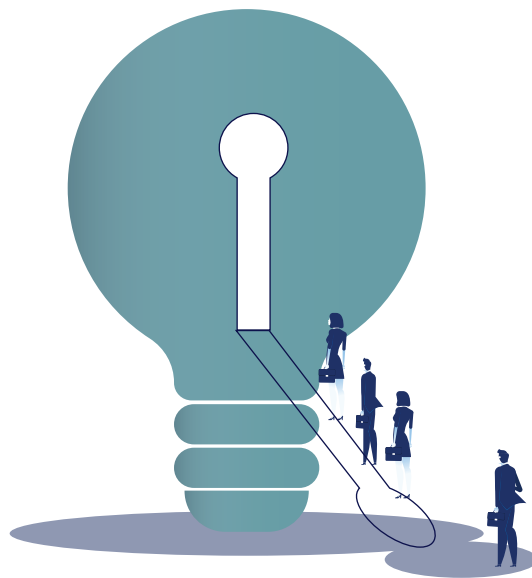


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Chairman's foreword



I firmly believe that Chartered Legal Executives are a vital component in the future of legal services. CILEx has a proud and distinguished record in widening access to the profession and developing lawyers who are fit for purpose for the needs of a changing market. The challenge for us as the independent regulator is to balance protection and enhancement of standards against the need to grow opportunities, minimise barriers to entry and keep costs and bureaucracy to a minimum.

Of course it is the needs of the consumer that lie at the heart of achieving the required balance. One of the key areas of focus in 2017 was the development of an Action Plan following the publication of the Competition and Markets Authority's legal services market study. CILEx Regulation is committed to improving the information available to help consumers make sensible choices when looking for a lawyer. We are working with the other regulators to enhance the Legal Choices website; we

are working closely with the Legal Services Consumer Panel (LSCP) to understand consumer perspectives and are looking to enhance our research and learning in this area; we are also working to ensure that our developing business of entity regulation includes robust requirements in terms of transparency for consumers.

The core consumer need, though, is to be able to have confidence in the professionalism and integrity of legal services providers. In 2017 we began work on reviewing and updating the standards required for Chartered Legal Executives in order to meet the market needs of the future, a review due to be completed in 2018. We continued to encourage CILEx members to take up the opportunities to achieve their own Practice Rights and set up their own firms and - in another milestone - in 2017 we submitted to the Legal Services Board (LSB) our formal application to regulate Alternative Business Structures (ABS).

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A source of satisfaction in 2017 was that we held our costs well within what was a tightly framed budget. Our authorisation team managed to reduce significantly the time taken to deal with Work Based Learning (WBL) applications. We also made significant progress in separating our budget from that of the CILEx parent body, in order to make the full costs of regulation much clearer. We also engaged closely with CILEx as it framed its ambitious proposals for new governance arrangements, including the establishment of a new Group Board with an independent majority to replace the Council as the overall governing body for the Institute.

For ensuring that an organisation with limited staff and resources was able to achieve real progress against its objectives in 2017 I thank both the staff and my fellow Board members. Above all it is the dedication of the executive team and all the staff under the leadership of the Chief Executive, Helen Whiteman, that takes the credit. I would also like to thank my Board, each of whose members has willingly taken on greater responsibility as we reduced our numbers from seven to five.

