

The Law Society and Solicitors Regulation Authority

Part One: summary and recommendation

Summary

Individual PCF will remain the same as for 2014/15, that is £320. Firm (recognised and licensed bodies) fee remains at £62.7m to be collected. The collection is done on the basis of banded scale of turnover – the higher the turnover, the more the firm is required to pay - calculated from information supplied by each of the firms as part of the 2014/15 renewal exercise.

- Total Law Society budget and PCF income is £105.8m compared to £104.9m in 2014/15.
- PCF to apply as follows:
 - SRA £54.1m (£52.9m 2014/15)
 - Law Society Professional Body Permitted Purposes £35.3m (£31.9m 2014/15)
 - Statutory Levies (LSB, LeO and SDT) £16.4m (£20.8m 2014/15)
- With respect to contingency arrangements and reserves, TLS Group has reserves totalling £130.6 m and accounting reserves of £74.4m (as of 31 October 2014). The application for this year includes an over collection of £2.4m, within a TLS funding requirement of £35.3m. While the over collection is not ideal, it nonetheless represents a small proportion of the £105.8m total income collected from PCF – about 2.3%. The LSB notes that this will be held in permitted reserves and will be applied to reduce the net funding requirement for 2016/17.

Recommendation

- That the application be approved.
- That the decision letter:
 - Record that the LSB is pleased that the level of PCF for individuals and firms will not be increased for 2015/16, but express concern that this is against the background of the total SRA budget falling for the third consecutive year, despite the SRA's increased contributions to TLS Group shared services. This is in addition to other reductions such as the decrease in the LSB and the Legal Ombudsman levy, as well as a reduction in the Solicitors Disciplinary Tribunal costs.
 - Note that collection of fees at the approved level is expected to result in an over collection of approximately £2.4m. But note that while this is not ideal, it is a very small proportion (just 2.3% of the £105.8m total) income collected from PCF. The LSB is reassured that this will be held in permitted reserves and applied to reduce the net funding requirement for 2016/17.
 - Make clear that the LSB would not have had time to consider the new approach which TLS had originally proposed on the use of commercial income generated from permitted purposes for non-permitted activities, within the usual timescale of dealing with a PCF. But also to record our appreciation of the withdrawal to allow the LSB time to consider the issues.
 - Comment on the SRA planned review of fees and charges. The application confirmed that the SRA is finalising the scope of a project which will include options for changes to practising fees, other fees for regulatory activity and the Compensation Fund. Following enquiries in our assessment, the SRA confirmed that it expected to be in a position to

update the LSB with a more specific timetable in October/November and that the SRA offered to discuss its current thinking with us to understand how it can align its work to the LSB work on the cost of regulation.

Part Two: Assessment of the application against LSB acceptance criteria

1. Pre-submission	
Were there any pre-submission discussions or a draft application; were any issues identified	<p>Yes. A meeting with representatives from SRA and The Law Society (TLS) was held on 7 July 2015, after which a draft of the application was reviewed.</p> <p>The draft included a proposal for a new approach to use commercial income, (derived from both permitted and non-permitted TLS only activity) for non-permitted TLS purposes. The LSB raised early concerns about the proposed approach and indicated that the LSB would require a longer period of time to consider the application than usual. TLS/SRA withdrew the proposal and explained the reasons for doing so in paragraph 46 of the application.</p>
Were there any areas for improvement or specific issues in the last approval letter	<p>Yes. In last year's approval letter, the LSB:</p> <ul style="list-style-type: none"> • Welcomed the reduction in the amount of PCF from the previous year and praised the SRA for the greater effort it made to consult with the profession. • Requested formal plans from the SRA as to the timing and scope for its planned review of fees and charges. • Commented on transparency and asked the SRA to consider as part of its planned review, how it can be more explicit about, and seek views, on how PCF money and other regulatory resources are spent and allocated, rather than levels alone.
2. Developing the application and budget	
Is it clear that the regulatory arm has led the development of the application?	<p>Mostly.</p> <p>As in previous years, the application was developed and settled in line with agreed arrangements between the SRA and TLS. That is, the net funding requirements (NFR) for the Law Society Group are founded in submissions</p>

