

<b>To:</b>	Legal Services Board	
<b>Date of Meeting:</b>	25 March 2015	<b>Item:</b> Paper (15) 10

<b>Title:</b>	Final LSB Strategy 2015-18, Business Plan 2015/16 and budget 2015/16	
<b>Workstream(s):</b>	All	
<b>Author / Introduced by:</b>	Richard Moriarty, Chief Executive Caroline Wallace, Strategy Director Julie Myers, Corporate Director, Edwin Josephs, Director of Finance and Resources Jenny Hart, Business Planning Associate	
<b>Status:</b>	Official	

### Summary:

Attached are drafts of three documents that we need to publish by the end of March and before the general election purdah period starts:

- Our 2015-18 Strategy (**Annex A**)
- Our 2015/16 Business Plan and budget (**Annex B**)
- Our response to the representations we received when we consulted on our draft plans in December 2014 (**Annex C**)

Please note that these are work in progress drafts as at 17 March that we will continue to polish and proof after dispatch of Board papers.

As part of the second item, the Board needs to discuss and agree the LSB's budget for 2015/16. The budget was reviewed and endorsed by the Audit and Risk Assurance Committee (ARAC) on 10 March. We have attached a note setting out our proposed operational budget and a cash flow forecast (**Annex D**).

### Recommendation(s):

1. The Board is invited to comment on, then delegate to the Chair and CEO final drafting and publication of:

- a) the Strategy for 2015-18 (**Annex A**)
- b) the Business Plan for 2015/16 (**Annex B**)
- c) our response to representations received (**Annex C**)

2. The Board is invited to approve the 2015/16 budget of £4,298,000.

### Risks and mitigations

**Financial:** Formal budget delegation is still required from Ministry of Justice (MoJ). There was very little reaction to the budget from

	stakeholders although LSB was asked to bear in mind a) the indirect costs of LSB activity on the legal profession and b) the extent to which levy funds were used to explore the unregulated market
<b>Legal:</b>	N/A
<b>Reputational:</b>	We undertook a public consultation on the draft Plans including workshops with stakeholders. Almost all respondents supported some elements of the Plans and responses were less critical of the LSB than in previous years.
<b>Resource:</b>	As in previous years, our ability to deliver the work programme set out depends on full budget sign-off. Any reduction in budget, or new work emerging in year, will require current planned activity to be re-prioritised.

<b>Consultation</b>	<b>Yes</b>	<b>No</b>	<b>Who / why?</b>
<b>Board Members:</b>	<b>X</b>		Draft Plans sent to Board for early review
<b>Consumer Panel:</b>	<b>X</b>		The Consumer Panel commissions have been discussed with the Panel Chair and Board members
<b>Others:</b>	ARAC reviewed and endorsed the proposed budget. MoJ officials have been sent the draft documents and budget.		

<b>Freedom of Information Act 2000 (Fol)</b>		
<b>Para ref</b>	<b>Fol exemption and summary</b>	<b>Expires</b>
Annexes A – C	Section 22 – information intended for future publication	

## LEGAL SERVICES BOARD

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### Final LSB Strategy 2015-18, Business Plan 2015/16 and budget 2015/16

#### RECOMMENDATION

1. The Board is invited to comment on, then delegate to the Chair and CEO final drafting and publication of:

- a) the Strategy for 2015-18 (**Annex A**);
- b) the Business Plan for 2015/16 (**Annex B**);
- c) our response to representations received (**Annex C**).

Please note that these are work in progress drafts as at 17 March that we will continue to polish and proof after dispatch of Board papers.

2. The Board is invited to approve the 2015/16 budget of £4,298,000.

#### BACKGROUND

3. We received 19 written responses to our draft strategy and business plan consultation document published in December 2014. We also held two consultation workshops attended by 21 individuals representing 14 organisations. All of the consultation responses are available if Board members wish to review them and they will be available at the Board meeting.
4. Almost all responses included degrees of support for some aspects of our work plan. Overall, responses focused less than in previous years on the role of the LSB and the structure of the regulatory system.

