Meeting: Legal Services Board

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Item: Paper (24) 52

Title: LSB Draft Business Plan and Budget 2025/26

Author(s): Tania Hardcastle, Regulatory Policy Manager, Stuart Hamill, Head, Finance, IT & Procurement

Status: Official

Purpose of the paper

1. This paper sets out a proposed draft business plan for 2025/26 and proposed draft annual budget, in advance of public consultation.

Recommendation

2. The Board is invited to:

   a) **discuss and agree** the draft overview of the business plan (Annex A) and draft business plan and consultation document (Annex B).
   b) **agree** to consult on the basis of a provisional annual revenue budget for 2025/26 of £5.849m (an increase of £578k (11%) on our 2024/25 budget of £5.271m); and
   c) **delegate authority** to the Chief Executive for approval of final minor changes prior to publication.

Background

3. 2025/26 will see us enter the fifth year of our 10-year strategy to reshape legal services to better meet society's needs. The strategy, published in March 2021, outlines nine challenges that need to be addressed by the legal sector overall to improve outcomes for legal services users and the public, divided into three themes: fairer outcomes, stronger confidence, and better services.

4. The strategy identifies the key role that regulation can play in meeting the challenges and calls on other stakeholders to collaborate and play their part too. It is underpinned by the regulatory objectives which we share with the regulators we oversee, and have a statutory duty to promote them.

5. In the first four years of the strategy, we have delivered key priority activities which are designed to improve outcomes for legal services users including:

   - Developing a revised regulatory performance framework which was implemented on 1 January 2023 that places the regulatory objectives at the forefront and requires regulators to provide assurance that they are well-led and effective in their approach to, and delivery of, regulation for the public *(stronger confidence: ensuring high quality legal services and closing gaps in consumer protection);*

- Issuing new guidance for regulators on using technology to improve access to legal services *(better services: fostering innovation that designs services around consumer needs);*

- Introducing new requirements on improved complaints handling *(stronger confidence: ensuring high quality legal services, better services: empowering consumers to obtain high quality legal services);*

- Setting new expectations on ongoing competence (*stronger confidence: ensuring high quality legal services);*

- Developing new expectations on empowering consumers *(better services: empowering consumers to obtain high quality and affordable services);*

- Setting out a range of policy options for regulators to consider in improving their financial protection arrangements for consumers *(stronger confidence: closing gaps in consumer protection).*

Proposed key priorities in the LSB's draft business plan 2025/26

6. While we have made good progress in delivering fairer outcomes, stronger confidence and better services, more work is required to embed change that delivers meaningful improvements for legal services users and the public. Alongside fulfilling our statutory role as the oversight regulator, we will continue to look to stakeholders across the sector to play their part in addressing some of the core challenges that remain integral to reshaping legal services, as well as maximising our convening role to drive collective change where possible.

7. We have grouped our proposed work into three areas: strengthening our direct regulatory oversight, policy development and implementation in areas which are integral to addressing the strategy's challenges, and strategy and research to shape and inform our work. The detail of this is set out in the Plan consultation document and overview at Annexes A and B, and summarised below.

<u>Continuing to strengthen our direct regulatory oversight and surveillance capacity</u>

8. In early autumn, the Board noted that continued emphasis on strengthening our direct regulatory oversight was particularly important in advancing our key priorities, for example: taking forward the actions arising from the independent review of regulatory events leading to the SRA's intervention into Axiom Ince, to monitor the undertakings agreed following the investigation into CILEX/CRL disputes and, as we approach the midway point of the 10-year strategy, to seek assurance that the expectations set out in our policy statements and statutory guidance are being met.

9. Our direct regulatory oversight role therefore goes to the heart of achieving the improvements for the public and consumers identified in our strategy. In 2025/26, we will continue to monitor and assess the action taken by regulators in response to our policy interventions. We will do this through assessing

applications from regulators to alter their regulatory arrangements by ensuring that regulators are focused on promoting the regulatory objectives and making changes that are in the public interest. In addition, our annual regulatory performance assessment allows us to measure progress against known challenges and to identify where further assurance from regulators is required.

10. Our regulatory reviews team is now in place, and we have recently welcomed our new market surveillance and horizon scanning policy manager, further strengthening our direct regulatory oversight and surveillance capability. The regulatory reviews team will conduct reviews to address specific issues with individual regulators as well as cross-cutting deep-dives to better understand how the regulators carry out their statutory duties. Our enhanced market surveillance and horizon scanning capability is improving our intelligence, and supports us to detect detriment and harm in their early stages and initiate any new reviews in response to live issues.

