

LEGAL SERVICES BOARD  
Annual Report and Accounts  
2010/11



LEGAL SERVICES BOARD  
Annual Report and Accounts for the Year Ended 31 March 2011

Presented to Parliament pursuant to Section 6 (4) and Schedule 1, Paragraph 25 (5) of the  
Legal Services Act 2007

Ordered by the House of Commons to be printed on 13 June 2011

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ISBN: 9780102971996

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

ID 2430723            06/11

Printed on paper containing 75% recycled fibre content minimum.

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## 1

## Introduction from the Chairman

1. This is the third annual report of the Legal Services Board (LSB), covering the first full year of our regulatory powers.
2. The Legal Services Act 2007 (the Act) established a framework for major reforms to the regulation of legal services in England and Wales. The interests of consumers and the wider public are placed firmly at the heart of the work of the frontline 'approved regulators' and the LSB. All of this work is based on shared regulatory objectives.
3. My Board identified three major priorities for our first three years of operation: embedding independent governance and high standards of performance amongst the approved regulators; opening up the market through Alternative Business Structures (ABS); and establishing a new complaints-handling regime. By the end of 2010/11, very significant progress had been made.
4. Each of the approved regulators has assured us that they are committed to our Internal Governance Rules (IGRs). These set out what is expected of the structure and operations of each approved regulator - on paper and in practice - to demonstrate independence from the profession that they regulate. All of our other reforms rely on this achievement. We now move to ensure that the approved regulators deliver compliance in practice - the more that the approved regulators transparently separate regulation and representation, the less intrusive our oversight.
5. With an autumn 2011 target date for implementing ABS - a new type of business model for the legal services market - we have spent much of the past year further building and developing the extensive licensing framework. ABS will give consumers more choice, better value and more responsive services from a more diverse market-place. During the year, we have issued guidance on the rules that licensing authorities must have in place for ABS, as well as investigating how the Board itself might become a licensing authority of last resort. We were pleased to receive applications to become a licensing authority from the Council for Licensed Conveyancers (CLC) and the Solicitors Regulation Authority (SRA) in March 2011.
6. We are also seeing the approved regulators move towards a more outcomes-focused approach to how they regulate and, through regulation, how they protect consumer interests. A focus on the outcomes of regulation should ensure that regulation is both proportionate and targeted. We want outcomes-focused regulation to provide businesses with the opportunity to compete on a level playing field and to ensure that regulation does not lead to restrictive practices that may work against the consumer or the public interest.
7. The new Legal Ombudsman (LeO) began accepting complaints in October 2010. This new dispute resolution service, guided by Elizabeth France and her Office for Legal Complaints (OLC), means that consumers and practitioners who find themselves in dispute, can expect an independent, fair and efficient service.
8. In addition to our three major priorities, we had an ambitious business plan for 2010/11, focused on meeting our statutory regulatory objectives and duties. We shaped our work programme around seven separate but related work streams and this report shows our progress in delivering this challenging programme during 2010/11. All of our work was underpinned by a clear commitment to value for money and a willingness to engage with those we work with to identify areas for improvement.
9. We achieved the majority of our priorities within time and many well ahead of target. In some cases, we adopted a different approach to delivery. For example, we realised that a more detailed picture of the legal services market was necessary. We have therefore been undertaking a Regulatory Information Review to identify the available and relevant evidence about the legal services market and the best way of filling the many gaps that exist. This did not exist previously.

10. We have responded to feedback, consultation exercises and emerging issues that that we had not factored into our original plans. For example, as a direct result of feedback that we received from consumers and consumer groups, we are now undertaking a review of the regulation of will-writing.
11. It was a busy and challenging year and I am proud of the progress of this small but focused team. I should like to thank my Board for its energetic and thoughtful steering of the work of the organisation. I am delighted to have been asked to chair the Board for a further three years. We have an immensely hard-working team who have responded with imagination and enthusiasm to the challenges of developing and running a new organisation. I would also like to thank all of our partner organisations, particularly Dianne Hayter and the Legal Services Consumer Panel, for providing a valuable and constructive challenge to all of our work. It plays a vital part in helping us to achieve what the Act sets out for us to do.
12. Our challenge for next year continues to be ensuring that the regulatory objectives are at the heart of legal services regulation.

**David Edmonds** Chairman



## About us

13. The Act established the LSB. Our goal is to reform and modernise the legal services market in the interests of consumers and the wider public. Our focus is on enhancing quality, ensuring value for money and improving access to justice across England and Wales.
14. We are responsible for ensuring competence, conduct and service in the legal profession, both for the benefit of individual consumers and the public generally. We do this through our independent, regulatory oversight of the ten approved regulators, who between them directly regulate approximately 143,000 lawyers operating throughout the jurisdiction.
  - the Master of the Faculties, who regulates notaries.
16. The Institute of Chartered Accountants in Scotland and the Association of Chartered Certified Accountants are approved regulators for reserved probate activities only, but do not currently have any regulatory arrangements and so do not regulate reserved legal services.
17. We oversee the OLC and its administration of LeO, which opened in October 2010 and considers complaints about lawyers. Our relationship with the OLC is guided by a memorandum of understanding.
18. The Act also provides us with limited powers in relation to the Solicitors Disciplinary Tribunal and requires the Tribunal to obtain the LSB's approval of its annual budget and for changes that it wishes to make to its rules.

### Whom we regulate

15. The approved regulators, who themselves are required to ensure independent regulation of the eight branches of the legal profession, are:
  - The Law Society, who through the Solicitors Regulation Authority, regulate practising solicitors
  - The General Council of the Bar, who through the Bar Standards Board, regulate practising barristers
  - the Institute of Legal Executives, who through the ILEX Professional Standards Board, regulate practising fellows
  - the Council for Licensed Conveyancers, who regulate practising licensed conveyancers
  - the Chartered Institute of Patent Attorneys, who through the Intellectual Property Regulation Board, regulate practising chartered patent attorneys
  - the Institute of Trade Mark Attorneys, who through the Intellectual Property Regulation Board, regulate practising trade mark attorneys
  - the Association of Costs Lawyers who, through the Costs Lawyer Standards Board, regulate practicing costs lawyers

### Our regulatory responsibilities

19. Our regulatory objectives (RO) are set out in the Act. We share these objectives with the approved regulators and the OLC. The objectives are to:
  - protect and promote the public interest (RO1)
  - support the constitutional principle of the rule of law (RO2)
  - improve access to justice (RO3)
  - protect and promote the interests of consumers (RO4)
  - promote competition in the provision of legal services (RO5)
  - encourage an independent, strong, diverse and effective legal profession (RO6)
  - increase public understanding of the citizen's legal rights and duties (RO7)
  - promote and maintain adherence to the professional principles (RO8).

20. 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.
21. We also have a statutory duty to assist in the maintenance and development of standards of regulatory practice and the education and training of lawyers.
22. In addition, the better regulation principles, enshrined within the Act, ensure that our activities must always be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed.
23. Alongside our duty to oversee regulation, we are responsible for considering (and, where appropriate, approving): any changes that approved regulators wish to make to their regulatory arrangements, any organisation that wishes to become an approved regulator, and monitoring approved regulators' continued compliance with rules made by the LSB. We are also responsible for making recommendations to the Lord Chancellor about designating approved regulators as licensing authorities for ABS.
24. As well as our powers of review, we also have a range of enforcement powers. These include powers to direct, fine, censure and set performance targets for the approved regulators. We may also set performance targets for the OLC.

### **Our key relationships**

25. The LSB is independent of Government but accountable to Parliament through the Lord Chancellor. We are an executive Non-Departmental

Public Body (NDPB), sponsored by the Ministry of Justice (MoJ). Although our decision-making powers are independent of MoJ, we work closely on the legislation required to undertake the challenging reforms outlined in the Act.

26. Our remit extends to both England and Wales. We have therefore established a relationship with the Welsh Assembly Government in order to ensure we understand the particular perspectives of consumers and providers in Wales. In October 2010, our Welsh Language Scheme was endorsed by the Welsh Language Board.
27. We also have an important relationship with the Legal Services Consumer Panel (the Panel), which plays a vital role in ensuring that the views and interests of consumers are addressed in our work. Its advice and influence helps to inform our current and future work and we have welcomed its contribution to our work programme. The Panel is independent of the Board, with its own secretariat, and our relationship is guided by a memorandum of understanding.

### **How we are funded**

28. We are funded by a levy on the approved regulators. This is in accordance with the Act, which stipulates that the costs of the LSB should be recouped by means of a levy which it should collect from the approved regulators on behalf of Treasury. The methodology for calculating the levy is set out in the Statutory Instrument *The Legal Services Act 2007 (Levy)(No.2) Rules 2010*.
29. The LSB's share of the levy is calculated based on the number of authorised persons per approved regulator; the OLC's share of the levy is calculated using the average number of service complaints during the three-year period ending 31 December 2009. This will be reviewed once LeO has been operating for an appropriate period.

## Our activities in 2010/11

30. In our *Final Business Plan 2010/11*, we set ourselves a range of activities and milestones to deliver. These were based on the areas that we wanted to focus on in delivering our regulatory objectives. During the year, it became apparent that while our desired outcomes for each work stream remained constant, some of the work we would need to do to achieve them would need to alter and milestones might need to shift.
31. The tables below provide a summary of performance across all of our core activities for the year and the progress that we have made. A final table shows an assessment of how we performed against the service standards we set for making our regulatory decisions.

### Work stream A: Putting consumer and public interest at the heart of regulation

(Regulatory objectives (RO) supported: RO1, RO3, RO4, RO5, RO6 and RO7)

32. Our activities in this work stream focused on ensuring that we had the evidence that we needed to ensure consumers and the public interest are central to all of our activities.

