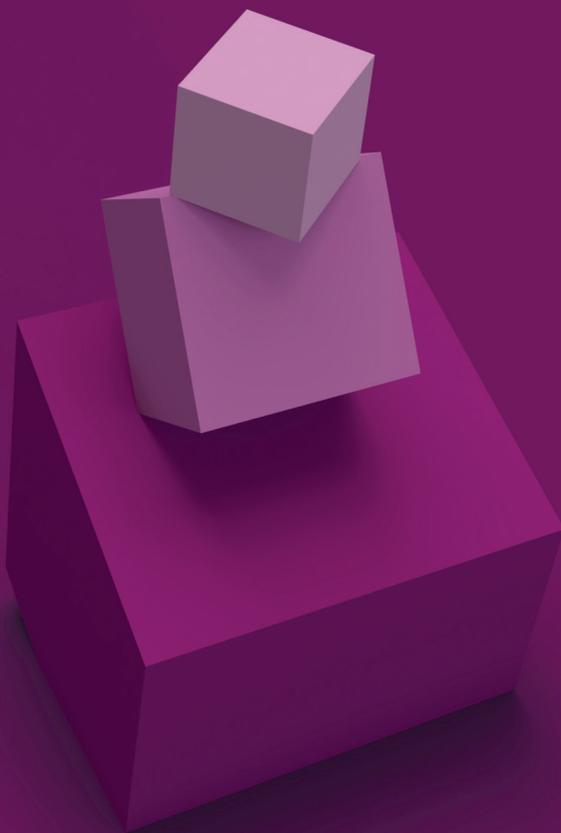




LEGAL SERVICES
BOARD

Legal Services Board

Annual Report and Accounts for
the Year Ended 31 March 2021



HC 314



Legal Services Board

Annual Report and Accounts for the Year Ended
31 March 2021

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Performance report

Overview

Statement from the Chair

The year 2020/21 was a year like no other. The unprecedented Covid-19 pandemic has taken a terrible toll on society and significantly impacted the people and small businesses who need legal services and the legal profession itself.

At the start of the crisis, we committed to doing all we could to support regulators and ensure that they could make any changes needed to support their regulated communities. I am grateful for the early effort made by colleagues at the LSB following the first lockdown to maintain effective regulation while playing our part to support the sector. Colleagues remained flexible during this challenging time, and the investment we made in IT in 2019/20 meant we were able to move to homeworking smoothly and without any significant detriment to our work.

The pandemic has increased legal need in several areas and reinforced the importance of ensuring legal services are accessible to everyone. During the year, we embarked on an extensive stakeholder engagement programme to understand the challenges facing the market. Although the

pandemic prevented us from meeting people face-to-face, I am pleased that we could engage virtually with such a wide range of stakeholders.

This resulted in an in-depth review of the legal services sector following ten years of independent regulation. Our State of Legal Services 2020 report found that despite the last decade's achievements, the basic legal needs of many citizens are not being met.

Too many people do not know their legal rights and responsibilities when faced with a legal problem and do not know where to turn for support and advice. It remains challenging for people to find the legal services they need and compare the price and quality of service.

In response, we developed a strategy for the sector that makes it clear that to address these issues, regulatory bodies must put the interests of the public and consumers at the heart of everything they do. I hope that the consumer-focused strategy will unite everyone across the sector around the ambition to reshape legal services to better meet society's needs.

Our business plan for 2021/22 outlines the areas where the LSB and robust independent regulation can impact significantly on tackling the challenges we have identified. But we cannot achieve our ambitions alone, and I feel enormously encouraged by the commitment to collaboration that we have received.

We will seize this moment to drive forward a strategy that promotes the public interest, supports competition and growth, and encourages diversity and inclusion.

In terms of diversity, research shows that the profession is not representative at all levels of the society it serves and that not all citizens have the same access to legal services. We want to dismantle barriers to a diverse and inclusive profession so that the sector better reflects the society it serves. We plan to use our regulatory oversight role to increase transparency, set expectations, and drive improvements, but everyone across the sector has a role to play.

Technology has played a vital role in enabling the legal sector to respond to the Covid-19 pandemic and encouraged providers to offer services in new ways. We want to build on this and support the profession to harness the full potential of technology that increases access to justice and benefits consumers.

Working with the Ministry of Justice, we will continue monitoring the Office for Legal Complaints (OLC), as is our statutory duty. The OLC is the board of the Legal Ombudsman, the free service that investigates complaints about lawyers in England and Wales. The way the sector handles complaints has a profound effect on consumer confidence, and it is vital that when things go wrong we put them right and learn from mistakes. The role of the Legal Ombudsman is critical, and we remain committed

to getting it in the right long-term shape to discharge its statutory responsibilities to the highest possible standards of quality and timeliness.

We are continuing to encourage the regulators to increase the transparency of their decision-making processes. At the LSB, we have continued to publish the papers and agendas for our Board ahead of meetings. Following each meeting, we publish a decision document setting out key decisions made in the meeting, and I also write a blog that covers the key matters discussed at the meeting. We publish the minutes of the meeting as soon as they are formally agreed.

The Board also plans to hold more meetings around England and Wales and meet with the wide range of people who have a pivotal role in delivering the consumer-focused strategy and improving outcomes for people who need legal services.

Dr Helen Phillips

Chair

11 June 2021

Overview

Statement from the Chief Executive

This Annual Report for 2020/21 describes the work we completed and our impact in delivering the third and final year of our 2018-21 Strategic Plan. It also covers the work undertaken to produce a new strategy for the legal services sector.

Our work was underpinned by the regulatory objectives and organised around three strategic objectives, which were to:

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

We published an agile business plan for 2020/21 and remained flexible during the year as the sector dealt with the impact of the Covid-19 pandemic.

Covid-19 impact dashboard

In April 2020, we drew together multiple data sources to provide a picture of the impact of Covid-19 on legal services. We updated it through the year and saw that the

pandemic created a surge of demand in some areas, such as employment advice. In other areas such as money and finance, we saw that some consumers were putting off getting legal help.

We made the dashboard available to the regulators and others to inform their recovery plans. In 2021/22, we will continue to monitor trends – particularly the impact of the pandemic on the numbers of practising legal services professionals – and use it to inform our decision-making.

Listening to consumers

We are committed to ensuring that our work is evidence-led. We took steps to develop mechanisms for tapping into public attitudes to legal services and increasing our understanding of consumers' views and needs during the year. Working closely with the Legal Services Consumer Panel (LSCP), we established a "Public Panel" – essentially a market research tool focused on legal services – and made this resource available to the regulators to help them ensure that the public interest is firmly at the heart of regulators' decision-making.

In September 2020, we published a study that used the Public Panel to gain insight into priorities for the legal services sector. Participants said that there should be a greater focus on lawyers' competence, public legal education, and access to justice for low and middle-income earners. They also prioritised improving the legal profession's diversity, enabling people who need legal

advice to make comparisons between law firms, improving experiences for the most vulnerable in society, and reviewing the list of reserved legal activities. These insights informed the consumer-focused strategy for the sector that we published in March 2021.

Prices research and consumer engagement

In September 2020, we published research showing significant variation in the price of legal advice across the regions of England and in Wales for fundamentally the same services. The study explored the cost of common legal scenarios related to divorce, buying and selling a home, and wills, trusts and probate.

In February 2021, we published a discussion paper on quality indicators in the legal services market alongside new research on the challenges people face when comparing and choosing legal services providers. We shared our research with the profession, and it informed the Competition and Markets Authority's review of progress in increasing competition in the legal services market and subsequent recommendations. The research also informed the development of our new strategy for the sector.

Legal technology

During the year, we continued to explore the opportunities and challenges that technological innovation presents for providers and consumers. We published a collection of articles on legal technology by individuals and

organisations, including a judge, a national barristers chambers, tech firms and regulators. The articles show how different parts of the legal services sector perceive technological innovation and how, in their view, technology may improve access to justice.

We also continued to publish and promote our ‘Talking Tech’ podcast series, which explored topics such as LegalTech education and ethics. This enabled us to share ideas and develop our thinking.

As the oversight regulator for legal services, we have an essential role in fostering innovation. In April 2021, drawing on the conversations and research undertaken, we published a paper that identified several practical steps that regulators should consider in relation to their regulatory arrangements.

Developing the regulatory response to innovation and technology will continue to be a workstream in our business plan 2021/22. This will include using the Public Panel to explore attitudes to technological innovation.

Increasing transparency around practising certificate fees

In July 2020, we launched a consultation on plans to increase transparency around how regulators spend practising certificate fee (PCF) income. PCF is a mandatory cost of regulation. Following that consultation we implemented changes that made it easier for those

who pay it to see where their money goes and satisfy themselves that it represents value for money. The review also enabled us to ensure our rules and guidance reflect our overall approach to regulation.

Internal governance rules

In July 2020, we also confirmed that the requirements for all nine approved regulators to separate their regulatory and representative functions had been achieved.

The requirements for separation between regulatory and representative bodies were outlined in our revised internal governance rules (IGRs) published in July 2019. Although they came into effect immediately, approved regulators and regulatory bodies were given a maximum of 12 months to comply.

The conclusion of this work means that everyone can have increased confidence that the regulation of legal services is independent of the profession.

Ongoing competence

We continued to review how legal regulators ensure that the legal professionals they regulate remain competent throughout their careers.

We held a call for evidence on ongoing competence approaches in the legal services sector, and other sectors and published a summary of the evidence in February 2021. We engaged with regulators and other

stakeholders to understand the range of potential approaches. In 2021/22, we will publish research on international approaches to ongoing competence ahead of a consultation.

Developing a sector-wide strategy

A key focus of our work in the last year was developing a strategy that encompasses the legal services sector. We undertook a stakeholder engagement programme to gather a wide range of views, and in November 2020 we published our State of Legal Services 2020 report which provided an in-depth review of the legal services sector following ten years of independent regulation.

In March 2021, we published a strategy for the sector that seeks to reshape legal services to better meet society's needs. Alongside it, we published a business plan that outlines the areas where the LSB and regulation will look to make the greatest impact on delivering our ambitions.

