PRACTISING FEE APPLICATION FOR APPROVAL BY THE LSB UNDER SECTION 51 OF THE LEGAL SERVICES ACT 2007

16 September 2019

I. Summary and overview

- Please briefly summarise the proposal and state whether the proposal is for an increase, decrease or no change to the PCF relative to the previous year.

The PCF for Costs Lawyers has been static at £250 since 2011. We propose to increase it by £25, or 10%, to £275 for 2020.

- Please state how the current application addresses the matters (if applicable) raised in the LSB's decision letter approving the previous year's PCF application.

The LSB's decision letter dated 3 October 2018 stated: "We note that the CLSB is still aiming to increase its reserves to 100% of operating income. We would be grateful of a further update on progress in next year's application." The LSB's application assessment also stated: "We noted the level of reserves and asked that the 2019 application set out how reserves of 100% of operating costs would be achieved."

As at December 2018, the CLSB's reserves totalled £104,823.50. No provision was made in the 2019 budget for a contribution to reserves, however it was noted that any operational underspend would be transferred to reserves and this remains the intention. We are currently operating to budget for 2019.

We consider one year of operating income to be around £160,000 at current expenditure levels. This requires an additional contribution to reserves of around £55,000, assuming reserves are not depleted for any reason. As can be seen from the budgets provided at Annex 3 and 4, we will make a £10,000 contribution to reserves in 2020 and anticipate making further contributions of £10,000 in each of 2021 and 2022. We anticipate making the latter contributions via cost savings rather than increasing the PCF by more than the rate of inflation, however the board will reassess this on an annual basis.

No other issues were raised in the decision letter approving the previous year's application.

- If any pre-application discussion was held with the LSB prior to the submission of this application, please set out what (if any) issues were identified by the LSB and how this application addresses them.

A draft version of this application was shared with the LSB. The LSB suggested that further information in the following areas would assist in determining the application:

- an explanation for material differences in line items between the CLSB's 2019 and 2020 budgets;
- a note as to whether the CLSB's Policy on Financial Operating Reserves would be updated following the outcome of this application;
- a comparison of consultation response rates with the previous year;
- employment rates of Costs Lawyers within non-commercial bodies;
- a breakdown of permitted purposes expenditure.

Each of these points has been addressed in this version of the CLSB's application via the provision of additional information.

II. Developing the overall budget and application

A. The budget statements and figures and a description of how the overall budget was developed and settled, in particular

- a breakdown and clear description of the budget setting process and how the budget was arrived at, including consultation with the regulatory and representative arms

The budget for 2020 was set using the previous year's expenditure as a guide. A number of the CLSB's operating costs are fixed or otherwise predictable, including fees for professional services, IT infrastructure, levies and most elements of permanent staff costs. Other costs are within the CLSB's control and have been accounted for in the budget based on our anticipated needs, such as ad hoc consultancy and advisory services and expenses incurred by the board and executive.

However, there are elements of expenditure that are less predictable from year to year; particularly in relation to our enforcement functions. Disciplinary investigations and hearings can be resource intensive, but given the size of our regulated community and the small number of investigations that we carry out, resource must be sourced on an "as needed" basis. Provision is made for these costs under the "salaries" and "services" line items in the budget, but this uncertainty is also reflected in the contingency line item.

In relation to line items that differ between the 2019 and 2020 budgets:

- Budgeted salaries have risen by £10,500, which reflects a small rise in executive salary following our 2019 organisational restructure. Executive and NED salaries are published on the CLSB website and are expected to rise with inflation in 2020.
- Travel and subsistence costs are budgeted to fall by £3,000 – and rent (including room hire) is budgeted to fall by £1,000 – as we aim to make better use of technology for remote meetings. We also intend to reassess the locations of our board meetings after two new NEDs are appointed toward the beginning of 2020 with the aim of cutting down travel expenditure.
- Admin costs are budgeted to fall by £1,100 as we move toward a digital-first approach. The PC application / issue process is currently paper based and we are investigating moving toward a more cost-efficient approach in 2020.

The CLSB's income and expenditure are entirely discrete from the income and expenditure of the representative body (ACL,) and thus our budget is established independently of ACL. ACL, both as an Association and via its individual members, is invited to provide feedback on the budget via the PCF consultation.

In terms of internal procedures, the CLSB's budget is prepared by the executive and then scrutinised and approved by the CLSB's board. The budget for 2020 was considered by the board at its meeting on 23 July 2019 (see further below).

- evidence that the immediate and medium term needs have been taken into account, ensuring it has been developed in accordance with business/strategic plans

2020 will mark the first year of the CLSB's recently adopted mid-term strategy. We are conscious that additional resource will be required to implement this strategy and this has been accounted for in the 2020 budget, primarily in the "services" line item. We anticipate that elements of our strategy will also reduce costs, for example by making better use of existing data, resources and expertise in the wider sector as well as modernising our front- and back-end processes.

In setting the budget, we were also mindful that there is currently no route of entry into the Costs Lawyer profession. Given natural attrition out of the profession, the size of the regulated community will inevitably fall over the coming years. In that context, the board has set the level of contingency and reserves in the 2020 budget to account for the possibility that regulated numbers are lower than expected. In scrutinising the budget, the board increased both the contingency and reserve line items from that proposed by the executive. To account for this, the board decided to consult on an increase in the PCF of £25.

