



**Council for Licensed Conveyancers
Application to the Legal Services Board
Under s.51 Legal Services Act 2007
For Approval of
Licence and Practice Fees Rates
August 2015**

Summary

- Subject to approval of the LSB, the CLC has determined that the CLC Fees Framework 2012 remains unchanged and that the regulatory fees payable for the year commencing 1 November 2015 remain at the same rates as for the year commencing 1 November 2014 as follows:
 - Licence Fees payable by licensed conveyancers remain at £400;
 - Base Rate Practice Fee payable by each CLC Practice remains at 1.4% of turnover applying the current tiers as follows):

Turnover Banding			Practice Fee payable				
			Minimum Fee in Band				
Between	0 and	£100,000	£1,070	or	1.5%	of Turnover	Whichever is the greater
			Minimum Fee in Band			Turnover in excess of	
Between	£100,001 and	£500,000	£1,500	plus	1.4%	£100,000	
Between	£500,001 and	£3,000,000	£7,100	plus	1.2%	£500,000	
Over	£3,000,000		£37,100	plus	1.1%	£3,000,000	

- Compensation Fund contribution payable by each CLC Practice remains at 0.4% of turnover applying the current tiers as follows:

Turnover Banding			Compensation Fund contribution			
			Minimum Fee in Band			
Between	0 and	£100,000	£500			
			Minimum Fee in Band			On Turnover in excess of
Between	£100,001 and	£500,000	£500	plus	0.4%	£100,000
Between	£500,001 and	£3,000,000	£2,100	plus	0.3%	£500,000
Over	£3,000,000		£9,600	plus	0.2%	£3,000,000

- the other fees levied by the CLC remain unchanged (as set out at paragraph 21).

Introduction

2. Following the consultation with the profession in February 2010 the CLC introduced the current practising fee structure for the profession which can be summarised as follows:
 - 1) Licence fee (a fixed sum);
 - 2) Practice fee (as a percentage of turnover subject to a minimum fixed fee); and
 - 3) Contributions to the Compensation Fund (as a percentage of turnover subject to a minimum fixed fee) to be applied solely for purposes relating specifically to the CLC's Compensation Fund.
3. The Practice Fee and contributions to the Compensation Fund have been subject to tiered banding as follows:

Turnover £		Banding
From	To	
0	100,000	110% Base Rate
100,001	500,000	Base Rate
500,001	3,000,000	80% Base Rate
3,000,000	and over	70% Base Rate

4. The CLC Council has agreed that charges should be linked with regulatory activity and risk. The CLC has trialled a number of models. The Council is not yet satisfied that any of the models have been developed to such a stage that they meet the better regulation requirements to be transparent, accountable, proportionate, consistent and targeted. The Council's review is continuing.
5. The CLC published a consultation¹ on the current fee structure which ended on 26 June 2015. Although the consultation was promoted in newsletters to the profession, on the website and in direct emails, there were no responses. The same consultation in 2014 garnered just five responses. As this was another year of no change to the basis for charging, this lack of engagement might be understandable and might also reflect a lack of concern amongst the regulated community about the levels of regulatory fees.
6. At its meeting in July 2015, based on the Forecast for the second six months of 2015, Council agreed, subject to the approval of the LSB, that the practicing fee rates to be charged for the year commencing 1 November 2015 should remain unchanged. An estimate for 2015 has since been produced which sets out the effect of maintaining the current rates.

¹ <http://www.clc-uk.org/CLCSite/media/PDFs/Practice-Fees-Consultation-2015.pdf>

Setting the CLC's Budget

7. The CLC's Strategy² is to:
 - Focus on core activities and appropriate, value for money regulation to deliver high standards of practice and consumer protection
 - Maximise the benefits of its specialist approach to regulation of specialist lawyers
 - Engage in developing the future of legal services regulation so that the benefits of the specialist approach are retained in any future framework

8. The 2015 Business Plan commits the CLC:
 1. To gather high quality intelligence and respond quickly to emerging risks
 2. To ensure that the CLC's specialist approach is understood and appreciate
 3. To have in place financial protection arrangements that are effective in protecting consumers and the operations of the CLC
 4. To have open channels of communication with stakeholders in government and other regulators and good engagement with the regulated community
 5. To have a sustainable and resilient organisational structure
 6. To support innovation and flexibility in the delivery of legal services through value for money regulation
 7. To optimise the efficiency and value for money of the CLC's operations.