#### 2015-18 Strategy document

##### *Structure and length*

5. The consultation document on the draft strategy and business plan was dense and contained much necessary explanatory and contextual material. To aid clarity and accessibility we have separated the final strategy and business plans into two stand-alone documents and we have edited them down to their bare essentials. All explanatory material remains available to view in the [consultation document](#) as published on our website.
6. The analysis of detailed responses to our draft strategy is contained within Annex C. Some key points are highlighted below.

### *Our strategic themes*

7. Whilst there was broad support for the proposed strategic themes, some respondents found reference to “Theme A” and “Theme B” unhelpful/confusing and we understand that this may have generated a concern about our respective priorities that was never intended. The Strategy document has been re-drafted to be clearer that we have three *equally important* programmes (albeit labelled 1, 2 and 3).

### *LSB position on legal aid funding*

8. One theme was common to many responses: the nature of the LSB’s role in relation to decisions made by government and in particular decisions on legal aid funding. We need to tackle this head on in the response document (**Annex C**) and have drafted for this purpose **paragraphs 13 - 19**. This in line with positions previously agreed by the Board, namely that the LSB, as an NDPB, has to be politically impartial and that the size and distribution of the legal aid funding pot is a matter for government. However, we have an interest in understanding the implications of these decisions for the regulatory objectives and whether we have levers that can mitigate any adverse effects. The Chair’s foreword to the Strategy picks up this point.

### *Engagement with representative bodies and practitioners*

9. Some representative bodies were concerned that there was insufficient emphasis on seeking the views of practitioners and representative bodies and asked that this be clarified. The response document makes clear that this is something we intend to do.

### *Looking into the unregulated market*

10. Respondents who commented on this aspect of our programme clearly recognised the need for LSB to take a whole market approach to its work. There was some concern, though, that the LSB needed to guard against using funds raised through its levy on approved regulators disproportionately for work outside of the regulated space. In responding, we will be clear that this point is understood, but we will also be clear that:

- the Act gives us a responsibility to consider whether currently unreserved activities should be reserved; and
- in our view we cannot properly have regard to our regulatory objectives unless we look at the market holistically, as this is the environment in which consumers make their choices and providers compete.

### **2015/16 Business Plan**

11. The Plan is now more clearly an operational document and contains more detail on the milestones for the year. There are a couple of areas in the plan where we cannot commit now to the precise milestones, as we first need to undertake a detailed scoping exercise.

12. The analysis of detailed responses to our draft business plan is contained within Annex C. Some key points and changes are highlighted below.

#### *Consumer Panel commissions*

13. We received little comment on our proposals. We have now agreed two specific commissions following discussion with the Panel Chair and the Board's response to the CEO's email of 9 March.

#### *Thematic reviews*

14. The draft plan contained a number of ideas, which we have prioritised informed by consultation and a more detailed internal assessment. We have been clear with stakeholders that our draft contained more than we could realistically accommodate as it was subject to post consultation prioritisation. We intend to take forward the draft programme save for the following changes.

15. We propose not to take forward the following reviews in 2015/16:

- Review of barriers to firms moving between regulators
- Review of how regulators identify and deal with firms in financial difficulty
- Development of an 'ideal' set of regulatory arrangements
- Review of regulators' approaches to consumer engagement
- Review of education and training

16. Other work we have de-prioritised for 2015/16 is:

- Evaluation of the effectiveness of frameworks for quality comparisons
- Analysis of the powers that section 163 of the Act (voluntary arrangements) gives us and the circumstances in which it might be appropriate to use those powers

#### **Budget recommendation for 2015/16**

17. The Executive recommends that the Board endorse a budget of £4,298,000 for 2015/16 (£4,298,000 in 2014/15).

18. This is the same budget that we consulted on in our draft Business Plan. Since then, we have taken stock in the light of:

- consultation responses;
- the climate for public sector expenditure;
- feedback from the ARAC; and
- new pressures on our costs.