Activity	How we did this in 2010/11
<p>Measuring and understanding consumers' experience in the market today</p>	<p>In 2010/11, we undertook specific pieces of research to better understand consumers' experience of the legal services market and the potential effect of our work upon consumers.</p> <p>Our work in this area included:</p> <ul style="list-style-type: none"> <li>• qualitative research by AIA Research on the challenges small businesses face in identifying and accessing legal services (published in May 2010) and hosting a seminar to discuss the results</li> <li>• research by Opinion Leader which set out results from a series of focus groups and in-depth interviews where different types of consumers were asked what they expected from their interaction with their legal services provider (published in March 2011). The research found that consumers value highly many of the traditional strengths of the profession, but were less concerned about some of the detail of regulation, simply wanting good customer services and clear communication.</li> </ul> <p>Instead of establishing a general panel of consumers, we sought to engage with consumers by carrying out surveys in specific areas of our work (for example, a 'mystery shopping' exercise for will-writing).</p> <p>We continued to work closely with the Panel, which is a key partner in our consumer research activities. In 2010/11, work with the Panel included consumer research into the impact of referral fees. We have also been particularly interested in the development of the Panel's Consumer Impact Report, which will be published later in 2011.</p>

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Developing an evidence base to underpin our work to meet our regulatory objectives

Our *Research Strategy*, published in June 2010, helps ensure that the best evidence is in place to meet the regulatory objectives. Where gaps in the evidence exist, we have and will continue to work with our partners to fill them with original research. Our strategy was developed with wide ranging input, including from the Research Strategy Group, which consists of representatives from the Board and Executive of the LSB, the Panel, academia and the approved regulators.

In June 2010, we began a Regulatory Information Review of the legal sector. Working with the approved regulators, this looked to identify the information that exists and where there are gaps in knowledge about the sector.

Other highlights of our research programme included:

- publishing economic research on lawyer referral arrangements in May 2010 and hosting a seminar to present this work to key partners
- hosting a conference at Birkbeck College in June 2010 where we launched a series of essays from a range of legal sector commentators about the future of legal services, bringing together top academics and industry leaders
- publishing a literature review about barriers to entering the legal profession in July 2010
- presenting a paper on the role of the oversight regulator to the Institute of Advanced Legal Studies in June 2010, which focused on ABS in particular
- sponsoring the Legal Service Research Centre's eighth international research conference in June 2010 where we presented a paper on referral fees.

All of our research commissioned during the year is available at [www.legalservicesboard.org.uk](http://www.legalservicesboard.org.uk).

We consulted on the research we intended to undertake to inform our regulatory decision-making, as part of our consultation on our *Draft Business Plan 2011/12* in December 2010. We also held a series of seminars during January 2011 to discuss the research and work programme and our approach to evaluating our work.

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Engage with the independent Consumer Panel

The Panel was established under the Act to provide us with independent advice about the interests of consumers of legal services in England and Wales. The Panel is funded by the LSB and supported by a small policy secretariat.

We sought and received the Panel's advice on a range of matters where we needed to understand better the consumer interest including:

- our consultations on ABS
- the IGRs process
- legal complaints
- referral arrangements
- will-writing.

As one of our 'mandatory consultees' under the Act, we also consulted the Panel about the applications we received from approved regulators about changes to their regulatory arrangements.

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## Work stream B: Widening access to the legal market

(ROs supported: RO1, RO3, RO4, RO5, RO6 and RO8)

33. This work stream was about working with potential licensing authorities to ensure that the regulatory framework was in place to allow the first ABS to be licensed from October 2011.

Activity	How we did this in 2010/11
Issue final guidance on content for licensing rules	<p>We have undertaken a wide range of consultations and work to ensure that the framework to allow ABS to be licensed in 2011 is in place.</p> <p>In March 2010, ahead of schedule, we issued the final guidance setting out the core rules and regulations that apply to ABS.</p>
Ongoing work with potential licensing authorities	<p>The CLC and SRA identified themselves early as potential licensing authorities and we have worked closely with them to seek to ensure that they have suitable arrangements in place and sufficient capacity and capability to be competent licensing authorities.</p> <p>One key component of this work has been the approval process for new, outcomes-focused, codes of conduct, which commenced in March 2011. Another area of work with potential licensing authorities has been to establish which bodies can hear appeals by ABS, or potential ABS, against decisions made by licensing authorities. We consulted on an appellate body for ABS between August and December 2010.</p> <p>We also developed an approach to using section 69 orders, which we consulted on in September 2010. Section 69 allows the Lord Chancellor in specific circumstances to change parts of the Act, on the Board's recommendation. We recommended changes under section 69 relating to the regulation of ABS and non-ABS, which we developed in close consultation with the CLC and SRA.</p>
Development of LSB's direct licensing approach	<p>If it becomes apparent that no other body is able to meet the stringent requirements to become a licensing authority, Parliament has decided that ABS must still be able to operate. Therefore, under the Act, the LSB is a licensing authority of last resort. As part of our contingency planning, the Board has considered in detail arrangements for it to become a licensing authority. At its January 2011 meeting, the Board agreed the terms of reference and membership of a Licensing Authority Committee to advise the Board and, subject to a future decision, to ensure necessary action is taken to enable the Board to undertake a licensing authority role.</p>
Ongoing development of market readiness for ABS	<p>A major element of preparing the market for ABS readiness has been our programme of communications initiatives. During the year, the Chairman, Chief Executive and other senior colleagues have participated in a range of conferences and events. This included our rolling programme of open fora. LSB events in Bristol and Cardiff during 2010 were attended by around 250 people. We expect to build on this outreach work during 2011/12.</p> <p>We held regular ABS Implementation Group meetings during 2010/11. This group includes representatives from across the approved regulators, MoJ and the Panel. Minutes for these meetings are available at <a href="http://www.legalservicesboard.org.uk">www.legalservicesboard.org.uk</a>.</p> <p>We also established a monthly joint Project Board with MoJ in December 2010. This Board manages the legislative process required for ABS.</p>
Considering applications to become a licensing authority	<p>We received two applications in March 2011 from potential licensing authorities - the CLC and the SRA. We have published their applications at <a href="http://www.legalservicesboard.org.uk">www.legalservicesboard.org.uk</a> and considered the applications carefully and in line with our applications process.</p>

## Work stream C: Improving service by resolving complaints effectively

(ROs supported: RO1, RO2, RO4, RO6, RO7 and RO8)

34. A key objective for the LSB is to ensure that there is swift and effective redress for consumers of legal services if things go wrong. Our work in this area during 2010/11 was based both on ensuring appropriate arrangements were in place at the first-tier of complaints handling and on oversight of the second-tier.

Activity	How we did this in 2010/11
Working with approved regulators to develop outcomes for effective complaints handling procedures and collecting baseline information on complaints handling from them	<p>One of our first priorities was to work with the approved regulators to establish a consistent approach to dealing with complaints about lawyers at the earliest, first-tier stage. This was to ensure that there is a process in place for complaints resolution, without recourse to LeO where possible. Instead of creating a prescriptive process for internal complaints handling arrangements, we issued Guidance to approved regulators about the outcomes they should expect from those they regulate in relation to complaints handling.</p> <p>Our 'signposting' requirements and Guidance on first-tier complaints handling were published in May 2010 and came into force in October 2010. We are working with the approved regulators to develop an effective way of measuring how they collect information from those they regulate about complaints.</p>
Regulatory review: complaints handling	<p>Following publication of the Guidance on first-tier complaints in May 2010, we undertook a review of approved regulators' development and implementation of the first-tier complaints handling requirements of the Act. We started this process in July 2010 and published the results of the review in February 2011. We agreed action plans with the approved regulators as part of the review and will monitor their progress against their action plans during 2011.</p> <p>We commissioned independent consumer research into first-tier complaints handling in the first quarter of 2011, which was conducted by YouGov.</p>
Agree and monitor performance targets with the OLC	<p>The Act establishes the OLC to administer and run an ombudsman scheme. We were pleased to see LeO open for business on 6 October 2010. The Act provides the LSB with a number of key responsibilities in relation to the OLC, including agreeing its budget and monitoring its performance management of LeO.</p> <p>In September 2010, we agreed with the OLC that it would provide us with quarterly information about how LeO performs in four key areas: timeliness, cost-efficiency, quality and satisfaction. At a joint Board session in December, the LSB received initial monitoring information from the OLC about LeO and, by March 2011, had formalised a quarterly reporting process for performance against agreed key performance indicators.</p> <p>At its March 2011 meeting, the LSB approved in principle the OLC's budget for LeO for 2011/12, subject to final details being confirmed. We also worked closely with LeO to agree the arrangements for the levy on the approved regulators for the service. See paragraph 29.</p>
Oversee maintenance of customer facing performance by current second-tier complaints bodies	<p>The opening of LeO meant the closure of the previous complaints handling arrangements, which had been administered by the approved regulators. During the year, we worked with The Law Society-administered Legal Complaints Service to monitor its continued high-levels of performance during the run-up to its closure in March 2011.</p>

## Work stream D: Developing excellence in legal services regulation

(ROs supported: RO1, RO4, RO6 and RO7)

35. This work stream focuses on ensuring that the LSB carries out its duty to assist in the maintenance and development of standards in regulation by approved regulators.

Activity	How we did this in 2010/11
Thematic reviews	<p>As well as our thematic review of first-tier complaints (see page 12), we undertook the first assessment process for approved regulators' compliance with the IGRs that were made by the Board in December 2009. This first review was a major challenge for the approved regulators (see page 14). We now require approved regulators to undertake an annual self-assessment of their compliance with the IGRs.</p> <p>We also set up a project specifically focused on the smaller approved regulators, which we expect to report on in June 2011. The aim of this project is to better understand the specific challenges that they and their membership face in modernising regulation in line with the Act.</p>
Wider reviews: approved regulators' effectiveness	<p>The Board agreed in June 2010 to reconsider its approach to evaluating regulatory effectiveness. We published a paper, <i>Developing Regulatory Standards</i>, in April 2011, which sets out our ideas for discussion.</p>
Approval process for designation as an approved regulator and alterations to regulatory arrangements	<p>We have continued to progress the applications we receive in accordance with the processes and timings set out in our rules.</p> <p>During 2010/11, we made 11 decisions about changes to regulatory arrangements. All of the applications that we received and our decisions about them, as well as the Rules which we use to make our decisions, are at <a href="http://www.legalservicesboard.org.uk">www.legalservicesboard.org.uk</a>. We considered all applications within the timescales that we had set ourselves. A full assessment of our performance in 2010/11 against our timescales is on page 17.</p> <p>We published and sought comments on our proposed key performance indicators for the regulatory decisions we will make in 2011/12 in December 2010, as part of our <i>Draft Business Plan 2011/12</i>.</p>

## Work stream E: Securing independent regulation

(ROs supported: RO1, RO2, RO4, RO5, RO6 and RO7)

36. Our *Internal Governance Rules 2009* came into effect in January 2010 and set out what we require approved regulators to do to demonstrate regulatory independence. We therefore established a specific work stream that focused on moving towards effective implementation of the IGRs.