Matthew Hill
Chief Executive
11 June 2021

Overview of our objectives, workstreams and behaviours in 2020/21

Strategic objectives 2018-21

Strategic Objective 1

Promoting the public interest through ensuring independent, effective and proportionate regulation

Strategic Objective 2

Making it easier for all consumers to access the services they need and get redress

Strategic Objective 3

Increasing innovation, growth and the diversity of services and providers

Workstreams

Ongoing
Competence
Internal
Governance
Rules

Public legal
education
Enforcement
Consumer
engagement
Legal needs
surveys

Technology
Diversity
Prices research
EU exit

Developing a new strategy for the sector

Discharging our statutory functions

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

Regulatory objectives

RO1 –
 Protecting
 and
 promoting the
 public interest

RO2 –
 Supporting
 the
 constitutional
 principle of
 the rule of law

RO3 –
 Improving
 access to
 justice

RO4 –
 Protecting
 and
 promoting
 the interests
 of consumers

RO5 –
 Promoting
 competition in
 the provision
 of services

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

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

RO8 –
 Promoting
 and
 maintaining
 adherence
 to the
 professional
 principles

Behaviours

Lead

Innovate

Transform

Communicate

Statement of the purpose and activities of the LSB

Our purpose

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

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

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

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

The Legal Services Act 2007 (the Act) established the LSB on 1 January 2009 and we took on most of our statutory powers and duties on 1 January 2010. We are publicly funded, although our costs are recovered from a statutory levy on the approved legal regulators. They in turn derive their funding from fees paid by the legal profession. Our funding mechanism helps preserve our independence of the legal profession. By way of illustration, if averaged across all those authorised to undertake reserved activities, our levy in 2020/21 corresponded to £21.95 per person (although it is important to bear in mind that the levy is not directly on individuals but on the legal regulators). The average for the previous three years is £20.08, down from over £34 at its peak in 2009/10.

The regulated community

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

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

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

Our regulatory responsibilities

The regulatory objectives (RO) are set out in the Act. 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 services (RO5)
- encourage an independent, strong, diverse and effective legal profession (RO6)
- increase public understanding of the citizen's legal rights and duties (RO7) and
- promote and maintain adherence to the professional principles (RO8).

The professional principles are further defined in the Act as:

- acting with independence and integrity
- maintaining proper standards of work
- acting in the best interests of clients

- complying with practitioners' duty to the Court to act with independence in the interests of justice
- keeping clients' affairs confidential.

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

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

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

Our regulatory approach document sets out how we use those tools to promote our regulatory objectives and achieve our vision.¹

Setting out our approach in a clear and accessible document supports transparency, consistency and predictability, in line with good regulatory practice.

Ultimately, the primary responsibility for devising, developing and implementing regulation that guarantees public trust and confidence in the legal profession in England and Wales rests with the regulators. Our role

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

is to make sure they meet this responsibility to ensure promotion of the regulatory objectives.

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

We have statutory responsibilities in relation to:

- approval and recognition – we consider a range of applications from both existing regulators (including applications to become a licensing authority, changes to regulatory arrangements and extension of scope) and those seeking to become an approved regulator
- monitoring and investigation – we monitor regulators' compliance with regulatory requirements; oversee aspects of the performance of the OLC; and perform some specific duties in relation to the SDT. We also examine the wider marketplace to identify trends, gaps in regulation, competition issues and how both our own rules and those of regulators are working in practice
- enforcement and disciplinary activities – we ensure that regulators and licensing authorities perform their duties in a way that meets the regulatory objectives and, where necessary, exercise the powers at our disposal to ensure that this happens. These include the power to set performance targets, give directions, publicly censure a body, impose a fine, intervene in the running

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

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

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

Key issues and risks

During 2020/21, the LSB maintained its active management of risks in line with the organisation's risk management strategy. The following five risks were of particular concern:

- public confidence in legal services regulation being undermined because consumers continue to be underserved by the Legal Ombudsman
- the LSB not achieving traction with policy objectives
- poorer consumer outcomes and low confidence in the legal services sector owing to lack of diversity in the profession
- Covid-19: detriment to regulatory objectives
- Covid-19: detriment to LSB morale and operations.

These risks are discussed in more detail in the Performance analysis section on page 55.

Performance summary

The Business Plan (the Plan) for 2020/21² was the third year of our three-year strategy³. The Plan set out an ambitious programme of work, including longer-term projects designed to run into the next strategic planning period.

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

As of 31 March 2021, alongside fulfilling its in-year obligations to make routine statutory decisions on matters emerging from the regulators, the OLC and the SDT, the LSB had delivered most of the work set out in its Plan. There are some elements of work that will be carried over into 2021/22, including as workstreams in our business plan for 2021/22 to progress our new strategy for the sector.

Financial performance

Our budget ceiling for the year was £3,923k and our actual outturn was £3,905k, excluding PAYE liability, resulting in an underspend of £18k. Significant underspends which for many years were a regular feature have been eradicated as a result of the introduction of robust, integrated processes of budgeting, forecasting and in-year management accounting. We have reached the

2 www.legalservicesboard.org.uk/wp-content/uploads/2020/04/Final-business-plan-2020-21-FINAL.pdf

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

minimum level of resourcing which we believe is necessary for the successful delivery of our work but which keeps our costs to an acceptable level.

| | 2019/20 | 2020/21 |
|--|---------|---------|
| | £'000 | £'000 |
| Budget | 3,798 | 3,923 |
| Expenditure | 3,796 | 3,979 |
| Less PAYE liability | - | 74 |
| Expenditure excluding PAYE liability | 3,796 | 3,905 |
| Underspend | 2 | 18 |
| Average levy per person authorised to undertake reserved legal activities (for illustration purposes only) | £21.27 | £21.95 |

The average levy of £21.95 per person is calculated based on £3,920k billed to approved regulators in 2020/21, up from £3,730k in 2019/20. Since any underspend that the LSB achieves in one year reduces the amount it needs to collect through the levy in the subsequent year, the reduction in the budget underspend from £73k in 2018/19 to £2k in 2019/20 has contributed to the 68p increase in the average levy for 2020/21.

Going concern basis

Whilst the Act remains in place, the LSB is required to fulfil its statutory functions. To fund our activities, the Lord Chancellor has agreed that a levy of just under £4.1m for 2021/22 may be raised from the approved regulators to fund our budget. The financial statements have therefore been prepared on a going concern basis.

We have also considered the medium and longer-term potential impact of Covid-19 on the LSB as a going concern. We have not experienced major detriment to our operations as a result of Covid-19 in 2020/21 (refer to page 60 to see our risk mitigations in response to Covid-19). In addition, because of the statutory nature of the LSB and its funding mechanism, we consider the risk of the LSB ceasing to remain a going concern without significant advance notice (and therefore opportunity to plan accordingly) is very low.

Performance analysis

Demonstrating performance at the LSB

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

Performance against the Plan

One of our key measures is how we perform in delivering our Plan. For 2020/21, our Plan outlined the work the LSB intended to undertake in the third year of its 2018-21 Strategy, with work organised around the three strategic objectives which were to:

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

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

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

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

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

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

A detailed breakdown of work carried out in 2020/21 is set out in the following pages.

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

In 2020/21, we carried out the following work to help promote the public interest

Ongoing competence

We continued our work to review how legal regulators ensure that the legal professionals they regulate remain competent throughout their careers.

We completed a call for evidence on ongoing competence approaches in the legal services and other sectors, which included 50 targeted stakeholder meetings and 31 formal submissions, in addition to datasets and research shared with us or sourced through LSB desk research. We published a summary of the evidence in February 2021 and set out our plans for further work in this area, including our intention to develop high-level expectations for regulators in late 2021/22. We also commissioned research examining international approaches to ongoing competence.

We plan to engage with regulators and stakeholders as we develop policy proposals in 2021/22.

In 2020/21, we carried out the following work to help promote the public interest

Internal Governance Rules review outcomes

In 2019/20, we published our revised Internal Governance Rules (IGR) with a 12 month transition period, ending on 23 July 2020.

We considered and approved nine applications for changes to regulatory arrangements, and three prior written approvals for non-compliance with the IGR were granted. By the deadline, all approved regulators and regulatory bodies provided certificates of assurance that they complied with the IGR or had approval for non-compliance. We introduced a new outcome under the Well-led standard of the regulatory performance framework to monitor regulatory independence.

This supports the statutory obligation to ensure that regulation is, and is seen to be, independent.

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

In 2020/21, we were engaged in the following work to make it easier for all consumers to access the services they need and get redress

Public legal education

In February 2021, we published a literature review on evaluation of public legal education (PLE) initiatives. During the year we worked with a wide variety of stakeholders and actively participated in the Solicitor General's PLE committee's work on realising its seven goals for PLE. We took account of insights about the consumer experience from our PLE workstream in the scoping of our forthcoming statutory policy statement on consumer engagement.

In 2020/21, we were engaged in the following work to make it easier for all consumers to access the services they need and get redress

Consumer engagement

We undertook work to drive further progress by the regulatory bodies to improve consumer engagement with the market, given that too many consumers still do not have the tools to engage effectively and make informed choices. In February 2021, we published a discussion paper on quality indicators in the legal services market and published new research on the challenges people face when comparing and choosing legal services providers. We also contributed to the Competition and Market Authority's (CMA) progress review of its 2016 market study. We accepted in principle the CMA's new recommendations to lead and coordinate activity by the regulatory bodies to improve consumer engagement.

In 2020/21, we were engaged in the following work to make it easier for all consumers to access the services they need and get redress

Future approaches to enforcement

We requested information from all regulatory bodies about the arrangements they have in place to assure the quality of disciplinary decision-making procedures, for example, the systems and processes they have adopted or plan to adopt. We analysed responses from regulatory bodies received in September 2020 to develop our expectations for internal quality assurance under the regulatory performance assessment framework. Plans to develop an LSB review process for the enforcement standard have been moved to 2021/22 while we complete this phase of the work.

In 2020/21, we were engaged in the following work to make it easier for all consumers to access the services they need and get redress

Legal needs surveys

We commissioned an expert review of the Small Business Legal Needs Survey ahead of a planned new wave of research in 2021/22. We published the revised survey, which includes new measures of small business legal capability and unmet legal need, plus additional questions on the use of lawtech, and on the impacts of EU withdrawal and Covid-19.

We also carried out further analysis of the 2020 Individual Legal Needs Survey dataset with the aim of developing a segmentation model. This is the process of dividing people into groups based on common characteristics. In our case, the characteristics relate to demographics, legal issues experienced and legal capability. The purpose is to identify specific groups of people by their legal capability to inform policy development. In particular, we will be able to better understand those groups of consumers who struggle when in need of legal services, and those who know how to navigate the sector.

The State of Legal Services 2020 report also included fresh analysis of this dataset, including in relation to the protected characteristics of respondents.

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

In 2020/21, we were engaged in the following work to increase innovation, growth and diversity

Regulatory approaches to technology

The technology and innovation project began in 2019, with the first phase of work focused on establishing an evidence base to help regulatory bodies develop their approaches to regulating the use of technology in legal services.

To-date, we have published a series of articles, papers and podcasts from a range of experts to help build this evidence base. In April 2021, we published a paper summarising what we had learnt from the first phase of work on technology and innovation and identifying our priority areas of focus for the future. In December 2020, we began work to support the Lawtech Sandbox Pilot by participating in the Regulatory Response Unit and providing ad-hoc support to participants where requested. We also launched a joint research project with Tech Nation to better understand how SMEs address their legal needs and access legal advice and support, and how legal technology can better support SMEs.

In 2021/22, our technology and innovation work will continue, including research with the Public Panel on attitudes to technological innovation and exploring how open and accessible data can be embedded across the sector.