#### *Consultation responses*

19. Only a small number of responses commented on the budget. One respondent sought clarity on the way our research budget was distributed across our strategic themes to enable greater scrutiny of costs. Another suggested that they

would have expected to see a predicted three-year budget reflecting anticipated costs savings. The Bar Council welcomed our efforts to keep direct costs down, but urged us to reflect that often our work generated indirect costs for the Bar Standards Board and thus the Bar. One respondent stated: '*We note with interest that the cost per regulated person will remain at £26 for the forthcoming year and welcome efforts to keep the direct costs of the LSB as an organisation at a flat rate*'.

#### *Climate for public expenditure generally*

20. At the last LSB/MoJ regular sponsorship meeting MoJ stressed the apparent disconnect between a 'no change budget' being proposed by the LSB and a level of severe reductions being imposed on most arm length bodies and government departments. They highlighted how others may perceive this and wanted to ensure that the LSB Board were fully aware of this. The plans and budget proposal have been shared with MoJ officials and we will report any comment at the Board meeting. Officials are aware of our desire to publish pre-purdah.
21. We are acutely conscious of the wider environment for public sector expenditure where further budget reductions are expected. Our proposed annual budget equates to around £26 per year<sup>1</sup> for each authorised person, which is down 24% from over £34 since 2009/10. By freezing our budget in cash terms this will represent a further real term reduction when the effects of inflation are taken into account. Our direct costs compare favourably with those of the bodies we oversee (although we are conscious that some of concerned by the *indirect* costs triggered by our activity).
22. The LSB's own costs will be scrutinised in our Costs of Regulation project being carried out over the remaining part of this financial year and 2015/16. It may be unwise to pre-empt the findings of this work, but the LSB needs to be prepared to consider any findings from this work when setting its 2016/17 budget and beyond.
23. We agree with the comment about setting out longer-term plans and wish to move back to setting a 'one plus two' budget next year, ie a firm budget for 2016/17, followed by indicative budgets for the following two years.

#### *ARAC feedback*

24. The budget proposal of £4,298,000 was reviewed and endorsed by the ARAC on 10 March and the discussion included the following points:
  - Consideration during the course of 2015/16 is to be given to providing budget proposals over a three-year cycle commencing with the 2016/17 year.

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<sup>1</sup> This figure is calculated by dividing the LSB's operational budget for 2014/15 (£4,298k) by the number of persons authorised to undertake legal services as at 1 April 2014. This information can be found on our website here: [http://www.legalservicesboard.org.uk/can\\_we\\_help/faqs/index.htm](http://www.legalservicesboard.org.uk/can_we_help/faqs/index.htm)

- Concerns about how a "flat cash" budget would be perceived by some stakeholders were carefully discussed.
- Comments regarding use of levy funds to explore the unregulated market were noted, but it is within our remit to ascertain whether unreserved activities ought to be brought into regulation.
- The operational adverse impacts of running joint research projects were noted.

*New pressures on our costs*

25. We will absorb the following from other budget areas:

- We have recently been apprised of ongoing negotiations concerning a rent increase that was due for One Kemble Street as at 19 December 2014 and we have been advised that this could potentially cost the LSB an additional £50k in a full year plus consequential rises in related costs.
- Following our recent refresh of our IT infrastructure and equipment (the first after six years) our charges for depreciation will increase from £30k to approximately £45k.

26. Depending on the outcome of the current judicial review on QASA, we may receive a one-off contribution to the fees we have already paid for legal costs or indeed may find ourselves with a bill for the claimants' costs.

27. There may be less scope in 2015/16 than in previous years for extending the research budget through in-year savings elsewhere. We will continue to look for efficient ways of undertaking joint research or jointly funded research. We are conscious, however, that the potential synergies could be undermined if joint working/funding imposes indirect costs such as project delays or unnecessary distractions/frustrations.

28. As always, we may need to invite the Board to 'slim down' or 'slip' elements of the policy programme if we are presented with new priorities of challenges within year, for example as a result of the outcome of the General Election in May 2015 or in response to our desire to work more collaboratively with other regulators.

**13 March 2015**

**Annex A – Strategy 2015-18**

**Annex B – Business Plan 2015/16**

**Annex C – Consultation response document**

**Annex D – Budget charts**