A description of contingency/reserves arrangements. This must include:

- assurance that reserves are set at an adequate level for the upcoming budget

As set out above, a £10,000 contribution to reserves is in line with the CLSB's stated policy of bringing its reserves up to the level of a year's operating costs.

- assurance that the impact of high level reserves (if appropriate) have been considered when setting the fee levels.

Given the need to ensure that the CLSB can still deliver its full regulatory remit if regulated numbers fall, we remain confident that our targeted level of reserves is both necessary and appropriate and does not constitute high-level reserves.

B. A breakdown of the budget for PCF

Total PCF income collected in the current and budget year and a breakdown of how it was allocated or spent:

- by department or expenditure category

- an explanation of any variation in total PCF spending between the current and budget year

- a comparison of PCF for approval in the budget year, with level of PCF in the current year and explanation of why the fee level has changed (if applicable)

Total PCF income for the current year will not be known until year end, due to reinstatement applications during the year. Total PCF income for 2018 – when PCF was set at the same level as in 2019 (£250) – was £177,512.70. Budgeted income for 2019 is £165,500 and we anticipate actual income being slightly higher than this based on the current trajectory. Anticipated spend for 2019, as shown in the budget submitted with our 2019 PCF application, is £164,000 with any underspend to be added to reserves.

Anticipated PCF income for the budget year (2020) is £181,500 based on 660 regulated Costs Lawyers, although (as set out above) we are conscious that numbers may be lower than this. We have budgeted for a similar spend in 2020, at £166,500.

A breakdown of expenditure by category can be seen in the 2019 and 2020 budgets. Our income is generated exclusively from the PCF and thus all budget items are met with PCF funds.[1]

The PCF for approval in 2020 is £275, which represents a £25 increase on the 2019 PCF of £250. As explained above, we consider this increase necessary to ensure sufficient contingency and contribution to reserves, given that the lack of newly qualified Costs Lawyers over at least the next three years will create uncertainty around regulated numbers. Since the PCF has not been increased since the CLSB's inception, there is also a need to respond to inflationary pressures on operating costs. Had the PCF been increased in line with inflation since 2011, the 2020 PCF would be around £308. The board was also conscious that levies for other organisations had increased significantly over several years – including the OLC levy which rose by nearly 500% when the minimum payment threshold was introduced – and these costs have not been passed on to the regulated community. In this context, it is considered prudent to increase the PCF as proposed.

In addition, if the proposal is to **increase the PCF relative to the current year,**

- include a forecast budget for the current application and for the next three years (where available)

Forecast budgets for 2020, 2021 and 2022 are provided with this application. These are based on current assumptions and are for reference purposes only; the CLSB will take prevailing factors into account in setting its budget on an annual basis.

We have provisioned for a decrease in the size of our regulated community by around 20 Costs Lawyers per year. If the professional qualification reopens in 2020, we anticipate seeing newly qualified numbers begin to rise again by 2023.

[1] We generate a de minimis amount of income from accrediting Costs Lawyers to provide CPD activities. In 2018 this income amounted to £800. Given the small size and unpredictable nature of this income, it is not allocated to any particular item of expenditure and we do not include it in budgeted income.

- an estimate of the PCF for the next three years (where available)

In considering a PCF increase for 2020, the CLSB board agreed that it did not, at this stage, intend to increase the PCF further in 2021 or 2022 other than in line with inflation. Accordingly, the forecast budgets assume an increase in the PCF for 2021 and 2022 of £7 and £8 respectively. This position will need to be assessed again in 2020, when the budget is being set for 2021, taking into account the size of the regulated community at that time as well as responses to the PCF consultation.

Other factors that may impact on budget (and thus the proposed PCF) over the next three years include: the impact of MoJ reforms to the fixed recoverable costs regime on regulated numbers; changes in the level of the LSB and OLC levy; the need to deplete reserves to cover unanticipated costs; and the future of the Legal Choices project.

- anticipated income from all sources (including non-PCF income) and its allocation to permitted purposes for the current application and where available, for the next three years (see section IV, below)

All CLSB income is derived from the PCF and is allocated exclusively to permitted purposes.

- explain the reserves policy and rationale/requirement for any high level reserves

We do not consider the CLSB to have high-level reserves. Meeting our target level of reserves is currently a priority due to the likely decline in regulated numbers in the medium term. More generally, our internal Policy on Financial Operating Reserves (at Annex 6)[2] sets out the following (under the heading "The need for CLSB financial operating reserves"):

Financial operating reserves are deemed necessary to ensure adequate financial resources at all times, providing a cushion against unexpected events. Unexpected events identified by the CLSB which would affect an annual budget resulting in financial operating reserves being drawn upon include, inter alia:

1. An unexpected drop in Costs Lawyer practising certificate fee income e.g. those leaving the profession exceeds new entrants.
2. Costs associated with the CLSB ceasing to exist or being able to act as an approved regulator under the LSA for any reason e.g. redundancy, contract terminations, LSB & LeO levy (paid one year in arrears), accounting, Companies House liabilities etc.
3. The policies, procedures or acts of the CLSB being challenged by way of judicial review.
4. The CLSB being the subject of litigation for damages by a third party.
5. Any change in the LSA that significantly increases expectations on regulatory arrangements.
6. Increased staffing costs in the event of long term absence.
7. The CLSB being taken to an employment tribunal.

[2] This Policy currently refers to a PCF of £250 and will therefore be revised if the LSB approves a PCF of £275 as proposed.