Activity	How we did this in 2010/11
Annual dual self-certification procedure	<p>During 2010, approved regulators were required to undertake and complete a regulatory independence certificate to assess their compliance with the IGRs. By May 2010, we had received an initial submission from each approved regulator.</p> <p>We responded with our initial assessment of compliance in July 2010 – no approved regulator was fully compliant at that stage. This led to further work in order to develop action plans for compliance. A key issue was about achieving lay (non-lawyer) majorities on regulatory boards – vital to ensuring that regulation is not purely undertaken in the professional interest.</p> <p>By the end of 2010, all of the approved regulators had assured us that they were committed to achieving compliance with the IGRs. Where full compliance has not been achieved, we agreed clear, timely and proportionate action plans to achieve full compliance.</p> <p>The Board will not settle simply for governance compliance only to the letter of our requirements: it expects to see independent regulation in spirit and in practice. Risks and potential issues have been identified for each approved regulator in this respect; they have been the subject of much scrutiny during 2010/11 and inform the approach to demonstrating IGR compliance in 2011. Detailed assessments and issues logs are available at <a href="http://www.legalservicesboard.org.uk">www.legalservicesboard.org.uk</a>.</p>
Practising certificate fee approval	<p>Under the Act, where an approved regulator proposes to charge practising fees as a part of its regulatory arrangements, it must apply to the Board for approval of the level of that practising fee. Our <i>Practising Fee Rules 2009</i> set out our approval process for practising fee applications.</p> <p>By December 2010, we had received, considered and approved applications from all approved regulators about their proposed practising fees for 2011/12.</p> <p>The Act also provides us with responsibility for approving the Solicitors Disciplinary Tribunal's budget. In October, the Board agreed the Tribunal's budget, subject to finalising key performance indicators with the Tribunal, which we did in February 2011.</p>



## Work stream F: Developing a workforce for a changing market

(ROs supported: RO1, RO3, RO4, RO5, RO6 and RO8)

37. This work stream supports the approved regulators in their work to consider (and then to provide) what consumers and procurers of legal services expect from the legal workforce.

Activity	How we did this in 2010/11
Workforce access (diversity and social mobility)	<p>During the year, we undertook a number of activities to work towards encouraging more diversity and social mobility in the legal profession of the future. In October 2010, the University of Westminster held a conference to present the findings of its LSB-funded research of barriers to the legal sector. This was supported by an opinion piece in the national press and coverage in the trade press. Our other activities in this area included:</p> <ul style="list-style-type: none"> <li>• publishing original qualitative research on the challenges facing female and BME lawyers in England and Wales in October 2010</li> <li>• developing and publishing research to map and evaluate the diversity initiatives of the approved regulators in November 2010</li> <li>• publishing a literature review in July 2010 on the diversity of the legal profession, specifically the barriers presented at each stage to entry and progression. This <i>Barriers to the Legal Profession</i> literature review was published on our website and distributed to key partners.</li> </ul> <p>This work led us to a major consultation exercise between December 2010 and March 2011 about a framework for approved regulators to use to increase diversity and social mobility at all levels of the legal services workforce.</p> <p>We also continued to work with the Gateways to the Professions Collaborative Forum on its work to embed social mobility into the development of education and training initiatives. Work in this area included development of the specification for a 'regulatory toolkit' on social mobility.</p>
Education and training	<p>Underpinning an independent, strong, diverse and effective legal profession is an education system that is fit for the legal sector of the future.</p> <p>In the annual Lord Upjohn Lecture in November 2010, the Chairman announced that we would support the SRA, the Bar Standards Board (BSB) and ILEX Professional Standards (IPS) in their review to assess current legal education arrangements at all stages against the skills and competencies needed for the legal workforce of the future. As part of this, the review will look at how education arrangements could increase workforce diversity and the degree to which continual professional development is ensuring lawyers are capable of adapting to changed practices.</p> <p>We are encouraging the approved regulators to consider the role of education and training in regulating the conduct of legal services providers. This is wider than looking at entry to the profession, covering the whole workforce and focusing on mitigating risks to consumers.</p> <p>We have also been working on cross-government initiatives that focus on education and training. These have included our work with Skills for Justice on developing a fully interactive 'careers pathway' map for the legal profession. This sets out the qualifying routes for the legal profession and is available at <a href="http://www.skillsforjustice-cp.com">www.skillsforjustice-cp.com</a>.</p>
Quality assurance	<p>Appropriate quality assurance mechanisms support a number of the regulatory objectives and we have worked closely with those approved regulators that sit on the Joint Advocacy Group (SRA, BSB and IPS) on the design and implementation of a quality assurance scheme for criminal advocates. This has involved hosting roundtable events, engaging with the judiciary and reviewing existing quality assurance mechanisms.</p> <p>In January 2011, we commissioned independent research into assurance schemes and issued this to the Joint Advocacy Group. We also commissioned the Panel in March 2011 to provide further advice about the robustness of existing quality schemes.</p> <p>In July 2010, we commissioned advice from the Panel and supporting independent research into how consumers view the quality of legal services. The research and advice, which provided valuable insight, were published in November 2010. Our response, agreed by the Board in March 2011, included a quality assurance strategy to set the basis of our future work in this area.</p>

## Work stream G: Improving access to justice

(ROs supported: RO3, RO4, RO5 and RO7)

38. This work stream seeks to better understand some of the factors affecting access to justice and how they might be addressed.

Activity	How we did this in 2010/11
Understanding how and when consumers use the legal services market	See Work stream A (see page 9).
Making the decision to regulate	<p>The Act lists six reserved legal activities that can only be undertaken by individuals regulated by approved regulators. We need to be clear that the list of reserved legal activities is right – both inclusion and exclusion of an activity on the list can have an effect on access to justice.</p> <p>The rationale and history behind the reserved legal activities is varied and inconsistent. This means that we have had to re-appraise what activities should be regulated, why and how.</p> <p>During the year, we considered research papers from Professor Stephen Mayson of the Legal Services Institute about the history and rationale for reserved legal activities and the case for legal services reservation. In March 2011, we published a research paper by Dr Christopher Decker and Professor George Yarrow of the Regulatory Policy Institute on the economic rationale for legal services regulation. This was accompanied by a series of essays responding to the points raised by prominent legal and regulatory academics and research by Opinion Leader into consumer outcomes (see Work stream A). The extent of this work means that we re-scheduled the publication of our consultation on how best to rationalise the scope of regulation to summer 2011.</p> <p>Other work in this area during 2010/11 has included detailed preparations to take on responsibility for oversight of approved regulators' regulation of immigration advice and services (a function that had previously been undertaken by the Immigration Services Commissioner). Our new responsibility for this area took effect on 1 April 2011.</p> <p>Additionally, because of concerns raised with us about will-writing, some of our resource during the year was directed to a specific review of whether a change in the way will-writing is currently regulated is necessary. This has involved working closely with the Panel, which received almost 400 case studies from lawyers, members of the public and others, following its call for evidence on will-writing. We have also commissioned research into the types and scale of any consumer detriment from current practice in writing wills.</p>
Civil litigation costs	<p>Referral fees for legal services have been the subject of much debate and we have been asked to set out a new regulatory approach for the management of referral fee arrangements.</p> <p>During the year, we sought to understand the effect that referral fees had on the market, both for consumers and for those who work with them. We published economic research into the cost benefit analysis of referral fees in legal services in May 2010. This was supported by a report from the Panel, which had been informed by independent consumer research into referral fees.</p> <p>On the basis of these pieces of research, in September 2010 we launched a consultation on whether or not referral fees should be banned. We had almost 60 responses to the consultation, which closed in December 2010.</p> <p>The Board agreed our approach to referral fees in March 2011 and we will publish the consultation response, setting out our recommendations for referral fees, in the first quarter of 2011/12.</p> <p>We have kept abreast of Government proposals in response to Lord Justice Jackson's review of civil litigation costs and how they might interact with referral fees. Our Board has considered this issue and may return to it during 2011/12 as MoJ implements changes.</p>

## Performance in making regulatory decisions

39. In our *Final Business Plan 2010/11*, we set out the service standards we would work to when making our regulatory decisions. Performance against those commitments is set out below.

Activity	How we performed	Description
We will acknowledge rule change applications within two working days	✓	We acknowledged 100% of rule change applications within two working days.
When acknowledging an application we will provide a named contact for that application	✓	We provided a named contact in acknowledgement to 100% of applications.
We will publish applications on our website within two working days of receipt so long as they are complete	✓	We published 100% of complete applications on our website within two working days.
We will either make a decision on a case within 28 days or provide an explanation as to why we need longer	✓	Of the 11 decisions made, seven were within 28 days. In the other four, we provided an explanation for not doing so.
We will publish our decisions on our website	✓	We published 100% of our decisions made in 2010/11 on our website at <a href="http://www.legalservicesboard.org.uk">www.legalservicesboard.org.uk</a> .
We will develop and publish key performance indicators for the processing of applications within certain timeframes by December 2010	✓	We developed and published key performance indicators in our <i>Draft Business Plan 2011/12</i> in December 2010.
We will provide feedback to approved regulators on their applications in order to help them submit applications that can be dealt with rigorously and quickly	✓	We worked with the approved regulators throughout the year to assist with their applications.