In 2020/21, we were engaged in the following work to increase innovation, growth and diversity

Diversity

We worked with a wide variety of stakeholders on increasing diversity and inclusion in the legal profession and actively participated in the Judicial Diversity Forum. Over the year, we published two reports which contributed to understanding the diversity of the legal profession in England and Wales: an update on the progress regulatory bodies had made in encouraging a more diverse legal profession; and our State of the Legal Services 2020 report which provided insight into the advances in diversity in the past 10 years. We also commissioned a literature review on the evaluation and impact of regulatory initiatives.

In 2020/21, we were engaged in the following work to increase innovation, growth and diversity

Prices research

In 2019/20 we carried out the third wave of the Prices of Individual Legal Services Survey, in partnership with the CMA, to measure the effects of price transparency requirements and if prices vary across different types of provider.

We collected 1,500 sets of prices, via a telephone and online survey, split across standardised scenarios in conveyancing, divorce, and wills, trusts and probate.

A report, annex, and supporting online dashboard were published in September 2020. The findings showed increased price transparency since the last wave but also that a wide dispersion of prices remained.

This has informed the CMA's review of progress in increasing competition in the legal services market (published December 2020) and subsequent recommendations.

The research also informed our State of Legal Services 2020 report and the development of our new strategy for the sector.

In 2020/21, we were engaged in the following work to increase innovation, growth and diversity

Responding to the regulatory consequences of EU exit

In the lead up to the end of the transition period, we continued to monitor EU Exit developments and participate in roundtable meetings with the MoJ and legal services regulators aimed at ensuring the necessary steps were taken.

All regulatory bodies needing to make EU Exit-related changes to their regulatory arrangements and those wishing to make use of our 'no deal' Exemption Direction notified us. We confirmed five notifications in total under this exemption in 2020/21 (eight in 2019/20).

Since the end of the transition period, we have been involved in discussions with the MoJ and the Department for Business, Energy and Industrial Strategy on proposals around future approaches to mutual recognition of professional qualification.

Apart from the staff resource utilised for this work, our EU Exit-related external expenditure for the year was zero.

Discharging our statutory functions

In 2020/21, we were engaged in the following work to discharge our statutory functions

Regulatory performance

Our regulatory performance framework assesses the performance of regulatory bodies against a common set of standards and outcomes to ensure that consumers can rely on regulators to provide good quality regulation. We published our latest comprehensive full-year review of the regulatory bodies' performance in December 2020. This latest review included our first assessment of performance against a new outcome, WL7 (assessing regulatory independence), which we introduced in July 2020. Unlike the other outcomes, WL7 covers both regulatory bodies and approved regulators. All regulatory bodies and approved regulators met our expectations with regard to WL7. Overall, in 2020 we have seen an improvement in some regulatory bodies' performance. However, this has not been reflected across all the regulatory standards and all regulatory bodies. While regulatory bodies are generally performing well against the authorisation, supervision and enforcement standards, there is a lower level of achievement in meeting the standard required for outcomes under the regulatory approach and well-led standards.

In our last annual performance assessment we noted particular concern with the Bar Standards Board (BSB) and Faculty Office (FO) on their performance in meeting the well-led standard and as a result we launched detailed reviews (see Well-led reviews below) into their practices and procedures.

In 2020/21, we were engaged in the following work to discharge our statutory functions

Well-led reviews

We commenced reviews of the BSB and FO under the Well-led standard of the regulatory performance framework. The separate reviews, both announced in March 2020, formally commenced in September 2020 and will be published in early 2021/22.

The purpose of the reviews was to gain assurance that the BSB and FO meet our expectations of a well-led regulator, which has: decision-making processes that are effective and informed by appropriate evidence; take account of the likely impact of the decisions on the regulatory objectives and in particular the public interest (including the interests of consumers); and have regard to the Better Regulation Principles to be transparent, accountable, proportionate, consistent and targeted.

Review of Practising Certificate Fee including non-regulatory permitted purposes

The Practising Certificate Fee (PCF) review has enabled us to examine our current approach to the PCF approval process and amend the existing rules and guidance to reflect how our overall approach to regulation has evolved (for example, we introduced our regulatory performance framework in 2018 and new Internal Governance Rules in 2019).

We consulted on the draft rules and guidance in July 2020 following extensive engagement with approved regulators and regulatory bodies. We published our decision document, new rules and guidance in January 2021.

The new rules and guidance seek the following outcomes:

- To increase transparency around approved regulators' and regulatory bodies' programmes of activity and how these will be funded, allowing those that pay the practising fee to drive accountability for its expenditure.
- To support more meaningful discussion and debate across the sector on the purpose, benefits, costs and value of regulation, which ought to result in improved standards.
- To allow regulatory bodies to demonstrate that they have sufficient funds and financial resilience to regulate and operate efficiently and cost-effectively.
- Supporting the LSB's wider oversight responsibilities, including greater integration of the process into the LSB's wider performance assessment framework.

In 2020/21, we were engaged in the following work to discharge our statutory functions

Review of process for alterations to regulatory arrangements

The review of our process for alterations to regulatory arrangements has enabled us to examine our current approach which has not been substantively reviewed since 2010. Our objective for the review is to ensure that the whole process is demonstrably focused on assessing the impact of changes on the regulatory objectives.

In 2020/21, we reviewed decisions taken in recent years and the key issues that had arisen in the process. We also engaged directly with each of the regulatory bodies as well as interested approved regulators and the Legal Services Consumer Panel. The engagement undertaken helped inform a consultation on revisions to the applicable rules and guidance which we issued in early 2021/22.

Strategy development

In 2020/21, we were engaged in the following work to develop our strategy

Strategy development

In 2020/21, the final year of our 2018-21 strategy, we developed a new strategy for the sector.

We undertook a programme of stakeholder engagement to gather a wide range of views on the key challenges and opportunities facing the sector. This included:

- bilateral meetings with 70 organisations
- four evidence sessions to hear perspectives from grassroots organisations and national consumer organisations, and experts on technology and diversity and inclusion
- a summit style event with more than 40 sector leaders
- a consultation webinar and a roundtable.

In November 2020, we published our State of Legal Services 2020 report, which provided an in-depth review of the legal services sector following ten years of independent regulation.

In March 2021, we published a strategy for the sector that seeks to reshape legal services to better meet society's needs. It included a 10-year strategic direction (2021-31) and initial priorities for the first three years (2021-24).

The strategy is underpinned by three strategic themes and nine challenges for the sector to collectively address.

Enabling our business

In 2020/21, we were engaged in the following work to develop our strategy

Relationship management system

We introduced a relationship management system in April 2020 to improve our stakeholder engagement, centralise contact data, and store accessible updates on policy projects. A project team was established to oversee successful implementation. This team provided training to all staff and developed policies and processes around using the software. We have seen an increase in our stakeholder contacts and reach from our publications. It has also simplified our GDPR compliance in relation to contact data management.

In 2020/21, we were engaged in the following work to develop our strategy

| | |
|------------------------------------|---|
| <p>Value for money</p> | <p>We continually strive to deliver value for money as an organisation. In 2020/21 we developed several new initiatives. We started using LEAN methodology to assess activities across the LSB against the National Audit Office's three criteria for assessing value for money (economy, efficiency, effectiveness). This has resulted in efficiencies in management accounts, pay cost analysis, in-house legal training and software licensing. We have also refined our approach to resource planning by increasing the transparency on resource deployments throughout the business year and making it a focus of our Programme Board.</p> |
| <p>Response to Covid-19</p> | <p>See our response to Covid-19 on page 60 in the key risks section.</p> |

Performance against statutory performance targets

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

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

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

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

We continually monitor performance against these deadlines and targets and record both in the monthly programme highlight report and the quarterly performance report. The breakdown of our performance in 2020/21 is shown below. These figures are derived from ongoing records that the LSB maintains of our processing of applications.⁴

4 Figures reported in previous annual reports have been revised where relevant to ensure consistency of reporting.

| Activity | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---------------|-----------------|-----------------|-----------------|-----------------|
| Decisions on applications to alter regulatory arrangements: | | | | | |
| • Total decisions made | 5 | 15 | 13 | 14 | 11 |
| • Decisions made in the initial decision period of 28 calendar days | 4 | 7 | 7 | 7 | 5 |
| • Decisions made within an extended decision period of 90 calendar days | 1 | 8 | 6 | 7 | 6 |
| • Average decision time (calendar days) | 32 days | 45 days | 39 days | 52 days | 53 days |
| Exemption directions issued | 16 | 9 | 14 | 13 | 17 |
| Publication within target of two working days (internal target): | | | | | |
| • applications to alter regulatory arrangements | 100% (8/8) | 100% (16/16) | 100% (18/18) | 100% (13/13) | 89% (16/18) |
| • decisions and warnings | 100% (7/7) | 94% (15/16) | 100% (13/13) | 93% (14/15) | 100% (11/11) |

| Activity | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---------|---------|---------------|---------------|---------------|
| Publication of advice from mandatory consultees, written representation from applicants, and oral representations | 100% | 100% | None received | None received | None received |
| Recommendations to the Lord Chancellor | 1 | 1 | 2 | - | - |

In 2020/21, we received 18 new applications concerning a range of regulatory arrangements and made 11 decisions. One application was withdrawn during the year because the regulatory body considered it would be more appropriate to be submitted as part of another application. One decision was made on an application submitted in 2019/20. Five applications were exempted from the full approval process. Two applications were still under consideration at the end of 2020/21.

More than half of our decisions were made with an extended decision period of more than 28 days. This was because we dealt with some substantial applications during the reporting year that required longer periods of consideration and requests for applicants to provide further information. Substantial applications included the Solicitors Regulation Authority's application to introduce the Solicitors Qualifying Examination, CILEx Regulation's application to provide an alternative route to obtaining practice rights, the Institute of Chartered Accountants in England and Wales' application to amend their regulatory arrangements to comply with the Internal Governance Rules, the Intellectual Property Regulation Board's application to introduce an explicit requirement for run-off cover and the Cost Lawyers Standards Board's application in respect of its Disciplinary Rules and Procedures.

Two applications were not published within our target of two working days because the applications had not been submitted in a PDF format until we requested it.

Seventeen exemption directions were issued, including seven related to changes to comply with the 2019 Internal Governance Rules.

Performance against budget

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

The comparative performance against budget is shown below:

| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|--|---------|---------|---------|---------|---------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Budget | 3,998 | 3,848 | 3,798 | 3,798 | 3,923 |
| Expenditure | 3,525 | 3,470 | 3,725 | 3,796 | 3,979 |
| Less PAYE liability | - | - | - | - | 74 |
| Expenditure excluding PAYE liability | 3,525 | 3,470 | 3,725 | 3,796 | 3,905 |
| Underspend | 473 | 378 | 73 | 2 | 18 |
| Average levy per person authorised to undertake reserved legal activities (for illustrative purposes only) | £18.83 | £19.00 | £20.01 | £21.27 | £21.95 |

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

Income and expenditure are accounted for on an accruals basis. The levy amount billed to approved regulators in 2020/21 was £3,920k (£3,730k in 2019/20). The amount of funds released from deferred income was £2k (£68k released from deferred income in 2019/20). Any underspend that the LSB achieves in one year reduces the amount it needs to collect through the levy in the subsequent year.