8. The CLSB issuing litigation for a breach of the Legal Services Act 2007 e.g. where a person pretends to be entitled.

9. Increased office costs e.g. office hire/move.

C. Regulatory activities

- Assurance that the regulatory arm has been given sufficient resources to carry out their functions in compliance with section 30 of the Act and the supporting Internal Governance Rules.

The CLSB is a separate legal entity to the representative body and has autonomy over its finances, including the PCF and its annual budget. The CLSB board considers that it will have sufficient resources to carry out its regulatory functions in 2020 with a PCF at the proposed level.

III. Consultation on PCF

A. Description of the consultation process conducted with fee paying members

- including length of time the published consultation was open

The consultation was issued on 27 July 2019 and closed on 9 September 2019 (just over six weeks).

- summary of consultation responses

The consultation was posted on the CLSB's website and was proactively promoted to the regulated community via email, with reminders via a web news item and newsletter article. 30 responses were received, which was similar to the previous year (in which 34 responses were received).

25 respondents supported the increase in the PCF and stated that they agreed with the proposed change (one respondent stated they did not have a problem with the increase rather than stating that they agreed per se).

Five respondents did not support the fee increase. Of those, two stated their disagreement without further detail. One felt that the fee should remain at £250. One stated that, based on the budget and accounts provided with the consultation, the increase did not appear to be justified. The final respondent opposed the proposed fee increase "particularly in view of the fact that almost the entirety of the increase (£16,500) is covered by the – in my view unnecessary – Contingency/Contribution to reserves (£15,000)".

- changes to the PCF proposals as a consequence of consultation responses

The CLSB considered the consultation responses received and is of the view that an increase in the PCF of £25 is appropriate. Over 80% of respondents supported an increase at this level. As the respondent who is quoted above points out, the majority of the PCF increase will cover the budget contingency and a contribution to reserves. Given the prevailing factors in the Costs Lawyer market as described above, particularly in relation to falling regulated numbers in the medium term, we consider that provisioning for contingency and reserves is essential for ensuring the organisation can continue to fulfil its statutory duties in times of uncertainty.

- details of consultation with non-commercial bodies (e.g. Law centres federation, Citizens Advice etc.) or an explanation of why their views had not been sought.

While our consultation was open to the public at large, we did not proactively consult with public interest bodies since the activities of such organisations do not generally intersect with the Costs Lawyer market.

Based on the data we hold from the annual regulatory return, we do not believe any regulated Costs Lawyers are employed by non-commercial bodies of the kind described above. There are 13 Costs Lawyers working in-house: eight are employed by a commercial enterprise, one is a Costs Master and four are employed by the Government Legal Service.

This section requires information for both the current and budget year

A. Description of total income (PCF and non-PCF) allocated to permitted purpose including

- Non-PCF income allocated or spent on permitted purposes, broken down by department/expenditure category

- Commercial income arising from PCF funded permitted purposes (and explanation if this income is to be used for non-permitted purposes)

The CLSB's income is exclusively generated from the PCF and is used solely to fund permitted purposes. As such, we have no non-PCF income to allocate to permitted purposes nor commercial income arising from permitted purposes. This will remain the case in 2020.

B. Description of total PCF income allocated solely to one or more permitted purposes including a breakdown of

- PCF income allocation to each regulatory permitted purpose

Using the numbering under section 51 of the LSA, we allocate income as follows:

Permitted purpose	Current year	Budget year
(a) – Regulation, accreditation, training etc	£141,000	£147,500 (or £162,500 including reserve contribution and contingency)

(b) – Levies	£19,538	£19,000
(c) to (f)	None specifically attributable	None specifically attributable

- PCF income allocation to each non-regulatory (representative) permitted purpose

None – PCF income is used exclusively for regulatory permitted purposes.

- PCF income allocated to shared/ central services between the regulatory and representative arm (broken down by department/ expenditure category).

None – there are no shared or central services between the CLSB and ACL.

C. A description of permitted purposes activities which were/will be undertaken and if possible, an estimate of the proportion of permitted purpose activities undertaken relative to non-permitted purposes activities.

100% of the CLSB's activities are regulated permitted purpose activities that fall within purpose (a) under the Act (other than payment of the LSB and OLC levies). The 2019 and 2020 budgets show how expenditure is allocated across the various budget categories.

Below is a high-level breakdown of our permitted purposes activities (other than levy payments) and the estimated proportion of our expenditure allocated to each activity (that expenditure being as set out under the first bullet point at B above). While this analysis aims to capture all resources expended on each activity across the budget line items (i.e. internal man-hours, outsourced man-hours, variable costs and a proportion of overheads), we would emphasise that this is an estimate only and will inevitably fluctuate year on year as we respond to external demands on our resources.

Activity under permitted purpose (a)	Estimated proportion of PCF income in 2019	Estimated proportion of PCF income in 2020
Regulatory policy (e.g. developing standards, guidance, evidence gathering, risk analysis)	30%	45%
Sector engagement (e.g. ACL, enquiries, advice, comms, press)	10%	15%
Supervision	5%	5%
Disciplinary	20%	15%

Education and training	30%	10%
Governance	5%	10%

Differences between 2019 and 2020 are attributable to factors such as: (i) focus on our new mid-term strategy in 2020; (ii) resources expended on the proposed CLCA in H1 2019 and on working with ACLT to reopen the Costs Lawyer Qualification in H2 2019; (iii) wholesale review / scheduled review of particular regulatory arrangements in a given year; (iv) shifting organisational priorities due to a change in leadership partway through 2019.