# Financial Statements of the Legal Services Board

for the year ended 31 March 2011

# Legal Services Board Members' Report

## Brief history of the LSB and principal activities

40. The LSB is an executive NDPB, created by the Act.
41. The LSB is responsible for overseeing all approved regulators of legal services in England and Wales. It is independent of Government and of the legal profession. The LSB also oversees the OLC, which administers LeO, established to resolve disputes between consumers and lawyers.
42. The LSB is required to act in way that is compatible with, and which is most appropriate to meet, the eight regulatory objectives, set out prominently in the Act and at paragraph 19 of this *Annual Report and Accounts*.
45. These documents are published on the LSB's website at [www.legalservicesboard.org.uk](http://www.legalservicesboard.org.uk). In addition, the website includes details of Board Members' biographies and information about their LSB-related expenses, interests and any corporate gifts or hospitality they have received or given.
46. Board Members declare any interest they may have in Board meeting discussions at the start of each meeting and these are recorded within the minutes. Any conflicts of interest are recorded in the *Register of Interests*, which is available as above.
47. The LSB is committed to operating openly and transparently and has agreed a publication scheme of information that it will proactively and routinely make available on its website. The LSB considers requests for additional information on a case-by-case basis, in accordance with the relevant legislation.

## Corporate governance

43. The Board is responsible for the strategic leadership and direction of LSB. The Board meets at regular intervals, with a quorum of three Members (which must have a lay-majority).
44. The LSB welcomes its duty under section 5 of the Act to have regard to generally accepted principles of good corporate governance. In accordance with this, the Board adopted its first *Governance Manual* in June 2010. This comprises:
  - a *Code of Practice for Board Members*, which sets out the responsibilities of the Board collectively and the standards of behaviour expected from individual Members
  - *Rules of Procedure* (relating to meetings, minutes, papers, quorums, delegations of powers and conflicts of interest)
  - a *Schedule of Matters Reserved to the Board*
  - a *Scheme of Delegations*
  - the terms of reference of the Committees
  - policies on expenses, gifts and hospitality, interests, and complaints
  - LSB's *Management Statement*, *Financial Memorandum* and *Finance Regulations*.
48. The *Code of Practice* requires the Board:
  - to comply with the Act and other relevant legislation and statutory or administrative requirements
  - to agree the overall strategic direction of LSB and the policy and resource framework for the delivery of that strategy
  - to monitor and to report performance against an annual business plan and agreed performance indicators
  - to agree and to oversee the implementation of a risk management strategy
  - to ensure that generally accepted principles of good corporate governance are observed at all times. The *Code of Practice* also sets out the Board's responsibilities in relation to its role as an employer and Board Members' individual responsibilities.

49. The performance of the Board, its Committees and its Members is evaluated on an annual basis. The Committees conduct a self-evaluation, the outcomes of which are reported to the Board. Each Member participates in an annual Board and Member appraisal process, which uses a combination of questionnaires, one-to-one sessions with the Chairman and group sessions to review and to evaluate the performance of the Board. The Board has now implemented the recommendations arising from its annual review of its own performance and effectiveness from 2009/10.

50. New Board Members receive an induction and ongoing support to assist them in their roles, including:

- a tailored induction and information briefing and introductory meetings with other Board Members and the senior Executive
- daily trade and general press cuttings about legal and other relevant news
- regular email updates from the Chief Executive about the activities of the Executive
- stakeholders attending and speaking as guests at regular meetings of the Board
- attending meetings and events with stakeholders
- attending specific events to address identified training needs.

### LSB Board Members

51. The Board comprises both non-executives (including the Chairman) and the Chief Executive. The Chairman took part in the process of recruiting the other Board Members. The Board met formally on 11 occasions during the period 1 April 2010 to 31 March 2011.

LEGAL SERVICES BOARD	MEETING ATTENDANCE
David Edmonds (Chairman)	11/11
Terry Connor (member)	9/11
Steve Green (member)	10/11
William Moyes (member)	10/11
Edward Nally (member)*	1/1
Barbara Saunders (member)	10/11
Nicole Smith (member)	10/11
Andrew Whittaker (member)	8/11
David Wolfe (member)	10/11
Chris Kenny (member and Chief Executive)	11/11

\*Edward Nally was appointed as a member with effect from 14 February 2011.

## Board Committees

52. The Board has established three committees. The terms of reference for the Audit and Risk and Remuneration and Nomination Committees were revised and agreed by the Board in April 2010. The terms of reference for the Licensing Authority Committee were agreed by the Board in January 2011.
53. The Audit and Risk Committee reviews and offers its views about any matters that the Board or Accounting Officer may refer to it and is responsible for ensuring the maintenance of appropriate audit and risk processes within the LSB and the governance of the internal and external audit programmes. It met formally on four occasions during the period April 2010 and March 2011. Representatives from the LSB's internal (KPMG LLP) and external (National Audit Office) auditors attended all relevant meetings.
54. The Remuneration and Nomination Committee considers any matters referred to it by the Board or the Chief Executive and is responsible for reviewing the terms and conditions of service of the Chief Executive, reviewing the process for determining the terms and conditions of employment of LSB colleagues and other matters relating to appointments. It met formally on one occasion during the same period.
55. Both Committees are supported in their roles by external 'expert' advisors. Membership and attendance records are given below.

AUDIT AND RISK COMMITTEE	MEETING ATTENDANCE
William Moyes (Chairman)	4/4
Steve Green	4/4
Barbara Saunders	4/4

REMUNERATION AND NOMINATION COMMITTEE	MEETING ATTENDANCE
Terry Connor (Chairman)	1/1
Nicole Smith	1/1
Andrew Whittaker	1/1

56. The Licensing Authority Committee was established at the end of January 2011 to fulfil the functions of the Board in preparing to act as, and in its capacity (if any), as a licensing authority and to deal with any matters that arose in relation to those functions. It did not meet during this period. Its membership is set out below.

### LICENSING AUTHORITY COMMITTEE

William Moyes (Chairman)

Edward Nally

Barbara Saunders

Chris Kenny

### Senior Management Team (SMT)

57. The SMT is responsible for the development and implementation of strategy and policy and the day-to-day management of LSB. It is chaired by the Chief Executive and it meets on a regular basis (usually weekly). The SMT also comprises the Strategy Director, Corporate Director, General Counsel, Director of Regulatory Practice and the Director of Finance and Services.

### Legal Services Consumer Panel (the Panel)

58. 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 investigating issues that affect consumers and by seeking to influence decisions about how lawyers are regulated.
59. The Panel consists of eight lay (non-lawyer) Members who bring expertise from a range of backgrounds, and is supported by a small policy secretariat. Dianne Hayter was appointed as Chair of the Panel on 17 July 2009 and receives a fixed fee of £15k for a minimum of 30 days; the Members were appointed on 1 November 2009 and receive a fixed fee of £3,380 for 13 days.
60. The Panel has its own website, which includes its work programme and copies of its publications, consultation responses and Panel meeting minutes. The website is at [www.legalservicesconsumerpanel.org.uk](http://www.legalservicesconsumerpanel.org.uk).



## LSB Management Statement

61. 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 *Management Statement*, which sets out the principles and strategic framework for how the LSB and the MoJ will operate. The *Management Statement* looks at how both parties will:
- meet their responsibilities
  - ensure regular contact and communicate with one another
  - undertake proper planning and ensure accountability
  - support each other.
62. An additional document, the *Financial Memorandum*, complements the *Management Statement* and sets out the financial relationship and accountabilities which exist between the MoJ and the LSB.
63. Both of these documents are published on the LSB's website at [www.legalservicesboard.org.uk](http://www.legalservicesboard.org.uk). They are currently subject to review with the intention of the LSB and the MoJ agreeing a single framework agreement in line with Treasury's publication, *Managing Public Money*. This document should be in place early in 2011/12.

## Financial results

64. The LSB is financed by a levy on the approved regulators. This is in accordance with the Act, which stipulates that the costs of the LSB should be recouped by means of a levy which it should collect from approved regulators on behalf of Treasury. Following the laying of the Statutory Instrument, *The Legal Services Act 2007 (Levy) (No.2) Rules 2010*, the LSB requested funds from approved regulators equal to its estimated expenditure for 2010/11.
65. Income and expenditure is accounted for on an accruals basis. This treatment results in neither a deficit nor a surplus. The LSB will defer any income over and above its actual expenditure for 2010/11 and this will result in a reduced levy for the subsequent year.

66. The Income and Expenditure Reserve represents the initial grant in aid provided to the LSB to finance its operations as agreed by Parliament. As the levy rules are now in force and the levy collected in arrears, this reserve will not increase but may be reduced if the LSB is able to return any grant in aid to the Consolidated Fund.
67. The LSB will report in 2011/12 on monies that it has received as prescribed fee, as defined in the Act section 175 (2), for designation and licensing authority applications. Any funds received in 2010/11 have been treated as deferred income and will be released once the applications have been processed and completed. These fees will be set against the LSB's expenditure and will also reduce the levy payable by all approved regulators
68. This is the first full year of operating as, in 2009/10, the LSB was still in the process of set-up including recruiting staff. Although the LSB has relatively little absolute discretionary spend, as most of its costs are currently fixed (staffing, premises, Board, outsourced services, depreciation etc.), it is constantly striving for the best value for money in the goods and services it purchases, fully cognisant that its funds come from the legal profession.
69. The LSB has outsourced its finance, facilities and IT functions to its landlord, the Competition Commission. As a small organisation, LSB managers are expected to undertake their own HR management, but this is supplemented by an outsourced advice arrangement with Deminos Ltd for a very modest fee.
70. These outsourced arrangements provide the LSB with built in resilience, which is normally not a feature of small organisations. This obviates the need for expensive consultancy or temporary staff cover.

## Financial performance measure

71. The financial performance measure for the LSB was to keep within its annual budget. This has been achieved.

Annual Budget 2010/11	£4,931k
Actual Expenditure 2010/11	£4,734k

## Payment of creditors

72. The *Late Payment of Commercial Debts Regulations 2002* became effective from 7 August 2002 and amended the *Late Payment of Commercial Debts (Interest) Act 1998*. The legislation charges interest or provides for compensation if payments are not paid by due dates.
73. The LSB is committed to pay all supplier invoices by the due date or within 30 days of receipt if no due date has been agreed. In line with guidance from the Department for Business, Innovations and Skills and the Cabinet Office, the LSB aims to pay all authorised invoices that are not under dispute within 10 days from receipt. The LSB has contracted with the Competition Commission through a shared services agreement to meet this target as part of its financial transaction processing service. 100% of invoices were paid within 10 days.