	<p>from the business based on its expected activity in the coming year.</p> <p>The process is worked through by the SRA, TLS and Corporate Solutions, starting with cost centres, business units and directorates and it is at the directorate level which the 2015/16 application is presented. Nonetheless, the TLS has had a prominent input into the final PCF amount, resulting in a small over-collection for this year. The Group Budget is discussed and agreed by TLS Management Board and TLS Council.</p> <p>For 2015/16, the NFR was developed prior to the announcement of review of shared services and changes in reporting arrangements for those functions. Any financial consequences of that work will be accommodated within existing budgets across the TLS Group.</p>
<p><i>Budget</i></p> <ul style="list-style-type: none"> • Is it clear how the budget has been arrived at 	<p>Yes.</p> <p>Application clearly sets out both how TLS and SRA budgets are set.</p> <p>The SRA budget has three key elements:</p> <ul style="list-style-type: none"> • the directly controlled SRA budget • the portion of Corporate Solutions budget that supports the SRA (shared services and SRA specific projects) • the element of the central Group capital investment budget that will be spent either wholly on SRA projects or on Corporate Solutions infrastructure projects for which the SRA carries a proportion of the cost. <p>The directly controlled SRA draft budget was considered and approved by SRA's executive before being considered by SRA's Finance and Resource Committee and SRA Board, which approved the budget in June.</p>

- Is there evidence that the immediate and medium terms needs have been taken into account

The SRA Board has set a draft budget at this stage, mainly to inform the NFR. The final budget, including budget allocation to specific activities and departments will be set in September/October 2015.

Yes.

The SRA's strategic approach to the budget was set out in the application and covered immediate and medium term needs.

The context for the preparation of the 2015/16 SRA budget is:

- The SRA Corporate Strategy 2014/15 – 2016/17
- The SRA's 2015 operational and financial position
- The SRA's assessment of current regulatory challenges and priorities and operational performance.

It takes into account that the SRA's programme of regulatory reform will continue. This includes the reviews of the Handbook, compensation and professional indemnity arrangements and regulatory fees and charges, as well as delivery of phase two of the Training for Tomorrow programme.

- Are the contingency fund arrangements clear

Yes.

At the end of October 2014 the Law Society Group had cash reserves totalling £130.6m and accounting reserves of £74.4m. It is intended to utilise £4.1m from reserves to fund activity during 2016. The 2015 NFR proposed that £7m from reserves would be utilised to fund activity in 2015.

Cash reserves of £30.1m were held by the Solicitors Indemnity Fund on 31 October 2014.

The application includes a contingency of £2.4m, which is a small over-collection of fees

	<p>within the Law Society requirement of £35.3m, which will be held in the permitted reserves and applied to reduce the net funding requirement for 2016/17.</p>
<p><i>Consultation</i></p> <ul style="list-style-type: none"> • Has the proposed fee been consulted on – if so summarise • Was the consultation clear about the level of fee and how it will be collected • Has feedback been fully considered 	<p>Yes. TLS and SRA issued a joint consultation in late June 2015, setting out the proposed PCF and budget. It invited feedback via an online consultation between 19 June and 2 July 2015. The consultation was promoted through Professional Update, on the SRA website and via its Twitter account.</p> <p>Yes. Set out TLS Group’s NFR and how it will be spent, as well as the estimated practising fee for 2015/16. The consultation did not cover how the fee will be collected, although other communications activity undertaken by SRA has (for example, a calculator allowing firms to estimate the PCF has been published online).</p> <p>Yes. The results of the survey were shared with TLS Council at the meeting Council was asked to approve the 2015/16 practising fee submission. The summary of findings were published on TLS’ website. There were 187 responses (18 fewer than last year).</p>
<p><i>Clear and transparent</i></p> <ul style="list-style-type: none"> • Is the information provided to fee payers on the level of fee clear and transparent 	<p>Yes.</p> <p>A communications plan was drawn up to ensure that those the SRA regulate and other stakeholders were kept informed of progress towards full approval of the fees structure and the implications for those the SRA regulates. Communications activity in this plan included:</p>

- A reminder of the decision of the SRA Board to maintain the fee structure for practising fees for this year was announced in the SRA's newsletter to the profession, SRA Update, which is sent to 200,000 recipients, including all those with a mySRA account. This reminder was sent out on 23 April and again on 9 June 2015.
- In June a verification process was undertaken for the turnover figures submitted online by firms as part of the 2015/16 renewals process.
- Online calculator communications also took visitors to the Fees 2015-16 page that outlined how fees were spent by the SRA and which offered the opportunity for feedback.
- The Chair of the SRA Board, once approved will write to the senior partner(s) of all SRA-regulated firms to outline key points from the 2015-16 budget.
- Following the Law Society Council's approval of the indicative budget and the SRA Board approval of the fee determinations, press releases were issued by both the Law Society and the SRA.
- As is the Communications Unit's practice, all news releases on the subject of fees were circulated to groups such as the Sole Practitioners' Group, the Association of Women Solicitors, and the Association of Black Lawyers, for publication in their in-house newsletters and website.
- Further standard practice for the Communications Unit is to publicise all news releases through social media channels, chiefly Twitter and LinkedIn, but also using Facebook and Pinterest.