Sam Younger Chairman
CILEx Regulation

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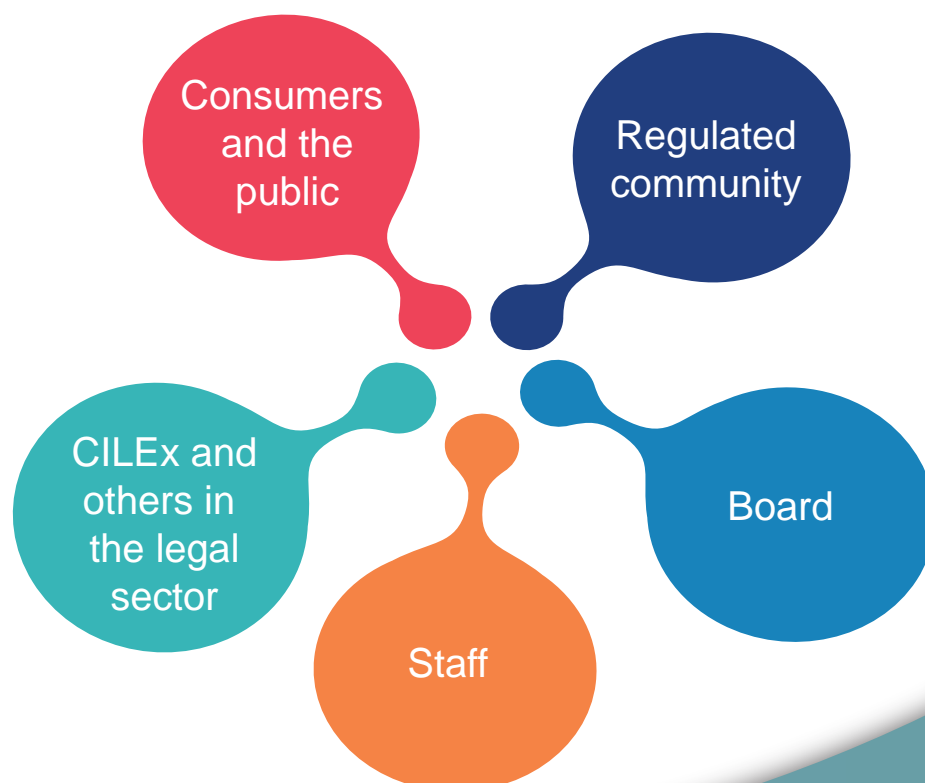
Who we are

CILEx Regulation is the independent regulator of members of CILEx and other individuals who are not members of CILEx, but who have [Practice Rights](#) in the legal sector. Regulation by CILEx Regulation is also open to individuals who are authorised, under the Act, to undertake reserved legal activities and who choose to run their own law firms. Along with other regulators, we refer to businesses, firms, practices, or other types of organisation that we regulate as 'entities', and we are also authorised to regulate [entities](#).

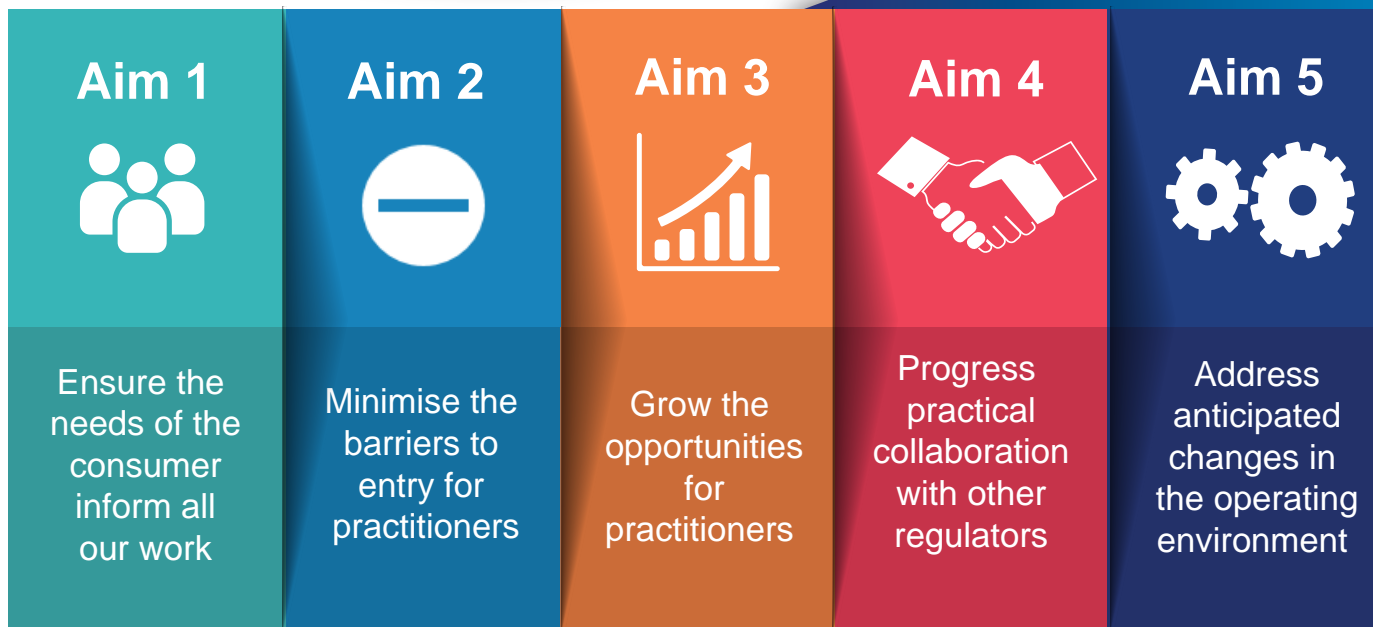
In short, we are responsible for all regulatory matters affecting all those in our regulated community. We also oversee the education, qualification and practice standards of all CILEx members.