9. The CLC's annual budget is determined as follows:
 - Consider resource needs to meet the strategic priorities and business plan objectives.
 - Arrange meetings with directors to discuss their budget requirements.
 - Calculate staff, member, contractor, service and supplier requirements in detail.
 - Include known commitments e.g. payments to LSB.
 - Include known exceptional and ad hoc items.
 - Calculate fees, charges and other income necessary to meet expenditure requirements.
 - Forward draft budgets prepared by Finance in consultation with the CLC's Executive to the Senior Management Team for approval.

² <http://www.clc-uk.org/CLCSite/media/Word-Docs/118842-CLC-Business-Plan-20142015.pdf>

- Forward draft budgets to Council members for challenge and subsequent sign off at the CLC's Council meeting.
 - A review is undertaken after six months and on other occasions depending on circumstances e.g. credit crunch, to ensure that budgets remain realistic.
 - A review of budgetary control arrangements completed by CLC's Internal Auditors in June 2014 reported that *'the Council could take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective'*.
 - External Auditors review and sign off the Annual Report and Accounts.
 - It is a standing agenda item for Internal and External auditors to have confidential discussions with the Audit Committee with no staff present.
10. At this stage of the financial cycle the CLC has not determined a formal budget for 2016. Based on the Forecast of the Outturn for 2015 and for the purposes of this application, it has produced an estimate for 2016 at Annex 1. This seeks to balance the CLC's need to provide an effective system of regulation which protects and promotes the interests of consumers with the need for the CLC to move forward with those it regulates to take advantage of the current opportunities and challenges.

Reserves Arrangements

11. In January 2015 the Council agreed to maintain accumulated reserves on Operations at £1 million and reserves in the Compensation Fund at £2 million. Based on the Forecast for 2015 and the estimate for 2016 (detailed at paragraph 17), the actual and projected movement on reserves for CLC's Operations may be summarised as follows:

2013	2014	Dec 2015	Dec 2016
Actual	Actual	Forecast	Projected
£ million	£ million	£ million	£ million
1.77	1.63	2.04	2.04

12. Reserves for the Compensation Fund stood at £2.72 million in December 2015 and are budgeted at the end of 2016 to be £3.77 million, in excess of the minimum level of reserves which is currently set at £2 million (see paragraph 11).

2013	2014	Dec 2015	Dec 2016
Actual	Actual	Forecast	Estimated
£ million	£ million	£ million	£ million
3.00	3.13	3.48	3.77

Setting the rates

13. Applying the charging structure agreed following the consultations in 2010 and in 2015 (as summarised at paragraphs 2-5) the CLC has determined that for the year commencing 1 November 2015 the charges should remain unchanged as follows:
 - Licence Fees payable by licensed conveyancers remain at £400
 - Base Rate Practice Fee payable by each CLC Practice remains at 1.4% of turnover with Fees applying the current tiers (see paragraph 1 above)
 - Compensation Fund contribution payable by each CLC Practice remains at 0.4% of turnover applying the current tiers (see paragraph 1 above)
 - the other fees levied by the CLC remain unchanged (as set out at paragraph 21).
14. Examples of the Practice Fee and Compensation Fund contributions payable on CLC practices are set out at Annex 2.
15. In setting these rates the CLC has not consulted specifically with non-commercial bodies including local government on the basis that the changes in arrangements have a neutral effect on their regulatory costs. Further, the CLC does not regulate any non-commercial body which undertakes either conveyancing or probate services.
16. Annex 1 compares actual expenditure for 2013 and 2014, the expenditure budget for 2015, forecast outturn for 2015 and the expenditure estimate for 2016. The changes shown in percentage and monetary terms compare the 2015 budget expenditure with the expenditure estimate for 2016 with brief explanations of the greater variances.
17. The estimated total funding requirement for 2016 is £2,711,939 (compared to £2,884,350 forecast outturn for 2015 and £2,578,788 for 2014). It is estimated that setting the Practice Fee at 1.4% (as determined by Council) will generate an income of £2,080,789 based on the turnover of those practices currently regulated by the CLC. Taken with the Licence Fee Income, Education and Other Income there will be a Total Estimated Income for 2016 of £2,710,957, leading to an estimated surplus of income against expenditure of £7,212.

