2019/20 £'000	2018/19 £'000
Programme costs			
Staff costs	5	2,718	2,721
Depreciation/amortisation	6, 7	65	35
Other programme costs	2	1,013	969
		3,796	3,725
Income			
Levy income	3	3,796	3,721
Designation and application fees	4	–	4
		3,796	3,725
Net expenditure		–	–

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

The notes on pages 47 to 57 form part of these financial statements.

Statement of Financial Position as at 31 March 2020			
	Note	31 March 20 £'000	31 March 19 £'000
Non-current assets			
Property & equipment	6	287	11
Intangible assets	7	75	6
Total non-current assets		362	17
Current assets			
Trade and other receivables due within one year	9	94	45
Cash and cash equivalents	10	6,393	6,703
Total current assets		6,487	6,748
Total assets		6,849	6,765
Current liabilities			
Trade and other payables	11	458	398
Total current liabilities		458	398
Non-current liabilities			
Provisions	12	24	–
Total non-current liabilities		24	–
Total assets less total liabilities		6,367	6,367
Taxpayers' equity			
Income and expenditure reserve		6,367	6,367
Total taxpayers' equity		6,367	6,367

The notes on pages 47 to 57 form part of these financial statements.

Matthew Hill
Accounting Officer

12 June 2020

Statement of Cash Flows for the year ended 31 March 2020			
	Note	2019/20 £'000	2018/19 £'000
Cash flows from operating activities			
Net operating cost		–	–
Increase in trade and other receivables		(49)	(5)
Increase/(decrease) in trade and other payables		60	(232)
Use of provisions	1.3	24	–
Depreciation/Amortisation		65	35
Net inflow/(outflow) from operating activities		100	(202)
Cash flows from investing activities			
Purchase of property, plant and equipment		(324)	–
Purchase of intangible assets		(86)	–
Net cash outflow from investing activities		(410)	–
Net decrease in cash and cash equivalents in the year		(310)	(202)
Cash and cash equivalents at the beginning of the year	10	6,703	6,905
Cash and cash equivalents at the end of the year	10	6,393	6,703

The notes on pages 47 to 57 form part of these financial statements.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2020		
Income and Expenditure Reserve		
	Note	£'000
Balance as at 1 April 2018		6,367
Changes in Taxpayers' Equity 2018/19		
Comprehensive net expenditure for the year		–
Notional transfer to Consolidated Fund		(3,725)
Notional receipt from sponsoring department		3,725
Balance at 31 March 2019		6,367
Balance at 1 April 2019		6,367
Changes in Taxpayers' Equity 2019/20		
Comprehensive net expenditure for the year		–
Notional transfer to Consolidated Fund	1.4	(3,796)
Notional receipt from sponsoring department	1.4	3,796
Balance at 31 March 2020		6,367

The notes on pages 47 to 57 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 2019/20 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 provides 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 previous estimates and actual expenditure. The total levy is apportioned pro rata to each regulator based on the number of practitioners certified to the LSB by ARs at the beginning of the period, subject to a minimum levy of £3,000 per AR. The levies imposed are recognised as income in the Statement of Comprehensive Net Expenditure (SoCNE) and any excess of imposed levies over the LSB's actual aggregate net expenditure in the period is deferred to the following year while any shortfall in imposed levies below actual aggregate net expenditure is released to the SoCNE from funds deferred in previous periods. The effect of this treatment ensures that the total income recognised and leviable in the period corresponds to the LSB's actual aggregate net expenditure in the period as intended by the Act whilst timing differences between actual leviable expenditure and estimates billed are dealt with through the deferred income account.

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

IFRS 15: Revenue from contracts with customers requires entities to implement a 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 servers, PCs as well as office furniture, fixtures and fittings and office leasehold improvements. Intangible assets comprise software licenses.

Initial recognition and capitalisation threshold

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

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

Consultancy expenditure over £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

1.12 Changes in accounting policy and disclosures

Changes in accounting policies

There have been no changes in accounting policies for the year ended 31 March 2020.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2019 and not early adopted

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

The only current lease to which IFRS 16 might apply in LSB's circumstances is the premises lease, which has an expiry date of 3 September 2024. The standard is not yet effective for public sector reporting and, in response to Covid-19, HM Treasury has deferred the implementation by one year to years beginning on or after 1 April 2021. The full impact of IFRS 16 will therefore not be determined until it has been formally adopted for use in the public sector by the FReM.

2. Other programme costs

	2019/20 £'000	2018/19 £'000
External legal costs	35	63
Accommodation – licence to occupy fee	194	167
Accommodation – rates, services and other costs	184	131
Outsourced services	117	114
Research costs	72	97
Other programme costs	91	60
Recruitment LSB Staff	46	56
Recruitment OLC Members	14	26
Recruitment Consumer Panel	10	37
Legal library services & reference	14	37
Consumer Panel (non pay)	49	36
Professional advisers	35	46
Training	64	46
Travel and subsistence – LSB Staff	7	5
Travel and subsistence – LSB Board	12	10
Travel and subsistence – OLC Board	7	7
Fees for statutory external audit work	23	20
Internal audit fees	15	11
Dilapidations	24	–
Total cash items	1,013	969
Non-cash items		
– Depreciation	50	28
– Amortisation	15	7
Total non-cash items	65	35
Total other programme costs	1,078	1,004

3. Levy Income

	2019/20 £'000	2018/19 £'000
Levy income from approved regulators	3,796	3,721
Total	3,796	3,721

