

**Application made by the Law Society and the Solicitors
Regulation Authority to the Legal Services Board under
section 51 of the Legal Services Act 2007 for the approval
of practising fees 2016/17**



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Section 1 – Introduction

1. This document seeks the Legal Services Board’s agreement to the Law Society (TLS) / Solicitors Regulation Authority (SRA) application for practising fees for 2016/17.
2. The following fees, outlined in Table 1, require LSB approval:
 - individual regulatory fee;
 - firm regulatory fee for both recognised bodies and licensed bodies (turnover bandings).

Table 1: Fee levels

| Practising Certificate Fees | 2016/17 Requirement | 2015/16 Current year | Variance (£ and %) |
|-------------------------------------|---------------------|----------------------|--------------------|
| Individual regulatory fee | £290 | £320 | -£30 -9.4% |
| Firm fee (total £m to be collected) | £59.9m | £62.7m | -£2.8m -4.5% |

Background

3. The current fee structure was set in 2010. In that year, the approach changed from collecting virtually all regulatory fees from individual practising solicitors, to a split between individuals and regulated entities. At that time the SRA adopted the following guiding principles for the fees policy:
 - be fair to fee payers;
 - be efficient and economical to administer;
 - ensure a predictable income to meet the cost of regulation;
 - be stable - charges should not vary considerably year on year;
 - be as simple as possible – to enable the regulated profession to predict their likely fees;
 - be based on data that can be verified;
 - ensure that, where possible, the costs of processes that are not of general application should be borne by those making such applications, as far as possible, on a cost recovery basis; and
 - take some account of ability to pay, in particular in relation to small and new businesses, charitable and not for profit bodies – fees should not be a deterrent to new entrants.
4. In each subsequent year the SRA Board has maintained the same basic structure for the collection of fees. This approach remains for the current application year 2016/17.
5. Under the Law Society General Regulations, it is for the Law Society Council to determine the total amount to be raised from practising fees. It is for the SRA Board to determine how the total amount to be raised should be apportioned between the different categories of fee payer.

6. Regulatory fees are split between an individual fee (40% of the total requirement) and a firm fee based on turnover bandings (60% of the total requirement). This apportionment applies to the total funding requirement and also, therefore, the individual elements which comprise that requirement: regulatory fees for the SRA; the funding of TLS activities which fall within the definition of permitted purposes under s51 LSA 2007; and the levies raised for third parties. The funding for the Compensation Fund is apportioned equally between practising solicitors and firms holding client money.
7. The SRA is currently consulting on significant changes to its regulatory arrangements. The current fees policy (summarised above) will be reviewed in the context of these changes to ensure that it remains appropriate and consistent with the requirements placed on the SRA by the LSA 2007.

Section 2: Setting the net funding requirement

The Law Society Group budget setting process

8. The net funding requirement (NFR) for the Law Society Group is based on draft budgets for the SRA and the TLS (with both incorporating appropriate allocations of shared service costs) plus the levies that will be required by the Legal Services Board (LSB), Solicitors Disciplinary Tribunal (SDT) and Legal Ombudsman (LeO). The SRA's draft budget and NFR is approved by the SRA Board and recommended to the Law Society Council by the Business Oversight Board. The TLS draft budget and NFR is approved by the Law Society Management Board. The full Law Society Group requirement is then discussed and agreed by both the Law Society Management Board and finally the Law Society Council.
9. In November 2015 changes were made within the Law Society Group to the organisational structure through which support services are provided to both the SRA and the TLS. Up until that point finance, HR, IT, procurement and internal audit services were provided for the whole Group by a separate function known as Corporate Solutions. Corporate Solutions was independently led and allocated its own budget, approved by the Business Oversight Board, which was also responsible for the governance of Corporate Solutions. The Corporate Solutions budget was then apportioned between the SRA and TLS. Following a review of those arrangements it was decided to move some responsibilities and staff from this centre and into the two businesses. In addition, the leadership of the remaining shared service functions was transferred to be jointly managed by the two businesses.
10. The draft budgets for the SRA and TLS for 2016/17 (and therefore the NFR for each) incorporate the costs of the functions transferred from Corporate Solutions into each of the two businesses *and* an allocation of the remaining shared service costs. The allocation of those costs has been reviewed as a part of the draft budget and NFR process. Compared to the 2015/16 allocation, £0.6m of shared service costs previously allocated to the SRA has been moved to the TLS. These allocations will be reviewed annually.
11. In order to translate the total NFR into proposed fees, assumptions have to be made about:
 - the number of practising certificates to be issued;
 - the turnover from all firms within the profession, which is based on information supplied by each of the firms as part of the 2015/16 renewal exercise.
12. The Law Society Council approved a total of £99.8m to be collected from practising fees – which is a £6.0m or 5.6% decrease from £105.8m in 2015/16. This reduction arises from a reduction in the requirement of the Law Society to add to reserves which was included in the 2015/16 practising fee (see paragraph 46), a reduction in the cost of levies collected on behalf of the LSB and Legal Ombudsman and funding of activity in 2016/17 from reserves. Other than these amendments the requirements of both TLS and SRA in 2016/17 are in line with the 2015/16 application.
13. The individual practising fee will reduce to £290 from £320 last year. In addition, SRA regulated entities will pay a fee based on their UK turnover. The proportion of turnover charged declines as turnover increases.

14. The total amount to be raised in practising fees will decrease from £43.1m in 2015/16 to £39.9m in 2016/17. The amount to be raised in entity fees will also reduce from £62.7m to £59.9m. In addition, the actual percentages of turnover to be charged are reducing slightly year on year. This is a result of the overall turnover declared by regulated entities increasing year on year. Consequently SRA regulated entities overall will pay a slightly lower percentage of a slightly larger amount in 2016/17 compared with 2015/16.
15. The Law Society Group financial year ends on 31 October, so the budget year is aligned to the Practising Certificate year. The NFR for the Group is based on draft budgets for the SRA and TLS. Final budgets for each are finalised before the beginning of the financial year within the individual NFR envelopes set at the point of this application. In 2016/17 the practising fee income will be applied as follows:
- Solicitors Regulation Authority - £53.5m;
 - The Law Society (professional body) - £31.1m;
 - Statutory levies (for LSB, LeO and SDT - £15.2m.

16. Comparison of the overall practising fee allocation between 2015/6 and 2016/17:

Table 2: Total PC fee income and expenditure (Permitted activities only)

| Budget Item | 2016/17 | 2015/16 | Variance | Commentary |
|--------------------------------------|------------------|-------------------|--------------------------------|---|
| Total PC fee income | | | | |
| Total PC fee income | £99.85m | £105.84m | -£5.99m -5.7% | |
| Total | £99.85m | £105.84m | -£5.99m -5.7% | |
| Split of PC fee expenditure | | | | |
| Solicitors Regulation Authority | (£53.50m) | (£54.10m) | -£0.60m -1.1% | In 2015/16 the comparable funding requirement was £56m but £1.9m was funded from reserves resulting in a requirement from fee income of £54.1m. The reduction to £53.5m is due to a shift in the allocation of shared service costs of £0.6m to the Law Society professional body. |
| The Law Society (permitted purposes) | (£31.11m) | (£35.30m) | -£4.19m -11.9% | In 2015/16 there was an over-collection of fees of £2.4m. The Law Society has reduced its baseline NFR to the figure approved by LSB in 2015/16 (£33.9m) and will then fund £2.4m of that requirement from reserves. The resulting figure has then increased by £0.6m due to the reallocation of shared service costs within the Group. |
| LSB and LeO | (£12.61m) | (£13.81m) | -£1.20m -8.7% | Reduction notified by bodies |
| SDT | (£2.63m) | (£2.63m) | £0.0m 0.0% | |
| Total | (£99.85m) | (£105.84m) | -£5.99m -5.7% | |

Table 3: Total funding requirement for 2016/17 by category

| Body | Percentage of fee income | |
|-------------|--------------------------|---------|
| | 2016/17 | 2015/16 |
| SRA | 53% | 51% |
| TLS | 31% | 33% |
| LSB and LeO | 13% | 13% |
| SDT | 3% | 3% |

Contingency arrangements, reserves and capital IT investment

17. All parts of the Group are expected to operate within approved budgets, reprioritising if necessary should unexpected needs arise in the year.
18. As at the end of May 2016 the Law Society Group had cash reserves totalling £122.3m and accounting reserves of £81.1m. It is intended to utilise £4.2m from reserves to fund TLS activity in 2016/17 - £2.4m to support activities that fall within the definition of permitted purposes and £1.8m to support activities that are outside the definition of permitted purposes under s51 LSA 2007.
19. Following the implementation of the Corporate Solutions review, the SRA and TLS have undertaken further analysis of the current Group IT applications and infrastructure and produced IT strategies and roadmaps for each of the businesses. This work is now complete and both the SRA and TLS plan to proceed with the implementation of these roadmaps in order to address the very significant deficiencies in the IT on which both bodies rely. Both organisations are satisfied that the current IT estate presents significant business risks to both organisations and a barrier to future regulatory and business improvements and cost reductions. The full implementation of the roadmaps will result in the SRA and TLS having separate IT systems, specifically designed to support the different business needs of each body, supported by separate IT teams in each body. As a result it is planned that not only will services be more secure, resilient and flexible but that IT running costs for both SRA and TLS will reduce significantly. In addition, the improved services will enable the realisation of business, customer service and cost benefits in both organizations.
20. The total gross capital investment (i.e. before the realisation of programme benefits) over the period 2015/16 to 2019/20 is currently estimated at some £61m, with the net cost being £37m. Investment within the programme is front loaded with the investment in 2016/17 estimated to be up to £30m.
21. Within the draft budgets for the SRA and the TLS which inform the NFR, sums of £9.4m (SRA) and £4.4m (TLS), a total of £13.8m, have been included for capital projects. The majority of these provisions will be applied to the development and implementation of the IT roadmaps in both bodies. This compares to a total of £12.9m, allocated £8.5m to SRA and £4.4m to TLS, collected by the Group for capital projects in 2015/16.