## Pension liabilities

74. The LSB has established a defined contribution group personal pension scheme into which the LSB makes fixed contributions but has no other liabilities.

## Professional financial advice

75. The LSB has engaged the services of Philip Lindsell, a chartered accountant, to provide support to the Audit and Risk Committee in reviewing and challenging the policies and procedures instigated by the Executive. In 2010/11, the LSB paid £3.8k (£6.8k 2009/10) for these services.

## Equal opportunities and employee involvement

76. The LSB is committed to equality of opportunity in employment and advancement. This is on the basis of ability to do the job, irrespective of race, nationality, colour, ethnic or national origins, sex, marital status, disability, sexual orientation, age,

gender reassignment, work pattern, or membership/non-membership of a trade union. All colleagues are entitled to be treated with respect in an environment free from discrimination, harassment, victimisation and bullying.

77. The LSB consulted on its *Single Equality Scheme* alongside its business plan for 2010/11 in December 2009 and the final version was published in May 2010.
78. The LSB maintains an open management style and involves colleagues in the management of change. It holds regular all-colleague meetings and colleagues are consulted on matters affecting their employment and their welfare.
79. During the course of the year the LSB invested in a programme of continuing professional development for all colleagues including both internal and external training.

## Auditor

80. Internal audit services for the period of this report were provided to the LSB by KPMG LLP.
81. The LSB's annual financial statements are audited externally by the Comptroller and Auditor General (C&AG) in accordance with the Act, Schedule 1, paragraph 25(4)(a). For the period ended 31 March 2011, the C&AG has estimated that the cost of work performed would be £21k and this amount has been provided for in the financial statements. The audit services provided by the C&AG's staff related only to statutory audit work.
82. So far as the Accounting Officer is aware, there is no relevant information of which the LSB's auditors are unaware. The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

**Chris Kenny** Accounting Officer  
26 May 2011

# Management Commentary

## The LSB and its external environment

83. The LSB was established by the Act to independently oversee the regulation of legal services in England and Wales. It took on the majority of its statutory powers and duties on 1 January 2010 and is now responsible for overseeing all approved regulators who have primary responsibility for direct regulation of the different branches of the legal profession.
84. The Act allows for the LSB to designate additional bodies as approved regulators, on application and providing compliance with rules issued by the LSB for the purpose. As an oversight regulator, the LSB expects to deliver the eight regulatory objectives assigned to it by the Act, through partnership working with the approved regulators, who also have a duty to deliver the regulatory objectives, consumer groups and other stakeholders.

## The LSB's employees

85. As at 31 March 2011, the LSB had 32 full time employees and one part time employee. 45% of the staff complement as at 31 March 2011 were women. During the course of the year the LSB undertook an anonymous and voluntary diversity survey of both Board Members and other colleagues, which was completed by approximately 79% of those invited to participate. The results are published on the LSB's website at [www.legalservicesboard.org.uk](http://www.legalservicesboard.org.uk). The LSB's average sickness absence (excluding absence for planned operations) was 4.5 days per full time equivalent. In 2009/10 the LSB was recruiting its staff complement and so there is no comparable sickness absence information.

## Environmental matters

86. The LSB is committed to working closely with the Competition Commission, as its landlord and supplier of its IT, facilities and financial transactional processing services, to ensure that it takes proper account of the impact of all of its activities on the environment. In conjunction with In Midtown, the local Business Improvement District, the LSB has achieved the status of sending 'zero waste to landfill'.

## Social and community issues

87. Social and community issues, broadly defined, are at the heart of the LSB's mission. It will continue to be sensitive to the differing needs of different parts of the community as its work on issues, in particular access to justice and public legal education, progresses.

## Objectives and strategy for achieving them

88. The LSB's business plan for the year covered by this Report was published in April 2010 and is available at [www.legalservicesboard.org.uk](http://www.legalservicesboard.org.uk). The plan for the year ahead was published in April 2011. This document sets out in detail the LSB's objectives for the year ahead, the medium-term implications for its work and the way in which it intends to deliver them.

## Significant features of the development and performance of the organisation in the financial period

89. This is summarised in the first part of this Annual Report and Accounts.

### **Future developments and the trends and factors that the LSB considers likely to impact on its work**

90. The LSB has set out a clear vision for the way in which it wants to see the legal services market deliver for consumers. Its components are simple:

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

91. The LSB has set out its work plans for the 2011/12 period in its business plan, published in April 2011. The plan was subject to public consultation in its development. It describes a work programme with a continued focus on:

- mandatory regulatory activity, such as approving requests for changes to regulatory arrangements by approved regulators
- developing regulatory standards, such as ensuring independence from representative interests is well-embedded in approved regulators
- addressing the medium to long-term implications for legal services regulation including workforce matters and the rationale for regulation.

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

93. Although the LSB is not a government organisation, it recognises that it is a public sector body and so has complied with the spirit of the Government's spending restrictions as announced at the end of May 2010. The main consequences of this is that the LSB has implemented both the recruitment freeze and pay freeze that apply to civil servants, restrictions on travel and the limitations on marketing and publication expenses.

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

94. The LSB has established an Audit and Risk Committee, the remit of which includes ensuring a consistent Board overview of the effectiveness of management action to identify and mitigate risk. The risk management approach captures and assesses risks in relation to all key policy delivery, project and operational areas. This is considered in more detail in the Statement on Internal Control (see page 30).

# Remuneration Report

## Remuneration Policy

95. Remuneration of the Chairman and other Non-Executive Board Members is set by the Lord Chancellor and is not subject to performance conditions.
96. The remuneration of the Chief Executive is determined following a recommendation to the Board by its Remuneration and Nomination Committee. The Committee determined in 2008 that the LSB should not make any performance related payments and so the remuneration of the Chief Executive is not subject to any performance conditions. The performance of the Chief Executive is reviewed annually by the Chairman. The LSB has been subject to a pay freeze since April 2010.

## Appointments

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

98. The Chairman, David Edmonds, was appointed on 1 May 2008 for a three-year term and his re-appointment for the period 1 May 2011 to 30 April 2014 was recently confirmed. The Chairman is required to commit at least 70 days to the work of the LSB.
99. Edward Nally was appointed as a new, non-lay (lawyer) Member with effect from 14 February 2011. Members are required to commit at least 30 days to their work with the LSB.
100. In accordance with the Act, the Chief Executive is a Board Member.

## Termination

101. There is no compensation payable for loss of office for Board Members before the expiry of the term of appointment.
102. The Chief Executive's contract of employment provides for six months notice on either side.

	DATE APPOINTED	DATE APPOINTMENT ENDS
David Edmonds (Chairman)	1 May 2008	30 April 2014
Terry Connor (member)	1 September 2008	31 August 2011
Steve Green (member)	1 September 2008	31 August 2011
William Moyes (member)	1 September 2008	31 August 2011
Edward Nally (member)	14 February 2011	31 March 2015
Barbara Saunders (member)	1 September 2008	31 August 2011
Nicole Smith (member)	1 September 2008	31 August 2011
Andrew Whittaker (member)	1 September 2008	31 August 2011
David Wolfe (member)	1 September 2008	31 August 2011
Chris Kenny (Chief Executive)	1 January 2009	(see paragraph 102)

## Remuneration of Chairman and Board Members

103. The remuneration of the Chairman and other Board Members is shown in the table below and has been subject to audit. There were no benefits in kind. In accordance with the Government Financial Reporting Manual (FRM) 5.2.6 d) only Board Members are included in this report. Board Members are the only ones who influence the decisions of the LSB as a whole rather than individual parts.

	REMUNERATION						
	Annual Salary Rate	2010/11			2009/10		
		Salary	Pension	Total	Salary	Pension	Total
David Edmonds (Chairman)	63,000	63,000	-	63,000	63,000	-	63,000
Terry Connor (member) <sup>++</sup>	15,000	15,000	-	15,000	15,000	-	15,000
Steve Green (member) <sup>*</sup>	15,000	15,000	-	15,000	15,000	-	15,000
William Moyes (member) <sup>** ∞</sup>	15,000	15,000	-	15,000	15,000	-	15,000
Barbara Saunders (member) <sup>* ≈</sup>	15,000	15,000	-	15,000	15,000	-	15,000
Nicole Smith (member) <sup>+</sup>	15,000	15,000	-	15,000	15,000	-	15,000
Andrew Whittaker (member) <sup>+</sup>	15,000	15,000	-	15,000	15,000	-	15,000
David Wolfe (member)	15,000	15,000	-	15,000	15,000	-	15,000
Edward Nally (member) ‡ <sup>≈</sup>	15,000	1,885	-	1,885	-	-	-
Rosemary Martin (member) <sup>*€</sup>	15,000	-	-	-	15,000	-	15,000
Chris Kenny (Chief Executive) <sup>≈</sup>	160,000	151,405	45,024 <sup>†</sup>	196,429	†157,333	24,000	181,333

<sup>++</sup> Chairman of Remuneration and Nomination Committee

<sup>+</sup> Member of Remuneration and Nomination Committee

<sup>\*\*</sup> Chairman of Audit and Risk Committee

<sup>\*</sup> Member of Audit and Risk Committee

<sup>∞</sup> Chairman of Licensing Authority Committee

<sup>≈</sup> Member of Licensing Authority Committee

<sup>‡</sup> New Member appointed 14 February 2011

<sup>€</sup> Resigned from the LSB with effect from 31 March 2010

<sup>†</sup> Includes an additional payment to compensate for pension contributions as scheme not set up until 1 July 2009

<sup>1</sup> From 1 March 2010 the percentage amount the LSB contributes to the pension for the Chief Executive was increased to 17.5% on a contractual basis with an additional 5% non contractual contribution, in line with the decision of the LSB, to implement the principle of Total Reward to consider all aspects of employment, to ensure that an appropriate remuneration policy is applied. The Board has resolved to continue this additional 5% contribution on a non-contractual basis for another twelve months.

The Chief Executive was granted an interest free loan of £1,760 for the purchase of an annual rail travelcard. As at the year end there was an outstanding balance of £836 (see note 3(a)(i)).