4. Designation and application fees

	2019/20 £'000	2018/19 £'000
Licensing authority application fees: CILEx	–	4
Total	–	4

5. Staff costs

	2019/20 £'000 Permanent Staff	2019/20 £'000 LSB Board	2019/20 £'000 OLC Board	2019/20 £'000 Consumer Panel	2019/20 £'000 Total	2018/19 £'000 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Wages and salaries	1,768	175	112	163	2,218	2,201
Social security costs	203	14	7	14	238	240
Pension costs	226	–	–	15	241	258
Other staff costs	21	–	–	–	21	22
Total	2,218	189	119	192	2,718	2,721

6. Property and equipment

	2019/20 £'000	2019/20 £'000	2019/20 £'000	2019/20 £'000
	Information technology	Furniture, fixtures & fittings	Leasehold improvements	Total

Cost				
At 1 April 2019	85	137	–	222
Additions	70	197	57	324
Disposals	(85)	(137)	–	(222)
At 31 March 2020	70	197	57	324
Depreciation				
At 1 April 2019	75	136	–	211
Charged in year	22	23	5	50
Disposals	(87)	(137)	–	(224)
At 31 March 2020	10	22	5	37
Carrying amount at 31 March 2020	60	175	52	287
Carrying amount at 31 March 2019	10	1	–	11

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

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

7. Intangible assets

Software licences		Software licences	
	2019/20 £'000		2018/19 £'000
Cost		Cost	
At 1 April 2019	36	At 1 April 2018	36
Additions	86	Additions	–
Disposals	(38)	Disposals	–
At 31 March 2020	84	At 31 March 2019	36
Amortisation		Amortisation	
At 1 April 2019	30	At 1 April 2018	23
Charged in year	15	Charged in year	7
Disposals	(36)	Disposals	–
At 31 March 2020	9	At 31 March 2019	30
Carrying amount at 31 March 2020	75	Carrying amount at 31 March 2019	6
Carrying amount at 31 March 2019	6	Carrying amount at 31 March 2018	13

8. Financial instruments

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

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

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

a) Carrying amount and fair values

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

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

b) Liquidity risk

Liquidity risk is the risk that the LSB will encounter difficulty raising liquid funds to meet its commitments

as they fall due. Through effective budgetary planning and controls, the LSB's operational expenditure corresponds to the amount it collects in levies from approved regulators.

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

c) Credit risk

Credit risk is the risk that a 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

	2019/20 £'000	2018/19 £'000
Cash at bank	6,393	6,703
Trade receivables	–	–
Total	6,393	6,703

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

9. Trade and other receivables

Amounts falling due within one year	2019/20 £'000	2018/19 £'000
Levy income receivable	–	–
Prepayments	86	34
Deposits and advances	8	11
Total trade and other receivables	94	45

10. Cash and cash equivalents

	2019/20 £'000	2018/19 £'000
Cash and cash equivalents recorded in the SoFP and Statement of Cash Flows include deposits held at call with banks representing short-term highly liquid investments with maturities of less than three months.		
Balance at 1 April	6,703	6,905
Net decrease in cash and cash equivalents	(310)	(202)
Balance at 31 March	6,393	6,703
Balances at 31 March were held at:		
Government Banking Service	6,393	6,703

11. Trade and other payables

Amounts falling due within one year	2019/20 £'000	2018/19 £'000
Trade payables - External	54	12
Payroll tax and social security	71	79
Statutory external audit fee	23	20
Deferred income	2	68
Employee leave accrual	39	36
Accruals	269	183
Total trade and other payables	458	398

12. Provisions for liabilities and charges

	2019/20 £'000
	Dilapidations provision
Balance at 31 March 2019	–
Provided in year	24
Balance at 31 March 2020	24

In November 2019, we leased new office space as our existing offices were being redeveloped. Improvement works have been carried out on the property, so at the end of the lease the LSB is required to pay the sum of £24,050 to the landlord to cover any costs to reinstate the space. As a result, a new provision of £24,050 has been created.

13. Capital commitments

There are no capital commitments.

14. Commitments under leases

Operating leases	2019/20 £'000	2018/19 £'000
Buildings		
Not later than one year	127	125
Later than one year and not later than five years	434	–

15. Contingent liability

We have identified a potential issue in relation to the treatment for tax and National Insurance purposes of the reimbursement of Board Members for travel and subsistence costs incurred when attending meetings held at the usual place of business. It is understood that HMRC would consider that reimbursing office holders for costs incurred in travelling to board and committee meetings held at a permanent place of work to be a taxable benefit. However, neither tax nor NI has been paid to HMRC in relation to these claims. If the position is substantiated, the LSB will need to submit a disclosure to HMRC which seeks to settle any liability. The extent of the liability is uncertain since it is dependent on the tax rate applicable to the board members involved. However, our best estimate of the cost, which includes an estimate for penalties and interest that could be charged, is £74,100 which will be funded from reserves in 2020/21.

16. Related party transactions

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

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

The LSB has a direct relationship with the OLC and has some oversight responsibilities for the Ombudsman Scheme established by the OLC. Under the Legal Services Act 2007, the LSB is responsible for appointing OLC Board members and paying their salaries and expenses which amounted to £126k for 2019/20 (2018/19 - £126k). During 2019/20 OLC Board members were paid fees of £112k (2018/19 - £112k).

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

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

17. 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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