Operations	
	1.4% current
Practice Fee	2,080,789
Licence Fee	504,000
Education	107,258
Other Income	<u>18,910</u>
Total Income	2,710,957
Funding Req (see Annex 1)	(2,711,939)
Less Interest	10,243
Plus Tax	<u>(2,049)</u>
Total Funding Req	(2,703,745)
Surplus (shortfall)	7,202

18. Over the course of 2016 the CLC is planning to start transferring its education quality function to an Awarding Organisation with the result income and expenditure related to education will be substantially reduced, if not completely eliminated.
19. The Compensation Fund is budgeted to make a surplus of £60,566.

Compensation Fund		
Contributions	520,675	
Other Income	<u>0</u>	
Total Income		520,675
Compensation Fund Grants	(240,000)	
LCs Run Off Cover	<u>(11,109)</u>	
Funding Requirement		(251,109)
Interest		30,000
Tax		(6,000)
Total Funding Requirement		(227,109)
Surplus (shortfall)		293,566
Allocated to Insurance Fund		233,000
Allocated to General Surplus		60,566

20. In 2014, the Council determined on a cost/benefit analysis not to renew the CLC's Compensation Fund Insurance policy, and instead to create a ring-fenced allocation which is held separately. The CLC's Reserves on the CLC's Compensation Fund are budgeted to remain well above £2,000,000. As explained at paragraph 12 above, the CLC is satisfied that the level of reserves is sufficient to meet the expectations of, and provide confidence to, clients, as well as the mortgage lenders.

21. The other Fees chargeable are as follows (these are unchanged from 2014-2015):

		Fee	Paragraph	Regulatory Arrangements
1.	Probate Licence	£75	3(a)(ii)	Licensed Conveyancer – Licensing Framework
2.	First Manager Licence	£150		
3.	Duplicate licence	£50	17 & 25	Licensed Conveyancer – Licensing Framework
4.	Amendment to licence	£75	27	Licensed Conveyancer – Licensing Framework
5.	Failure to submit Accountant's Report in time	£100	16.2	Accounts Code and Guidance

Permitted Purposes

22. Since it has an exclusively regulatory function, none of the costs the CLC incurs fall outside permitted purposes as prescribed at rule 6 LSB Practising Fee Rules 2009. The CLC does not incur expenditure related to the following sub-paragraphs of rule 6:
- the provision of services free of charge (sub-paragraph (d));
 - the promotion of the protection by law of human rights and fundamental freedoms (sub-paragraph (e)); or
 - the promotion of relations between the Approved Regulator and relevant national or international bodies, governments or the legal professions of other jurisdictions (sub-paragraph (f)).
23. The CLC participates to a limited extent in law reform and legislative process (sub-paragraph (c)), but more as part and parcel of developing its regulatory framework and does not have a budget dedicated to that activity. The CLC understands the importance of increasing public understanding of the citizen's legal rights and duties (sub-paragraph (g)). As set out in the summary of the Business Plan (paragraph 8), the CLC will be engaging more closely with the users of legal services to get a better understanding of their experiences and expectations.
24. The CLC is required to pay the levy towards the costs of the Legal Services Board and the Office for Legal Complaints (sub-paragraph (b)).
25. Aside from the contributions it makes to the levy (paragraph 24) the entirety of the costs incurred by the CLC relate directly to:
- (a) the regulation, accreditation, education and training of applicable persons and those either holding themselves out as or wishing to become such persons, including:
 - (i) the maintaining and raising of their professional standards; and

- (ii) the giving of practical support, and advice about practice management, in relation to practices carried on by such persons;