22. It is planned that the programme costs above the level of the capital provided for in the 2016/17 NFR will be met, first, by the use of any under spends in the 2015/16 capital budgets for the SRA and TLS and, second, through the use of reserves held by the Law Society Group. To the extent that Group reserves are used to fund these programmes, it is planned to replace those reserves from future fee collections. It is planned that through the lifecycle of the programme the element of the NFR for capital investment for the Group will remain flat; meaning that towards the end of the programmes sums in excess of in-year expenditure will be collected and applied to restore the level of reserves. Following completion of the programmes' lifecycle SRA and TLS expect to reduce the level of funding required for capital investment and collected through annual fees.

Section 3: The SRA Budget

23. In 2015/16 the SRA budget consisted of two elements:

- the directly controlled SRA budget; and
- the portion of Corporate Solutions budget that supported the SRA including the element of the central Group capital investment budget spent either wholly on SRA projects or on Corporate Solutions infrastructure projects for which the SRA carried a proportion of the cost.

24. The change to the structure within the Law Society Group in November 2015 resulted in the transfer of some functions and budgets from Corporate Solutions into the SRA and the establishment of joint leadership arrangements, with the TLS, for the remaining shared service departments. This makes direct comparisons of between the 2015/16 budget and the 2016/17 financial plans more difficult. The table below is intended to enable the comparison to be made.

Table 4 – SRA budget since 2013

| SRA budget time series (£m's) | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|------------------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | Variance 2017/16 |
| SRA budget excluding the cost of interventions | 39.0 | 40.5 | 38.2 | 37.3 | 36.7 | -1.5% |
| SRA provision for the cost of interventions | 3.9 | 12.3 | 9.3 | 6.8 | 6.9 | +1.1% |
| Total SRA directly controlled budget for regulation | 42.9 | 52.8 | 47.5 | 44.1 | 43.6 | -1.1% |
| SRA cost of shared services and capital projects provided by Corporate Solutions | 21.0 | 25.8 | 27.1 | 27.0 | N/A | N/A |
| SRA cost of former CS functions transferred into SRA | N/A | N/A | N/A | N/A | 3.0 | N/A |
| SRA cost of TLS governance and property costs formerly in CS | N/A | N/A | N/A | N/A | 4.1 | N/A |
| SRA allocation of shared service costs | N/A | N/A | N/A | N/A | 9.3 | N/A |
| Capital projects | N/A | N/A | N/A | N/A | 9.4 | N/A |
| Total shared service costs attributable to SRA | 21.0 | 25.8 | 27.1 | 27.0 | 25.8 | -4.4% |

25. The SRA Finance and Audit Committee (FAC) considered the SRA draft budget 2016/17 and resulting NFR and recommended it to the SRA Board, which approved them at its meeting on 1 June 2016. The SRA draft budget and NFR were approved by the Law Society Business and Oversight Board on 16 June 2016 and recommended for approval to the Law Society Council. The Law Society Group NFR was approved by the Council on 14 July 2016.

SRA budget 2016/17 – context and overall approach

26. The major context for the preparation of the 2016/17 SRA budget is provided by:
- the SRA Corporate Strategy 2014/15 – 2016/17;
 - the SRA's 2016 operational and financial position, including levels of activity both in 2016 and projected into 2017; and
 - the SRA's assessment of current regulatory challenges and priorities and operational performance, including the outcome of the LSB regulatory assessment.
27. The SRA published its three year Corporate Strategy and Equality, Diversity and Inclusion Strategy in November 2014. This draft budget has been developed with a view to delivering year three of these strategies (as amended) and the SRA is currently drafting the Business Plan for 2016/17 in readiness for the budget to be finalised in the autumn. The Corporate Strategy was produced in 2014 to respond to external changes and following a review of SRA priorities by the Senior Management Team and the Board.
28. The SRA's programme of regulatory reform will continue in 2017 and will deliver the SRA's first two strategic objectives. Key priorities will include: the revision of the SRA's regulatory arrangements and Handbook, the reviews of compensation arrangements, fees and charges and Professional Indemnity Insurance and the delivery of next phase of the Training for Tomorrow programme. The SRA will also be continuing its wide engagement programme with stakeholders.
29. The aim of improving operational performance continues, with work taking place in 2016/17 to continue to develop and improve technical capabilities, the decision making framework and delivering effective operational quality assurance. The SRA will be progressing with the full implementation of the structural changes that have commenced to the Legal and Enforcement, Intelligence and Investigations, Supervision and Client Protection Directorates. The financial assumptions which formed the business cases for these changes have been incorporated into the draft 2016/17 budget.
30. The fourth strategic objective, to improve how the SRA works with its stakeholders, will continue to be delivered through the SRA's Communications and Engagement Strategy. This was approved by the Board in 2015. For 2016/17 the draft budget reflects a level of resource to be applied to these activities consistent with the current year.
31. In developing the draft budget, the SRA Board had regard to two particularly significant issues:
- legal disciplinary costs; and
 - the planned IT transformation programme.
32. One of the SRA's largest non-staff budget items is that for external legal work on disciplinary case. The volume of such work is difficult to estimate accurately as significant costs can arise in a small number of complex cases. The SRA currently expects to manage current volumes within the 2015/16 provision but there are some indicators (from analysis of the "pipeline" through Supervision to Enforcement) that requirements may increase in 2016/17. The budget figure that the SRA has provisionally set for this budget for 2016/17 maintains the 2015/16 budget level, less the benefit planned to be realised from the restructuring of the Enforcement team and its activities. However, it may well prove to be necessary to apply some, or all, of the strategic provision contained in the draft budget to this area given possible volatility and the number and weight of current "exceptional" cases.

33. The SRA is working closely with TLS to develop a robust IT strategy and roadmap for the two businesses. At present the draft budget assumes a capital expenditure budget for IT projects in 2016/17 of £9.4m. Not all of this sum is available to apply to the transformation programme. The SRA has halted existing projects which are not consistent with the transformation programme, but some IT projects outside of the programme are unavoidable. For example, the annual project to implement the changes necessary to run the fees collection exercise. In addition, from within the £9.4m figure, the SRA will need to contribute to any essential IT projects within shared services; for example to update the HR system to make necessary adjustments in relation to tax and NI (again an annual maintenance exercise). Once these unavoidable calls on this budget have been taken into account the SRA believes that it is likely to have available circa £7.5m to apply to the IT transformation programme. On current planning assumptions, the SRA may require some £16m in 2016/17 to progress the programme (although this figure is considered to be at the high end of a range of figures and is expected to reduce as further analysis and planning is undertaken).
34. The SRA Board has considered this issue. On current planning assumptions, the net cost of the IT transformation programme for the SRA (i.e. cost minus benefits) is expected to be £22.4m over five years. However, costs within the programme are front-loaded and arise earlier in the programme than the point at which benefits will be realised. Overall, and over its lifecycle, the programme is planned to be deliverable within broadly the current level of revenue income for capital investment from regulatory fees. The SRA Board has considered the funding of the front-loaded costs, particularly in 2016/17 and its view is that it would not be appropriate, or make the most efficient use of resources, to do so through a rapid and significant increase in the fees to the profession for 2016/17. Instead the most appropriate approach would be to fund the front-loaded costs through the use of reserves, with those reserves being replenished at the latter end of the programme.
35. As a result of projects being cancelled or put on hold during 2015/16, it is probable that there will be an under spend in the SRA's capital budget for 2015/16. Any such sums do not automatically carry-over to be available in the following financial year so, without approval from the Law Society Council to utilise in the following year, they would move into Law Society Group reserves. Therefore, the SRA will seek the approval of Council for any under spent sum from the 2015/16 budget to be used to fund the IT transformation programme in 2016/17. The SRA will, in addition, seek the further funding required for the IT transformation programme from existing Group reserves.

SRA budget and NFR

36. The following table sets out details of the directly controlled SRA draft budget for 2016/17 (i.e. excluding shared service costs and the costs of activities transferred in to the SRA from Corporate Solutions). This is to provide a like for like comparison with 2015/16.

Table 5: SRA directly controlled budget and NFR

| SRA directly controlled budget and NFR | 2017 draft budget | 2016 NFR | Variance |
|---|--------------------------|-----------------|-----------------|
| Total expenditure | £43.6m | £44.1m | -1.3% |
| Regulatory fee income | £3.5m | £3.0m | +16.7% |
| Compensation fund & legal recoveries | £10.4m | £10.3m | +0.3% |
| Net position (NFR) | £29.7m | £30.9m | -3.9% |

37. Excluding interventions, expenditure on core SRA business will reduce by £563k. This equates to a 1.5% reduction from 2015/16.

38. In addition to the above section of the draft budget (which is shown for consistency with the 2015 application), the SRA budget now also includes the following elements which previously formed part of the SRA's allocation of Corporate Solutions' costs.

