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| To: | Legal Services Board | |
| Date of Meeting: | 28 October 2010 | Item: Paper (10) 72 |

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| Title: | LSB budget proposal and outline Business Plan – 2011/12 | |
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| Status: | Protect | |
| FoIA: | Provisional determination – Sections 22 and 36. | |

Summary:

1. The LSB Board agreed at its meeting on 27 July 2010 that its Business Plan for 2011/12 should follow the format of the current year and be based on delivering the workstreams and milestones already in place for 2011/12.
2. The 2011/12 financial year will be only the second year of full operation for LSB and thus forecast outturns for the end of the financial year are based on five months of operations.
3. We know that, currently, approximately 86% of the running budget of LSB comprises “fixed” costs (*Board, OLC Board, staffing, accommodation, depreciation, outsourced services*) and that the remaining 14% is accounted for largely by [“discretionary / variable”] costs (*policy research, consultancy support and contracted out services (internal and external audit and pensions advice), and office running costs* etc). This 14% of costs is determined largely by the activities that LSB will want to undertake in the 2011/12 year and will relate directly to the level of planned activity.
4. The LSB is operating in an external climate which includes the spending restrictions imposed by the Coalition Government and the outcome of the Spending Review, the full implications of which may not be known for several months. So far, the largest impact on LSB budgets from these spending restrictions is that the LSB is subject to the two-year salary and recruitment freeze.
5. Attached is the proposed operational budget (**Annex A**) and a cash flow forecast for 2011/12 (**Annex B**). A skeleton for the 2011/12 Business Plan is also attached (**Annex C**).
6. The proposal was discussed by the Audit and Risk Committee at its October meeting and was endorsed.

Recommendations:

The Board is invited to agree a budget proposal of £4,931k to deliver its outline Business Plan for 2011/12.

LEGAL SERVICES BOARD

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LSB budget proposal and outline Business Plan – 2011/12

Executive Summary

Recommendations

The Board is invited to agree a budget proposal of £4,931k to deliver its outline Business Plan for 2011/12.

Background / external context

1. In May 2010, the new Coalition Government announced a £6.2 billion reduction in spending across six departments in 2010/11 by cutting waste and low value programmes¹, and committed to further reductions through a Spending Review due to report in the autumn. In its framework document for the 2010 Spending Review², the Government sets out its expectations for:
 - a step change in the drive for efficiency and value for money in the public sector, including by driving down the cost of operational delivery and simply cutting out waste and lower priorities; and
 - a challenge to departments, local government and delivery partners to consider fundamental changes to the way they provide vital services, including promoting greater responsibility by shifting power, funding and accountability into the hands of individuals and frontline professionals.
2. One of the key factors in managing government cash efficiently and effectively is keeping as much money at the Exchequer as possible so that publicly available funds can be used efficiently across the whole of government. As a result, the Government has stipulated that cash balances should be held within the Government Banking Service (**GBS**), rather than in commercial banks. This is a target within the Ministry of Justice (**MoJ**) which has increased the proportion of funds it holds within GBS from 73 per cent in 2006/07 to 94 per cent in 2008/09. The LSB holds 100% of its cash resources within the GBS.
3. Any spending reduction for the LSB results solely in a lower levy on the legal industry rather than any direct saving to the Exchequer. Notwithstanding this, the Government is still looking for all Departments and arm's-length bodies to review their planned spending based on the parameters it has outlined. This applies whether the organisation in question is state or fully levy funded, as is the case with the LSB.

¹ HM Treasury, *Government Announces £6.2 billion of savings in 2010-11*, May 2010.

² HM Treasury, *The Spending Review Framework*, June 2010, p.7

Planning assumptions

4. At its July 2010 meeting, the LSB considered the parameters for its 2011/12 Business Plan. The Board agreed that the Plan should follow the format of the current year and the workstreams / milestones already in place for the medium-term. The Board agreed that it was confident that these remain the key activities and milestones for delivery of its medium-term goals.