A description or copy of the information that will be provided to fee paying members, which is clear and accessible and includes

- The level of the PCF
- How the PCF has been set
- A breakdown of how the PCF income will be allocated to non-regulatory/regulatory and shared services
- An explanation of why commercial income arising from PCF funded permitted purposes is to be used for non-permitted purposes.
- An accurate presentation and representation of the LSB and Office for Legal Complaints (OLC) levies so the regulated community is clear about the proportion of PCF attributable to the levies

The fee note for the 2020 PCF will set out at least the following information:

- The amount of the 2020 PCF.
- The period the 2020 PCF will cover.
- Clarification on separate fees for representation (ACL) and regulation (CLSB).
- The benefits of holding a Costs Lawyer practising certificate.
- Tax relief under SI 1126/2013: The Income Tax (Professional Fees) Order 2013.
- Closing date for an application and implications of late filing.

Explanatory notes on the reverse of the fee note for the 2020 PCF will set out at least the following information:

- The regulatory objectives to be furthered by the CLSB.
- The permitted purposes for which PCF income may be used.

- The professional principles promoted under the Act.
- An explanation of how the PCF was set, including information about the consultation process.
- A statement of the LSB and OLC annual levies.

VI. Regulatory and Equality Impact assessment

A. A description of how the proposed PCF may potentially impact on various groups, in particular those with protected characteristics, within the approved regulator's membership (whether the proposal is for the PCF to be static, increased or decreased).

The CLSB sets one PCF for all Costs Lawyers. We are conscious that the fee increase may therefore be more burdensome for sole practitioners in some ways (i.e. because the individual professional bears the fee increase) and for firms that employ Costs Lawyers in other ways (i.e. because a single firm may bear the fee increase for numerous Costs Lawyers). However, the consultation responses did not suggest that any particular practising structure would be unfairly or disproportionately burdened by the PCF increase.

Similarly, no Costs Lawyers cited an objection to (or support for) the PCF increase on the basis that it would impact a person or group with protected characteristics. It may be that this is because the fee rise, in absolute terms, is a small sum (£25). We therefore propose to keep this under review by considering the reasons given by Costs Lawyers who choose not to renew their PC for 2020.

B. A description of how the PCF has been developed in light of the Regulatory objectives set out in the Act and Better Regulation principles.

The PCF will support the CLSB's work in promoting the regulatory objectives, within the better regulation framework, by allowing us to deliver our regulatory action plan as agreed with the LSB and implement the first year of our mid-term strategy. For example, it will give us the necessary resources to achieve the strategic goals below (taken from our strategy) in furtherance of the stated regulatory objectives and better regulation principles:

Strategic goal	Most relevant regulatory objective(s)	Most relevant principle(s)
We will have collaborative working relationships with key stakeholders ... Through these relationships, we will identify best practice, harness evidence and data, and draw from the learnings of others, to deliver a rigorous approach at proportionate cost.	(a) – protecting and promoting the public interest	Consistency, Proportionality

We will consider and act upon evidence in a consistent, structured and documented way, furthering our ability to implement highly tailored regulatory arrangements.	(h) – promoting and maintaining adherence to the professional principles	Consistency, Transparency
We will have an advanced understanding of the consumer dimension of the market we regulate, and we will regularly revisit and update our perception of the risks posed by the profession to the public.	(c) – improving access to justice (d) – protecting and promoting the interests of consumers	Targeting
We will have a deep comprehension of the risk framework within which we operate, and our stakeholders will be confident that we are delivering robust risk-based regulation that is bespoke to Costs Lawyers.	(a) – protecting and promoting the public interest	Proportionality, Targeting
Costs Lawyers will view the CLSB as facilitating a trusted and evolving profession, responding proactively to new challenges and needs.	(e) – promoting competition (f) – encouraging an independent, strong, diverse and effective legal profession	Proportionality, Accountability

Making provision in the 2020 budget for contingency and reserves is key to ensuring that we can continue to perform the duties of an AR – in line with the Act and the better regulation framework – in times of uncertainty.

C. A Regulatory and/or Equality Impact assessment (optional)

Given the above, we do not consider a formal impact assessment to be necessary or proportionate for the proposed increase. In addition, it does not meet the better regulation thresholds above which a full impact assessment should be undertaken.

VII. Other supporting information

Annex 1: 2018 accounts

Annex 2: 2019 budget

Annex 3: 2020 budget

Annex 4: 2021 and 2022 forecast budgets

Annex 5: 2020 PCF consultation

Annex 6: Policy on Financial Operating Reserves

VIII. Contact details

Kate Wellington, CEO, ceokw@clsb.info

COMPANY REGISTRATION NUMBER: 04608905

Costs Lawyer Standards Board Limited

Filleted Unaudited Financial Statements

31 December 2018

AGP
Chartered Accountants
Sycamore House
Sutton Quays Business Park
Sutton Weaver
Runcorn
Cheshire
WA7 3EH

Costs Lawyer Standards Board Limited

Statement of Financial Position

31 December 2018

	Note	2018 £	2018 £	2017 £
Fixed assets				
Tangible assets	**6**		**1,318**	1,815
Current assets				
Debtors	**7**	**2,629**		2,694
Cash at bank and in hand		**367,063**		313,779
		369,692		316,473
Creditors: amounts falling due within one year	**8**	**149,481**		121,156
Net current assets			**220,211**	195,317
Total assets less current liabilities			**221,529**	197,132
Net assets			**221,529**	197,132
Capital and reserves				
Called up share capital	**9**		**15,000**	15,000
Profit and loss account			**206,529**	182,132
Shareholders funds			**221,529**	197,132

These financial statements have been prepared and delivered in accordance with the provisions applicable to companies subject to the small companies' regime and in accordance with FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

In accordance with section 444 of the Companies Act 2006, the statement of income and retained earnings has not been delivered.