Table 6: SRA budget and NFR for formerly shared services

| SRA budget and NFR for formerly shared services | 2017 draft budget | 2016 NFR | Variance |
|---|--------------------------|-----------------|-----------------|
| Allocation of Corporate Solutions costs, including capital projects, to SRA | - | £27.0m | n/a |
| Expenditure on functions transferred in to the SRA | £3.0m | - | n/a |
| Cost of property, facilities and Group level governance recharged by TLS to SRA | £4.1m | - | n/a |
| Capital projects | £9.4m | - | n/a |
| SRA allocation of shared service | £9.3m | - | n/a |
| Total expenditure | £25.8m | £27.0m | -4.4% |
| Compensation fund recoveries | £2.0m | £1.9m | +5.3% |
| Net position (NFR) | £23.8m | £25.1m | -5.2% |

Table 7: Total income and expenditure allocated to SRA

39. This table shows the expenditure of the Solicitors Regulation Authority, split by directorate, and the sources of income that fund that expenditure.

| Budget Item | 2016/17 Practising fee year | 2015/16 NFR | Variance | Commentary |
|--|-----------------------------|-----------------|-----------------|--|
| Total income allocated to the permitted purposes for regulatory functions | | | | |
| Total PC fee income | £53.5m | £54.1m | -£0.6m | |
| Funding from reserves | £0.0m | £1.9m | -£1.9m | |
| Recoveries | £12.5m | £10.3m | +£2.2m | |
| Other Income | £3.4m | £3.0m | +0.4m | |
| Total | £69.4m | £69.3m | +0.1m | |
| Total SRA expenditure by directorate | | | | |
| Chief Executive Office | (£2.3m) | (£2.8m) | -(£0.5m) | |
| External Affairs | (£4.1 m) | (£4.3m) | -(£0.2m) | Now includes inclusion and some elements formerly within CEO office budget |
| General Counsel | (£1.3m) | (£1.3m) | 0 | |
| Case Direction ¹ | (£0.8m) | - | - | New Directorate |
| Enforcement and Client Protection | - | (£19.6m) | - | Now included as part of the Operations and Quality Directorate |
| Operations and Quality | (£40.9 m) | (£30.9m) | +(£10m) | Now includes Enforcement and Client Protection |
| Policy | (£5.0m) | (£4.5m) | +(£0.5m) | |
| Strategy, Risk, Inclusion and Change | - | (£5.9m) | - | |
| Strategy and Resources | (£15.0 m) | - | - | Now includes functions transferred into SRA from Corporate Solutions |
| Total | (£69.4m) | (£69.3m) | +(£0.1m) | |

¹ Year on year comparisons of the budgets for the Case Direction, Enforcement and Client Protection, Strategy, Risk Inclusion and Change and Strategy and Resources Directorates are not possible because of organizational restructuring (i.e. it would not be comparing like with like).

Section 4 - The Law Society Budget

2009 Review

40. In anticipation of the coming into force in 2010 of Section 51 and the Practising Fee Rules 2009, a review was undertaken in 2009 of the Law Society Group's activities. Since all the activities of the Solicitors Regulation Authority are regulatory, this review focused on the activities of the Law Society (professional body) and established a methodology, which was approved by the Management Board, for determining which of the Law Society's activities are a) permitted activities² and b) non-permitted activities³ and what expenditure is referable to those activities. Practising fees are only applied for permitted activities and it is only the expenditure on these activities that is included within the net funding requirement and the practising fee.

Expenditure allocation

41. Each year, as part of the process to assess the net funding requirement for the forthcoming year, each cost centre owner within the Law Society is required to set out the activities to be undertaken by their department in the following year, to assess and demonstrate which activities will be for permitted purposes and which will be for non-permitted purposes and to allocate an expenditure percentage for each activity. Where a department conducts both permitted and non-permitted activities and individual expenditure cannot directly be associated with either, an appropriate allocation percentage is set. Where activities generate their own income streams ('commercial income'), costs centre owners are required also directly to refer the income stream to the activity which generates it. The cost centre returns are reviewed by senior managers and signed off by the Chief Executive Officer.

42. IT investment contributes to both permitted and non permitted activity within the Law Society (as do a number of other support areas) and as such the planned expenditure is allocated on a proportionate basis. As the Law Society is planning a total proposed spend of £4.4m of the overall £13.8m IT investment referred to in the application during 2016/17 this sum is divided on an appropriate basis which reflects proportions identified as part of the allocations described in paragraph 41. This results in a proposed 86% permitted and 14% non permitted allocation and as such for the IT investment this means that non permitted expenditure includes £616k in 2016/17.

Shared services expenditure allocation

43. Shared services expenditure is budgeted for within Shared Services. The total expenditure is first allocated between the Law Society and the Solicitors Regulation Authority based on a number of drivers such as headcount and floor space. The budgeted shared services expenditure referable to the Law Society is then proportionately allocated to departments and thereafter between permitted and non-permitted activity according to each department's set expenditure and allocation percentage.

² Activities which may be funded by practising fees because they are for non-regulatory permitted purposes under Section 51.

³ Activities which may not be funded by practising fees because they fall outside the permitted purposes under Section 51.

Commercial income

44. Commercial income arises from both non-permitted and permitted activities. Examples of permitted activities which generate commercial income are the accreditation schemes which the Society runs.

The approach to commercial income

45. In 2015, the Law Society reviewed its approach to Section 51 and took advice from Leading Counsel and a leading accountancy firm. Leading Counsel advised the Law Society that income which is generated from permitted activities is free from the use restrictions of Section 51 even if the activities are funded by practising fees. As a result of the review, the Law Society consulted the solicitors' profession on treating all commercial income as free from the use restrictions of Section 51 for the 2015/16 net funding requirement and the Law Society's Council set the practising fee level on the basis of this new approach to commercial income.
46. The impact of the change in approach for 2015/16 would have been a net funding requirement for the Law Society that was £2.4m higher than under the established approach to commercial income.
47. Following preliminary discussions with the Legal Services Board, the Law Society decided to revert for 2015/16 to the established approach to commercial income, the one that was taken for 2014/15, but to do so without changing the practising fee level set. This produced a surplus of £2.4m on the permitted activities. The Law Society confirmed that this 'over-collection' of practising fees would be held in the permitted reserves and applied to reduce the net funding requirement for 2016/17.
48. For 2016/17 the Law Society will again apply the established approach to commercial income and will also reduce its proposed collection to take account of the £2.4m 'over-collected' in 2015/16. Table 5 shows the budgeted figures for the Law Society's expenditure, by directorate, on non-permitted activities, and the income funding it. Figures for the 2015/16 budget are included for comparison purposes. The table shows a net budgeted deficit of £1.8m on non-permitted activities which will be funded from non-permitted reserves.

2016 Review

Table 8: Total commercial income and non-permitted expenditure

49. This table shows the budgeted figures for the expenditure of the Law Society on non-permitted activities, split by directorate, and for the commercial income which funds it. The expenditure figures include the Law Society's allocation of the shared services costs. They include expenditure on those permitted activities that are budgeted to produce a surplus of commercial income over expenditure. The figure for commercial income comprises income generated by non-permitted activities. It also includes income from those permitted activities that are budgeted to produce a surplus of commercial income over expenditure. Such activities are treated as generating a net non-permitted surplus and their referable expenditure is added to the non-permitted expenditure. The budgeted deficit on non-permitted activities is to be funded from non-permitted reserves.

| Budget Item | 2016/17 Practising fee year | 2015/16 NFR | Variance | Commentary |
|-------------------------------------|-----------------------------|----------------|----------------|---|
| Commercial income (non-permitted) | £5.5m | £5.3m | + £0.2m | |
| Funding from non-permitted reserves | £1.8m | £2.4m | - £0.6m | |
| Total | £7.3m | £7.7m | - £0.4m | |
| Delivery and Performance | (£1.6m)* | (£1.1m) | + £0.5m | * Includes new services following restructure |
| Executive Office | (£0.7m)* | (£0.2m) | + £0.5m | * Includes new services following restructure |
| General Counsel | (£0.6m) | (£1.4m) | - £0.8m | |
| External Affairs | 0 | (£1.0m) | - £1.0m | Directorate no longer exists |
| Business Development | (£1.9m)* | (£0.0m) | + £1.9m | * Includes new services following restructure |
| Membership Services | (£2.5m) | (£4.0m) | - £1.5m | |
| Total | (£7.3m) | (£7.7m) | -£0.4m | |

- **Executive Office** – This includes the Law Society’s Chief Executive Officer and its office holders, provides strategic support to the leadership of the Law Society and also City & International, Communications and Marketing and Public Affairs.
 - City and International assist in promoting the legal protection of human rights globally, relations with governments and legal professions overseas, and the interests of the profession internationally. They also promote relations with City firms
 - Communications & Marketing provide communication support across Law Society’s activities, including its law reform work
 - Public Affairs manage relations with external stakeholders, and assist with lobbying in law reform work
 - **Delivery and Performance** – This includes Business Planning & Performance Management and Research, which support various activities across the Law Society. During 2015/16 services transferred from Corporate Solutions are now also part of this directorate and include finance, HR, Project Office, and Property & Facilities
 - **Business Development** – This includes Commercial Investments, Innovation, Partnerships and Sponsorship & Gazette Publishing.
 - Commercial Investments is responsible for existing TLS investments, such as Rliance and Chancery Pii, and identifying new opportunities
 - Innovation is responsible for the identification and growth of new commercial areas such as around Risk & Compliance
 - Partnerships & Sponsorship is responsible for new commercial relationships that generate revenue and member benefit
 - Gazette Publishing is principally responsible for the Law Society Gazette publication, which includes legal updates and news
 - **General Counsel** – This includes Governance, Legal Services and Legal Policy.
 - Governance provides the support necessary for the Law Society Council, boards and committees to perform their functions
 - Legal Services is the Law Society’s in-house legal team, and provides legal advice, assistance and representation necessary across the Law Society’s activities
 - Legal Policy develops policy and provides information and guidance relevant to the Law Society’s public interest and member support activity.
 - **Membership Services** – This includes Accreditations, Communities & Product Management, Corporate Responsibility, Equality & Diversity, Events & Publications, Library, Practice Advice & Support Centre, and Relationship Management.
 - Accreditations deal with the accreditation of practitioners
 - Communities & Product Management support practitioners in various practice-based and demographic-type communities by providing advice, support and access to training
 - Corporate Responsibility, Equality & Diversity
 - Events & Publications provide events which include training, and publication titles which include practitioner texts
 - Library is a repository of legal information and source material
 - Practice Advice and Support Centre provide advice to practitioners on practice and procedure, and respond to enquiries.
 - Relationship Management support relations with the profession to assist across the Law Society’ activities.
50. A restructure during the year has resulted in the activities previously carried out within External Affairs now managed within other directorates. Public Affairs and Communications are now included within the Executive Office, while the Gazette falls under the remit of Business Development and Relationship Management is now included within Membership services.