Key policy priorities in 2025/26 to address longstanding sector-wide challenges

11. We have acted on the feedback from Board and other stakeholders to prioritise our policy portfolio to deliver maximum impact against the strategy. We have therefore undertaken a rigorous prioritisation exercise, and intend to focus on five key policy programmes that we consider will have the greatest impact against several ongoing challenges identified in the strategy. These projects, along with the themes in the strategy that they are intended to address (noted in brackets), are listed below:

- **Professional ethics and the rule of law (PERL)** (*stronger confidence: ensuring strong professional ethics)*
- **Equality Diversity & Inclusion (EDI)** (*fairer outcomes: dismantling barriers to a diverse and inclusive profession at all levels)*
- **Access to justice** *(fairer outcomes: lowering unmet legal need across large parts of society, achieving fairer outcomes for people experiencing greater disadvantage)*
- **Disciplinary and enforcement** *(stronger confidence: ensuring high quality legal services, closing gaps in consumer protection)*
- **Consumer protection** (*stronger confidence: closing gaps in consumer protection, better services: supporting responsible use of technology that commands public trust):*

12. In addition to delivering our five key policy programmes, we will complete our **evaluation of the operation and effectiveness of the Internal Governance Rules (IGR)** and will complete our **review of the LSB's enforcement policy.**

13. As Board members will recognise, this represents a consolidation in focus compared to previous business plans. We consider this combination of priorities reflects our commitment to addressing the significant long-term challenges, where effort is required at the oversight level to drive change. We have already undertaken extensive research and evidence gathering on PERL, EDI and

disciplinary and enforcement, with policy proposals in development and due to come to Board at various points over the next six months, each of which will then be taken forward in 2025/26.

14. Our work on access to justice is at a comparatively earlier stage. Following the discussion with Board in July on our strategic direction for this work, we will return to Board with a list of policy options and evaluation criteria in the new year, which will inform our approach in 2025/26. In addition, following recent developments in the sector, particularly in areas such as bulk consumer claims litigation, we intend to take forward a new project on consumer protection, which will examine what is driving consumer harm, and what action may be necessary to address it, working closely with legal and financial services regulators. This will be closely coordinated with our access to justice work, recognising the significant read-across between these areas.

<u>Strategy and research</u>

15. As we approach the midway point of our 10-year strategy, we propose to undertake a refresh of the strategy to consider progress and ensure that the strategic challenges it contains remain appropriate. Our State of Legal Services 2025/26 publication will set out an interim update on progress made and ongoing challenges to be addressed collectively by 2031. The data and research we have gathered over the last five years will help us understand what is working well and whether the themes and challenges identified in the strategy remain relevant for the next five years or need to evolve in line with the needs of the sector. We will publicly consult on any proposed changes to the strategy.

16. Through our research capability, we will continue to build our evidence base in 2025/26, including:

- Publishing a series of reports drawing on the findings from the Individual Legal Needs Survey, focused on specific issues. This includes more detailed analysis of unmet legal need and legal capability.

- Publishing insights from our prices research in support of our consumer empowerment work.

- Commission and publish our next wave of Small Business Legal Needs research.

- Commission and publish research to support our work on consumer protection.

17. Scoping research to test and measure the impact of some of our recent policies and more broadly strengthen our internal framework and approach towards policy evaluation.

18. We will recommission provision of the Public Panel and continue to support those who wish to use it 2025/26. It was established in 2020/21 as a research tool to enable us and the regulators to engage more directly with members of the public, to help inform our policy development.

19. We will leverage internal and external evidence to underpin our approach towards horizon scanning but consider commissioning additional and or bespoke research, where there are gaps, to enable us to understand forthcoming trends in the legal sector and beyond, that could lead to significant consumer detriment.

Proposed Plan and Budget 2025/26: maximising efficiencies and delivering value for money

20. The budget has been developed in two stages. The first stage involved an initial, high level preliminary budget which was considered at the 18 September Board meeting and the 1 October ARAC meeting. These meetings gave the executive a top-down steer on the proposed budget to be prepared

21. The second stage involved a robust, bottom-up exercise by the executive to compile each budget by cost centre, engaging with each budget holder to ensure these budgets are as complete and accurate as possible and then subject to scrutiny by SLT to ensure that value for money and efficiencies were achieved.

22. The current proposed 2025/26 budget is **£5.849m**, which was considered in detail and approved at an ARAC meeting held on 13 November 2024. This would represent an increase of 11% (£578k) on last year’s budget (£5.271m). It equates to a cost of £2.92 per authorised person (based on April 2024 Authorised To Practice volumes of 197,066).

