Meeting: Legal Services Board

Date: 26 March 2024[1]

Item: Paper (24) 10

Title: Final LSB Business Plan and Budget 2024/25

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Status: Official

Purpose of the paper

1. The paper summarises responses to the LSB's consultation on the draft business plan and budget for 2024/25 and seeks approval for the publication of the final business plan and consultation response document.

Recommendations

2. The Board is invited to:

   - **Agree** the LSB expenditure budget for 2024/25 of **£5.271m**, as endorsed by ARAC at its meeting on 6 March 2024.

   - **Discuss and agree** the proposed final Business Plan 2024/25 (Annex A), the consultation response document (Annex B), and the activity schedule (Annex C).

   - If any drafting changes are necessary as a result of the Board's discussions, **delegate authority** to the Chief Executive to approve the documents to be published.

Background

3. At its 28 November 2023 meeting, the Board agreed to consult on a draft business plan for 2024/25 and an indicative budget of **£5.329m** for 2024/25 (we explain the reduction to the provisional budget figure in this paper). These were the subject of an 8-week consultation from December 2023 to February 2024.

4. This is the fourth business plan under the Reshaping Legal Services strategy and builds on the progress made to date. The strategy, underpinned by the regulatory objectives, sets out challenges that regulation can help address to deliver fairer outcomes, stronger confidence and better services for consumers.

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This includes dismantling barriers to a diverse and inclusive legal profession at all levels, ensuring high-quality legal services and strong professional ethics, and fostering innovation that designs services around consumer needs.

5. As evidenced through the consultation responses, we welcome that stakeholders are making progress against, and actively collaborating on, the challenges identified through the Reshaping Legal Services Strategy. However, we consider more effort is needed to ensure that regulation delivers in the public and consumers' interests.

6. Further work is needed to fully implement and embed changes that deliver meaningful, long-lasting improvements for legal services users and the public. The draft business plan sets out our proposal to strengthen our direct oversight of regulators' performance to ensure they are well-led with an effective approach to, and delivery of, regulation for the public; this was called for in our previous business plan consultation (2022/23). This will include stepping up our ongoing monitoring and increasing our capacity to carry out reviews and investigations, supporting regulators to deliver their obligations effectively.

7. We also plan to build a better understanding of risk and detriment across the regulated sector through our enhanced market surveillance and horizon scanning approach, which will support regulators to best detect and respond to harm to legal services users. In the consultation, we noted that we expect to carry out significant additional work relating to matters arising in 2023/24, for example an independent, objective review of the events leading up to the SRA's intervention into Axiom Ince, as well as following up our investigation into CILEX/CRL disputes to assess whether the agreed undertakings have been met.

Summary of consultation responses and key changes proposed

8. There were 14 written responses to the consultation. We also hosted a roundtable event in January 2024 to gather stakeholder feedback on the consultation, which was attended by over 30 individuals representing over 20 organisations. This was the largest event we have hosted for a business plan consultation, and we are grateful for the attendance and contributions of such a wide range of stakeholders. The responses will be published on our website alongside the consultation response document, final business plan and quarterly activity schedule.

9. The key themes of responses were as follows:

   - There was **general support for the business plan overall**, with stakeholders noting their support for work on access to justice, EDI, professional ethics and the rule of law, technology and innovation, and our evaluation of the Internal Governance Rules.
   - Our proposals to **strengthen our direct regulatory oversight** were seen as particularly important, so that we had the capability and capacity to address external events responsively and proactively.

- A number of stakeholders noted the ambition of the business plan and highlighted alignment with their own work, identifying **opportunities for collaboration and partnership** to maximise impact.
- Several stakeholders said that the LSB should **critically evaluate and reprioritise its workstreams** and to have a **greater focus on specific statutory functions and duties** e.g. regulatory performance and OLC oversight.
- One stakeholder **challenged our statutory remit** on the use of the Public Panel, and work on EDI, access to justice, technology and innovation and professional ethics.
- There were **differing views on priorities for research.** Several stakeholders asked the LSB to seek opportunities for collaboration and maximise existing research to avoid duplication and focus on solutions.
- There were mixed views as to whether the **proposed budget increase** was justified, with some stating their expectation for us to be more efficient in using resource given the ongoing cost-of-living crisis and other economic factors in the sector.

10. We have consulted in good faith and carefully considered all the responses and reviewed our budget and proposed business plan in light of the feedback received. As in previous years, we have received varied and contrasting views from stakeholders on which activities should be prioritised and have exercised diligence in our judgment to balance conflicting views in our analysis of the responses.

11. We consider that the programme of activities remains the right one to comply with and promote the regulatory objectives and, in line with our strategy, to use regulation to deliver fairer outcomes, stronger confidence and better services for consumers. Our plan to place a particular focus on our direct regulatory oversight of regulators' performance, which will require the additional resources consulted on, reflects previous feedback received from stakeholders, and recognises that well performing regulators are central to trust and confidence in legal services.

12. While we will continue with our planned programme of activities, we have reassessed our budget in response to stakeholder feedback and have detailed below the cost savings we will apply to reduce the budget. We remain confident that we can deliver our programme of work effectively and efficiently despite this reduction.