5. [Redacted]

6. [Redacted]

7. We also note that once Schedule 18 of the Legal Services Act 2010 is commenced we will also acquire regulatory oversight for immigration advice provided by persons authorised by ARs. [Note: Schedule 18 relates to oversight regulation of immigration advice and services. Currently, under the Immigration and Asylum Act 1999, one responsibility of the Immigration Services Commissioner (ISC) and her Office (OISC) is to ensure that The Law Society, Institute of Legal Executives (ILEX) and The Bar Council regulate those of their members who provide immigration advice and services effectively. Commencement of Schedule 18 would transfer this responsibility to the LSB and additionally allow the LSB to provide for other ARs to apply to become regulators of immigration advice.]

Proposed annual budget

8. [Redacted]

9. [Redacted]

Budget assumptions

- 10. [Redacted]
- 11. [Redacted]
- 12. [Redacted]
- 13. [Redacted]
- 14. [Redacted]
- 15. [Redacted]
- 16. [Redacted]

Notes to the budget headings

17. Staffing:

a) This is based on 100% of posts filled throughout the period.

b) The staffing budget is currently made up of:

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|---|-----|
| Policy (Strategy, Research, Regulatory) | 69% |
| Legal Support Team | 11% |
| Corporate Support ³ | 29% |

- 18. [Redacted]

³ Board Secretary, Finance and Services, Corporate and Public Affairs support.



19. Accommodation:

- a) The rateable value of our office increased by 82.1% from £163,000 to £297,500 from the 1 April 2010. Business rates increased by 26% from 1 April 2010 based on the new 1 April 2008 valuation of business property. We are appealing against this new valuation but it may be several more months before the appeal is considered.
 - b) In addition, Victoria House is within the Business Improvement District (BID) Levy area of *In Holborn* – now being re-branded as *In Midtown* – and is subject to a 1% surcharge.
 - c) The Mayor of London also surcharges all businesses in London with a rateable value of more than £50k an additional 2% surcharge to help to pay for Crossrail.
 - d) The rental amount is fixed until November 2013. This heading also includes utilities and Landlord service charges. The new owners of Victoria House are currently commissioning studies of the backlog maintenance and major upgrades / replacement of systems that are needed. We have very little influence over these costs and have to pay whatever is determined.
20. **IT/Finance/Facilities/HR:** This is in line with the activities agreed and includes HR as an outsourced service now instead of being shown under staff costs.
21. **Research Costs:** This comprises the bulk of our discretionary spend.
22. **Office Costs:** This comprises the general office overhead costs – stationery, licences, travel, telephony, postage, media subscriptions, publishing costs and website, catering, etc.
23. **LSB Board:** This is based on all Board Members being in post and the frequency of meetings as recently agreed by the Board.
24. **Legal Reference and Support:** This is based on subscriptions to legal databases and support.
25. **Contracted Out Services:** This includes internal and external audit, pensions and investment advice and general consultancy support.
26. **Consumer Panel:** This comprises the costs of the Panel and the secretariat as well as a small amount for specific research that will be managed on their behalf by the LSB Research Manager.
27. **Depreciation charges:** These are the costs of assets that we have purchased which are charged to the accounts over their useful life.
28. **OLC Board Costs:** These are the fees that are paid to the OLC's Chair and Board and also include travel expenses.
29. **Judicial Reviews:** We have deliberately not made any provision for funding judicial review actions. MoJ has indicated that it will guarantee our cashflow in the event of the need to defend ourselves against such actions.

Audit and Risk Committee – 11 October

30. This paper was discussed by the Audit and Risk Committee at its October meeting. [REDACTED]

31. [REDACTED]

Next steps

32. Pending the Board's approval to proceed, the draft Plan will be written up and brought to the November Board meeting for approval to consult. As in previous years, the draft Plan will be issued for consultation in December, with the final Plan coming to the Board for approval in March 2011.
33. Between now and the November Board meeting, the draft Plan and proposed budget will also be discussed with MoJ, with comments made by MoJ brought back to the Board where necessary. This is in line with the process contained within the revised Framework Document, which states:

"The LSB will prepare an annual business plan in accordance with the MoJ's planning cycle. The LSB will consult the MoJ Sponsor Team and the Minister informally on the issues to be addressed, the timetable for preparation and the indicative budget and will reflect the outcome of those discussions fully in the document that is published for formal consultation with other stakeholders."

18.10.10