Table 9: Total practising fee income and permitted expenditure

51. This table shows budgeted figures for the expenditure of the Law Society on permitted purposes, split by directorate, and for the sources of income that fund it. The expenditure figures include the Law Society's allocation of the shared services costs. They exclude expenditure on permitted activities that are budgeted to produce a surplus of commercial income over expenditure. The figure for commercial income comprises income generated by permitted activities, excluding those permitted activities which are budgeted to produce a surplus of commercial income over expenditure. The figure shown for total practising fee income constitutes the net funding requirement of the Law Society for permitted purposes.

| Budget Item | 2016/17 Practising fee year | 2015/16 NFR | Variance | Commentary |
|-------------------------------|-----------------------------|-----------------|----------------|---|
| Commercial income (permitted) | £9.8m | £9.9m | - £0.1m | |
| Drawn from permitted reserves | £2.4m | 0 | +£2.4m | |
| Total practising fee income | £31.1m | £35.3m | -£4.2m | |
| Total | £43.3m | £45.2m | - £1.9m | |
| Delivery and Performance | (£14.0m)* | (£2.4m) | + £11.6m | * Includes new services following restructure |
| Executive Office | (£8.2m)* | (£1.8m) | + £6.4m | * Includes new services following restructure |
| General Counsel | (£5.8m) | (£7.8m) | - £2.0m | |
| External Affairs | £0.0m | (£15.3m) | -£15.3m | Directorate no longer exists |
| Business Development | (£4.1m)* | £0.0m | +£4.1m | * Includes new services following restructure |
| Membership Services | (£11.2m) | (£15.5m) | - £4.3m | |
| Applied to permitted reserves | £0.0m | (£2.4m) | -£2.4m | |
| Total | (£43.3m) | (£45.2m) | - £1.9m | |

Detail of the contents of each directorate can be found under Table 8 above.

51. In addition to the above section of the draft budget (which is shown for consistency with the 2015 application), the budget now also includes the following elements which previously formed part of the Law Society's allocation of Corporate Solutions' costs.

Table 10: TLS budget and NFR for formerly shared services

| TLS budget and NFR for formerly shared services | 2017 draft budget | 2016 NFR | Variance |
|---|--------------------------|-----------------|-----------------|
| Allocation of Corporate Solutions costs, including capital projects, to TLS | - | £19.3m | n/a |
| Expenditure on functions transferred in to TLS | £13.0m | - | n/a |
| Cost of property, facilities and Group level governance recharged by TLS to SRA | - £4.1m | - | n/a |
| Capital projects | £4.4m | - | n/a |
| TLS allocation of shared service | £5.8m | - | n/a |
| Total expenditure | £19.1m | £19.3m | -1.0% |
| Net position (NFR) | £19.1m | £19.3m | -1.0% |

Section 5 – Shared services budget, NFR and allocation of costs to SRA and TLS

52. This table shows the expenditure relating to shared services and central costs, split by area. These costs are allocated to the SRA and the Law Society and are included in the total expenditure in the sections and tables above. Shared service costs are allocated to the SRA and TLS based on a number of drivers including headcount, floor space and usage. For any costs allocated to TLS, the amount relating to non-permitted activities is calculated based on the proportion of other expenditure in that directorate related to non-permitted activities.
53. There will be a significant break in the historical time series for a number of these items given the decision in November 2015 to discontinue the Corporate Solutions model, transfer a number of activities and costs directly into the SRA and TLS, and move responsibility for the remaining shared service activities under the joint management of SRA and TLS.
54. The draft shared services budget was approved by the senior management teams of both the SRA and TLS, driven by the services required by the two bodies to support their activities in 2016/17. The draft budget, and the allocations were then approved by the SRA Board and the Law Society Management Board as a part of each body's overall draft budget and NFR.
55. Following the transfer of activities and costs directly into the SRA and TLS, the remaining budget for shared services for 2015/16 was restated to reflect the revised structure. This resulted in a remaining budget in Shared Services of £19.1m which is directly comparable to £16.8m in 2016/17. This represents a reduction of £2.3m in the cost of shared services from 2015/16 to 2016/17. Expected increases in investment income reduce the call on the practising fees by a further £0.6m.

Table 11: Draft shared services budget and NFR

| Budget Item | 2016/17 Practising Year | Restated 2015/16 Budget | 2015/16 NFR | Commentary |
|---------------------------------------|-------------------------|-------------------------|-----------------|---|
| Total PC fee income | £14.3m | £16.8m | £41.5m | |
| Funding from reserves | £0.0m | £0.0m | £1.1m | |
| Contribution from non-S51 income | £0.8m | £1.2m | £2.0m | |
| Recharged to Compensation Fund | £0.0m | £0.0m | £1.9m | Now included directly in SRA budget |
| Other income | £1.7m | £1.1m | £0.5m | |
| Total | £16.8m | £19.1m | £47.0m | |
| Chief Operating Officer | (£0.0m) | (£0.2m) | (£0.4m) | |
| Risk and Assurance | (£0.3m) | (£0.4m) | (£1.1m) | |
| Finance | (£2.6m) | (£3.5m) | (£3.5m) | |
| Facilities | (£0.0m) | (£0.0m) | (£10.5m) | Now included in TLS budget with recharge to SRA |
| Human Resources and Development (HRD) | (£1.9m) | (£2.5m) | (£6.3m) | |
| IT | (£11.3m) | (£11.4m) | (£11.1m) | |
| Sourcing | (£0.6m) | (£0.6m) | (£0.6m) | |
| Portfolio Project Management Office | (£0.1m) | (£0.4m) | (£0.6m) | |
| Group Projects | (£0.0m) | (£0.0m) | (£12.9m) | Now included directly in SRA and TLS budgets |
| Total | (£16.8m) | (£19.1m) | (£47.0m) | |

Allocation of costs to TLS and SRA

56. The allocation of Shared Services costs between TLS and SRA has been reviewed as part of the NFR submission to ensure that the charge to both entities better reflects the drivers of costs within Shared Services.
57. The restated budget for 2016 resulted in £6.6m of costs allocated to TLS and £11.4m of costs allocated to SRA⁴.
58. With the Shared Services NFR showing a significant reduction from 2016 budget, allocations to both parts of the group will reduce. The proposed allocations for 2017 are £5.8m to TLS and £9.3m to SRA.
59. The total costs of Shared Services are therefore split as shown in the table below.

Table 12: Allocation of shared service costs to SRA and TLS

| Allocation of shared services costs | | | |
|--|---------------|---------------|--------------|
| | 2016 Budget | 2017 NFR | Variance |
| Allocated to TLS | £6.6m | £5.8m | £0.8m |
| Allocated to SRA | £11.4m | £9.3m | £2.1m |
| Levies | £16.4m | £15.2m | £1.2m |
| Total Shared Services | £34.3m | £30.3m | £4.0m |

60. The above table uses actual draft budget figures for 2016/17 for the reduced range of activities now undertaken in shared service post the Corporate Solutions Review. To enable comparison to be made with the current year the 2015/16 budget figures are restated and only relate to those activities now undertaken in shared services. For this reason they are lower than the figures set out for this period in the 2015 s51 application.

⁴ These allocations include investment income and the total is therefore lower than the total expenditure shown in table 11.

Section 6: Transparency, engagement, consultation and communication

Transparency

58. The SRA website provides a description of how fee income is allocated to the relevant bodies so that fee-payers can see how their contributions are spent. The website also details key SRA activity to drill down further.
59. This section of the website is updated to include details of the exact fees shared between the various bodies once decisions have been taken on budgetary requirements. Fee-payers are continually invited to feed back to the SRA with any comments on this information.
60. In addition, transparency is enhanced through the detail provided in the annual fee consultation referred to at paragraph 58 below.

Engagement and consultation

61. In 2015/16 both the SRA and TLS have undertaken extensive programmes of engagement and consultation to inform the development of the programmes of work and services provided. It is the output of this engagement and consultation, in the form of the strategies and forward work programmes for both bodies, on which the draft budgets and funding requirements are based.

SRA

62. The SRA has built on the strategy and programme set out in its current Corporate Strategy with very significant engagement and consultation on regulatory standards through the Question of Trust programme. This engagement encompassed members of the public, voluntary organisations, the Law Society and local law societies, other representative bodies and individual solicitors from all areas of practice.
63. This engagement is informing the SRA's comprehensive programme of regulatory reform, which, among other benefits, should reduce unnecessary administrative burdens on firms. By introducing greater flexibility in the Handbook, the SRA hopes to free up firms to operate their business in a way that suits them best. This will remove regulatory barriers and therefore costs.
64. The SRA is also continuing to look at changes that can be made to the existing Handbook to remove unnecessary rules and regulations that add nothing to protecting the public. Many of these changes have been suggested by the profession.