2017 was the first year of our Board's three year strategic plan, running from 2017-2020. Having identified five strategic aims, an accompanying business plan was developed to support the delivery of the Board's strategy.

The strategic aims are focused on our primary stakeholders who we identify as being:



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Aim 1: Ensure the needs of the consumer inform all our work



In order to deliver proportionate and relevant regulation it is important that we understand what consumers and the public need and expect from those we regulate. Consumer needs inform the services we deliver now and plan to deliver in the future. This helps us to provide a regulatory framework which supports those providing legal services to consumers and the public.

We identified three core activities to help us deliver this strategic aim.

Activity 1 – Deliver CMA recommendations

Following the publication of the Competition and Markets Authority (CMA) 'Increasing market transparency for consumers' report and recommendations in December 2016, we developed an Action Plan to identify core activities that would enable us to deliver the recommendations, many of which involve collaboration with other legal regulators. Our Action Plan is available [here](#). Our oversight regulator, the Legal Services Board (LSB), is responsible for monitoring progress against the plan, and it initially assessed our plan as being sufficient in meeting the recommendations. The LSB's assessment of our plan is available [here](#).

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Our key achievements during 2017 were:

- ✓ Publishing an Action Plan which is independently assessed as being sufficient in meeting the recommendations
- ✓ Engaging proactively with our regulated firms to raise awareness of transparency proposals
- ✓ Consulting on our transparency proposals to inform the development of transparency rules and guidance
- ✓ Representing consumer and regulated community interests through active participation on the Legal Choices Governance Board, Remedies Programme Implementation Group and Legal Choices Steering Group

Activity 2 – Improve understanding of consumer needs and perspectives through research

We have strengthened our in-house research capacity so that we are better able to undertake desk-based activity into identifying and understanding consumer needs and perspectives. We have attended a number of consumer-focused events in order to grow our network of contacts and, where appropriate, we attribute consumer-based sources in our decision-making and development work.

We undertook an equality and diversity (E&D) survey which attracted almost 5,000 responses, providing us with a detailed insight into the makeup of our membership. We also included a number of questions relating to social background and mobility. The results of the survey has allowed us to direct our work in support of diversity and mobility.

Our key achievements during 2017 were:

- ✓ Staff and Board training on consumer vulnerability and the development of a Vulnerable Consumer Strategy
- ✓ Creation of a consumer panel to provide ideas and feedback

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Activity 3 – Linking consumer impact assessment to the development of regulatory arrangements

We refined and enhanced our impact assessment in relation to consumers. This resulted in a new policy and assessment framework which we could deploy across our business functions.