# Statement of Accounting Officer's Responsibilities

104. Under paragraph 25 of Schedule 1 of the Act, the Lord Chancellor, with the approval of Treasury, has directed the LSB to prepare for each financial year a statement of accounts. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the LSB and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year.
105. In preparing the accounts, the Accounting Officer is required to comply with the requirements of the FReM and in particular to:
- apply suitable accounting policies on a consistent basis
  - make judgments and estimates that are reasonable and prudent
  - state whether applicable accounting standards as set out in the FReM have been followed, and disclose and explain any material departures in the financial statements
  - prepare the financial statements on a going concern basis.
106. The Principal Accounting Officer of 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 Treasury.



# Statement on Internal Control

## Scope of responsibility

107. As Accounting Officer, I have the responsibility for maintaining a sound system of internal control that supports the achievement of the LSB's policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.
108. As Accounting Officer, I have responsibility for ensuring that the LSB meets regularly with its sponsor department, MoJ. At these meetings, MoJ is informed of all high-level risks, and in particular those affecting our financial situation and ability to fulfil our oversight regulator function.

## The purpose of the system of internal control

109. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the LSB for the period ended 31 March 2011 and up to the date of approval of the Annual Report and Accounts and accords with Treasury guidance.

## Capacity to handle risk

110. The LSB Board met eleven times in the period April 2010 to March 2011 to consider the plans and the overall strategic direction of the LSB. The Audit and Risk Committee, on behalf of the Board, has considered issues of risk in detail. The Audit and Risk Committee reviewed the *Corporate Risk Register* on

a regular basis and took advice from Internal Audit to determine the way risk or change in risk has been identified, evaluated and controlled.

111. Risk is regularly discussed at Board meetings as part of each paper that is considered, with risk explicitly identified in the standard template. The Audit and Risk Committee, consisting of Board Members and supported by an external advisor, and attendance by internal and external auditors, is well established with clear terms of reference and reviews the system of risk identification and management at each of its meetings.
112. Together with my colleagues, I was responsible for initially identifying the major risks, which were set out in the *Corporate Risk Register*, and for implementing a system to continuously assess and monitor them. This has been refined following regular reviews and a new *Risk Management Strategy* was agreed and implemented during the year. All policy colleagues within LSB are trained on the strategy, which is maintained centrally by the Business Planning Associate and is accessible by all. The *Strategy* cascades down from corporate risk to programme risk to project risk and cuts across the organisational *Performance Management Operating Model* and organisational project management methodology.
113. Colleagues involved in projects are required to identify and record risks for their respective projects, which feeds up into progress and performance reporting and, if appropriate, programme and corporate risk reporting. Project and programme risks are reviewed at monthly Programme Board meetings and new and increasing risks are reported to the SMT as part of their monthly review of programme performance. The SMT also reviews the full *Corporate Risk Register* on a monthly basis. The Audit and Risk Committee undertakes a similar review at each of its meetings and the Board does so twice a year at a minimum and did so in October and March in 2010/11. The papers and minutes of the Audit and Risk Committee are circulated to the Board respectively before and after each Audit and Risk Committee meeting.



Clear roles and responsibilities for managing risks are defined in the *Risk Management Strategy* which may mean taking appropriate action to mitigate, anticipate or exploit the threats or opportunities that arise.

### Risk and control framework

114. The *Risk Management Strategy* defines how risks will be managed and handled during their lifecycle ensuring that:
- actual and potential risks are identified
  - risks are assessed and prioritised
  - where possible, risks are avoided
  - or risks are reduced to an acceptable level and damage to the organisation is minimised.
115. It recognises that risks will change throughout their lifecycle as the environment they are in and their importance alters. Assumptions about risk are regularly revisited and reconsidered.
116. Risks are classified as:
- corporate risk – a risk that affects the organisation as a whole and is therefore regularly brought to the Board's attention. Risks with the highest scores are flagged up on a heat map, so that the SMT, Audit and Risk Committee and Board are able to focus on the key risks
  - project risk – a risk that could prevent any individual project achieving its agreed deliverables and is therefore regularly brought to the attention of the Programme Board and SMT. A project risk may be such that it is escalated to a corporate risk
  - programme risk – a risk created due to the combined impact of a number of project risks that will warrant monitoring at a programme level, or an individual project risk that could impede the LSB delivering its programme of work. A programme risk may be such that it is escalated to a corporate risk.
117. Risk identification is an on-going process with collective responsibility. As Accounting Officer, I am ultimately accountable for the management of risk.
118. Risks that relate to either the MoJ or the OLC, and/or which require mitigating actions to be taken by either, are considered and agreed when we meet regularly with each respective organisation.
119. Risk to the LSB will fall into one or more of the following categories:
- strategic – failure to deliver policies that meet the regulatory objectives or the LSB delivers the 'wrong' outcomes
  - financial – lack of finances to carry out its activities or lack of formal control or the LSB exceeds its financial limitations
  - environmental – changes to government policy in respect to the activities of the LSB or other external events impact on the LSB meeting its objectives
  - operational – the ability of the internal process of the LSB to function effectively or failure of internal processes causes the LSB to deliver the 'wrong' outcomes
  - reputational – justifiable attacks on the credibility of the LSB which diminishes its overall effectiveness.
120. Risk evaluation is concerned with assessing the likelihood and impact of a risk happening.
- The likelihood of the risk: assessed as either being remote/possible/likely/certain based on the information about the risk that is available.
  - The impact of the risk: evaluated as the effect of the risk occurring against the framework of minor/low/moderate/serious/severe. The impact of risk is determined by the effect on the LSB in respect to some or all of the following:
    - cost – financial
    - quality

- reputation
- resources
- scope to fulfil the regulatory objectives/ obligations under the Act
- time.

121. In the context of agreeing the ambition of the *Final Business Plan 2010/11*, the Board discussed the level of risk appetite (residual risk remaining after internal controls have been exercised and which they deemed to be acceptable and justifiable). Risks of doing and not doing particular work were considered in all proposals and at each level of drafting the business plan, which was circulated for consultation in December 2010.

122. The wider system of internal control is based on a framework of regular management information, administrative procedures including the segregation of duties, and system of delegation and accountability.

123. In particular, in the period covered by this report, it included:

- formal budgetary control system, which was reviewed and agreed by the Board
- regular reviews by the Board of periodic financial reports which indicated financial performance against the forecasts
- systems of internal financial control covering procurement and the payment of suppliers and colleagues, the prompt collection of income that was due, appropriate safeguarding and management of assets and banking processes
- formal approval of the LSB's *Financial Regulations*, which establishes the financial regulations and control framework set by the Board and is applicable to all colleagues of the LSB
- scrutiny by the Audit and Risk Committee

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

- as appropriate, formal project management disciplines.

124. The LSB is a data controller under the Data Protection Act 1998 and is subject to the Freedom of Information Act 2000.

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

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

126. All of the LSB's electronic data and access to this data is managed securely through using the services of the Competition Commission IT Department, which also provides advice to ensure that the LSB implements guidance on protection and security of its IT, physical and data assets from CESG (the National Technical Authority for Information Assurance), Cabinet Office and Centre for the Protection of the National Infrastructure (CPNI).

127. During the period of this report, there were no reported security data incidents at the LSB.

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

### Review of effectiveness

129. As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the LSB who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit and Risk Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

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

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

132. Internal audit services were provided by KPMG LLP. They conducted a review of internal financial controls in April 2010, which did not highlight any significant control issues and a follow up review in February 2011. Additionally, also in April, they carried out a review of strategic planning and

performance management and made some helpful recommendations on how these can be further enhanced. This was followed up in February 2011 together with a review of LSB's corporate governance. I have placed reliance on the annual opinion provided to me by the Head of Internal Audit.

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

### Significant control issues

134. As part of the review of effectiveness, I am required to disclose any actions taken/ proposed to deal with significant control issues. Taking into account the tests in Managing Public Money, I can confirm that the LSB has not had any significant control issues during 2010/11 and currently has no significant weaknesses to address.

**Chris Kenny** Accounting Officer  
26 May 2011

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

I certify that I have audited the financial statements of the Legal Services Board for the year ended 31 March 2011 under the Legal Services Act 2007. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

## **Respective responsibilities of the Accounting Officer and auditor**

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

## **Scope of the Audit of the Financial Statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Legal Services Board's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Legal Services Board; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

## **Opinion on Regularity**

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

## **Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the Legal Services Board's affairs as at 31 March 2011 and of its operating result for the year then ended; and
- the financial statements have been properly prepared in accordance with the Legal Services Act 2007 and the directions issued thereunder by the Lord Chancellor with the approval of HM Treasury.

## Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with directions issued under the Legal Services Act 2007 by the Lord Chancellor with the approval of HM Treasury; and
- the information given in the LSB Members' Report and the Management Commentary sections of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I report by exception

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

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

## Report

I have no observations to make on these financial statements.

## Amyas C E Morse

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

6 June 2011

**STATEMENT OF COMPREHENSIVE NET EXPENDITURE FOR THE PERIOD ENDED 31 MARCH 2011**

			Restated
		2010/11	2009/10
	Note	£'000	£'000
<b>EXPENDITURE</b>			
Staff costs	3	2,819	2,175
Depreciation /Amortisation	7&8	133	127
Other expenditure	4	1,783	1,672
Profit on disposal of assets		(1)	
<b>Total LSB expenditure for the year</b>		<b>4,734</b>	<b>3,974</b>
Set-up expenditure incurred by Ministry of Justice	6	-	1,075
		<b>4,734</b>	<b>5,049</b>
<b>INCOME</b>			
Levy income	5	4,734	4,806
Levy income due to Ministry of Justice	5	-	1,075
		<b>4,734</b>	<b>5,881</b>
<b>Net (income)/expenditure</b>		<b>-</b>	<b>(832)</b>

The LSB financial statements for the year ended 31 March 2010 have been restated to reflect a prior period adjustment to spread the cost of its operating lease incentives (rent free periods) over the life of the lease in line with IAS 17. An adjustment has been made to the accommodation expenditure (see note 4), prepayments (see note 11) and the rent free creditor (see note 12).