TLS

65. In November 2015 the Law Society launched our new strategy, which sets out clearly how we will represent, promote and support solicitors. The strategy was developed through extensive consultation and engagement with members across England and Wales to understand what they wanted from their Law Society. This began in spring 2015, with a further round of consultation over summer 2015 to test our draft strategic aims with members.

66. We sought their views on the future of legal services, legal education and training, what good regulation looks like, the Law Society's role in professional standards. We also explored their different needs and interests depending on their career stage, where they work and their area of practice. We explored the brand 'solicitor', seeking to understand the values that bind our profession together and to identify common themes of how clients and the public regard solicitors.
67. We engaged members in a range of ways, from meetings to round tables and one-to-one interviews. We held meetings with committee, section and division chairs. We encouraged debate and discussion with even more members through dedicated twitter hours using the hashtag #lawsociety2020, and through LinkedIn and our website.

Consultation on fees

68. The Law Society published a detailed consultation on the proposed level of the NFR and publicised this widely. A copy of the executive summary of the results is attached at Annex D. A detailed analysis of all consultation responses was considered and circulated to all Law Society Council members before the Council made its decision on the total amount to be collected in regulatory fees.

Communication

69. A communications plan is in place to inform the individuals and firms about the 2016/17 practising fees, including the Compensation Fund contributions. The purpose of the plan is to ensure that the regulated community and relevant stakeholders are informed of:

- the 2016-17 fees structure
- the availability of the fees calculator to help them
- the level of fees to be collected

70. The communications plan includes the following:

- an outline of the fee structure for practising fees for this year and inviting comment on how fees are spent 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 announcement was sent out in April 2016
- in June 2016 the online calculator with indicative individual fees, a revised turnover table and indicative Compensation Fund contributions was made available
- the June SRA Update promoted the release of the calculator and the Law Society's consultation on fees and it was also promoted through Compliance News, the newsletter just for compliance officers and those focused on compliance issues, around 11,000 recipients
- updated fees pages on the SRA website (with caveat that LSB still needs to approve) that explain how fees are spent
- a media release to promote these developments on June 22
- a media release on the SRA Board's decision on fee determinations 13 July
- the decision was promoted through SRA Update on 19 July 2016
- the LSB approval of the fee levels will be publicised in a media release in mid-August

- all news releases are 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
- all news releases are also publicised through social media channels, namely Twitter, LinkedIn and Facebook
- reference to the online calculator going live was made in Professional Update, the Law Society's weekly newsletter

Section 7: Practising fees 2016/17

71. As stated at the outset of this application, under the arrangements agreed between the Law Society and SRA, it is for the Law Society Council, having consulted the SRA Board, to determine the total amount to be raised from practising fees. It is for the SRA to determine how that amount should be apportioned between the different categories of fee payer.
72. On 13 July 2016 the SRA Board made the following fee determinations, subject to the approval of the LSB.

Annex A: Practising Certificate Fee determination [2016]

73. This:
- sets the practising certificate fee and equivalent fees for registered European lawyers and registered foreign lawyers;
 - provides for a 50% reduction for those who are or who have been on maternity leave;
 - sets the firm fee for existing recognised sole practitioners whose practices will be treated as recognised sole practices from 1 November 2015 (based on turnover);
 - preserves a lower fee for RFLs who are based abroad and deals with other special cases; and
 - sets the fee at £250 for the SRA to determine relevant turnover following a Notice of Succession where the relevant firms cannot agree.

Annex B: Recognised Body and Recognised Sole Practice Fee determination [2016]

74. This:
- sets the application fee for authorisation as a recognised body or a recognised sole practice;
 - makes it clear that where the recognition commences in a different period from the one in which the application was made, the fee will be adjusted accordingly;
 - sets the annual periodical fee for recognised bodies (based on turnover) with different provisions applying to brand new firms, continuing firms and firms who have been affected by an acquisition, merger or split in the last 12 months;
 - deals with special cases such as overseas offices; and
 - sets the fee at £250 for the SRA to determine relevant turnover following a Notice of Succession where the relevant firms cannot agree.

Annex C: Licensed Body Fee determination [2016]

75. This:
- sets the application fee payable by licensable bodies, which comprises a minimum set fee, plus an additional amount for each person requiring approval, with the possibility of fees being increased if the work in relation to the application is more than covered by the basic fee and for any costs of external agencies to be passed on to the applicant;
 - sets the initial periodical fee payable by a licensed body on authorisation, based on estimated turnover for the first 12 months and calculated in accordance with the banded turnover table;
 - sets the annual periodical fee for licensed bodies (based on turnover);
 - includes an adapted definition of turnover to give the SRA a discretion to amend the figure where it appears that the turnover figure does not fully reflect the value of the legal services provided;

- adapts the definition of turnover to relate it to turnover from regulated legal activities;
and
- makes it clear that licensed bodies that were licensed before 1 November 2013 will be charged fees based on actual turnover rather than estimated turnover.

ANNEXES

Annex A – Practising Certificate Fee Determination [2016]

This determination is made by the Solicitors Regulation Authority Board under section 11 of the Solicitors Act 1974, paragraph 2(1)(b) of Schedule 14 to the Courts and Legal Services Act 1990 and regulation 1.1 of the SRA Practising Regulations 2011, with the approval of the Legal Services Board under section 51 of the Legal Services Act 2007.

Practising certificate fee

1. The fee to be paid to the Law Society for each practising certificate issued will be £290 unless paragraphs 2, 3, 4 or 5 below apply.

Newly admitted solicitors and returning to practice

2. Subject to paragraph 3, any solicitor who applies for their first practising certificate during the practising certificate year commencing 1 November 2016 or any solicitor admitted prior to 1 November 2016 who has previously held a practising certificate and who returns to practice shall pay a fee in accordance with the following scale:
 - (a) Practising certificate issued 1 November 2016 to 31 December 2016 inclusive - £290
 - (b) Practising certificate issued 1 January 2017 to 31 March 2017 inclusive - £230
 - (c) Practising certificate issued 1 April 2017 to 30 June 2017 inclusive - £169
 - (d) Practising certificate issued 1 July 2017 to 31 October 2017 inclusive - £109

Paragraphs 2(b) to 2(d) do not apply if during the solicitor's last period without a certificate they undertook any duties which required a practising certificate.

Former registered European lawyers and former registered foreign lawyers

3. A solicitor who has, at any time during the practising certificate year commencing 1 November 2016, registered or re-registered as a registered European lawyer or registered foreign lawyer and who applies for their first practising certificate shall be subject to a practising certificate fee of £0.

Maternity provisions

4. A solicitor who applies for a practising certificate during the practising certificate year 1 November 2016 to 31 October 2017 and who is on or has been on statutory maternity leave or a period of leave equivalent to statutory maternity leave within the previous practising year shall pay a fee in accordance with the following scale:
 - (a) Practising certificate issued 1 November 2016 to 31 December 2016 inclusive - £169
 - (b) Practising certificate issued 1 January 2017 to 31 March 2017 inclusive - £139
 - (c) Practising certificate issued 1 April 2017 to 30 June 2017 inclusive - £109
 - (d) Practising certificate issued 1 July 2017 to 31 October 2017 inclusive - £78

This scale does not apply if the solicitor received a reduction for their practising certificate in the previous year for the same period of statutory maternity leave or period of leave equivalent to statutory maternity leave.

Late delivery of an accountant's report

5. Where a solicitor applies for a practising certificate at a time when section 11(4) of the Solicitors Act 1974 has effect because the solicitor has failed to deliver an accountant's report by such time or in such circumstances as prescribed by rules made under section 34(1) of that Act, an additional fee of £200 must be paid when making an application for a practising certificate.

Application to registered European lawyers

6. The fee to be paid to the Law Society for initial registration or renewal of registration as a registered European lawyer shall be governed in all respects by the provisions of paragraphs 1 to 5 in the same way as the fee for a solicitor's practising certificate, and for this purpose:
 - (a) references to a solicitor shall be interpreted as references to a registered European lawyer or to a European lawyer applying for registration, and references to practice as a solicitor shall be interpreted as references to the provision of legal services in the United Kingdom under, or in reliance upon, a European lawyer's professional title as such;
 - (b) references to practising certificates and the issuing of practising certificates, shall be interpreted as references to initial registration or renewal of registration in the register of European lawyers, and references to a first practising certificate shall be interpreted as references to a lawyer's first registration in the register of European lawyers;
 - (c) paragraph 3 shall apply to a European lawyer who has, at any time during the practising certificate year commencing 1 November 2016, registered or re-registered as a registered foreign lawyer and who applies for his or her first registration as a registered European lawyer.

Application to registered foreign lawyers

7. The fee to be paid to the Law Society for initial registration or renewal of registration as a registered foreign lawyer shall, subject to paragraph 8 below, be governed in all respects by the provisions of paragraphs 1, 2, 4 and 5 in the same way as the fee for a solicitor's practising certificate, and for this purpose:
 - (a) references to a solicitor shall be interpreted as references to a registered foreign lawyer or to a lawyer applying for registration as a registered foreign lawyer, and references to practice as a solicitor shall be interpreted as references to the provision of legal services in England and Wales under, or in reliance upon, a foreign lawyer's professional title as such; and
 - (b) references to practising certificates and the issuing of practising certificates, shall be interpreted as references to initial registration or renewal of registration in the register of foreign lawyers, and reference to a first practising certificate shall be interpreted as reference to a lawyer's first registration in the register of foreign lawyers.
 - (c) paragraph 3 shall apply to a foreign lawyer who has, at any time during the practising certificate year commencing 1 November 2016, registered or re-registered as a registered European lawyer and who applies for his or her first registration as a registered foreign lawyer.