Contingency Arrangements

- 26. Paragraph 1 CLC Compensation Fund Operating Framework expressly reserves to the CLC the right to make a specific levy. It is envisaged that this will only be required when it is anticipated there is likely to be a substantial payment(s) out of the Compensation Fund. The last time the CLC directed the payment of such a levy in addition to the annual contribution was in the mid 1990s. For this purpose, the CLC reserves the right to transfer the balance (assuming sufficient funds were to be available) out of the Practice Fees or Licence Fees collected in the first instance before approaching the profession to recoup those monies at an appropriate stage. This approach reduces the costs associated with the collection of a special levy outside the normal cycle for collection of regulatory fees.

Applicability of the Regulatory Objectives

- 27. The CLC considers that the income generated by these proposals and the way in which contributions are determined are sufficient to ensure that it is able to continue to act in a way which is compatible with the regulatory objectives. There are tensions between the different objectives. For example, protecting and promoting the public interest, protecting and promoting the interests of consumers and promoting and maintaining adherence to the professional principles imply a greater need for resources. Improving access to justice and promoting competition in the provision of legal services suggest a requirement to reduce the cost of regulation (and therefore the financial overheads of individual practices) so that there are more practices offering legal services and the fees they charge can be reduced. The CLC has sought to take these factors into account in determining the fee structure which is the subject matter of this application.


Better Regulation Principles

- 28. In setting the charges payable by the profession the CLC has taken full account of the better regulation principles, namely that the CLC's regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed:
 - They are transparent in that:
 - the way in which charges have been determined is consistent with the 2010, 2013, 2014 and 2015 Consultations to which all members of the profession had an opportunity to contribute; and
 - an explanation of the structure of charges and details of the budget which has determined the income required will be published to the profession. A draft of the information to be published to the profession is at Annex 3.

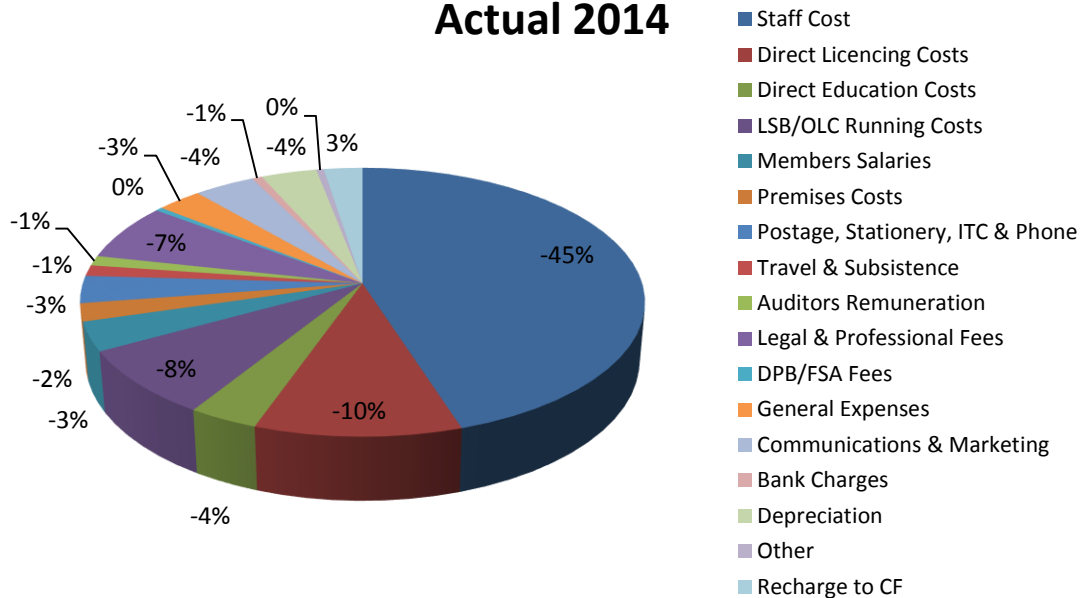
- In setting out the charging structure in this way the CLC has shown itself fully accountable to the profession it regulates, to consumers and to its other stakeholders.
- The way in which the charging structure has been determined is proportionate to (and targeted towards) the risks it perceives as being generated by different elements of the profession. The CLC continues to work to develop a charging structure linked to regulatory activity and risk.