We recognise funds received as ‘application fees’, as defined in the Act at s175(2), for designation and licensing authority applications. Such fees received are initially treated as ‘deferred income’ and released to the Statement of Comprehensive Net Expenditure in accordance with the value of work undertaken. These fees are set off against the LSB’s expenditure and also reduce the levy payable by all approved regulators. No prescribed fees were received in either 2020/21 or 2019/20 and no balance remained in deferred income from prescribed fees as at either 31 March 2021 or 31 March 2020.

Payment of creditors

We are committed to paying all supplier invoices by the due date or within 30 days of receipt if no due date has been agreed. In line with guidance issued by the Department for Business, Energy and Industrial Strategy and the Cabinet Office, we aim to pay all authorised invoices that are not under dispute within 10 working days from receipt. Throughout 2020/21, 98% of these invoices were paid within 10 working days (2019/20: 98%). 100% of invoices were paid within 30 calendar days.

Collection of debt

For the levy relating to 2020/21, £3,920k (100%) was collected within 28 calendar days. The average number of days to pay was 23 calendar days.

Performance against other measures

Alternative business structures (ABS)

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

Our view remains that the introduction of ABS continues to have a direct and positive impact, in particular, on the regulatory objectives of protecting and promoting the interests of consumers, promoting competition in legal services and encouraging a strong, diverse and

effective legal profession. Their value has been to provide a structure for firms wishing to provide services differently to address legal need. Overall numbers have continued to grow, reaching 1,528 at the end of 2020/21, and we have evidence of a wider variety of business models in the market than prior to the emergence of ABS. As at the end of 2020/21, there were 1,066 ABS licensed by the Solicitors Regulation Authority, 285 by the Institute of Chartered Accountants in England and Wales, 81 by the Council for Licensed Conveyancers, 63 by Intellectual Property Regulation Board, and 33 by the Bar Standards Board.

Freedom of Information Act (FOIA)

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

All requests made under the FOIA must be responded to within 20 working days of receipt. In 2020/21, we received 23 requests, and on average these were responded to within 11 days. One request was dealt with outside the 20 working-day statutory deadline to allow us sufficient time to consider the public interest test.

Data

As a data controller under the Data Protection Act 2018, the LSB is required to respond to any subject access requests within 30 calendar days. No subject access requests were received in 2020/21.

We continued our work during 2020/21 to ensure the LSB continued to comply with the General Data Protection Regulations (GDPR).

Environment, social and community issues

The LSB is not required to produce a sustainability report⁵ but we are committed to working with the landlord of our premises to take account of the impact of our activities on the environment. Over the last five years our landlord has made several improvements to the energy efficiency of fixtures and fittings in the building and is intending to set up a green committee to generate ideas for future sustainability.

Within the constraints of business need, we allow colleagues flexibility with working patterns to enable them to undertake public service or other related duties as required. We will continue to be sensitive to the differing needs of different parts of the community. Further details on our staff policies and approach to colleague engagement, equality, diversity and inclusion is on page 102.

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

During the course of the year, our colleagues supported the London Legal Support Trust by participating in the virtual London Legal Walk, and participating in quiz nights, raising in total over £2,200. Colleagues also took part in the Christmas Jumper Day and donated £325 to Save the Children.

Key risks

During 2020/21, the LSB maintained its active management of risks in line with the organisation's risk management strategy (see page 82). The following five risks were of particular concern to our performance.

| Risk | Description and mitigations |
|---|--|
| <p>Public confidence in legal services regulation is undermined</p> | <p>The LSB has for some time identified a risk that public confidence in legal services regulation is being undermined because consumers continue to be underserved by the Legal Ombudsman. In 2020/21, the performance of the Legal Ombudsman deteriorated owing to the impact of Covid-19. Mitigations introduced in previous years were refined and new mitigations were introduced.</p> <p>Mitigations:</p> <ul style="list-style-type: none"> ● revised the tripartite operating protocol between the OLC, LSB and MoJ ● approved the OLC's budget application with expectations on enhanced public reporting by OLC against agreed metrics ● refined the budget approval assurance and voluntary assurance reporting by the OLC to the LSB Board (see page 73) ● appointed a new Chair to the OLC's Audit and Risk Assurance Committee ● induction for the new OLC Chair and the new Chief Ombudsman and Chief Operating Officer ● sought budget assurances on transparency, performance and value for money ● approved the OLC's in-year budget variation request to mitigate risks related to its performance and staff engagement ● active management of the OLC's performance and resources, including at Board and working level. |

| Risk | Description and mitigations |
|---|---|
| <p>The LSB does not achieve traction with its policy objectives</p> | <p>In 2020/21, the LSB identified a risk that it does not achieve traction with its policy objectives owing to a perceived lack of institutional legitimacy, a fragmented regulatory landscape and a lack of buy-in for our vision.</p> <p>Mitigations:</p> <ul style="list-style-type: none"> ● published the State of Legal Services 2020 report which provided a review of the legal services sector following ten years of independent regulation ● collaborative approach to strategy development to seek consensus around future priorities for the sector ● published a strategy for the sector ● developed a business plan for 2021/22 that progresses that strategy. |

| Risk | Description and mitigations |
|---|--|
| <p>Poorer consumer outcomes and low confidence in the legal services sector</p> | <p>In 2020/21, the LSB identified a risk of poorer consumer outcomes and low confidence in the legal services sector owing to a lack of progress on diversity in the profession.</p> <p>Mitigations:</p> <ul style="list-style-type: none"> ● published two reports and commissioned further work which contributed to understanding the diversity of the legal profession in England and Wales: <ol style="list-style-type: none"> i. an update on the progress regulatory bodies had made in encouraging a more diverse legal profession ii. our State of the Legal Services 2020 report which provided insight into the advances in diversity in the past 10 years iii. commissioned a literature review on the evaluation and impact of regulatory initiatives ● included diversity as a major theme in our strategy for the sector ● initiated a new workstream on diversity with a focus on evidence and evaluation ● actively participated in the Judicial Diversity Forum. |

| Risk | Description and mitigations |
|--|---|
| <p>Covid-19: Detriment to the regulatory objectives and consumers</p> | <p>Towards the end of 2019/20, the LSB started managing the risk of detriment to the regulatory objectives and consumers caused by the impact of Covid-19. We published our 2020/21 business plan with plans remaining flexible and initiated a Covid-19 project to understand its impact on the sector and contribute to its recovery.</p> <p>Mitigations:</p> <ul style="list-style-type: none"> ● issued an exemption direction to enable regulators to make temporary alterations to regulatory arrangements in response to Covid-19 ● published and regularly updated an interactive data hub with evidence on the impact of Covid-19 on the sector ● published the State of the Legal Services 2020 report and our strategy for the sector which accounted for the impact of Covid-19 ● active management of the regulatory bodies, including setting out our expectation for practising fee applications in light of Covid-19. |

| Risk | Description and mitigations |
|--|---|
| <p>Covid-19: Detriment to LSB morale and operations</p> | <p>We identified a risk to our operations at the start of the Covid-19 pandemic but transitioned to remote working in March 2020 seamlessly. This was aided by the IT transformation we undertook in 2019/20, which moved us from fixed IT infrastructure to a cloud-based model with laptops. We continued to operate remotely for 2020/21, without interruption to our operations, and with a particular focus on colleague morale and welfare.</p> <p>Mitigations:</p> <ul style="list-style-type: none"> ● maintained a flexible business plan to respond to sickness absence, caring needs and changes in delivery priorities ● remote working adjustments for colleagues ● implemented a Covid-safe office space and LSB Covid policy following a health and safety risk assessment ● regular pulse survey of colleagues ● regular virtual social events and welfare checks carried out by our Human Resources Manager and mental health allies ● daily SLT meetings with a focus on colleague welfare. |

| Risk | Description and mitigations |
|------|--|
| | <p>In 2020/21 we spent £9k in response to Covid-19, including on remote working adjustments and making our office Covid-safe. This was offset by £46k in savings made in 2020/21 compared to the prior year expenditure from reduced costs on travel and subsistence, training and room hire, which have arisen from the move to remote working.</p> |

Matthew Hill
Accounting Officer
11 June 2021

Accountability report

Corporate governance report

LSB Members' report

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

In 2020/21 the LSB continued to oversee ten approved regulators, collectively responsible for regulating almost 174,000 lawyers practising in England and Wales.

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

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

Schedule 1 to the Act stipulates that:

The Board is to consist of the following members —

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

(b) the Chief Executive of the Board and

(c) at least 7, but not more than 10, other persons appointed by the Lord Chancellor.

and

2 (1) In appointing persons as ordinary members the Lord Chancellor must ensure that a majority of the members of the Board are lay persons.

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

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

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

The LSB requires each Board Member to provide details of any company directorships and other significant interests they hold and this is published on the LSB website⁶.

Members are also required to declare any conflicts or interests in any item being discussed and the Chair will determine whether or not they need to be excluded for that item. All instances are recorded in the minutes of the Board, which are also published on the LSB website.

Members are also required to make a related party declaration to confirm whether they or any party related to them had undertaken any transactions with the LSB, which are detailed in Note 15 to the financial statements.

⁶ <https://www.legalservicesboard.org.uk/about-us/our-board/board-interests-and-expenses>

Statement of accounting officer's responsibilities

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

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

- observe the Accounts Direction issued by the Lord Chancellor with the approval of HMT, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards as set out in the FReM have been followed, and disclose and explain any material departures in the financial statements
- prepare the financial statements on a going concern basis.

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

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

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

Auditor

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

The LSB's annual financial statements are audited externally by the Comptroller and Auditor General (C&AG) in accordance with the Act, Schedule 1, paragraph 25(4) (a). For the period ending 31 March 2021, a fee of £22.5k was charged for the audit work that has been performed.

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

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

Overview of Board and executive structure

The Board

Responsibilities: The Board provides the strategic leadership and direction of the LSB. Board Members hold specific responsibilities including providing strategic input to key projects as ‘board leads’, chairing committees, deputising for the Chair in her absence, and serving as the LSB’s Senior Independent Director which includes leading an annual discussion on the Chair’s performance with the Board without the Chair present.

Audit and Risk Assurance Committee (ARAC)

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

Remuneration and Nomination Committee (RNC)

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

Senior Leadership Team Membership:

Chief Executive

Director, Enabling Services

Director, Regulation and Policy

General Counsel

Head, Policy Development and Research

Head, Finance and IT

Head, Communications and Engagement

Head, Performance and Oversight

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

The LSB's annual governance statement 2020/21

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

- complies with all statutory and administrative requirements on the use of public funds, including the principles and policies set out in the HMT publication *Managing Public Money*, relevant Dear Accounting Officer letters, and other directions from the Cabinet Office/HMT
- meets its obligations under, and acts in line with regulatory objectives contained in the Legal Services Act 2007 ('the Act')
- operates within the limits of its statutory authority and in accordance with any delegated authorities agreed with the MoJ as the LSB's sponsoring department
- operates in line with the statutory requirements and spirit of the Freedom of Information Act 2000 and complies with the Data Protection Act 2018.