8. The fee for a registered foreign lawyer practising mainly from an office or offices outside England and Wales shall be £100.

Interpretation

9. In this determination:

Practising certificate means the certificate issued in accordance with sections 9 and 10 of the Solicitors Act 1974;

Practising certificate year means the period from 1 November to 31 October inclusive each year during which a practising certificate is operative;

Practising certificate fee means the sum to be paid by a solicitor for a practising certificate for the whole or part of a practising certificate year;

Practice as a solicitor means the provision of legal services under, or in reliance upon, the title "solicitor" whether as a principal, under a contract of employment or under a contract for the provision of services;

Period of leave equivalent to statutory maternity leave means a period of absence or leave which if a solicitor had been an employee would have been taken as statutory maternity leave;

Registered European lawyer means a European lawyer registered with the SRA under regulation 17 of the European Communities (Lawyer's Practice) Regulations 2000;

Registered foreign lawyer means a lawyer registered with the SRA under section 89 of the Courts and Legal Services Act 1990;

All other terms are to be interpreted in accordance with the SRA Handbook Glossary 2012.

10. The singular includes the plural and vice versa.

Commencement

11. This determination shall come into force on 1 November 2016.

Annex B - Recognised Body and Recognised Sole Practice Fee Determination [2016]

This determination is made by the Solicitors Regulation Authority Board under Rules 2.1 and 8.3 of the SRA Authorisation Rules 2011, with the approval of the Legal Services Board under section 51 of the Legal Services Act 2007.

Initial Applications

1. The fee payable by a body or sole practitioner applying for initial recognition as a New Firm is:
 - (a) £1,000 on applying for initial recognition to commence in the period 1 November 2016 to 31 December 2016;
 - (b) £800 on applying for initial recognition to commence in the period 1 January 2017 to 31 March 2017;
 - (c) £600 on applying for initial recognition to commence in the period 1 April 2017 to 30 June 2017;
 - (d) £400 on applying for initial recognition to commence in the period 1 July 2017 to 31 October 2017.
2. Where an initial recognition for a New Firm commences in a different period from the period in which the application was made, the fee payable under paragraph 1 shall be adjusted accordingly.
3. (a) This paragraph applies when a body or sole practitioner is applying for initial recognition on or after 1 November 2016 in the following circumstances:
 - (i) the application is being made by an existing recognised body or recognised sole practice which is changing its legal status; or
 - (ii) the application is being made by a Successor Firm .
- (b) Where in paragraph 3(a) the predecessor authorised body has paid a fee for the practising year 1 November 2016 to 31 October 2017, the fee shall be £200.
- (c) Where in paragraph 3(a) the predecessor authorised body has not paid a fee for the practising year 1 November 2016 to 31 October 2017, the fee shall be determined in accordance with the following:
 - (i) in the case of a predecessor recognised body or recognised sole practice, paragraphs 4, 5 or 6, as appropriate, plus an additional application fee of £200; or
 - (ii) in the case of a predecessor licensed body, paragraph 5 of the Licensed Body Fee Determination 2016, plus an additional application fee of £200.

Annual Periodical fees

Recognised Bodies and recognised sole practices are required to pay annual periodical fees, calculated by reference to the firm's turnover, by the prescribed date which is 31 October in any year. The way that the annual periodical fee is determined will depend on whether the firm is a continuing firm, a new firm or a successor firm. Paragraphs 4 to 6 below deal with the way that the fee is determined in relation to each of those categories.

4. The annual periodical fee payable by a recognised body or recognised sole practice where it is a Continuing Firm shall be determined by taking the Turnover Figure and carrying out the calculations in respect of the relevant band in accordance with appendix 1.
5. The annual periodical fee payable by a New Firm which first obtained authorisation after 31 October 2015 shall be calculated by taking the estimate of the Turnover Figure for the first 12 months of practice and carrying out the calculations in respect of the relevant band in accordance with appendix 1.
6. The annual periodical fee payable by a Successor Firm shall be determined by calculating the Successor Turnover Figure and carrying out the calculations in respect of the relevant band in accordance with appendix 1.

Overseas Branch Offices

7. A recognised body or recognised sole practice which has one or more overseas branch offices shall pay an additional fee of £200 in respect of each overseas office.

Application for the SRA to determine Successor Turnover Figure

8. Where a Notice of Succession does not include the agreement of all relevant firms to the apportionment of turnover, the Notice shall be treated as an application for the SRA to determine the relevant Successor Turnover Figure and the fee for the application is £250.

Interpretation

9. In this determination:

Continuing Firm means a recognised body or recognised sole practice which is not a Successor Firm and in which :

- (a) the number and identity of the managers has not changed since 31 October 2015;
- (b) the only changes since 31 October 2015 in the number or identity of the managers are as a result of one or more managers leaving or joining the recognised body; or
- (c) the identity of the sole practitioner has not changed since 31 October 2015.

New Firm means a recognised body or recognised sole practice which obtained recognition after 31 October 2015 and is not a Successor Firm;

Notice of Succession means a notice required under Rule 8.3(f) of the SRA Authorisation Rules for Legal Services Bodies and Licensable Bodies 2011;

Successor Firm means for the purposes of calculating the annual periodical fees, a recognised body or recognised sole practice which after 31 October 2015 succeeds to the whole or any part of any authorised body, for value or otherwise, in any of the following cases:

case (I):

a recognised body or recognised sole practice which acquires the whole or a part of one or more authorised bodies;

case (II):

a recognised body or recognised sole practice resulting from the merger between the whole or part of two or more authorised bodies;

case (III):

a recognised body or recognised sole practice remaining after it has split or ceded part of its practice to another authorised body;

Successor Turnover Figure means as set out in appendix 3;

Turnover Figure means as set out in appendix 2.

All other terms are to be interpreted in accordance with the SRA Handbook Glossary 2012.

10. The singular includes the plural and vice versa.

Commencement

11. This determination shall come into force on 1 November 2016.

**Annex B - Recognised Body and Recognised Sole Practice Fee
Determination
Appendix 1**

| Turnover band (T) | Turnover Range (A) | Pay %* of Turnover within band (B) | Minimum Turnover in band (C) | Minimum Fee in Band (D) |
|-------------------|----------------------------|------------------------------------|------------------------------|-------------------------|
| A | £0 - £19,999 | 0.76% | £0 | £100 |
| B | £20,000 - £149,999 | 0.45% | £20,000 | £252 |
| C | £150,000 - £499,999 | 0.43% | £150,000 | £837 |
| D | £500,000 - £999,999 | 0.42% | £500,000 | £2,342 |
| E | £1,000,000 - £2,999,999 | 0.39% | £1,000,000 | £4,442 |
| F | £3,000,000 - £9,999,999 | 0.27% | £3,000,000 | £12,242 |
| G | £10,000,000 - £29,999,999 | 0.23% | £10,000,000 | £31,142 |
| H | £30,000,000 - £69,999,999 | 0.21% | £30,000,000 | £77,142 |
| I | £70,000,000 - £149,999,999 | 0.19% | £70,000,000 | £161,142 |
| J | £150,000,000 + | 0.07% | £150,000,000 | £313,142 |

* % is equivalent to 'divided by 100' (e.g. 0.47% = 0.0047)

Using the table above to calculate the firm fee based on the firm's turnover (T)

1. Identify which band the turnover (T) falls in from column A.
2. Subtract the figure in the corresponding column C from (T).
3. Multiply this figure by the corresponding percentage in column B.
4. Finally add this figure to the corresponding figure in column D.
5. Firm fee then needs to be rounded to the nearest pound (i.e. if less than 50p then round down and if equal to or more than 50p then round up)

Formula: (T - C) x B + D

Example 1: For Turnover of £0:
 $(£0 - £0) \times 0.76\% + £100 = £100$

Example 2: For Turnover of £200,000:
 $(£200,000 - £150,000) \times 0.43\% + £837 = £1,052$

Example 3: For Turnover of £813,421:
 $(£813,421 - £500,000) \times 0.42\% + £2,342 = £3,658$

Example 4: For Turnover of £279,123,528:
 $(£279,123,528 - £150,000,000) \times 0.07\% + £313,142 = £403,528$

Annex B - Recognised Body and Recognised Sole Practice Fee Determination Appendix 2

Turnover Figure

The following paragraphs describe how the turnover figure that will be used for the purposes of determining the fee should be calculated:

1. Turnover figure means a firm's total gross fees arising from work undertaken from offices in England and Wales.
 - *Gross fees includes*: all professional fees of the firm including remuneration, retained commission, and income of any sort whatsoever of the firm (including notarial fees). Work in Progress (WIP) should be included.
 - *Gross fees does not include*: interest, reimbursement of disbursements, VAT, remuneration from a non-private practice source, dividends, rents, and investment profit.
2. The turnover figures that will be used when billing firms in October 2016 will be based on **closed accounts**, audited where possible.
 - Closed accounts are defined, in order of preference, as:
 1. an audited set of financial statements
 2. an unaudited set of financial statements signed off by an accountant
 3. a submitted tax return for the year.
3. Bad debt should be handled under normal accounting procedures. Where it has been allowed for in the turnover figure for a firm's last closed accounting period prior to 1 November 2015, that is acceptable. If a bad debt has been discovered after closing the firm's accounts, then the turnover figure cannot be re-adjusted. Those adjustments could potentially be accounted for in the following year's closed accounts.
4. The turnover figure should, wherever possible, be for the last complete (12 months) accounting period prior to the 1 November 2015 (e.g. 31 March 2015). The latest acceptable annual accounting period end date is 31 October 2015.
5. The turnover figure should be an exact figure wherever possible. A figure rounded to the nearest £1,000 will be acceptable only if more detail is unavailable.
6. Those firms who do not have closed accounts which ended within the period from 1 November 2014 to 31 October 2015, should provide the SRA with an estimate of the turnover figure as well as the previous year's turnover figure based on accounts which have been closed. The SRA will determine at its discretion whether to use the 2014 figure if an updated 2015 figure based on closed accounts has not been received by 31 August 2016.
7. The turnover figure must be for a 12 month period.
 - (a) For a brand new firm (i.e. not a successor firm nor one resulting from change in status), an estimate for the first 12 months of practice (irrespective of whether this is after 31 October 2015) will be accepted; the basis upon which the firm has made the estimate should be provided to the SRA.
 - (b) If a firm has changed its annual accounting period, its latest closed accounting period prior to the 1 November 2015 will be shorter or longer than

12 months. The following approach should be used by the firm, providing an explanation of how they have derived their turnover figure:

- Preferably, provide the turnover for the 12 month period immediately preceding the new accounting period end date (as long as prior to 1 November 2015)
 - Alternatively, if this is not possible then take the last closed accounts period prior to the 1 November 2015 and scale it appropriately (e.g. if the last closed accounting period was for six months then it should be doubled; if the last closed accounting period was for 15 months, then it should be divided by 15 and then multiplied by 12).
8. If a firm has a change in status (e.g. partnership to LLP, sole practitioner to partnership), then it should respond as if there were no change in status.