Matters arising from LSB Decision Letter of 10 September 2014

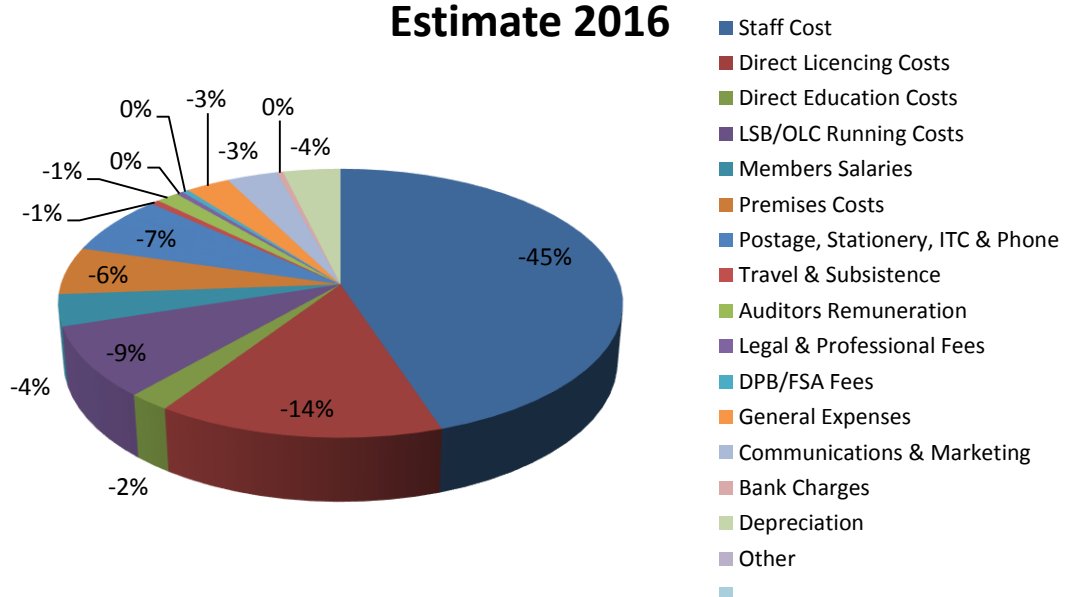
29. No issues arise from the LSB Decision Letter of 10 September 2014.