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

The notes on pages 40 to 49 are part of the financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2011				
			Restated	Restated
		31 Mar 11	31 Mar 10	1 Apr 09
	Note	£'000	£'000	£'000
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	7	129	221	320
Intangible assets	8	61	52	80
Trade receivables due after one year	11	-	1,565	-
<b>Total non-current assets</b>		<b>190</b>	<b>1,838</b>	<b>400</b>
<b>CURRENT ASSETS</b>				
Trade receivables due within one year	11	1,603	4,485	10
Cash and cash equivalents	9	6,475	1,624	134
<b>Total current assets</b>		<b>8,078</b>	<b>6,109</b>	<b>144</b>
<b>Total assets</b>		<b>8,268</b>	<b>7,947</b>	<b>544</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	12	1,901	1,580	66
<b>Total current liabilities</b>		<b>1,901</b>	<b>1,580</b>	<b>66</b>
<b>Non-current assets plus net current assets</b>		<b>6,367</b>	<b>6,367</b>	<b>478</b>
<b>Assets less liabilities</b>		<b>6,367</b>	<b>6,367</b>	<b>478</b>
<b>TAXPAYERS' EQUITY</b>				
Income and Expenditure Reserve		6,367	6,367	478
		<b>6,367</b>	<b>6,367</b>	<b>478</b>

**Chris Kenny** Accounting Officer

26 May 2011

The notes on pages 40 to 49 are part of the financial statements.

**STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 MARCH 2011**

			Restated
		2010/11	2009/10
	Note	£'000	£'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net surplus/(deficit)		-	832
(Increase)/decrease in trade receivables	11	4,447	(6,040)
Increase/(decrease) in trade payables	12	321	1,514
Disposal of assets	4	(1)	-
Depreciation/Amortisation	4	134	127
<b>Net cash inflow/(outflow) from operating activities</b>		<b>4,901</b>	<b>(3,567)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	7	(8)	-
Purchase of intangible assets	8	(44)	-
Proceeds of disposal of property, plant and equipment		2	-
<b>Net cash outflow from investing activities</b>		<b>(50)</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Grant from parent department	18	-	4,057
Other cash received	18	-	1,000
<b>Net cash inflow/(outflow) from financing activities</b>		<b>-</b>	<b>5,057</b>
<b>Net financing</b>		<b>4,851</b>	<b>1,490</b>
<b>Net increase in cash and cash equivalents in the period</b>		<b>4,851</b>	<b>1,490</b>
<b>Cash and cash equivalents at the beginning of the period</b>	9	<b>1,624</b>	<b>134</b>
<b>Cash and cash equivalents at the end of the period</b>	9	<b>6,475</b>	<b>1,624</b>

The notes on pages 40 to 49 are part of the financial statements.



## STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE PERIOD ENDED 31 MARCH 2011

	Income and Expenditure Reserve	
	Note	£'000
<b>Balance at 31 March 2009</b>		<b>461</b>
Correction of prior period error	2	17
<b>Restated balance as at 31 March 2009</b>		<b>478</b>
<b>CHANGES IN TAXPAYERS' EQUITY 2009/10</b>		
Comprehensive income for the year		785
Correction of prior period error in 2009/10	2	47
Changes in accounting policy:		
Non-cash charges - cost of capital		88
Retained deficit		(88)
Grant from parent department		5,057
<b>Restated balance at 1 April 2010</b>		<b>6,367</b>
<b>CHANGES IN TAXPAYERS' EQUITY 2010/11</b>		
Comprehensive expenditure for the year		-
Grant from parent department		-
<b>Balance at 31 March 2011</b>		<b>6,367</b>

# Notes to the financial statements

## 1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2010/11 *Government Financial Reporting Manual* (FReM). The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy is judged to be most appropriate to the particular circumstances of the LSB for the purpose of giving a true and fair view has been selected. The particular policies adopted by the LSB are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

### 1.1 Accounting convention

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

#### (a) Income

Receipts from the levy on the approved regulators are classified as income. Any amounts received in excess of the LSB's annual expenditure are deferred to the following year and will reduce the levy for that year.

Any monies received as 'Prescribed Fees' under the Act are released to the Comprehensive Net Expenditure Account once the corresponding work under LSB rules for applications for designations or licensing authorities has been undertaken and completed. Until this occurs any cash received as 'Prescribed Fees' are also shown as deferred income.

#### (b) Capitalisation policy for non-current assets

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

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

Non-current assets are capitalised where the cost is £1,500 or over. However, for grouped purchases of IT equipment, IT software or fixtures and furniture, individual items with a cost of £200 or greater are capitalised where the total grouped purchase is £1,500 or more.

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

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

#### (c) Research

The LSB commissions economic and consumer research to inform its understanding of the legal services market and consumers. The costs of research are charged to the Comprehensive Net Expenditure Account when incurred.

**(d) Depreciation/Amortisation**

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

**Tangible non-current assets:**

Information Technology 3 years

Fixtures & Furniture 5 years

**Intangible non-current assets:**

Software 3 years

**(e) Impairment and revaluation policy on non-current assets**

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

Depreciated historical cost is used as a proxy for fair value as this realistically reflects consumption of the assets as allowed by the FReM para. 6.2.8 (h). Revaluation would not cause a material difference.

**(f) Notional cost of capital**

Following the notice from HM Treasury on Cost of Capital, the LSB no longer accounts for the charge and therefore has removed the figure from this year's account.

**(g) Taxation**

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

**(h) Going concern**

The LSB receives funding from the approved regulators through the levy for its operating costs. This arrangement has been enshrined in legislation through a Statutory Instrument and levy funding will continue unless there are changes to primary legislation. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

**(i) Pensions**

The LSB has established a defined contribution group personal pension scheme in which the LSB makes fixed contributions but has no other liabilities. The LSB makes contributions of 10% for all colleagues except for the Chief Executive who receives a 17.5% contribution. LSB colleagues are able to increase the amounts paid into their pension plan through contractual salary sacrifice. To encourage colleagues to take up this opportunity the LSB has agreed to share 100% of any national insurance saving it makes on these 'sacrificed contributions'. Colleagues are free to make additional personal contributions directly to the pension provider but these payments are paid from net salary.

The Board reserves the right to vary the amount it contributes for pensions and assesses this on an annual basis. The Board has agreed to continue the increased percentage contribution for the Chief Executive of 22.5%, as detailed in the Remuneration Report, to at least 29 February 2012.

## (j) Operating Leases

In accordance with the principles of IAS 17 (Leases) and the supplementary guidance specified in SIC15 (Operating leases incentives) the LSB has spread the value of the rent-free period for occupation of space at Victoria House over the initial five year term. This is expanded in note 14.

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

The LSB has considered IFRS 1 First-time adoption of IFRSs, IFRS 7 Financial Instruments: Disclosure, IFRS 3 Business Combinations, IFRS 9 Financial Instruments, IAS 1 Presentation of Financial Statements, IAS 27 Consolidated and Separate Financial Statements, IAS 34 Interim Financial Reporting, IFRIC 13 Customer Loyalty Programmes, IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments and IFRIC 14 Prepayments of a Minimum Funding Requirement together with amendments and annual improvements and new interpretations to existing standards and has determined that there would be no material effect on its current or prior period or a future period.

The LSB has made an assessment of the proposed changes in the FReM for 2011/12 (Parliamentary Accountability, Accounting Boundaries, Income and Expenditure, Accounting for Tax Credit and Capital Government Grants and Similar Financing from Non-Government Sources) and has determined that there would be no material effect on its current or prior period or a future period.

## 2. Prior period adjustment

The LSB's financial statements for the year ended 31 March 2011 included a prior period adjustment. The following table shows the changes in taxpayers' equity, resulting from the adjustment at 1 April 2008.

### Income and Expenditure Reserve

£'000

<b>Taxpayers' equity 31 March 2009</b>	<b>461</b>
Adjustments for:	
Rentals under operating leases (accommodation)	17
<b>Taxpayers' equity at 1 April 2009</b>	<b>478</b>
Net income for 2009/10	785
Rentals under operating leases (accommodation)	47
<b>Restated net income for 2009/10</b>	<b>832</b>

**2.1** IAS 8 requires the LSB to restate the figures for 2009/10 following an error in 2008/09 and 2009/10 in the calculation of the rental costs under the LSB's operating lease. LSB recognised an amount of £17k as being incorrectly accounted for in 2008/09 arising in an increase in trade receivables and other assets of £10k and a decrease in trade and other payables of £7k and an amount of £47k as being incorrectly accounted for in 2009/10 arising in an increase in trade receivables and other assets of £52k and a decrease in trade and other payables of £5k. These adjustments are reflected in the figures shown in notes 4, 11 and 12.

**2.2** The LSB has also considered changes in the FReM e.g. 11.5.2, which directs that notional costs should not be recorded for cost of capital and applied this by removing these costs from comparative figures. This change has no effect on the previous totals for Net income/expenditure shown in the Statement of Comprehensive Net Expenditure as this charge was detailed as an additional item – Net income/expenditure after the cost of capital.

### 3. Staff numbers and related costs

#### (a) The cost of staff remuneration was:

	2010/11	2010/11	2010/11	2010/11	2010/11	2009/10
	£'000	£'000	£'000	£'000	£'000	£'000
	Permanent Staff	LSB Board	OLC Board	Consumer Panel	Total	Total
Wages and salaries	1,770	170	130	141	2,211	1,833
Social security costs	204	16	12	13	245	173
Pension and other costs	352	-	-	11	363	169
<b>Total</b>	<b>2,326</b>	<b>186</b>	<b>142</b>	<b>165</b>	<b>2,819</b>	<b>2,175</b>

(i) The remuneration of the Chief Executive is included in staff remuneration. The Chief Executive was granted a repayable interest free loan of £1,760 in October 2010 to finance the purchase of an annual rail travel card. Repayment is by automatic deduction from salary over twelve months. As at 31 March 2011 £924 of the loan had been repaid and there was a balance of £836 outstanding. No tax is chargeable on this loan in compliance with HMRC guidance on section 180(1) of the Income Tax (Earnings and Pensions) Act 2003. The £836 is part of the total shown in note 11 'deposits and advances'.