Our key achievements during 2017 were:

- ✓ Consumer impact assessment policy
- ✓ Consumer impact framework assessment

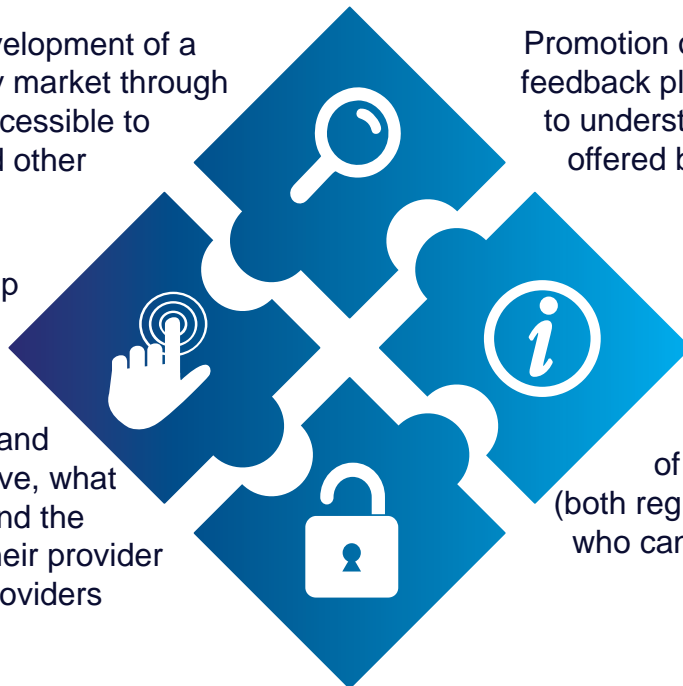
CMA recommended that the regulators develop action plans by 30 June to increase market transparency covering the following four areas:

Facilitation of the development of a dynamic intermediary market through making data more accessible to comparison tools and other intermediaries

Promotion of the use of independent feedback platforms to help consumers to understand the quality of service offered by competing providers

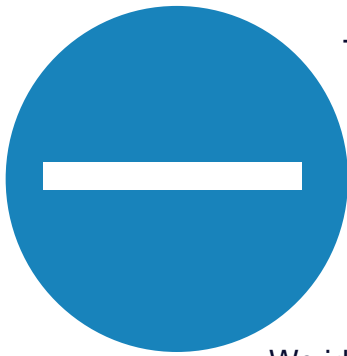
Action to deliver a step change in standards of transparency to help consumers (i) to understand the price and service they will receive, what redress is available and the regulatory status of their provider and (ii) to compare providers

Making better information available to assist consumers when they are identifying their legal needs and the types of legal services providers (both regulated and unregulated) who can help them



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Aim 2: Minimise the barriers to entry for practitioners



Those we regulate, whether individuals or businesses, are delivering legal services direct to consumers and the public. It is essential therefore that they are able to deliver those services supported by a regulatory framework which is cost effective, proportionate and easy to access. We have listened and responded to feedback from our regulated community and identified a number of improvements which have been delivered.

We identified four core activities to help us deliver this strategic aim.

Activity 1 – Keeping costs under strict control

The continuation of monthly financial reporting and oversight by budget holders and the senior management team enabled us to keep our costs under strict control.

2017 was a transitional year for CILEx Regulation as we moved towards further regulatory independence. We opened our own bank account and began to recognise capital assets. This was also the first year we directly paid for the support services that are provided by CILEx Group Services, such as finance, human resources, information technology and facilities.

The CILEx Regulation Board agreed that in 2017 we should find further savings across all areas of the business to ensure the cost of general regulation is covered by the Practising Certificate Fee (PCF) income, which has remained unchanged in 2017 and 2018 and is planned to remain the same in 2019. This built on the 8% savings which we were able to deliver in our final 2017 budget. Alongside our PCF work, we have continued our work on unit costing to determine the true cost of regulation.