13. We will consider the points raised by stakeholders on how to shape specific projects as we progress our activities in 2024/25, including how we collaborate with stakeholders who already carry out good work in some areas. We know, for example, that there is a desire to work together on our professional ethics and rule of law workstream, with stakeholders recognising the renewed focus on the role of in-house lawyers and the new Economic Crime regulatory objective as making this work increasingly important across the sector. We have provided additional details of our plans in the consultation response document where relevant. We will continue to be flexible in our approach so that we can respond to priority issues as they emerge and deliver effective regulation, as we have

done this year, for example, in responding to the collapse of Axiom Ince and its impact on consumers.

14. At Annex A, the Board will find the proposed final business plan for 2024/25. Annex B contains a draft consultation response document summarising stakeholder feedback on our proposed business plan and our proposed response.

15. As in previous years, the final business plan will be published alongside an activity schedule (Annex C), which is updated quarterly to reflect any reprioritisation that occurs during the year. This will ensure that our stakeholders remain informed on the progress against our planned activities, and of opportunities to engage and collaborate.

The proposed budget for 2024/25

16. In line with previous years, the budget proposal is also submitted to Ministers for approval. The LSB is funded by a levy on the approved regulators and must obtain the Lord Chancellor’s agreement to the levy amount payable. While the Business Plan is not subject to the Lord Chancellor’s approval, it does inform his consideration of the levy. The LSB is engaging with the Ministry of Justice (MoJ)’s 2024/25 allocation process and the provisional budget was submitted to the MoJ for consideration in their strategic planning process.

17. The Audit and Risk Assurance Committee (ARAC) met on 6 March 2024 and reviewed the budget proposal, considering consultation feedback. ARAC discussed the consultation feedback, the assumptions made around budgeted pay costs, additional outputs which will be achieved from the additional headcount requested and how the executive can demonstrate efficiencies at the LSB. With consideration of the budget discussion, ARAC was able to endorse the budget proposal of £5.271m to the Board.

18. Since the 2024/25 provisional budget was submitted to the Board on 28 November, inflation has decreased. The provisional budget was prepared using the September 2023 Consumer Prices Index (CPI) figure of 6.7%. The latest CPI figure from January 2024 shows CPI is 4%, so it has decreased by 2.7%.

19. Since the provisional budget was agreed, the LSB has confirmation of the final number of people approved to practice as of April 2023. This shows that the number of people regulated under the LSB’s oversight has increased by 3.4% in 2023 (from 186k in 2022 to 192k in 2023). This means Approved Regulators have seen their PCF income increase by an average of 3.4%, even if they have kept their PCF unchanged and by more if they have increased their fee, for example, The Bar Council is increasing its PCF by 9.5% in 2024/25.

20. We remain of the view that it is necessary to increase our expenditure budget. However, with consideration to stakeholder feedback, our budget has been reduced for non-pay costs and our proposed pay award to reflect the fall in inflation. We have also included a vacancy factor saving to better reflect our expected headcount across next year. These changes have resulted in a £58k reduction in expenditure.

21. We can now also confirm that we will reduce the levy to approved regulators in 2024/25 by approximately £100k via a rebate due to the LSB having secured additional funding for collaborative research with TLS and the MoJ in 2023/24 (on the Individual Legal Needs Survey and judicial diversity talent pipeline projects respectively). This means the increase in the levy will be reduced to around 10% compared to the 2023/24 Budget. With inflation at 4% and the increase in regulated legal professionals at 3.4%, this is a total of 7.4%. In this context, we consider that a levy increase of around 10% is reasonable given the need to secure sufficient resources to meet the scale of the challenges facing the legal services sector, while ensuring any increase is proportionate.

22. Following feedback we received to detail how we will utilise the additional six FTE resource at the ARAC meeting on 6 March, we have reflected this in the budget section of the consultation response document.

Next steps

23. Subject to Board comments, we will finalise the documents for publication ahead of the new financial year.

Risks and mitigations	
Financial:	Funding is guaranteed through the levy and the Executive and ARAC members believe that the Business Plan can be delivered within the proposed resources. There is a risk that the MoJ will not have formally delegated permission to the LSB to spend by the Board meeting. This will be mitigated by the provision of an interim “letter of authority” from the MoJ to cover the period from 1 April 2024 until formal delegation is received. There is a risk that Ministers will not make a decision on the levy in time for the Board’s March meeting. There is also a relatively small risk that Ministers may not approve the current budget proposal and seek reductions. If this risk materialises, it will be addressed through a combination of negotiation and budget rationalisation. The Executive has provided all the information requested by the MoJ to assist with Ministers’ decision-making.
Legal:	Legal advisory support has been provided to mitigate any risks associated with the proposed business plan and budget.
Communications and engagement:	We have consulted with stakeholders and taken their views into account while developing our plans.
Equality and diversity:	Several proposed workstreams will advance equality and diversity objectives, as summarised in the consultation document. The consultation included a specific question on equality and diversity impacts, which highlighted the

	important work already underway, and opportunities for collaboration.
Resource:	The proposed final business plan has been informed by a resource planning exercise for the proposed package of work.
Environmental:	The proposed final business plan includes climate change as one area of focus in the horizon scanning work to help keep informed of potential future impacts.

Annexes

Annex A – Draft final business plan
Annex B – Draft consultation response document
Annex C – Draft quarterly activity schedule

Freedom of Information Act 2000 (FoI)		
Para ref	**FoI exemption and summary**	**Expires**
Annexes, A, B, C	S22 – future publication	N/A