(ii) Other costs include death in service and payments for staff benefits e.g. childcare vouchers.

(iii) Consumer Panel costs include the fixed fees of the Panel as well as the supporting secretariat of two LSB colleagues.

#### (b) Number of staff

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

	2010/11	2010/11	2010/11	2009/10
	Permanent Staff	Other	Total	Total
Directly employed - LSB	31	-	31	18
Directly employed - Panel secretariat	2	-	2	1
Other	-	-	-	2
<b>Total</b>	<b>33</b>	<b>-</b>	<b>33</b>	<b>21</b>

#### 4. Other expenditure

	2010/11	Restated 2009/10
	£'000	£'000
Rentals under operating leases (accommodation)	332	332
Research costs	611	274
Outsourced services	249	248
Other administration	115	172
Staff recruitment	3	190
Running costs - Victoria House	190	172
Training	87	19
Consultancy fees	64	108
Legal costs	57	81
Travel, subsistence and hospitality	41	43
Audit fees for statutory audit work	20	22
Internal audit fees	14	11
<b>Total cash items</b>	<b>1,783</b>	<b>1,672</b>
Non-cash items		
- Depreciation	99	99
- Amortisation	35	28
- Released on disposal	(1)	-
<b>Total non-cash items</b>	<b>133</b>	<b>127</b>
<b>Total other expenditure</b>	<b>1,916</b>	<b>1,799</b>

Training costs have been separated from other administration costs to provide greater clarity as training spend is now a significant item.

#### 5. Income

	2010/11	2009/10
	£'000	£'000
Levy income	4,734	4,806
Levy income due to MoJ for set up costs	-	1,075
	4,734	5,881

#### 6. MoJ spending

The MoJ incurred expenditure up to 31 December 2008 in connection with the establishment of the LSB (referred to as Lord Chancellor's Expenditure in the Act). The MoJ has confirmed to the LSB that this amounted to £1,075k. This amount was included in 2009/10 to show the total cost of establishing the LSB and will be repaid.

It was actually incurred in 2008/09 before the LSB was established under statute and before its Accounting Officer was appointed.

## 7. Property plant and equipment

	2010/11	2010/11	2010/11
	£'000	£'000	£'000
	Information technology	Fixtures & fittings	Total
<b>Cost</b>			
At 1 April 2010	231	109	340
Additions	-	8	8
Disposal	(2)	-	(2)
At 31 March 2011	229	117	346
<b>Depreciation</b>			
At 1 April 2010	92	27	119
Provision for the year	77	22	99
Released on disposal	(1)	-	(1)
At 31 March 2011	168	49	217
<b>Net Book Value</b>			
<b>At 31 March 2011</b>	<b>61</b>	<b>68</b>	<b>129</b>
<b>At 31 March 2010</b>	<b>139</b>	<b>82</b>	<b>221</b>
	2009/10	2009/10	2009/10
	£'000	£'000	£'000
	Information technology	Fixtures & fittings	Total
<b>Cost</b>			
At 1 April 2009	231	109	340
Additions	-	-	-
At 31 March 2010	231	109	340
<b>Depreciation</b>			
At 1 April 2009	15	5	20
Provision for the year	77	22	99
At 31 March 2010	92	27	119
<b>Net Book Value</b>			
<b>At 31 March 2010</b>	<b>139</b>	<b>82</b>	<b>221</b>
<b>At 31 March 2009</b>	<b>216</b>	<b>104</b>	<b>320</b>

The LSB loaned two new laptops to the OLC. These were subsequently determined to be missing. As the LSB had never used them it was agreed to seek full reimbursement of the cost of this equipment from the OLC and these items have now been removed from the LSB's asset register and inventory records of equipment. The OLC reimbursed the LSB an amount of £1,542.

## 8. Intangible assets

	<b>2010/11</b>
	<b>£'000</b>
	<b>Software licences</b>
<b>Cost</b>	
At 1 April 2010	85
Additions	44
At 31 March 2011	129
Amortisation	
At 1 April 2009	33
Provision for the year	35
At 31 March 2010	68
<b>Net Book Value</b>	
<b>At 31 March 2011</b>	<b>61</b>
<b>At 31 March 2010</b>	<b>52</b>
	<b>2009/10</b>
	<b>£'000</b>
	<b>Software licences</b>
<b>Cost</b>	
At 1 April 2009	85
Additions	-
At 31 March 2010	85
Amortisation	
At 1 April 2009	5
Provision for the year	28
At 31 March 2010	33
<b>Net Book Value</b>	
<b>At 31 March 2010</b>	<b>52</b>
<b>At 31 March 2009</b>	<b>80</b>

During the year the LSB purchased an electronic document and records management system for £42k. The carrying value of this software at the end of the year was £36k and this will be fully amortised by the end of the year ending 31 March 2014.



## 9. Cash and cash equivalents

	2010/11	2009/10	2008/09
	£'000	£'000	£'000
Balance at 1 April	1,624	134	-
Net change in cash and cash equivalent balances	4,851	1,490	134
Balance at 31 March	<b>6,475</b>	<b>1,624</b>	<b>134</b>

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

2010/11 was the first full year of operating the levy. Approved regulators pay their share of the levy by 31 March each year and these funds are then used to finance the LSB's operating costs for the following year.

## 10. Financial instruments

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

## 11. Trade receivables and other assets

	2010/11	2009/10	1 Apr 2009
	£'000	£'000	£'000
<b>Amounts falling due within one year</b>			
Levy amounts due	1,395	4,316	-
Prepayments	182	160	10
Deposits and advances	26	9	-
	<b>1,603</b>	<b>4,485</b>	<b>10</b>

	2010/11	2009/10	1 Apr 2009
	£'000	£'000	£'000
<b>Amounts falling due after one year</b>			
Levy amounts due	-	1,565	-
	<b>-</b>	<b>1,565</b>	<b>-</b>

	2010/11	2009/10	1 Apr 2009
	£'000	£'000	£'000
<b>Amounts falling due within one year</b>			
Balances with other central government bodies	162	52	10
Balances with bodies external to government	1,441	4,433	-
Balance at 31 March	<b>1,603</b>	<b>4,485</b>	<b>10</b>

## 12. Trade payables and other current liabilities

	2010/11	2009/10	1 Apr 2009
	£'000	£'000	£'000
<b>Amounts falling due within one year</b>			
External	55	14	39
Competition Commission	12	13	5
Other taxation and social security	79	76	-
Ministry of Justice	1,075	1,075	-
National Audit Office	21	22	15
Rent free creditor	25	-	-
Deferred income	269	-	-
Staff benefits accrual	30	27	-
Accruals	335	353	7
	<b>1,901</b>	<b>1,580</b>	<b>66</b>

The LSB's trade creditor days, calculated as the proportion that is the aggregate amount owed to trade creditors at 31 March 2011 compared with the aggregate amount invoiced by suppliers during the period, expressed as a number of days when compared with the 365 day period of account, is 7.16 days.

	2010/11	2009/10	1 Apr 2009
	£'000	£'000	£'000
<b>Amounts falling due within one year</b>			
Balances with other central government bodies	1,191	1,164	5
Balances with bodies external to government	710	416	61
<b>Total trade and other payables</b>	<b>1,901</b>	<b>1,580</b>	<b>66</b>

## 13. Capital commitments

There are no capital commitments.

## 14. Commitments under leases

	2010/11	2009/10
	£'000	£'000
<b>Operating leases</b>		
Buildings		
Not later than one year	332	332
Leases that expire within 1 - 5 years	526	858

The LSB has a Civil Estate Occupancy Agreement (CEOA) for Crown Bodies with the Competition Commission to use and occupy the office space on part of the seventh floor in Victoria House, Southampton Row, London. The start date of this agreement was 1 November 2008 for a total floor space of 5,969 square feet. Under the terms of the CEOA the Competition Commission permits the LSB to use and occupy this area for a 'Prescribed Term' of five years and so on until ended by either party giving the appropriate notice under the terms of the CEOA.

The initial two month period, which was before the LSB was established under statute, was accounted for by MoJ. For the purposes of accounting the LSB has assumed that it is a fifty-eight month fixed lease agreement.

## 15. Contingent liabilities

There are no contingent liabilities to report.

## 16. Related party transactions

The LSB is a NDPB sponsored by MoJ. It does not receive any grant-in-aid from the Department. 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 although it currently holds £1,075m which it has received from the levy collection which is payable to MoJ.

The LSB has a direct relationship with the OLC and agrees the key performance indicators for the Ombudsman Scheme that the OLC has established. Under the Act the LSB is responsible for appointing and paying the fees and expenses of the OLC Board Members, which for the whole reporting period amounted to £157,803. The payments for fees for the OLC Board Members for 2010/11 were £130,000 (£97,500 2009/10).

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

None of the LSB and LSCP Members or key managerial staff undertook any material transactions with the LSB during the year, except for remuneration paid for their services and, in the case of non-executive Members, reimbursement of home to office travel expenses.

The LSB has benefited from the loan of nine pictures, on display in the office, painted by the artist Jane Giacone, who is the daughter of the Chairman. No payment was asked for or made. The LSB's only liability was for any damage, loss or theft of these pictures, which was limited to the agreed value of the materials comprised within the pictures (£1.4k if all of the pictures are completely destroyed).

## 17. Events after the reporting period

In accordance with IAS 10 Events After the Reporting Period events after the reporting period are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the certificate and report of the Comptroller and Auditor General.

There are no events after the reporting period to report.

## 18. Grant from parent department

This is grant in aid provided by the MoJ to finance the operational needs of the LSB until the levy is in full operation.

	2010/11	2009/10
	£'000	£'000
Grant-in-aid provided by MoJ	-	4,057
Additional cash received from MoJ*	-	1,000
	<b>-</b>	<b>5,057</b>

\* The MoJ erroneously transferred a sum of £1 million into the LSB's account on 15 March 2010. Although these funds had not been requested, LSB agreed with the Department that it would retain the funding and account for it as grant-in-aid in 2009/10. This was on the basis that these funds would avoid the need to request any additional MoJ funding in 2010/11.







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