Although the number of regulated entities remains modest, we have seen an increase in the number of practice rights applications received and this is reflected in our total income for 2017, which is £200,206 more than 2016. This is due, in part, to the increase in the agreed regulatory proportion of the PCF income for CILEx Regulation. Our direct expenditure is £133,207 less than 2016, with the majority of activities achieving a lower spend. Our total overheads increased to better reflect the true cost of regulation through the addition of group services recharges and year end provisions.

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Overall, 2017 was a significant improvement over the 2016 actual and 2017 budget expectations, resulting in a pre-tax surplus of £66,017 and reflects the steady increase of our income streams, alongside the cost control measures that we have implemented. In accordance with the Legal Services Board (LSB) cost transparency principles, we commenced the publication of our annual core financial metrics on our company website.

Activity 2 - Using technology to slim key processes

Our IT infrastructure, which is delivered through Group Services, saw a number of improvements delivered and new initiatives commenced. There was a Group wide project to identify and source a new customer relationship management (CRM) system, through which we manage our interactions with our regulated community. As part of the initial scoping and requirements gathering exercise, we mapped all of our core business processes and were able to identify a number of efficiencies that could be realised by the new system. As members of the CRM Project Board, we ensured that our requirements were captured and where possible, would deliver service improvements to the end user as well as operational efficiency for our teams. Our finance team introduced a new accounting package which offers more automation of administrative processes and greater reporting capabilities, which dovetails into our key performance indicator (KPI) reporting.

Our key achievements during 2017 were:

- ✓ Active contribution to sourcing a new CRM system
- ✓ Introduction of a new SAGE accounting system

Activity 3 - Ensuring all requirements are risk-based and outcomes-focused

Following feedback from our oversight regulator, the LSB, we started a piece of work focusing on our approach to risk-based supervision. Guided by our external Strategic Risk Committee (SRC), a new framework was developed which will be launched in 2018. We reviewed the assessment methodology for our work-based learning service and introduced a number of changes. We also began to make a number of improvements to our client protection arrangements, moving to an insurance backed scheme.

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Our key achievements during 2017 were:

- ✓ Scoping and developing risk matrix for individuals which aligns with the Vulnerable Consumer Strategy
- ✓ Review of matrix by SRC and implementation of advice on changes
- ✓ Changing our client protection arrangements whilst maintaining appropriate safeguards

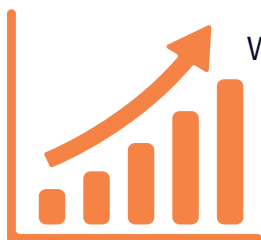
Activity 4 - Reducing turnaround times in our processes

Having listened to feedback, we concentrated on delivering a number of improvements to our turnaround times, particularly for our assessment processes. We were able to reduce the waiting time for work-based learning assessments by 50%.

Our key achievements during 2017 were:

- ✓ Development of an enhanced performance management framework to monitor turnaround times for prior conduct declarations and misconduct complaints
- ✓ Implementation of a CILEx member mentoring function for Entity authorisation
- ✓ Commission of unit cost modelling for key processes from Group finance services which fed into our pricing activity

Aim 3: Grow opportunities for CILEx practitioners



We identified two core activities to help us deliver this strategic aim.

Activity 1 - Reviewing education and training requirements for individuals and creating integrated qualification routes to authorisation

The way in which consumers and the public access legal services is changing. The emergence of the use of new technology in the sector means that law is likely to be available to consumers through new channels and existing processes may change within law firms. This means that we need to review how CILEx lawyers are trained prior to authorisation to meet these changing needs. Consumer needs and expectations mean that law firms are looking at how they deliver their services more efficiently and how they reach consumers of legal services in the future.

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The sector also started to see a number of changes to the way in which legal education will be structured, enabling wider access and greater flexibility. We commenced a project to review the education and training standards to meet these changing needs and future requirements. With contributions from other stakeholders in the CILEx Group and external expertise in the form of academically based research, we began drafting the outline for new education standards, which we will consult on in 2018.