Annex B - Recognised Body and Recognised Sole Practice Fee Determination Appendix 3

Successor Turnover

Successor turnover is relevant where firms have changed through, for example, an acquisition, merger or split. Certain firms affected are required to submit a Notice of Succession to the SRA with an agreed apportionment of turnover among the affected firms.

As guidance successor turnover shall be calculated based on the Turnover Figures for each of the affected firms.

If a firm has succeeded to the whole or a part of one or more firms (e.g. through merger or acquisition), successor turnover will be calculated by combining the appropriate proportion of the Turnover Figure for each of the affected firms which has become part of the successor practice:

- In a simple merger between firms A and B, combine the Turnover Figures for each firm.
- In a merger of one firm (firm A) with part of another firm (e.g. one third of firm B) then firm A should add the corresponding proportion of firm B's Turnover Figure to its Turnover Figure (e.g. firm A's Turnover Figure + third of firm B's Turnover Figure)

For a firm which has split or ceded part of their practice to another firm and wishes this change to be reflected in a successor turnover figure, the successor turnover figure will be a proportion of the Turnover Figure, as long as it is clear how the Turnover Figure for such a firm is to be distributed between the successor firms. 100% of the Turnover Figure must be accounted for between the successor firms. For example:

- In a merger of firm A with one third of firm B then
 - firm B's successor turnover figure will be two thirds of its Turnover Figure, Firm A's will be its Turnover Figure plus one third of B's Turnover Figure
- Where firm A and one third of firm B become new firm C
 - firm A's turnover will be £0 (closed) and B's turnover will be two thirds of its Turnover Figure. Firm C's successor turnover figures will be the combination of A's Turnover Figure and one third of firm B's.

In a case where all successor firms agree on the apportionment of 100% of the Turnover Figures, then the SRA will accept the successor turnover figures.

In the case where all successor firms are unable to agree the apportionment of 100% of the Turnover Figures, then the SRA will treat the Notice of Succession as an application for it to determine the Turnover Figure for the purpose of calculating the fees. The SRA will determine this apportionment based on the information available and its decision will be final.

Annex C - Draft Licensed Body Fee Determination [2016]

This determination is made by the Solicitors Regulation Authority Board under Rules 2.1 and 8.3 of the SRA Authorisation Rules 2011 with the approval of the Legal Services Board under section 51 of the Legal Services Act 2007.

Initial Applications

1. The application fee payable by a body applying for initial authorisation as a licensed body will be calculated as follows:
 - (a) an initial payment of £2,000, which is based on a day rate of £600, and includes a contribution towards the setting up of the appellate body;
 - (b) £150 in relation to each candidate subject to approval by the SRA under Part 4 of the SRA Authorisation Rules, excluding those deemed to be approved under Rule 13.2 of the SRA Authorisation Rules;
 - (c) where the SRA's costs in considering the application exceed the amounts specified in (a) and (b) above then such additional costs will be charged at a day rate of £600;
 - (d) where the nature of the application means that the SRA has to seek external assistance, the full cost of that assistance will be charged;
 - (e) on initially considering an application, the SRA will notify those bodies whose applications it considers likely to exceed the amounts specified in (a) and (b) above and will indicate any additional sums payable in accordance with paragraphs (c) or (d) above;
 - (f) notwithstanding any additional sums notified under paragraph (e), the SRA may charge further additional sums in accordance with paragraphs (c) or (d) if unforeseen circumstances arise during the application process, however the SRA shall notify the applicant as soon as reasonably practicable as to the further liability to be incurred.
2. Appendix 1 contains information on the circumstances that may give rise to additional costs that may be chargeable under paragraphs 1(c) and (d) and the SRA may publish additional information from time to time.

Periodical fees

Licensed bodies are required to pay an initial periodical fee on authorisation which is calculated by reference to the firm's estimated turnover. Licensed bodies are also required to pay annual periodical fees by the prescribed date which is 31 October in any year. Paragraphs 3 and 4 below deal with the way in which the initial periodical fee will be calculated for the period which runs from 1 November 2016 to 31 October 2017 and paragraph 5 deals with the annual periodical fee.

Initial Periodical Fee

3. Subject to paragraph 4, the initial periodical fee payable by a licensed body shall be determined by:
 - (a) taking the estimate of the Turnover Figure for the first 12 months of business and carrying out the calculation in respect of the relevant band in accordance with appendix 2; and
 - (b) paying one twelfth of that amount in relation to each month or part of a month between the date of authorisation and 31 October 2017.
4. (a) Where a licensed body has succeeded to the whole of the practice of an authorised body the fee calculated in accordance with paragraph 3 shall be reduced by one twelfth of the firm fee already paid by the predecessor authorised body in respect of each month between the date of authorisation of the licensed body and 31 October 2017.
 - (b) Where a licensed body has succeeded to part of the practice of an authorised body the fee calculated in accordance with paragraph 3 shall be reduced as set out in paragraph 4(a) above but the reduction shall relate to such proportion of the firm fee as the SRA shall determine taking into account any Notice of Succession or other information.

Annual Periodical Fee

5. The annual periodical fee payable by a licensed body shall be determined by taking the estimate of the Turnover Figure for the first 12 months of business or, where the licensed body became a licensed body before 1 November 2014, the Turnover Figure, and carrying out the calculation in respect of the relevant band in accordance with appendix 2.

Overseas Branch Offices

6. A licensed body which has one or more overseas branch offices shall pay an additional fee of £200 in respect of each overseas office.

Interpretation

7. In this determination:

Notice of succession means notice required under Rule 8.3(f) of the SRA Authorisation Rules;

Turnover Figure means as set out in appendix 3.

All other terms are to be interpreted in accordance with the SRA Handbook Glossary 2012.

Commencement

8. This determination shall come into force on 1 November 2016.

Annex C - Licensed Body Fee Determination: Appendix 1

1. The initial payment of £2,000 includes the costs that the SRA will incur in reviewing the application and considering whether, and if so how much, additional time and external assistance will be required. At the end of the review the SRA will notify the applicant of additional sums payable under paragraph 1 (c) and (d). Such estimate may be exceeded if unforeseen circumstances require additional time or external assistance.
2. The following list contains indicators of circumstances relating to the applicant body that may lead to the SRA seeking further information and incurring additional costs:
 - (a) proposed outsourcing arrangements;
 - (b) proposed initial public offering;
 - (c) proposed franchise model;
 - (d) proposed multiple fee sharing and /or referral arrangements;
 - (e) proposed multi disciplinary practice, involving other regulators;
 - (f) the applicant is part of a group including other organisations or permitted separate businesses which could cross sell services and /or give rise to potential conflicts.

This list is not exhaustive.

3. The SRA estimates that a combination of indicators that includes one or more of (a) to (d) above (moderate complexity) may require an additional 15 days of cost and an approximate additional charge of £9,000.
4. The SRA estimates that a combination of indicators that includes one or more of (e) and (f) together with any of the other indicators (high complexity) may require an additional 30 days of cost and an approximate additional charge of £30,000.
5. Additional costs may also be incurred where candidates, or sources of funding are located overseas. This could include the use of specialised external agencies to provide detailed reports on foreign individual and corporate owner applicants and may cost between £3,000 and £5,000 dependent on the jurisdiction.
6. Additional costs may also be incurred where there are complex ownership structures which require investigation in order to identify all persons who hold a material interest.