For the year ending 31 December 2018 the company was entitled to exemption from audit under section 477 of the Companies Act 2006 relating to small companies.

Directors' responsibilities:

- The members have not required the company to obtain an audit of its financial statements for the year in question in accordance with section 476;
- The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of financial statements.

The statement of financial position
continues on the following page.

The notes on pages 3 to 6 form part of these financial statements.

These financial statements were approved by the board of directors and authorised for issue on 24 July 2019, and are signed on behalf of the board by:

S H Winfield
Director

Company registration number: 04608905

Costs Lawyer Standards Board Limited

Notes to the Financial Statements

Year ended 31 December 2018

1. General information

The company is a private company limited by shares, registered in England and Wales. The address of the registered office is Sycamore House, Sutton Quays Business Park, Sutton Weaver, Runcorn, Cheshire, WA7 3EH.

2. Statement of compliance

These financial statements have been prepared in compliance with Section 1A of FRS 102, 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland'.

3. Accounting policies

Basis of preparation

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial assets and liabilities and investment properties measured at fair value through profit or loss.

The financial statements are prepared in sterling, which is the functional currency of the entity.

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported. These estimates and judgements are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Revenue recognition

Turnover is measured at the fair value of the consideration received or receivable for goods supplied and services rendered, net of discounts and Value Added Tax.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have transferred to the buyer (usually on despatch of the goods); the amount of revenue can be measured reliably; it is probable that the associated economic benefits will flow to the entity; and the costs incurred or to be incurred in respect of the transactions can be measured reliably.

Tangible assets

Tangible assets are initially recorded at cost, and subsequently stated at cost less any accumulated depreciation and impairment losses. Any tangible assets carried at revalued amounts are recorded at the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

An increase in the carrying amount of an asset as a result of a revaluation, is recognised in other comprehensive income and accumulated in equity, except to the extent it reverses a revaluation decrease of the same asset previously recognised in profit or loss. A decrease in the carrying amount of an asset as a result of revaluation, is recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in equity in respect of that asset. Where a revaluation decrease exceeds the accumulated revaluation gains accumulated in equity in respect of that asset, the excess shall be recognised in profit or loss.

3. Accounting policies *(continued)*

Depreciation

Depreciation is calculated so as to write off the cost or valuation of an asset, less its residual value, over the useful economic life of that asset as follows:

Fixtures and fittings	-	over 3 years
Equipment	-	over 3 years

Impairment of fixed assets

A review for indicators of impairment is carried out at each reporting date, with the recoverable amount being estimated where such indicators exist. Where the carrying value exceeds the recoverable amount, the asset is impaired accordingly. Prior impairments are also reviewed for possible reversal at each reporting date.

For the purposes of impairment testing, when it is not possible to estimate the recoverable amount of an individual asset, an estimate is made of the recoverable amount of the cash-generating unit to which the asset belongs. The cash-generating unit is the smallest identifiable group of assets that includes the asset and generates cash inflows that largely independent of the cash inflows from other assets or groups of assets.

For impairment testing of goodwill, the goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the company are assigned to those units.

Financial instruments

The company only has financial assets and financial liabilities of a kind that qualify as basic financial instruments. Basic financial instruments are initially recognised at transaction value and subsequently measured at their settlement value with the exception of banks loans which are subsequently measured at amortised cost using the effective interest method.

Defined contribution plans

Contributions to defined contribution plans are recognised as an expense in the period in which the related service is provided. Prepaid contributions are recognised as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

When contributions are not expected to be settled wholly within 12 months of the end of the reporting date in which the employees render the related service, the liability is measured on a discounted present value basis. The unwinding of the discount is recognised as a finance cost in profit or loss in the period in which it arises.

Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

3. Accounting policies *(continued)*

Creditors

Short term trade creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

4. Taxation

No provision for corporation tax has been included in the accounts as the company is a professional association which derives its income from members' subscriptions. As such the directors consider that the company is not carrying on a trade and therefore not liable to corporation tax.

5. Employee numbers

The average number of persons employed by the company during the year amounted to 6 (2017: 6).

6. Tangible assets

	Fixtures and fittings	Equipment	**Total**
	£	£	**£**
Cost			
At 1 January 2018	1,883	6,806	**8,689**
Additions	360	700	**1,060**
Disposals	(450)	(952)	**(1,402)**
At 31 December 2018	1,793	6,554	**8,347**
Depreciation			
At 1 January 2018	1,560	5,314	**6,874**
Charge for the year	250	1,134	**1,384**
Disposals	(277)	(952)	**(1,229)**
At 31 December 2018	1,533	5,496	**7,029**
Carrying amount			
At 31 December 2018	260	1,058	**1,318**
At 31 December 2017	323	1,492	1,815

7. Debtors

	2018	2017
	£	£
Other debtors	**2,629**	2,694

8. Creditors: amounts falling due within one year

	2018	2017
	£	£
Other creditors	**149,481**	121,156

9. Called up share capital

Issued, called up and fully paid

	2018		2017	
	No.	**£**	No.	£
Ordinary shares of £1 each	**15,000**	**15,000.00**	15,000	15,000.00

10. Related party transactions

In a previous year, The Association of Law Costs Draftsmen Limited (trading as Association of Costs Lawyers) made a contribution to Costs Lawyer Standards Board Limited of £25,000 towards a joint project for entity regulation and ABS licensing. The amount has been contributed towards the costs of the project and is not expected to be repayable unless Costs Lawyer Standards Board Limited do not spend £50,000 or more. At the year end, £14,370 (2017 - £14,370) of this contribution was included within deferred income.