Our key achievements during 2017 were:

- ✓ Streamlining applications for WBL and practice rights including providing guidance on submitting applications jointly where appropriate
- ✓ Engaging with CILEx on strategic planning to align development with the review of membership and qualifications structures
- ✓ Initiating and leading the Joint Education and Training (JET) working group and provided feedback from the CILEx Group to inform the research we commissioned into the future needs of the legal sector
- ✓ Announcing proposals at the Westminster Policy Forum in November 2017

Activity 2 - Continuing to offer entity regulation and achieving designation as an alternative business structure (ABS) Licensing Authority

We continue to offer entity regulation and are actively working to achieve designation as an ABS Licensing Authority.

Our key achievements during 2017 were:

- ✓ We saw 7 new firms authorised in 2017 bringing the end of year total to 12 entities regulated
- ✓ We submitted an application for ABS licensing to the Legal Services Board on 25 August 2017
- ✓ We commissioned work on policy, procedures and Draft Orders as well as seeking advice in relation to our intervention arrangements

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Aim 4: To progress practical collaboration with other regulators



We identified two core activities to help us deliver this strategic aim.

Activity 1 - Working collaboratively including delivering the recommendations in the CMA study

We work with a number of regulators across a range of joint projects, including to deliver the CMA recommendations. We:

- ✦ Attended the Regulator Forum quarterly meetings
- ✦ Attended LawCare Taskforce member meetings
- ✦ Participated in PRIDE in London and the London Legal Walk
- ✦ Signed an MoU with the SRA on regulator switching
- ✦ Formed a small group with other regulators on EDI (equality diversity and inclusion)

Our key achievements during 2017 were:

- ☑ Assessment by the LSB and implementation of our CMA Action Plan
- ☑ Review and publication of the responses to our consultation on transparency requirements on price and service and developed an Action Plan for delivery
- ☑ Agreement of governance and partnership funding arrangements for a new cross regulator project on regulatory data transparency following the CMA recommendations

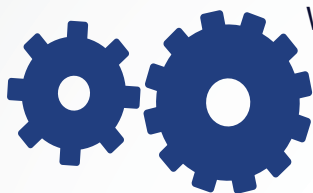
Activity 2 - Identifying areas to reduce cost and/or improve quality

Our key achievements during 2017 were:

- ☑ Joined other regulators in a jointly funded proposal to explore the development of either a single digital register or a common published data set
- ☑ Enabled regulator switching for law firms through working with the SRA
- ☑ Continued to liaise with the SRA and other regulators on the alignment of education and training requirements to facilitate cross-qualification
- ☑ Participated in Mental Health Awareness week, as a member of the LawCare Taskforce

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Aim 5: Address anticipated changes in the operating environment



We identified two core activities to help us deliver this strategic aim.

Activity 1 - Maintaining a sustainable funding model

To maintain a sustainable funding model, we are working to align costs modelling, review fees and practice certificate fee (PCF) to achieve a self-sustaining funding model by 2019.

In line with LSB requirements, we published our costs transparency statement with figures for 2015 and 2016 and undertook an exercise to compare our costs with those published by other regulators.

Our key achievements during 2017 were:

- ✓ Development of proposed practising certificate fees for 2018 for submission to the Board in February 2018, maintaining fees at the 2017 rates for Chartered Legal Executives
- ✓ Reduction in Board costs
- ✓ Practice rights and entity regulation marketing proposals developed and a new website commissioned to drive business growth in these areas

Activity 2 - Ensuring that working arrangements are future proofed against a background of greater regulatory independence

At the end of 2017, we were preparing our response to the LSB's Internal Governance Rules (IGR) consultation for submission in February 2018.