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

Corporate governance framework

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

Under section 5 of the Act, the LSB must have regard to generally accepted principles of good corporate governance. In this regard, the Board has adopted a Governance Manual which is published on the LSB's website.⁷ It includes a policy on interests that applies to Board Members and all staff.

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

7 <https://www.legalservicesboard.org.uk/wp-content/uploads/2020/12/Final-Governance-Manual-2020.pdf>

LSB Board

The LSB Board comprises both non-executive Members (including the Chair) and the Chief Executive. The Board met formally on ten occasions⁸ during the period 1 April 2020 to 31 March 2021.

| Meeting attendance | |
|--|-------|
| Dr Helen Phillips (Chair, Lay Member) | 10/10 |
| Catherine Brown (Lay Member) | 8/10 |
| David Eveleigh ⁹ (Non Lay Member) | 3/3 |
| Marina Gibbs (Lay Member) | 10/10 |
| Stephen Gowland ¹⁰ (Non Lay Member) | 7/7 |
| Michael Smyth CBE QC (Hon) (Non Lay Member) | 10/10 |
| Jemima Coleman (Non Lay Member) | 10/10 |
| Ian Hamer (Lay Member) | 10/10 |
| Flora Page ¹¹ (Non Lay Member) | 4/4 |
| Catharine Seddon (Lay Member) | 9/10 |
| Matthew Hill (Chief Executive, Lay Member) | 10/10 |

8 Nine ordinary meetings (including February 2021) and one extraordinary meeting (November 2020)

9 Stepped down from the Board in July 2020

10 Joined the Board in August 2020

11 Joined the Board in August 2020. In November 2020, owing to circumstances arising from her professional occupation, Flora voluntarily stepped aside from Board duties on a temporary basis. Flora resumed Board duties in February 2021

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

Board Member responsibilities

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

Board Committees

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

The Committee’s Terms of Reference (ToR) state it will meet on at least three occasions each year. In 2020/21, ARAC met on four occasions.

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

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

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

Membership and attendance records are given below.

| Audit and Risk Assurance Committee | |
|------------------------------------|-----|
| Catherine Seddon (Chair) | 4/4 |
| Marina Gibbs | 4/4 |
| Catherine Brown | 4/4 |
| Michael Smyth | 4/4 |

| Remuneration and Nomination Committee | |
|---------------------------------------|-----|
| Jemima Coleman (Chair) | 2/2 |
| Ian Hamer | 2/2 |
| Marina Gibbs | 2/2 |

Governance relationship with the Office for Legal Complaints

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

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

is also a three-way operating protocol with the LSB, OLC and the MoJ, which was updated this year.

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

In approving the OLC's budget, the LSB seeks a range of assurances and, for the budget year 2021/22, these included:

- an indication of the amount and distribution of resources deployed in the operation of the ombudsman scheme and the amounts of income OLC expect to arise from the operation of the scheme. These included a clear breakdown, explanation and justification of:
 - a. assumptions around the volumes predicted for 2021/22, including data on the number of new cases in the current year to date and an assessment of the likely impact of Covid-19 on demand
 - b. staff costs and numbers broken down by function, with an explanation of how pay awards relate to the people plan/staff morale
 - c. estimated split of expenditure between:
 - i. handling complaints about legal services
 - ii. policy and impact work, in particular to analyse and feed back to the sector learnings from handling complaints

- iii. anything else not covered by (i) and (ii).
- transparency about performance:
 - a. analysis of actual performance in 2020/21, with reference to the commonly agreed dataset, which contains statistical information on various aspects of the Legal Ombudsman's operational performance.
 - b. risks and how they are being managed and mitigated including an overview of sensitivity analysis of key assumptions around income prediction, case complexity and other factors
 - c. the forecast performance trajectory from the present until sustainable acceptable performance is expected to be achieved mapped against different budget scenarios (analysis by month, with reference to the commonly agreed dataset)
 - d. a summary of key current and planned initiatives designed to achieve sustainable acceptable performance, including specific actions and timeframe.
- a robust business case that clearly demonstrates the linkages between any additional resources sought to the expected benefits across operational performance (including staff morale), policy and impact, and other relevant activities.
- an explanation of how value for money will be delivered and measured.

- an explanation of how the proposed budget would promote equality, diversity and inclusion for both colleagues and the Legal Ombudsman's customers. As part of this, details of any plans to measure for any disproportionality of complaint outcomes.
- a summary of where the budget has changed in response to stakeholder responses to consultation and a summary of any responses to that consultation.
- confirmation that the OLC submitted a medium-term financial plan that reflected these acceptance criteria to the MoJ, and that wider engagement with the department had taken place consistent with the tripartite operating protocol.
- a summary of the governance processes involved in preparing the submission, including confirmation that the submission has the formal support of the OLC Board.

Budget application for 2021/22

The OLC's draft application indicated that it was likely to seek a 19% budget increase for 2021/22. However, following public consultation the OLC submitted a final proposal for a 13% increase to £14.471m (from £12.808m in 2020/21). The Board agreed this proposal and authorised the executive to seek agreement with the OLC and MoJ on an enhanced public reporting approach by the OLC on the Legal Ombudsman's operational performance.

In approving the budget, the Board made clear that it expects improved performance. The Board expressed confidence in the OLC's leadership, but said that should the expected benefits not materialise, it would be justified in calling on the government to pursue alternative arrangements to deliver effective consumer redress in the sector.

We supported the OLC to explore with the MoJ the possibility of accessing reserves to fund a transformation programme without adding to financial pressures on the sector. Ultimately, however, the MoJ confirmed this would not be possible. Government accounting rules on the annual allocation of incomes and expenditure budget from HMT meant that the funding of the OLC activity from cash reserves was not viable without breaching the OLC's financial obligations.

In-year budget variation

Schedule 15, para 23(1) of the Legal Services Act 2007 permits the OLC to seek an in-year variation to its budget. In November 2020, the Board approved the OLC's request to increase its 2020/21 budget by 2.7% (£344,315).

Consent to Scheme Rules changes

The Act requires the LSB to consent to changes the OLC proposes to make to the Scheme Rules. There were no applications received during 2020/21.

Voluntary assurance arrangements

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

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

Governance relationship with the Legal Services Consumer Panel

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

www.legalservicesconsumerpanel.org.uk

Executive leadership and key business processes

Senior Leadership Team (SLT)

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

Programme Board

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

Board performance

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

The Board Evaluation exercise for 2020 was conducted by way of an online survey.

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

- consistently seek diverse perspectives and a range of experience as part of the board speaker programme
- consider opportunities for more engagement with a wider range of stakeholders, including consumer bodies, and other regulated individuals

- continue to review and promote training opportunities for Board Members.

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

The Board committees, ARAC and RNC, assess their effectiveness by reviewing their performance against their Terms of Reference each year. This also includes 360 feedback. Board Members have a standing invitation to attend the meetings of each committee and receive a full set of papers prior to each meeting. The Board Chair can attend no more than one of each committee meeting in each year as an observer. The Chair of each committee provides an oral update following each committee meeting to the Board at the next Board meeting. The full minutes of the committee meetings are circulated to Board Members once approved. The Board receives each committee's annual report each year. The annual reports for 2020/21 were presented at the 18 March 2021 Board meeting and are published on the LSB website.

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

Risk and internal control framework

The Board scrutinises the plans and sets the overall strategic direction of the LSB. The Board owns the risk management strategy, sets the tone and influences the culture of risk management. The risk management strategy and risk appetite is reviewed by the Board annually. The executive are the owners of the risk register.

The Board reviewed the Corporate Risk Register in June 2020 and in January 2021. The Board also had a session on corporate risk facilitated by the executive at its December 2020 meeting.

The ARAC, on behalf of the Board, assesses in detail issues of risk at each of its meetings, providing constructive challenge to the risk classifications, assumptions and mitigations made by the executive. This extends to the Corporate Risk Register, and periodically, to topics brought to ARAC for a deep dive. Deep dive topics brought to ARAC in 2020/21 were resource planning, communications and engagement, and value for money. The ARAC also conducts risk horizon scanning at each of its meetings. Issues of risk are considered at Board meetings in the course of discussions of each of the papers presented.

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

Initial identification of risk is undertaken by colleagues across the LSB, and those which are assessed to be potential risks under the risk framework are added to the relevant risk registers as appropriate. These are reported through the corporate, programme and operational processes.

The SLT review the full Corporate Risk Register each month and conduct a horizon-scanning exercise quarterly. Programme risks are reviewed at monthly Programme Board meetings. Operational risks are reviewed at monthly review meetings.

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

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

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

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

Assurance maps are used where relevant to identify gaps in control and to inform the content of internal audits. In 2020/21 we reviewed our assurance maps against our corporate and operational risks to ensure appropriate coverage. We also updated our assurance map on performance management in response to internal audit recommendations.

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

Assessment of risk management

In reviewing the LSB's risk management strategy, the Board and the ARAC have evaluated the quality of the LSB's management of risk during 2020/21 and have confirmed their assessment that the LSB's approach identifies the correct risks, and that mitigating actions are appropriately focused and implemented to support the LSB's programme of work to deliver the regulatory objectives.

Reporting of risk

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

Key risks

Some of the key risks facing the LSB in achieving its priorities in 2020/21 are ongoing, while others arise in relation to the point that the Board has reached in its corporate life.

Specific risks managed in 2020/21 were as follows:

- public confidence in legal services regulation being undermined because consumers continue to be underserved by the Legal Ombudsman
- poorer consumer outcomes and low confidence in the legal services sector owing to lack of diversity in the profession

- the LSB not achieving traction with policy objectives
- detriment to regulatory objectives and LSB operations owing to Covid-19 impacts.

These risks are discussed in more detail in the Performance analysis section (page 55).

The wider framework of control

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

Role of internal audit

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

Internal audit reviews carried out in 2020/21 by Crowe LLP were as follows:

- a review of the design and operating effectiveness of LSB's statutory decision process (substantial assurance)
- a review of the risk in relation to remote working fraud (substantial assurance)
- a review of IT controls (substantial assurance)
- a review of regulatory performance (substantial assurance)

The Head of Internal Audit provided “Substantial Assurance” in respect of governance, risk management and internal controls in operation for the 2020/21 year, as aligned to the assurance definitions utilised in its internal audit reports.

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

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

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

Review of the effectiveness of the risk and governance framework

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

Information security

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

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

All of the LSB's electronic data, and access to this data, is managed securely with support provided by an IT managed service provider. This organisation helped to ensure that the LSB implements guidance on protection and security of its IT, physical and data assets from the National Cyber Security Centre, the Cabinet Office and the

Centre for the Protection of the National Infrastructure. The LSB continues to ensure information security remains a priority. The LSB has attained Cyber Essentials certification.