11. Controlling party

The directors regard The Association of Law Costs Draftsmen Limited (trading as Association of Costs Lawyers) to be the ultimate parent company by virtue of its ownership of 100% of the issued share capital of the company. However, pursuant to the Legal Services Act 2007 the two companies act separately.

The ultimate parent company is a company limited by guarantee registered in England & Wales, company number 01330762. The registered office is DBH 16 Hopper Way, Diss, Norfolk, IP22 4GT.

Annex 2

CLSB Budget 2019			
Expenditure	**Budget**	**Adjusted**	**Includes**
Salaries	93,500		Salaries of executive, chair, NED's & panel members. Includes tax, NI, executive pension. Also provides for 2019 cost of living rise up to 3.5%
Travel & subsistence	8,000		Travel & subsistence for executive, chair, NED's, panel members
Rent	3,500		Manchester office rent & reception service. Room hire for board meetings, disciplinary hearings, general meeting e.g. ACL, ACLT, LSB, regulators forum (when hosting). Storage facility
Phone	500		Phone costs (international blocklifted following MRPQ regs)
Admin	6,000		Postage, printing, stationary, printer cartridges
Equipment	500		Printers, laptops, tablet, mobile phone
Services	22,000		Insurance, accountant, solicitor, barrister, risk specialist, stats analyst, TM attorney, Lawcare, phone answering service, IT support, website design & update, email server hosting, domain names, cloud storage, education audit, disciplinary investigator, banking costs, legal locum, advertising, training, auto enrolment pension scheme cost of maintenance and management of MRPQ applications, recruitment
LSB levy	18,000		Annual per Costs Lawyer (at 1 April 2017) levy payable to the Legal Services Board
Le0 levy	5,000		Annual payable to Legal Services Ombudsman
Legal Choices	5,000		Contribution to Legal Choices website (increased from £400 to £5k for 2019 following CMA recommendations)
Reserve	0		Contingency/reserve for unforseen instances (see note * below)
Misc	2,000		Companies house fees, ICO fee, anti virus, card cases for new qualifiers, ARDL membership, GMCC membership
Expenditure	**164,000**		
Income	**165,500**		662 x £250.00 = £165,500

Income based on number regulated 1 April 2018. Based on year 3 trainee numbers and numbers who leave annually, a small increase on this number is expected

** Any operational underspend will be transferred to reserve account*

Annex 3

CLSB Budget 2020			
Expenditure	**Budget**	**Adjusted**	**Includes**
Salaries	104,000		Salaries of CEO, HoO, Chair, NED's & panel members. Includes tax, NI, employer pension contributions. Also provides for 2020 cost of living rise up to 3.5%
Travel & subsistence	5,000		Travel & subsistence for CEO, HoO, Chair, NED's and panel members.
Rent	2,500		Manchester office rent. Room hire for board meetings, disciplinary hearings, general meeting e.g. ACL, ACLT, LSB, regulators forum (when hosting). Storage facility.
Phone	600		Mobile phone costs/contributions to costs (international blocklifted following MRPQ regs).
Admin	4,900		Postage, printing, stationary, printer cartridges.
Equipment	500		Printers, laptops, desktops, tablet, mobile phone.
Services	23,000		Insurance, accountant, solicitor, barrister, risk specialist, stats analyst, TM attorney, Lawcare, phone answering service, IT support, website design & update, email server hosting, domain names, cloud storage, education audit, disciplinary investigator, banking costs, legal locum, advertising, training, management of NEST pension scheme, recruitment, payroll.
LSB levy	14,000		Annual levy (based on regulated Costs Lawyers at 1 April 2019) payable to the LSB.
Le0 levy	5,000		Annual minimum levy payable to Legal Services Ombudsman.
Legal Choices	5,000		Contribution for 1/11/19 to 31/10/20 to Legal Choices website increased following CMA report from previous contribution of £400.
Misc	2,000		Companies house fees, ICO fee, anti-virus, card cases for new qualifiers, ARDL membership.
Expenditure	**166,500**		
Contingency	5,000		
Contribution to reserves	10,000		
Total debits	**181,500**		
Income	**181,500**		660 x £275 = £181,500