Our key achievements during 2017 were:

- ✓ Increasing our resource for digital engagement and communications and launching a new multi-media web-based consumer/member publication (Regulation Matters) to improve brand awareness
- ✓ We proposed redeveloping our protocols for the new CILEx Group Governance structure

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Additional workstreams to support our strategic aims

Consumer

In 2017, we reviewed our arrangements for client protection in relation to the compensation fund. Our primary objective was to ensure that the arrangements were effective, proportionate and sustainable. To that end, we proposed transitioning to an insurance backed scheme, which would provide clients with more sustainable protection when things go wrong. The changes increased the available funds per firm from £1m to £2m and created an aggregate fund each year of £6m. In addition we provided more consumer friendly guidance to support the claims process. The rule change was approved by the LSB on 18 August 2017.

Rules review

In 2017, we submitted a number of rule changes to the LSB, including amendments to:

- ✦ training requirements for Associate Prosecutors to reflect changing practice
- ✦ Investigations, Disciplinary and Appeals Rules (IDAR) to provide greater clarity to consumers as to the obligations of regulated individuals. We also changed the title of the rules to the Enforcement Rules
- ✦ continuing professional development (CPD) rules to make them simpler and easier to follow. We also provided a series of how to guides, to further assist CILEx members in understanding the requirements
- ✦ professional indemnity insurance (PII) minimum wording to incorporate the changes introduced by the Insurance Act 2015
- ✦ Admissions and Licensing Committee (ALC) rules to implement the Appeals policy

Our people

Following a number of staff focus workshops at the end of 2016, we developed a Staff Focus Group Action Plan and began introducing a number of changes to our operations based on staff feedback. These included:

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Strategic And Business Objectives

- ✦ Present the Board's draft strategy and business plan and ask you what you think
- ✦ Continue to share budgets and management accounts with managers. Ask budget holders to review budgets monthly 1:1
- ✦ Share monthly operational performance reports with you
- ✦ Consult you on whether to arrange an all staff facilitated business planning session for our strategy 2018



Communication

- ✦ Introduce new starters (including temps) to everyone individually on Day 1 – as well as CILEx HR email announcements
- ✦ Refresh our Who's Who and email it quarterly to everyone in the Group
- ✦ Share each Who's Who and organisational chart update with the Board
- ✦ Share Board reports and minutes (other than confidential items) with you
- ✦ Consult with you on whether we:
 - share the Board's Forward Plan of decision making at staff meetings, including explanation of each item
 - brief you on confidential items as far as we can



Decision Making

- ✦ Share Group Exec minutes with Managers
- ✦ Feedback a summary of Group Exec business items and decisions at staff meetings
- ✦ Clarify principles set out in the Home Working Policy that it applies depending on job role rather than individual circumstances and is open to everyone



Leadership

- ✦ Continue to involve managers in budget setting and monitoring
- ✦ Publish a weekly note of which managers are on site each day
- ✦ Continue to co-ordinate working from home days to ensure coverage

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Remuneration and benefits

Invite Group Exec to consider:

- ✦ commissioning a job evaluation exercise and salary benchmarking



Customer Service

Capture internal and external customer compliments and feed these back to managers 1:1 and at appraisal.



Appraisal and Training

- ✦ Invite Group Exec to:
 - review and revise the appraisal process and forms, in consultation with staff
 - consider introducing a structured training programme for organisational skills and knowledge e.g. Health and Safety, Equality and Diversity, Data Protection, Time Management, customer care, Appraisal, Objective Setting, Critical Thinking, Business Planning, Microsoft Office/Office 365, web editing
 - put in place staff development opportunities such as job rotation, progression routes - in house, across Group, management development programme, leadership programme, job swaps for a day, manager/caseworker swaps for a day, secondment to CLS or CILEx
- ✦ Set expectations for timely completion of appraisals by end Jan and end July as performance targets reported to Board (completion = full sign off x 3)
- ✦ Invite relevant staff to sit in when external speakers attend Board meetings

By the end of 2017 the vast majority of these actions were achieved or underway.

Staff turnover for the year was relatively low and we continued to invest in corporate and individual learning plans for our staff to include training on unconscious bias, data protection and Office365/Sharepoint. A number of staff continue to be funded by us to study CILEx qualifications and Training Assessment and Quality Assurance (TAQA) qualifications.