23. The executive has undertaken a rigorous exercise determine the resource needed to achieve our business plan including identifying several opportunities for efficiency savings and demonstrating value for money, as requested by ARAC:

    - Challenging the organisation to operate more efficiently with lower headcount by increasing our vacancy factor to save a further £36k on pay costs.

    - Consolidating and deferring research and prioritising a smaller number of key areas where there are gaps in evidence that will inform our policy development. This has delivered a saving of £61k on the prior year budget.

    - Moving our annual conference into Spring 2026. This will deliver savings of £60k on the prior year budget.

    - Delivering economy and efficiency savings from utilising our fully depreciated office assets at no cost at our existing office until September 2025.

    - Renegotiating our outsourced IT managed service contract in 2024 to a more efficient service with less “in office” IT resource, reflecting our new ways of working, will deliver budget savings next year.

24. However, while these opportunities have allowed us to make savings, additional costs will be necessary for the following:

    - An office move will take place in 2025. The budget currently includes revenue costs of £189k and Capital costs of £500k for the move but these costs are indicative at this moment as we do not know where we will be moving to, when the new lease will start or any of the costs involved. This means there is a high degree of uncertainty around this cost and it will be subject to change.

- A resource planning exercise identified a requirement for additional headcount of 2.9 FTE, in the Legal Services Consumer Panel team, Legal team and in the Statutory Decisions team to meet increased demand in these areas. The additional posts will add a cost of £150k.

- Increases in Employer National Insurance contributions will take effect from April 2025. We await clarification from Central Government to confirm whether LSB is in scope of the Public Sector Allowance for these Employer NICs increases but for prudence we have included in budget at an estimated cost of £75k per annum.

- Increase in the external legal budget of £79k to recognise the likely increased requirement to be able to respond to litigation and other legal matters. This represents an estimate of the likely spend required, mindful of the impact on the levy. However, the Board's views are sought on whether to take a more cautious approach in budgeting at this stage, allowing for additional contingency budget now, reducing the risk of having to make in-year changes.

Considerations for the Board

25. We have been mindful of the economic context, and the pressures on some parts of the legal services sector, in preparing this budget. In the current climate, we consider that it is vital that legal services users and the public can rely on high standards of regulation. We want to continue to make progress against the strategy and the proposed budget will be necessary to deliver what is proposed.

26. However, should the Board wish to reduce the proposed budget ahead of consultation, there are some options it may consider below. These are not recommended but are available and detailed in a schedule provided under separate cover:

- reducing the 2025 Pay award.

- not recruiting or partially recruiting the additional resource requested for 2025/26.

- Reducing discretionary non pay budgets.

Next steps

27. Subject to the Board's approval, we plan to launch a public consultation on the draft business plan and budget. While consultation periods for our policy proposals are usually 12 weeks, we consult on our draft business plan and proposed budget for a shorter period of eight weeks in order to align with the business cycle set by the Ministry of Justice. We will present a final business plan and budget to the Board for approval in March 2025.

28. We will also consider how best to present the final business plan document following the public consultation period, to ensure that it is accessible and clear

to help inform the work of the regulators we oversee, as well as ensure our key stakeholders understand and can engage with our work.

Risks and mitigations	
Financial:	The LSB Budget will need approval from the MoJ as consent to raise the levy is by consent of the Lord Chancellor. The budget will be submitted to ministers in March after the consultation has concluded. The Executive and ARAC consider that, based on the available information, the proposed business plan can be delivered within the proposed resources.
Legal:	The documents have been developed with input from our legal team. They are consistent with our powers under the Legal Services Act 2007.
Communications and engagement:	Our business plan and budget are subject to public consultation. As part of this, we will hold a consultation event in January 2025 to allow stakeholders to provide comments on our proposals. We will take account of all comments when finalising the business plan and budget.
Equality and diversity:	We are proposing to continue our dedicated workstream on equality, diversity and inclusion and will consider appropriate links with other projects.
Resource:	The draft business plan and budget have been informed by a resource planning exercise for the proposed policy and research projects and for other areas of the organisation.
Environmental	N/A

Annexes

Annex A – Draft overview of the business plan 2025/26
Annex B – Draft business plan 2025/26 and consultation document

Schedule under separate cover – Budget options for additional savings

Freedom of Information Act 2000 (FoI)		
Para ref	**FoI exemption and summary**	**Expires**
Annexes A, B	s.22 – Future publication	Date of publication