 Annex 1 CLC Operational Expenditure										
Council for Licensed Conveyancers	Actual	Actual	Budget	Forecast	Estimate	Variance		Variance		Comments on principal variances between Budget 2015 and Estimate 2016
	2013	2014	2015	2015	2016	Budget 2015 with Estimate 2016		Forecast 2015 with Budget 2015		
Expenditure						%	Value	%	Value	
Staff Cost	(1,130,749)	(1,223,046)	(1,384,051)	(1,319,465)	(1,218,274)	-8%	165,777	-4.7%	64,586	2015 Estimates incl scanning and restructuring
Direct Licencing Costs	(93,934)	(282,364)	(391,616)	(440,936)	(391,252)	-11%	364	12.6%	(49,320)	Increase in interventions
Direct Education Costs	(82,959)	(95,499)	(89,600)	(98,478)	(57,700)	-41%	31,900	9.9%	(8,878)	6 months cost only in 2016 (see paragraph 18 of application)
LSB/OLC Running Costs	(250,152)	(218,744)	(262,728)	(259,688)	(232,000)	-11%	30,728	-1.2%	3,040	in line with estimates provided by LSB
Members Salaries	(84,163)	(94,853)	(102,640)	(100,915)	(102,640)	2%	-	-1.7%	1,725	
Premises Costs	(55,834)	(58,341)	(60,060)	(112,696)	(155,175)	38%	(95,115)	87.6%	(52,636)	Reflects estimated costs of London office
Postage, Stationery, ITC & Phone	(65,733)	(88,986)	(170,316)	(177,361)	(194,316)	10%	(24,000)	4.1%	(7,045)	Anticipated expenditure on IT infrastructure
Travel & Subsistence	(20,562)	(35,625)	(37,950)	(25,142)	(15,600)	-38%	22,350	-33.7%	12,808	Savings attributable to move to London
Auditors Remuneration	(25,066)	(32,370)	(39,564)	(42,846)	(39,564)	-8%	-	8.3%	(3,282)	
Legal & Professional Fees	(52,196)	(185,478)	(22,000)	(23,914)	(12,000)	-50%	10,000	8.7%	(1,914)	Savings re restructure
DPB/FSA Fees	(10,417)	(12,486)	(11,556)	(11,730)	(11,556)	-1%	-	1.5%	(174)	
General Expenses	(95,585)	(80,861)	(78,270)	(75,986)	(78,270)	3%	-	-2.9%	2,284	
Communications & Marketing	(54,151)	(108,587)	(90,400)	(96,383)	(90,400)	-6%	-	6.6%	(5,983)	
Bank Charges	(17,911)	(17,741)	(8,400)	(11,182)	(11,000)	-2%	(2,600)	33.1%	(2,782)	
Depreciation	(89,077)	(99,303)	(101,959)	(96,665)	(102,192)	6%	(233)	-5.2%	5,294	Saving on disposal of Chelmsford office offset F&F in London office and IT costs
Other	(2,118)	(13,252)	0	9,037	-	-	-		9,037	Sale of cars
Recharge to CF	68,748	68,748								
Total Expenditure	(2,061,859)	(2,578,788)	(2,851,110)	(2,884,350)	(2,711,939)	95.12	139,171	94.0	(33,241)	
Other Income				200,000					200,000	
Interest	25,484	14,139	18,013	6,243	10,243	56.86	(7,770)	164.1	(11,770)	Additional Interest on proceeds from disposal of Chelmsford office
Tax	(4,940)	(2,978)	(2,944)	(101,249)	(2,049)	69.60	895	2.0	(98,305)	
Expenditure Plus Interest & Tax	(2,041,315)	(2,567,627)	(2,836,041)	(2,779,356)	(2,703,745)	95.34	132,296	97.3	56,685	

CLC Operation Expenditure Actual 2014



CLC Operation Expenditure Estimate 2016



Annex 2
Examples of the Practice Fee and
Compensation Fund contributions payable
(unchanged from 2012-2013)

	Current and Proposed
	PF
Turnover	Base 1.4%
30,000	1,070
50,000	1,070
150,000	2,200
550,000	7,700
1,500,000	19,100
3,500,000	42,600
15,000,000	163,700

	Current and Proposed
	CF
Turnover	Base 0.4%
30,000	500
50,000	500
150,000	700
550,000	2,250
1,500,000	5,100
3,500,000	10,600
15,000,000	33,600

Total

	Current and Proposed
Turnover	Total
30,000	1,570
50,000	1,570
150,000	2,900
550,000	9,950
1,500,000	24,200
3,500,000	53,200
15,000,000	197,300

Annex 3
Information to the profession
CLC regulatory charges
2015-2016

1. This notification sets out the CLC's determination about:
 - The licence and practice fee structure and the way in which Compensation Fund contributions payable by licence holders will be applied; and
 - the licence and practice fees and the contribution the CLC has determined are payable for the licence year starting on 1 November 2015.

The CLC's licence and practice fee structure, and contributions to the CLC Compensation Fund

2. Following the consultation with the profession in February 2010 the CLC introduced the current practicing fee structure for the profession which can be summarised as follows:
 - 1) Licence fee (a fixed sum);
 - 2) Practice fee (as a percentage of turnover subject to a minimum fixed fee); and
 - 3) Contributions to the Compensation Fund (as a percentage of turnover subject to a minimum fixed fee) to be applied solely for purposes relating specifically to the CLC's Compensation Fund.
3. The Practice Fee and contributions to the Compensation Fund have been subject to tiered banding as follows:

Turnover £		Banding
From	To	
0	100,000	110% Base Rate
100,001	500,000	Base Rate
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4. The CLC Council has agreed that charges should be linked with regulatory activity and risk. The CLC has trialled a number of models. The Council is not yet satisfied that any of the models have been developed to such a stage that they meet the better regulation requirement to be transparent, accountable, proportionate, consistent and targeted. The Council's review is continuing.
5. The CLC published a consultation³ on the current fee structure which ended on 26 June 2015. Although the consultation was promoted in newsletters to the profession, on the website and in direct emails, there were no responses. The same consultation in 2014 garnered just five responses.