<ul style="list-style-type: none"> When was/is this issued to fee payers 	<p>In July 2015 the on-line calculator was made available with an indicative individual fee of £320, a revised turnover table and indicative Compensation Fund contributions of £32 (individual) and £548 (firm).</p> <p>The publication of the on-line calculator was announced through a news release on 25 June 2015, inclusion in the July edition of Compliance News, a dedicated e-newsletter for compliance officers, and will be followed up in SRA Update on 20 July 2015. All communications relating to the online calculator make reference to the requirement for LSB approval to take place.</p> <p>Once the LSB approves the budget requirement of the Law Society Group, that decision will be publicised in a one-off SRA Update in late August/early September 2015.</p>
3. Permitted purposes	
<p>Is there evidence that the PCF income is used solely for permitted purposes</p>	<p>Yes. All PCF income has been attributed to permitted purposes activity (Table 2). £105.8m total fee income against £105.8m fee expenditure on permitted purposes.</p>
<p>Is any other income to be applied to permitted purposes</p>	<p>Yes. Table 4 of the application shows that of the £69.3m allocated to regulatory functions, £54.1m is from PCF income, £1.9m is funding from reserves, £10.3m of funding comes from recoveries and £3m is from 'other' income.</p>
4. Regulatory functions	
<p>Is there evidence of how much of the PCF income is applied to permitted purposes that are regulatory functions</p>	<p>Yes. Total income and expenditure allocated to the regulatory functions of the SRA is presented in table 4 of the application. This shows that income allocated to the permitted purposes for regulatory functions by directorate totals £69.3m income for SRA, £54.1m of which will come from PCF income.</p>
<p>Are any shared services clearly explained</p>	<p>Yes. Table 7 shows the total PCF income and expenditure on Corporate Solutions relating to</p>

	<p>shared services and central costs, split by area. The costs are allocated to SRA and TLS and included in the total expenditure shown for each. Shared costs are allocated to directorates based on things including, headcount, floor space and usage. Once allocated to a directorate, the amount relating to non-permitted activities is calculated based on the proportion of other expenditure in that directorate related to non-permitted activities.</p> <p>The total shared services budget for 2015/16 is £47m, slightly down from £47.8 in 2014/15. Of the total £47m income, £41.5m comes from the PCF. £1.1 is funding from reserves; £2 from non-s51 income; £1.9 recharged to the Compensation Fund and £0.5m other income.</p>
<p>5. Regulatory and equality impact assessment (optional requirement)</p>	
<ul style="list-style-type: none"> • Completed and included? • If not included, is there an explanation of the potential impact • Does the application contain commentary on the regulatory objective and the Better Regulation Principles 	<p>Partly.</p> <p>While nothing specific on regulatory impact of this PCF (it is unchanged), the SRA has carried out an in-depth research project on the impact of regulation.</p> <p>On equality, the SRA published its three year Corporate Strategy and Equality, Diversity and Inclusion Strategy in November 2014. The draft budget, and therefore funding requirement, was developed to deliver year two of the Strategy.</p>
<p>6. Consultation with non-commercial bodies (optional requirement)</p>	
<ul style="list-style-type: none"> • Does the application include a description of the steps taken • Have the proposed fees been shared with such bodies • What was the response 	<p>There is no reference in the application to consultations with non-commercial bodies.</p>
<p>7. LSB Review</p>	
<p>Have we consulted with any other body on the application</p>	<p>No. Not considered necessary.</p>
<p>Were any issues raised by LSB colleagues from the first review</p>	<p>Yes.</p> <ul style="list-style-type: none"> • There was concern expressed that while the level of PCF for individuals and firms remains the same, the SRA budget is reducing (including levies and SDT costs). • The over collection of fees by £2.4m • The timetable for the planned SRA review of practising fees, other fees for

	<p>regulatory activity and the Compensation Fund.</p> <p>The LSB also raised a technical drafting issue with the SRA:</p> <p>There appeared to be a small discrepancy between the entries in Tables 2 and 4 for SRA income. For Table 2, it is £52.9 and in Table 4 it is £53.1. The SRA explained that <i>Table 2 refers to the actual submission for 2014/15, so it refers to the actual amount requested last year and the proposed split of that amount. Table 4 actually refers to our current budget which is set later than the draft budget that forms the basis of the application to the LSB. This resulted in the amount of practising fees used to fund the SRA increasing slightly by £0.2m.</i></p>
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11 August 2015