During 2020/21 there were no data security incidents that needed to be reported to the Information Commissioner's Office.

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

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

Assessment of fraud and error risk

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

budgetary and authorisation processes are in place and that the organisation does not handle any physical cash both significantly reduce the risk of fraud. Appropriate processes for identifying and responding to the risks of fraud in day-to-day operations are nevertheless in place.

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

During 2020/21, new colleagues received face-to-face training on the Bribery Act 2010, which was provided by the LSB's Senior Legal Adviser. For existing colleagues, a targeted approach was adopted, whereby colleagues for whom anti-bribery and corruption training is of particular relevance, received details of self-study training materials. All other colleagues received a summarised version of similar resources.

Whistleblowing arrangements

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

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

Both policies are reviewed annually, as part of the Governance Manual review, to ensure that they are in line with current best practice. The most recent policy review was reported to ARAC in October 2020 and to the Board in December 2020.

There were no whistleblowing incidents reported during the year.

Quality of the data used by the Board

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

Risk registers, annual business plans and strategic plans are subjected to scrutiny by the ARAC on an ongoing basis before presentation to the Board. Where new risks and new controls arise, discussions take place with the

Internal Auditors in relation to amending the forward plan of internal audits. Given the independent scrutiny of data submitted to the Board, I am satisfied with its quality and relevance.

Significant control issues

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

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

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

Conclusion

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

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

Remuneration and staff report

Appointments

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

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

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

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

As at 31 March 2021, there were ten Board Members - four men and six women.

Termination

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

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

Performance conditions

Remuneration of the Chair and other non-executive Board Members is set by the Lord Chancellor and is not subject to performance conditions.

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

| Name | Date appointed | Date appointment ends |
|--------------------------------|----------------|---|
| Dr Helen Phillips (Chair) | 9 March 2015 | 31 March 2023 |
| Catherine Brown | 1 April 2019 | 31 March 2023 |
| Marina Gibbs | 1 April 2014 | 31 March 2021 (extension of second term) |
| Stephen Gowland | 1 August 2020 | 31 July 2024 |
| Ian Hamer | 1 October 2019 | 30 September 2023 |
| Michael Smyth CBE QC (Hon) | 18 April 2016 | 17 April 2022 |
| Jemima Coleman | 18 April 2016 | 17 April 2023 |
| Flora Page | 1 August 2020 | 31 July 2024 |
| Catharine Seddon | 1 October 2016 | 30 September 2023 |
| Matthew Hill (Chief Executive) | 20 August 2019 | (see termination note above) |

The table below has been audited and provides details of the remuneration of LSB Board Members who served during 2020/21:

| Remuneration of Chair and Board Members | 2020/21 | | | | | 2019/20 | | | |
|---|--------------------|--------|---------|-------|-------|---------|---------|-------|-------|
| | Annual salary Rate | Salary | Pension | Bonus | Total | Salary | Pension | Bonus | Total |
| LSB Board Member | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Dr Helen Phillips | 60-65 | 60-65 | – | – | 60-65 | 60-65 | – | – | 60-65 |
| Catherine Brown | 10-15 | 10-15 | – | – | 10-15 | 10-15 | – | – | 10-15 |
| Marina Gibbs (until 31 March 2021) | 10-15 | 10-15 | – | – | 10-15 | 10-15 | – | – | 10-15 |
| Ian Hamer | 10-15 | 10-15 | – | – | 10-15 | 5-10 | – | – | 5-10 |
| Michael Smyth CBE QC (Hon) | 10-15 | 10-15 | – | – | 10-15 | 10-15 | – | – | 10-15 |
| Jemima Coleman | 10-15 | 10-15 | – | – | 10-15 | 10-15 | – | – | 10-15 |

| Remuneration of Chair and Board Members | 2020/21 | | | | | 2019/20 | | | | |
|---|---------|---|---|---|---|---------|---|---|---|-------|
| | | | | | | | | | | |
| Tim Sawyer (until 12 September 2019) | – | – | – | – | – | 5-10 | – | – | – | 5-10 |
| Neil Buckley (until 26 August 2019) | – | – | – | – | – | 55-60 | 9 | – | – | 65-70 |

The table does not include information on expenses paid to Board Members. A legacy issue with PAYE and Employer National Insurance contributions relating to travel expenses is outlined on page 146.

Remuneration of Chair and Board Members

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

Staff report

LSB employees are not civil servants but public servants. LSB colleagues do not have access to the Principal Civil Service Pension Scheme or any other defined benefit scheme. As at 31 March 2021, the LSB had 29 full-time employees and 6 part-time employees (2019/20: 26 full-time employees and 8 part time employees). 57% of the staff complement was female (2019/20: 68%) and 40% was male (2019/20: 32%). The LSB supports a range of flexible working patterns.

The LSB's average sickness absence was 1.5 days per full-time equivalent (2019/20: 4.25 days). The difference is due to no colleagues being absent due to sickness for an extended period of time in 2020/21. The LSB's turnover rate was 15% in 2020/21.

The LSB does not engage any ‘off payroll’ staff. One specialist contractor was used in 2020/21 and paid via the LSB payroll.

Pension liabilities

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

As at 31 March 2021, the seven Senior Civil Service equivalents on the Senior Leadership Team, excluding the Chief Executive, comprised four men and three women.

Senior civil servant equivalent by pay band

| Salary band £'000 | Number of senior civil service equivalent within band as at 31 March 2021 | Number of senior civil service equivalent within band as at 31 March 2020 |
|----------------------|---|---|
| 70-80 | 4 | 5 |
| 80-90 | – | 3 |
| 90-100 | 3 | – |

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

| | Male | Female | Non-binary |
|----------------------------------|------|--------|------------|
| LSB Board Members | 4 | 6 | – |
| Consumer Panel | 5 | 3 | – |
| Senior Civil Service equivalents | 4 | 3 | – |
| All others | 9 | 17 | 1 |

Diversity information on LSB Board Members, the Consumer Panel and the executive is available on our website.¹²

Fair pay disclosures (audited)

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

| Pay multiples | 2020/21 | 2019/20 |
|---|---------|-----------|
| Band of highest paid director's total remuneration (£000) * | 155-160 | 135 - 140 |
| Median total remuneration (£) | 51,609 | 51,302 |
| Pay multiple | 3.05 | 2.68 |

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

¹² <https://www.legalservicesboard.org.uk/about-us/our-staff#diversity-survey>

In 2020/21 the annual full-time equivalent rate of remuneration ranged from £25,000 - £30,000 to £155,000 - £160,000 (2019/20: £25,000 - £30,000 to £135,000 - £140,000). In 2020/21, a pay award of 2% of salary budget was distributed on a flat percentage basis to all eligible colleagues.

The increase in the highest paid director's total remuneration was because the director was paid a bonus in 2020/21 on the basis of their contract entitlement, and having achieved/exceeded their objectives for the period (no bonus payment in 2019/20). This payment has resulted in an increase in the pay multiple in 2020/21.

Staff policies, equality and colleague involvement

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

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

As an employer the LSB aims to recruit, motivate, develop and retain outstanding people from diverse backgrounds to deliver its priorities. Even as a relatively small organisation, it strives to support and promote equality both within the organisation and in fulfilling its responsibilities to external stakeholders. In addition to the LSB's organisational commitment to integrate diversity and equality into its work and organisational culture, it has statutory obligations under The Equality Act 2010. Diversity information on LSB Board Members, the Consumer Panel and the executive is available on our website.¹³

The LSB seeks to engage fully with colleagues in all matters affecting them. We hold regular all-colleague meetings and consult with colleagues on matters affecting their employment and welfare. During 2020, we carried out regular pulse surveys to assess colleagues' welfare and followed these surveys with conversations, at the individual and organisational level. In February 2021, we carried out an inclusion survey. We will carry out a full colleague engagement survey in Autumn 2021 and we will continue to do pulse surveys in 2021. The LSB is committed to implementing the organisational development points that emerge from the inclusion, people survey and ongoing pulse surveys.

During the course of the year the LSB maintained its commitment to professional development for all colleagues by providing both internal and external training as required.

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

Staff numbers and related costs (audited)

Staff remuneration

| | 2020/21 Permanent Staff £'000 | 2020/21 LSB Board £'000 | 2020/21 OLC Board £'000 | 2020/21 Consumer Panel £'000 | 2020/21 Total £'000 | 2019/20 Total £'000 |
|-----------------------|--|-------------------------------|----------------------------------|---------------------------------------|---------------------------|---------------------------|
| Wages and salaries | 1,936 | 175 | 111 | 162 | 2,384 | 2,218 |
| Social security costs | 229 | 14 | 7 | 14 | 264 | 238 |
| Pension costs | 241 | 0 | 0 | 16 | 257 | 241 |
| Other staff costs | 14 | 0 | 0 | 0 | 14 | 21 |
| Total | 2,420 | 189 | 118 | 192 | 2,919 | 2,718 |

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

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

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

| | 2020/21 | 2020/21 | 2020/21 | 2019/20 |
|---------------------------------------|-----------------|-----------------------|-------------|-------------|
| | Permanent staff | Specialist contractor | Total | Total |
| Directly employed – LSB | 32.1 | 0.1 | 32.2 | 29.4 |
| Directly employed – Panel secretariat | 2.0 | 0 | 2.0 | 2.0 |
| Total | 34.1 | 0.1 | 34.2 | 31.4 |

Redundancy costs are accounted for in full in the year that an irrevocable decision has been made. There were no redundancies in 2020/21 (2019/20: one). Consequently, the cost of redundancy payments in 2020/21 was £0 (2019/20: £29k).

Parliamentary accountability and audit report

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

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

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

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

are adopted and that the regulatory objectives outlined in the Act are promoted. In addition, the LSB has a number of responsibilities relating to the governance of the OLC.

Regularity of expenditure (audited)

Losses and special payments – there were no losses or special payments in 2020/21 (2019/20: nil).

Redundancy payments – there were no redundancy payments made during 2020/21 (2019/20: £29k).

Contingent liabilities – there were no contingent liabilities in 2020/21 (2019/20: nil).

Long-term expenditure trends – budgeted expenditure for 2021/22 is £4,098k. The LSB continues to strive to achieve value for money and this is a realistic level of expenditure provided that the underlying assumptions remain consistent with the LSB's ability to fulfil its statutory function.

Matthew Hill

Chief Executive and Accounting Officer

11 June 2021

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

Opinion on financial statements

I certify that I have audited the financial statements of the Legal Services Board for the year ended 31 March 2021 under the Legal Services Act 2007. The financial statements comprise: Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as interpreted by HM Treasury's Government Reporting Manual.

I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- give a true and fair view of the state of the Legal Services Board's affairs as at 31 March 2021 and of the net expenditure for the year then ended;
- have been properly prepared in accordance with the Legal Services Act 2007 and Secretary of State directions issued thereunder by the Lord Chancellor with approval of HM Treasury.