Annex 4

CLSB Budget 2021			Draft
Expenditure	**Budget**	**Adjusted**	**Includes**
Salaries	107,500		Salaries of CEO, HoO, Chair, NED's & panel members. Includes tax, NI, employer pension contributions. Also provides for 2020 cost of living rise up to 3%
Travel & subsistence	5,000		Travel & subsistence for CEO, HoO, Chair, NED's and panel members.
Rent	2,500		Manchester office rent. Room hire for board meetings, disciplinary hearings, general meeting e.g. ACL, ACLT, LSB, regulators forum (when hosting). Storage facility.
Phone	600		Mobile phone costs/contributions to costs (international blocklifted following MRPQ regs).
Admin	4,900		Postage, printing, stationary, printer cartridges.
Equipment	500		Printers, laptops, desktops, tablet, mobile phone.
Services	23,000		Insurance, accountant, solicitor, barrister, risk specialist, stats analyst, TM attorney, Lawcare, phone answering service, IT support, website design & update, email server hosting, domain names, cloud storage, education audit, disciplinary investigator, banking costs, legal locum, advertising, training, management of NEST pension scheme, recruitment, payroll.
LSB levy	14,000		Annual levy (based on regulated Costs Lawyers at 1 April 2019) payable to the LSB.
Le0 levy	5,000		Annual minimum levy payable to Legal Services Ombudsman.
Legal Choices	2,000		Contribution after initial three year project TBC.
Misc	2,000		Companies house fees, ICO fee, anti-virus, card cases for new qualifiers, ARDL membership.
Expenditure	**167,000**		
Contingency	3,000		
Contribution to reserves	10,000		
Total debits	**180,000**		
Income	**180,480**		640 x £282 = £180,480

CLSB Budget 2022			Draft
Expenditure	**Budget**	**Adjusted**	**Includes**
Salaries	111,000		Salaries of CEO, HoO, Chair, NED's & panel members. Includes tax, NI, employer pension contributions. Also provides for 2020 cost of living rise up to 3%
Travel & subsistence	5,000		Travel & subsistence for CEO, HoO, Chair, NED's and panel members.
Rent	2,500		Manchester office rent. Room hire for board meetings, disciplinary hearings, general meeting e.g. ACL, ACLT, LSB, regulators forum (when hosting). Storage facility.
Phone	600		Mobile phone costs/contributions to costs (international blocklifted following MRPQ regs).
Admin	4,900		Postage, printing, stationary, printer cartridges.
Equipment	500		Printers, laptops, desktops, tablet, mobile phone.
Services	23,000		Insurance, accountant, solicitor, barrister, risk specialist, stats analyst, TM attorney, Lawcare, phone answering service, IT support, website design & update, email server hosting, domain names, cloud storage, education audit, disciplinary investigator, banking costs, legal locum, advertising, training, management of NEST pension scheme, recruitment, payroll.
LSB levy	14,000		Annual levy (based on regulated Costs Lawyers at 1 April 2019) payable to the LSB.
Le0 levy	5,000		Annual minimum levy payable to Legal Services Ombudsman.
Legal Choices	2,000		Contribution after initial three year project TBC.
Misc	2,000		Companies house fees, ICO fee, anti-virus, card cases for new qualifiers, ARDL membership.
Expenditure	**170,500**		
Contribution to reserves	10,000		
Total debits	180,500		
Income	**179,800**		620 x £290 = £179,800

Consultation by the Costs Lawyer Standards Board (CLSB)
Proposed 2020 Costs Lawyer practising certificate fee (PCF)

Issued to: Costs Lawyers authorised and regulated by the CLSB as at 24 July 2019

1. Attachments

(i) CLSB budget for 2020
(ii) CLSB accounts for year ended 31 December 2018 (abbreviated)

2. Introduction

The remit of the CLSB as an approved regulator under delegated authority of the Association of Costs Lawyers (ACL) is to meet regulatory objectives set out in section 1(1) of the Legal Services Act 2007 (LSA).

The regulatory objectives are:

- protecting and promoting the public interest;
- supporting the constitutional principle of the rule of law;
- improving access to justice;
- protecting and promoting the interests of consumers;
- promoting competition in the provision of services;
- encouraging an independent, strong, diverse and effective legal profession;
- increasing public understanding of the citizen's legal rights and duties;
- promoting and maintaining adherence to the professional principles.

The professional principles are:

- that authorised persons should act with independence and integrity,
- that authorised persons should maintain proper standards of work,
- that authorised persons should act in the best interest of their clients,
- that persons who exercise before any court a right of audience, or conduct litigation in relation to proceedings in any court, by virtue of being authorised persons should comply with their duty to the court to act with independence in the interests of justice, and
- that the affairs of clients should be kept confidential.

Under a Costs Lawyer practising certificate issued by the CLSB, an authorised Costs Lawyer has the following authorised rights under the LSA. These rights are personal to the Costs Lawyer and may not be delegated:

- The exercise of a right of audience.
- The conduct of litigation.
- The administration of oaths.

3. Permitted purposes

The CLSB undertakes permitted purposes only under the LSA. Permitted purposes are defined as being:

(a) the regulation, accreditation, education and training of applicable persons and those either holding themselves out as or wishing to become such persons including:

- (i) the maintaining and raising of their professional standards; and
- (ii) the giving of practical support, and advice about practice management, in relation to practices carried on by such persons.

(b) the payment of a levy imposed on the approved regulator under section 173 of the LSA and/or payment of a financial penalty imposed on the approved regulator under section 37 of the LSA;

(c) the participation by the approved regulator in law reform and the legislative process;

(d) the provision by applicable persons, and those either holding themselves out as or wishing to become such persons, of legal services including reserved legal services, immigration advice or immigration services to the public free of charge;

(e) the promotion and protection by law of human rights and fundamental freedoms;

(f) the promotion of relations between approved regulator and the relevant national or international bodies, governments or the legal professions of other jurisdictions;

(g) increasing public understanding of the citizens legal rights and duties.

4. Proposed PCF for 2020

The CLSB will raise its funding for 2020, to carry out permitted purposes, by way of the PCF. The CLSB has kept the Costs Lawyer PCF at £250 for eight consecutive practising years. Given inflationary pressures over time, as well as increases in the levies that we are required to pay to other organisations, it is now prudent to increase the PCF by £25 to £275. Had the PCF been increased in line with inflation since 2011, the 2020 PCF would be around £308. A proposed PCF of £275 remains considerably below this level.