Annex C - Licensed Body Fee Determination: Appendix 2

| Turnover band (T) | Turnover Range (A) | Pay %* of Turnover within band (B) | Minimum Turnover in band (C) | Minimum Fee in Band (D) |
|-------------------|-------------------------------|------------------------------------|------------------------------|-------------------------|
| A | £0 - £19,999 | 0.76% | £0 | £100 |
| B | £20,000 - £149,999 | 0.45% | £20,000 | £252 |
| C | £150,000 - £499,999 | 0.43% | £150,000 | £837 |
| D | £500,000 - £999,999 | 0.42% | £500,000 | £2,342 |
| E | £1,000,000 - £2,999,999 | 0.39% | £1,000,000 | £4,442 |
| F | £3,000,000 - £9,999,999 | 0.27% | £3,000,000 | £12,242 |
| G | £10,000,000 - £29,999,999 | 0.23% | £10,000,000 | £31,142 |
| H | £30,000,000 - £69,999,999 | 0.21% | £30,000,000 | £77,142 |
| I | £70,000,000 – £149,999,999 | 0.19% | £70,000,000 | £161,142 |
| J | £150,000,000 + | 0.07% | £150,000,000 | £313,142 |

* % is equivalent to 'divided by 100' (e.g. 0.47% = 0.0047)

Using the table above to calculate the firm fee based on the firm's turnover (T)

1. Identify which band the turnover (T) falls in from column A.
2. Subtract the figure in the corresponding column C from (T).
3. Multiply this figure by the corresponding percentage in column B.
4. Finally add this figure to the corresponding figure in column D.
5. Firm fee then needs to be rounded to the nearest pound (i.e. if less than 50p then round down and if equal to or more than 50p then round up)

| |
|---|
| Formula: $(T - C) \times B + D$ |
|---|

Example 1: For Turnover of £0:
 $(£0 - £0) \times 0.76\% + £100 = £100$

Example 2: For Turnover of £200,000:
 $(£200,000 - £150,000) \times 0.43\% + £837 = £1,052$

Example 3: For Turnover of £813,421:
 $(£813,421 - £500,000) \times 0.42\% + £2,342 = £3,658$

Example 4: For Turnover of £279,123,528:
 $(£279,123,528 - £150,000,000) \times 0.07\% + £313,142 = £403,528$

Turnover Figure

The following paragraphs describe how the turnover figure that will be used for the purposes of determining how the periodical fee should be calculated:

1. Turnover figure means a firm's total gross fees arising from regulated activities undertaken from offices in England and Wales.
 - *Gross fees includes:* all professional fees of the firm including remuneration, retained commission, and income of any sort whatsoever of the firm (including notarial fees). Work in Progress (WIP) should be included.
 - *Gross fees does not include:* interest, reimbursement of disbursements, VAT, remuneration from a non-private practice source, dividends, rents, and investment profit.
2. Applicant bodies are required to provide an estimated turnover figure in the application and the SRA will seek information to support the figure and explain the basis on which the body has made the estimate during the authorisation process. Where the applicant body is succeeding to any legal practice carried on by a recognised sole practitioner, an authorised body or to a previously unregulated legal services business then the historic turnover figures for such businesses will be relevant in validating the estimated turnover for the new body.
3. The SRA may substitute an alternative estimated turnover figure for the purpose of the fee calculation where it reasonably considers that the estimated turnover figure produced by the applicant body does not fully reflect the true value of the legal services to be provided. The examples below indicate the sort of circumstances in which such a substitution may be made:
 - (a) The licensed body is part of a group of businesses which provide a range of services some of which may be bundled with legal services, where the legal services may be offered at a reduced rate or as a "free" service.
 - (b) The licensed body is part of an insurance company where some of the legal services may be supported by premium funding, rather than fee income.
 - (c) The licensed body provides a mix of regulated activities and other activities which are either unregulated or regulated by other regulators, and the services provided may include a mix of such activities which may be bundled as in (a) above.

In these cases the SRA will seek further information to help it determine a fair estimate and will seek to agree the figure with the applicant body but in the absence of such agreement the SRA's decision shall be final.

4. A licensed body will have provided an estimated turnover figure for the first 12 months of trading during the application process. This estimated turnover figure will be used to determine the annual periodical fee payable by the licensed body. In some cases, the SRA may have chosen to substitute an alternative estimated turnover figure in the circumstances outlined in paragraph 3 above to ensure the estimated turnover reflects the true cost of legal services being provided. This figure will have been communicated to the applicant prior to the licence being granted. In such cases, the revised estimated turnover figure will be used to determine the annual periodical fee payable by the licensed body.

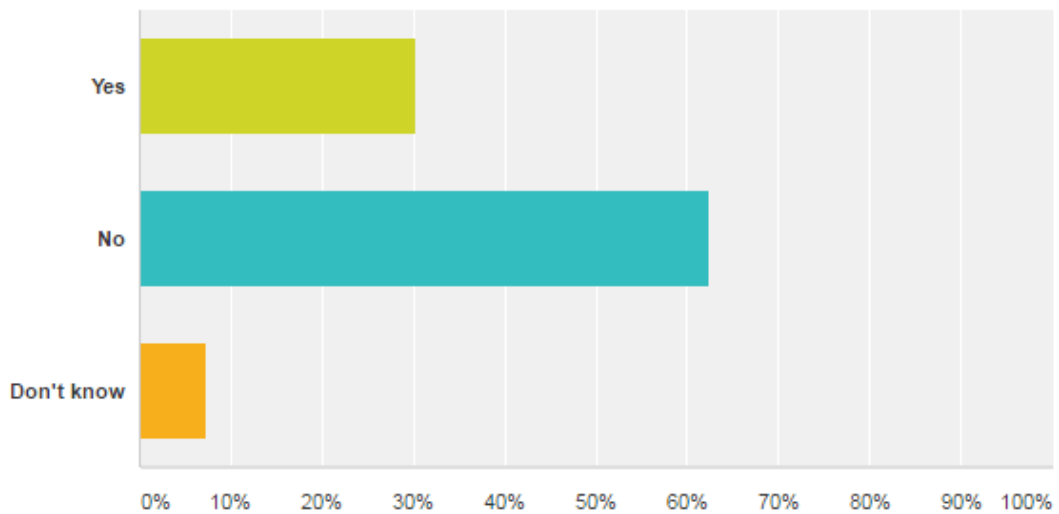
5. Where a licensed body became a licensed body before 1 November 2014, the turnover figure should no longer be estimated. In such cases, the turnover figures that will be used when billing firms in October 2016 will be based on **closed accounts**, audited where possible.
- Closed accounts are defined, in order of preference, as:
 1. an audited set of financial statements
 2. an unaudited set of financial statements signed off by an accountant
 3. a submitted tax return for the year.
6. Bad debt should be handled under normal accounting procedures. Where it has been allowed for in the turnover figure for a firm's last closed accounting period prior to 1 November 2015, that is acceptable. If a bad debt has been discovered after closing the firm's accounts, then the turnover figure cannot be re-adjusted. Those adjustments could potentially be accounted for in the following year's closed accounts.
7. The turnover figure should, wherever possible, be for the last complete (12 months) accounting period prior to the 1 November 2015 (e.g. 31 March 2015). The latest acceptable annual accounting period end date is 31 October 2015.
8. The turnover figure should be an exact figure wherever possible. A figure rounded to the nearest £1,000 will be acceptable only if more detail is unavailable.

Annex D - NFR Consultation Response Executive Summary

This executive summary includes a brief analysis of the themes arising from the comments on each question. A full verbatim copy of the comments is also available.

Do you think the practising fees for 2016-17 represent value for money in terms of the benefits you gain as a solicitor? (The Law Society Group annual report 2014-15)

Answered: 96 Skipped: 0



| Answer Choices | Responses |
|----------------|-------------|
| Yes | 30.21% (29) |
| No | 62.50% (60) |
| Don't know | 7.29% (7) |
| Total | 96 |

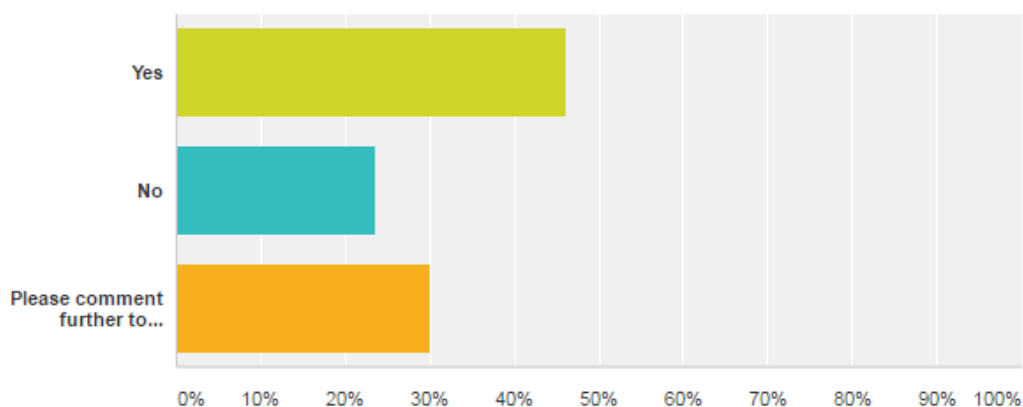
Comments (50 responses)

Key Themes:

- PC fee too high - should be voluntary - sector is overregulated
- SRA/LSB too expensive - over regulation - but TLS valued
- PC fee should take account of members circumstances (in-house, maternity, retired)
- Benefits - members still unaware or think TLS too London centric
- Suggestions around what we can do to Represent. Promote, Support.

Do you think the split of spending across the Law Society Group, between the Law Society professional body, the Solicitors Regulation Authority, Legal Ombudsman, Legal Services Board and Solicitors Disciplinary Tribunal, is reasonable?

Answered: 93 Skipped: 3



| Answer Choices | Responses |
|--|-------------------------------------|
| Yes | 46.24% 43 |
| No | 23.66% 22 |
| Please comment further to explain your answer: | Responses 30.11% 28 |
| Total | 93 |

Comments (28 responses)

Key Themes:

- Yes it is fair
- No it is not fair
- More to The Law Society and less to SRA
- LeO costs are too high
- Don't know / not fully aware.

Q3 - Do you have any other comments

Do you have any other comments (42 responses)

Key themes

- Reduced fees related to member circumstances
- Consideration of additional fees incurred and taxation issues
- Regulatory issues - levels and complexity
- Represent, promote, support - lack of awareness of what we do plus suggestions.