Opinion on regularity

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

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), applicable law and Practice Note 10 (Revised 2020) 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate.

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

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

Conclusions relating to going concern

The Legal Services Board's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

The going concern basis of accounting for Legal Services Board is adopted in consideration of the requirements set out in International Financial Reporting Standards

and interpreted by HM Treasury's Government Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

Other Information

The other information comprises information included in the annual report, but does not include the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. The Board and the Accounting Officer is responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters

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

- the parts of the Accountability Report to be audited have been properly prepared in accordance with Secretary of State directions made under the Legal Services Act 2007; and
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In the light of the knowledge and understanding of the Legal Services Board and its environment obtained in the course of the audit, I have not identified material misstatements in the performance and accountability report. I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records and returns; or

- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual are not made; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Responsibilities of the Board and Accounting Officer for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, the Legal Services Board's internal auditors (through attendance at Audit Committee) and those charged with governance, including obtaining and reviewing supporting documentation in respect of the Legal Services Board's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Legal Services Board's controls relating to the Legal Services Act 2007 and Managing Public Money.
- discussing among the engagement team and where required, involving relevant internal and or external specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I considered the potential for fraud in the following areas: revenue recognition, posting of unusual journals and accounting estimates.

- obtaining an understanding of Legal Services Board's framework of authority as well as other legal and regulatory frameworks that the Legal Services Board operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Legal Services Board. The key laws and regulations I considered in this context included the Legal Services Act 2007, Managing Public Money and Employment, Pension and Taxation Laws.

In addition to the above, my procedures to respond to identified risks included the following:

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

- testing the appropriateness of expenditure incurred and ensuring that levy charged is to approved bodies and in line with the Legal Services Act 2007;
- reviewing underlying calculations undertaken by LSB's tax experts in respect of tax provisions disclosed in the financial statements.

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

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

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

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

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General
17 June 2021

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

Financial Statements

Statement of Comprehensive Net Expenditure for the year ended 31 March 2021

| | Note | 2020/21 £'000 | 2019/20 £'000 |
|---------------------------|------|------------------|------------------|
| Programme costs | | | |
| Staff costs | 4 | 2,919 | 2,718 |
| Depreciation/amortisation | 5, 6 | 92 | 65 |
| Other programme costs | 2 | 968 | 1,013 |
| | | 3,979 | 3,796 |
| Income | | | |
| Levy income | 3 | 3,905 | 3,796 |
| | | 3,905 | 3,796 |
| Net expenditure | | 74 | – |

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

The notes on pages 125 to 149 form part of these financial statements.

| Statement of Financial Position as at 31 March 2021 | | | |
|---|------|----------------------|----------------------|
| | Note | 31 March 21 £'000 | 31 March 20 £'000 |
| Non-current assets | | | |
| Property & equipment | 5 | 230 | 287 |
| Intangible assets | 6 | 61 | 75 |
| Total non-current assets | | 291 | 362 |
| Current assets | | | |
| Trade and other receivables due within one year | 8 | 93 | 94 |
| Cash and cash equivalents | 9 | 6,469 | 6,393 |
| Total current assets | | 6,562 | 6,487 |
| Total assets | | 6,853 | 6,849 |
| Current liabilities | | | |
| Trade and other payables | 10 | 462 | 458 |
| Total current liabilities | | 462 | 458 |
| Non-current liabilities | | | |
| Provisions | 11 | 98 | 24 |
| Total non-current liabilities | | 98 | 24 |
| Total assets less total liabilities | | 6,293 | 6,367 |

| | | | |
|--|--|--|--|
| Statement of Financial Position as at 31 March 2021 | | | |
|--|--|--|--|

| | | | |
|--------------------------------|--|--------------|--------------|
| Taxpayers' equity | | | |
| Income and expenditure reserve | | 6,293 | 6,367 |
| Total taxpayers' equity | | 6,293 | 6,367 |

The notes on pages 125 to 149 form part of these financial statements.

Matthew Hill
Accounting Officer
11 June 2021

| Statement of Cash Flows for the year ended 31 March 2021 | | | |
|---|------|------------------|------------------|
| | Note | 2020/21 £'000 | 2019/20 £'000 |
| Cash flows from operating activities | | | |
| Net operating cost | | (74) | – |
| Increase/(decrease) in trade and other receivables | 8 | 1 | (49) |
| Increase in trade and other payables | 10 | 4 | 60 |
| Use of provisions | 11 | 74 | 24 |
| Depreciation/Amortisation | | 92 | 65 |
| Net inflow from operating activities | | 97 | 100 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 5 | (12) | (324) |
| Purchase of intangible assets | 6 | (9) | (86) |
| Net cash outflow from investing activities | | (21) | (410) |
| Net increase/(decrease) in cash and cash equivalents in the year | | 76 | (310) |
| Cash and cash equivalents at the beginning of the year | 9 | 6,393 | 6,703 |
| Cash and cash equivalents at the end of the year | 9 | 6,469 | 6,393 |

The notes on pages 125 to 149 form part of these financial statements.

| Statement of Changes in Taxpayers' Equity for the year ended 31 March 2021 | | |
|--|------|--------------|
| Income and Expenditure Reserve | | |
| | Note | £'000 |
| Balance as at 1 April 2019 | | 6,367 |
| Changes in Taxpayers' Equity 2019/20 | | |
| Comprehensive net expenditure for the year | | – |
| Notional transfer to Consolidated Fund | | (3,796) |
| Notional receipt from sponsoring department | | 3,796 |
| Balance at 31 March 2020 | | 6,367 |
| Balance at 1 April 2020 | | 6,367 |
| Changes in Taxpayers' Equity 2020/21 | | |
| Comprehensive net expenditure for the year | | (74) |
| Notional transfer to Consolidated Fund | 1.4 | (3,905) |
| Notional receipt from sponsoring department | 1.4 | 3,905 |
| Balance at 31 March 2021 | | 6,293 |

The notes on pages 125 to 149 form part of these financial statements.

Notes to the financial statements

1. Statement of accounting policies

1.1 Basis of preparation

These financial statements have been prepared on a going concern basis and in accordance with the 2020/21 Government Financial Reporting Manual (FReM). The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy that is judged to be most appropriate to the particular circumstances of the LSB for the purpose of giving a true and fair view has been selected. The particular policies adopted by the LSB are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

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

1.2 Accounting convention

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

1.3 Critical accounting estimates and judgements

Provisions

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

1.4 Income

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

Statement of Comprehensive Net Expenditure (SoCNE) and any excess of imposed levies over the LSB's actual aggregate net expenditure in the period is deferred to the following year while any shortfall in imposed levies below actual aggregate net expenditure is released to the SoCNE from funds deferred in previous periods.

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

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

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

1. Identify the contract with the customer: The FReM adaptation of IFRS 15 expands the definition of a contract to include legislation and regulations which enables an entity to obtain revenue. In LSB's case, as

outlined above, this legislation is the Legal Services Act 2007 which stipulates that the costs of the LSB should be recouped by means of a levy imposed on the approved regulators no later than 31st March of the 12 month period to which the levy relates.

2. Identify the performance obligations in the contract: Under the Act the LSB's role is to monitor the performance of the approved regulators to ensure they meet expected standards.
3. Determine the transaction price: The total costs incurred by LSB in the financial year are allocated to approved regulators on the basis described above.
4. Allocate the transaction price to the performance obligation: The levy income is accrued and matched with the LSB's net expenditure in the period to ensure that expenditure incurred is recovered in the same period that the regulatory activity is performed.
5. Recognise revenue when (or as) the entity satisfies a performance obligation: Revenue is recognised over time as expenditure relating to the regulatory activity of the LSB is incurred.

Under a strict interpretation of s175 of the Act, the LSB is required to surrender all amounts it receives from the levy and prescribed fees to the Consolidated Fund. However, the LSB, the MoJ and HMT are in agreement that this was not the original intention of the parties and the current practice, as agreed between the parties, is for the LSB to retain all amounts received in order to fund its operations. Until a suitable legislative vehicle is devised to reflect the current practice and intention of all parties, the MoJ will be responsible for making a payment on behalf of the LSB to the Consolidated Fund equivalent to the income received by the LSB for the year from the levy and prescribed fees. Accordingly, a notional transfer to the Consolidated Fund has been shown in the Statement of Changes to Taxpayers' Equity. An equal amount is shown as a notional receipt from the sponsoring department.

1.5 Expenditure

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

1.6 Property and equipment

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

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

Initial recognition and capitalisation threshold

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

Non-current assets are capitalised where the cost is £1,000 or more. However, for grouped purchases of IT equipment, IT software or furniture, fixtures and fittings, individual items with a cost of £500 or greater are capitalised where the total grouped purchase is £2,500 or more.

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

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

Impairment and revaluation

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

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

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

Depreciation and amortisation

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

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

| Tangible property and equipment | |
|----------------------------------|--|
| Information technology | 4 years |
| Furniture, fixtures and fittings | 5-10 years |
| Leasehold improvements | over the remainder of the lease - 5 years or, if shorter, over their estimated useful asset lives. |

| Intangible assets | |
|-------------------|---------|
| Software licences | 4 years |

1.7 Research

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

1.8 Value Added Tax

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

1.9 Employee benefits

Pension

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

Employee leave accrual

An accrual is made for untaken employee annual leave.

1.10 Operating leases

Payments made under operating leases (net of any incentives received from the lessor) are charged to the SoCNE on a straight-line basis over the period of the lease.

1.11 Going concern

The Act makes provision for the LSB to receive funding from the ARs through the levy and changes to this arrangement would require primary legislation, which is not expected in the next financial year (or indeed, to the best of our knowledge, in the subsequent year). The MoJ has confirmed an overall budget for the LSB of £4.098m for 2021/22. In light of the impact of Covid-19 on the UK economy, we have reviewed the mechanism by which the LSB is funded and assessed what the impact on our

funding might be. We recognise that it is possible that the numbers of regulated professionals and firms may reduce, but the mechanism by which we are funded is such that the levy will be re-apportioned in line with any changes in the number of persons authorised by each of the approved regulators. It is therefore appropriate to adopt a going concern basis for the preparation of these financial statements.

1.12 Changes in accounting policy and disclosures

Changes in accounting policies

There have been no changes in accounting policies for the year ended 31 March 2021.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2020 and not early adopted

There have been no new or amended standards adopted in the financial year beginning 1 April 2020.

IFRS16: Leases

IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset is of low value. The assets, to be described as “right of use” assets, will be presented under Property, Plant and Equipment.

IFRS 16 will be implemented using the cumulative catch-up method; as a result, comparatives will not be restated and the measurement of the asset and liability balances recognised with effect from 1 April 2021 will reflect the Group's intentions as at that date. On the date of transition to IFRS 16, the Group will recognise a right-of-use asset and a lease liability.

Under the FReM, the standard is effective from 1 April 2022, with the option to early adopt. In line with the Ministry of Justice Group, the LSB will adopt IFRS 16 in the financial year commencing 1 April 2021, although most government bodies will adopt it during the following financial year.