5. The Association of Costs Lawyers (ACL)

The ACL, the profession's representative body, is a voluntary membership organisation. Its activities are funded separately to those of the CLSB. The PCF is used only for the permitted purposes outlined above.

6. Benefits of a Costs Lawyer practising certificate

Benefits of holding a Costs Lawyer practising certificate issued by the CLSB include:

(i) Personal (non-delegable) authorised rights under the LSA to conduct the following reserved legal activities:

- The exercise of a right of audience.
- The conduct of litigation.
- The administration of oaths.

(ii) The ability to claim a better hourly rate grade than those not authorised.

(iii) The courts and fellow lawyers will be aware that a Costs Lawyer is qualified, regulated, has professional indemnity insurance, offer a complaints handling process and undertake continuing professional development (CPD).

(iv) Identification on the public domain register of authorised and regulated Costs Lawyers at www.clsb.info.

(v) Where permission has been given, an employer address and phone number will appear on the public domain register, increasing potential client contact.

(vi) Eligibility to apply for Accredited Costs Lawyer status for the purposes of providing CPD to fellow Costs Lawyers and other legal professionals.

(vii) Eligibility to use, free of charge (under licence) the CLSB mark of regulation.

(viii) Eligibility to use, free of charge the support of LawCare, a confidential service which supports the mental health and wellbeing of legal professionals and their family.

7. Annual financial levies

Out of the 2020 PCF, the CLSB must pay a mandatory annual levy to both the Legal Services Board and Legal Ombudsman. For 2020, this is expected to be £5,000 to the Legal Ombudsman and approximately £13,000 to the Legal Services Board.

8. Tax Relief under SI 1126/2013: The Income Tax (Professional Fees) Order 2013

Tax relief on the PCF can be claimed under the above statutory instrument which covers *"fees payable to the Costs Lawyer Standards Board on applying for a costs lawyer practicing certificate."*

9. Question asked under this consultation

Do you agree with the proposed 2020 PCF in the sum of £275?

10. How to respond

The closing date and time for responses is **midnight on Monday 9 September 2019.**

Responses may be submitted by:

Email: enquiries@clsb.info

Post: CLSB, Centurion House, 129 Deansgate, Manchester, M3 3WR

Dated: 24 July 2019

POLICY ON FINANCIAL OPERATING RESERVE

Costs Lawyer Standards Board

Effective Date: 24 October 2018

Purpose of this policy
This policy sets out, for the purpose of transparency, the current financial operating reserve policy of the Costs Lawyer Standards Board ("CLSB"). It was initially agreed by the CLSB on 21 October 2015 and has been reviewed to ensure it is current and fit for purpose on the effective date above.

Financial position of the CLSB
The CLSBs income is through annual Costs Lawyer practising certificate fees. The CLSB may look to the Association of Costs Lawyers ("ACL") for financial support as the approved regulator named under the Legal Services Act 2007. However, from becoming effective as an approved regulator under delegated authority of the ACL (31 October 2011) it has always been the intention of the CLSB to steadily build its own financial reserves to ensure, as far as is reasonably practicable, that it is financially independent.

Financial reserves
These are considered by the CLSB to be monies not required to meet CLSB annual budgets. It does not include the basic share capital of £15,000 which is due and owing to the ACL and will be held in the reserve account and any other financial liabilities e.g. debt/repayment liabilities.

The need for CLSB financial operating reserves
Financial operating reserves are deemed necessary to ensure adequate financial resources at all times, providing a cushion against unexpected events. Unexpected events identified by the CLSB which would affect an annual budget resulting in financial operating reserves being drawn upon include, inter alia:

1. An unexpected drop in Costs Lawyer practising certificate fee income e.g. those leaving the profession exceeds new entrants.
2. Costs associated with the CLSB ceasing to exist or being able to act as an approved regulator under the LSA for any reason e.g. redundancy, contract terminations, LSB & LeO levy (paid one year in arrears), accounting, Companies House liabilities etc.
3. The policies, procedures or acts of the CLSB being challenged by way of judicial review.
4. The CLSB being the subject of litigation for damages by a third party.
5. Any change in the LSA that significantly increases expectations on regulatory arrangements.
6. Increased staffing costs in the event of long term absence.
7. The CLSB being taken to an employment tribunal.
8. The CLSB issuing litigation for a breach of the Legal Services Act 2007 e.g. where a person pretends to be entitled.
9. Increased office costs e.g. office hire/move.

CLSB financial reserve target

The CLSB reserve target is one year's gross income from annual practising certificate fees. Based on 600 practising certificates and a practising certificate fee of £250.00 this equates to £150,000.00.

How the CLSB will achieve its financial reserve target

To avoid any severe financial hit on Costs Lawyers or the ACL, the CLSB will continue through steady and sound financial management, to build on its financial reserves from any underspend on its annual budgets until the target is achieved.

Mitigation on potential calls on CLSB financial reserves

The CLSB will consider whether any of the risks identified are insurable e.g. judicial review. However, the CLSB will balance this with annual insurance costs and the potential risk of an insurer refusing to accept a claim thus leaving the CLSB exposed.

Review of this policy

This policy will be reviewed by the CLSB board on a needs be basis and when the financial reserve target has been achieved.

END