³ <http://www.clc-uk.org/CLCSite/media/PDFs/Practice-Fees-Consultation-2015.pdf>

Licence and Practice Fee and Compensation Fund contributions payable for year starting 1 November 2015

6. At its meeting in July 2015, based on the Forecast for the second six months of 2015, Council agreed, subject to the approval of the LSB, that the practising fee rates to be charged for the year commencing 1 November 2015 should remain unchanged. Accordingly, the CLC Fees Framework 2012 at Annex **[numbered]** remains unchanged.
7. Examples of the effect the Practice Fee rates and Compensation Fund contributions will have on practices are set out at Annex **[numbered]**.
8. The CLC's Strategy⁴ is to:
 - Focus on core activities and appropriate, value for money regulation to deliver high standards of practice and consumer protection
 - Maximise the benefits of its specialist approach to regulation of specialist lawyers
 - Engage in developing the future of legal services regulation so that the benefits of the specialist approach are retained in any future framework
9. The 2015 Business Plan commits the CLC:
 1. To gather high quality intelligence and respond quickly to emerging risks
 2. To ensure that the CLC's specialist approach is understood and appreciate
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 4. To have open channels of communication with stakeholders in government and other regulators and good engagement with the regulated community
 5. To have a sustainable and resilient organisational structure
 6. To support innovation and flexibility in the delivery of legal services through value for money regulation
 7. To optimise the efficiency and value for money of the CLC's operations.
10. Annex **[numbered]** compares the audited expenditure for 2013 and 2014, the expenditure budget for 2015, the forecast outturn for 2015 and the estimated expenditure for 2016. The changes shown in percentage and monetary terms compare the 2015 budget expenditure and the estimated expenditure for 2016, with comments explaining the greater variances.
11. The estimated total funding requirement for 2016 is £2,711,939. It is estimated that setting the Practice Fee at 1.4% (as determined by Council) will generate an income of £2,080,789 based on the turnover of

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Less Interest	10,243
Plus Tax	<u>(2,049)</u>
Total Funding Req	(2,703,745)
Surplus (shortfall)	7,202

12. Over the course of 2016 the CLC is planning to start transferring its education quality function to an Awarding Organisation with the result income and expenditure related to education will be substantially reduced, if not completely eliminated.
13. The net result is a small budgeted increase in the CLC's Reserves on Operations though the CLC is satisfied that the level of reserves at the end of 2016 will be well in excess of the lower limit of the CLC's Reserves Policy.
14. The Compensation Fund is estimated to make a surplus of £60,566.

Compensation Fund		
Contributions	520,675	
Other Income	<u>0</u>	
Total Income		520,675
Compensation Fund Grants	(240,000)	
LCs Run Off Cover	<u>(11,109)</u>	
Funding Requirement		(251,109)
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Total Funding Requirement		(227,109)
Surplus (shortfall)		293,566
Allocated to Insurance Fund		233,000
Allocated to General Surplus		60,566

15. In 2014, the Council determined on a cost/benefit analysis not to renew the CLC's Compensation Fund Insurance policy, and instead to create a ring-fenced allocation which is held separately. The CLC is satisfied that the level of reserves (currently estimated to be £3.77 million at the end of 2016) will be sufficient to meet the expectations of, and provide confidence to, clients, as well as the mortgage lenders.
16. The other Fees chargeable are as follows (these are unchanged from 2014-2015):

		Fee	Paragraph	Regulatory Arrangements
1.	Probate Licence	£75	3(a)(ii)	Licensed Conveyancer – Licensing Framework
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