The LSB has assessed the estimated impact that the application of IFRS 16 will have on its financial statements from adopting the standard on 1 April 2021.

The only current lease to which IFRS 16 will apply in the LSB's circumstances is the London premises lease, which has an expiry date of 3 September 2024.

For the material arrangements within the scope of IFRS 16, the impact of implementation is currently considered to be an increase in assets and liabilities of approximately £377k and £456k respectively. The standard is expected to increase total expenditure in 2021-22 by approximately £13k, comprising an increase of £113k in depreciation and interest costs, offset by a reduction of £100k in operating lease rental expenses.

2. Other programme costs

| | 2020/21 £'000 | 2019/20 £'000 |
|---|------------------|------------------|
| External legal costs | 41 | 35 |
| Accommodation – licence to occupy fee | 127 | 194 |
| Accommodation – rates, services and other costs | 125 | 184 |
| Outsourced services | 115 | 117 |
| Research costs | 168 | 72 |
| Other programme costs | 101 | 91 |
| Recruitment LSB Staff | 33 | 46 |
| Recruitment OLC Members | 28 | 14 |
| Recruitment Consumer Panel | – | 10 |
| Legal library services & reference | 6 | 14 |
| Consumer Panel (non pay) | 44 | 49 |
| Professional advisers | 24 | 35 |
| Training | 43 | 64 |
| Travel and subsistence – LSB Staff | 0 | 7 |
| Travel and subsistence – LSB Board | (1) | 12 |
| Travel and subsistence – OLC Board | 0 | 7 |
| Fees for statutory external audit work | 23 | 23 |
| Internal audit fees | 17 | 15 |
| Dilapidations | – | 24 |
| HMRC tax liability | 74 | – |
| Gain on disposal | (0) | – |
| Total cash items | 968 | 1,013 |

| | 2020/21 £'000 | 2019/20 £'000 |
|------------------------------------|------------------|------------------|
| Non-cash items | | |
| – Depreciation | 69 | 50 |
| – Amortisation | 23 | 15 |
| Total non-cash items | 92 | 65 |
| Total other programme costs | 1,060 | 1,078 |

3. Levy Income

| | 2020/21 £'000 | 2019/20 £'000 |
|--------------------------------------|------------------|------------------|
| Levy income from approved regulators | 3,905 | 3,796 |
| Total | 3,905 | 3,796 |

4. Staff costs

| | 2020/21 Permanent Staff £'000 | 2020/21 LSB Board £'000 | 2020/21 OLC Board £'000 | 2020/21 Consumer Panel £'000 | 2020/21 Total £'000 | 2019/20 Total £'000 |
|-----------------------|-------------------------------------|----------------------------------|----------------------------------|---------------------------------------|---------------------------|---------------------------|
| Wages and salaries | 1,936 | 175 | 111 | 162 | 2,384 | 2,218 |
| Social security costs | 229 | 14 | 7 | 14 | 264 | 238 |
| Pension costs | 241 | – | – | 16 | 257 | 241 |
| Other staff costs | 14 | – | – | – | 14 | 21 |
| Total | 2,420 | 189 | 118 | 192 | 2,919 | 2,718 |

5. Property and equipment

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

| | 2019/20 £'000 | 2019/20 £'000 | 2019/20 £'000 | 2019/20 £'000 |
|----------------------------------|------------------------|--------------------------------|------------------------|------------------|
| | Information technology | Furniture, fixtures & fittings | Leasehold improvements | Total |
| Cost | | | | |
| At 1 April 2019 | 85 | 137 | – | 222 |
| Additions | 70 | 197 | 57 | 324 |
| Disposals | (85) | (137) | – | (222) |
| At 31 March 2020 | 70 | 197 | 57 | 324 |
| Depreciation | | | | |
| At 1 April 2019 | 75 | 136 | – | 211 |
| Charged in year | 22 | 23 | 5 | 50 |
| Disposals | (87) | (137) | – | (224) |
| At 31 March 2020 | 10 | 22 | 5 | 37 |
| Carrying amount at 31 March 2020 | 60 | 175 | 52 | 287 |
| Carrying amount at 31 March 2019 | 10 | 1 | – | 11 |

6. Intangible assets

| Intangible assets | | Intangible assets | |
|----------------------------------|------------------|----------------------------------|------------------|
| | 2020/21 £'000 | | 2019/20 £'000 |
| Cost | | Cost | |
| At 1 April 2020 | 84 | At 1 April 2019 | 36 |
| Additions | 9 | Additions | 86 |
| Disposals | – | Disposals | (38) |
| At 31 March 2021 | 93 | At 31 March 2020 | 84 |
| Amortisation | | Amortisation | |
| At 1 April 2020 | 9 | At 1 April 2019 | 30 |
| Charged in year | 23 | Charged in year | 15 |
| Disposals | – | Disposals | (36) |
| At 31 March 2021 | 32 | At 31 March 2020 | 9 |
| Carrying amount at 31 March 2021 | 61 | Carrying amount at 31 March 2020 | 75 |
| Carrying amount at 31 March 2020 | 75 | Carrying amount at 31 March 2019 | 6 |

Intangible assets comprise perpetual software licences and consultancy expenditure.

7. Financial instruments

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

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

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

a) Carrying amount and fair values

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

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

b) Liquidity risk

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

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

c) Credit risk

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

Maximum exposure to credit risk

| | 2020/21 £'000 | 2019/20 £'000 |
|-------------------|------------------|------------------|
| Cash at bank | 6,469 | 6,393 |
| Trade receivables | — | — |
| Total | 6,469 | 6,393 |

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

8. Trade and other receivables

| Amounts falling due within one year | 2020/21 £'000 | 2019/20 £'000 |
|--|------------------|------------------|
| Levy income receivable | – | – |
| Prepayments | 93 | 86 |
| Deposits and advances | – | 8 |
| Total trade and other receivables | 93 | 94 |

9. Cash and cash equivalents

| | 2020/21 £'000 | 2019/20 £'000 |
|--|------------------|------------------|
|--|------------------|------------------|

Cash and cash equivalents recorded in the SoFP and Statement of Cash Flows include deposits held at call with banks representing short-term highly liquid investments with maturities of less than three months.

| | | |
|--|--------------|--------------|
| Balance at 1 April | 6,393 | 6,703 |
| Net increase/(decrease) in cash and cash equivalents | 76 | (310) |
| Balance at 31 March | 6,469 | 6,393 |
| Balances at 31 March were held at: | | |
| Government Banking Service | 6,469 | 6,393 |

10. Trade and other payables

| Amounts falling due within one year | 2020/21 £'000 | 2019/20 £'000 |
|---------------------------------------|------------------|------------------|
| External | 1 | 54 |
| Payroll tax and social security | 89 | 71 |
| Statutory audit fee | 23 | 23 |
| Deferred income | 18 | 2 |
| Employee leave accrual | 46 | 39 |
| Accruals | 285 | 269 |
| Total trade and other payables | 462 | 458 |

11. Provisions for liabilities and charges

| | 2020/21 £'000 | 2020/21 £'000 | 2020/21 £'000 |
|-------------------|------------------|------------------|------------------|
| Provisions | Dilapidations | Tax | Total |
| At 1 April 2020 | 24 | – | 24 |
| Movement | – | 74 | 74 |
| At 31 March 2021 | 24 | 74 | 98 |

| | 2019/20 £'000 | 2019/20 £'000 | 2019/20 £'000 |
|-------------------|------------------|------------------|------------------|
| Provisions | Dilapidations | Tax | Total |
| At 1 April 2019 | – | – | – |
| Movement | 24 | – | 24 |
| At 31 March 2020 | 24 | – | 24 |

A legacy issue with PAYE and Employer National Insurance contributions relating to travel expenses was identified in 2019/20.

We have recognised a PAYE provision of £74,100 in the 2020/21 resource accounts, to cover six years' liability for National Insurance Contributions (2014 - 2020) and four years for Income Tax (2016 - 2020). The provision also includes an estimated amount for interest and any penalties.

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

As at the date of these accounts, we have yet to receive a response from HMRC.

The Ministry of Justice has approved the utilisation of LSB reserves to fund this provision.

12. Capital commitments

There are no capital commitments.

13. Commitments under leases

| Operating leases | 2020/21 £'000 | 2019/20 £'000 |
|---|------------------|------------------|
| Buildings | | |
| Not later than one year | 119 | 66 |
| Later than one year and not later than five years | 388 | 547 |

The 2019/20 figures have been restated.

14. Contingent liability

A legacy issue with PAYE and Employer National Insurance contributions relating to travel expenses was identified and reported in the Contingent liabilities note of the 2019/20 Annual Report and Accounts.

Following a voluntary disclosure to HMRC in January 2021, we have recognised a PAYE provision of £74,100 in the 2020/21 resource accounts to cover the liability, interest and any penalties, in line with the figure provided in 2019/20.

15. Related party transactions

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

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

The LSB has a direct relationship with the OLC and has some oversight responsibilities for the Ombudsman Scheme established by the OLC. Under the Legal Services Act 2007, the LSB is responsible for appointing OLC Board Members and paying their salaries and expenses which amounted to £118k for 2020/21 (2019/20 - £126k).

During 2020/21 OLC Board members were paid fees of £111k (2019/20 - £112k).

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

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

16. Events after the reporting period

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

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



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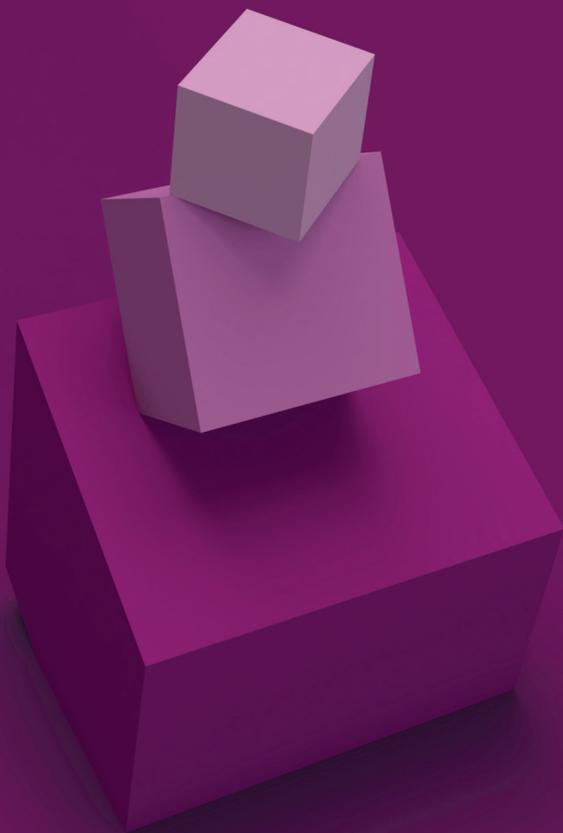
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