

BY EMAIL

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Dear Paul and Paul,

**Approval of application made by The Law Society and Solicitors Regulation Authority (SRA) to Legal Services Board (LSB) under section 51 of the Legal Services Act 2007 (the Act) for the level of practising fees for 2017/18**

I am pleased to confirm that the levels of the 2017/18 fee determinations for practising certificates, recognised sole practices, recognised bodies and licensed bodies, as set out in your joint application and supporting documents of 14 July 2017 have been approved by the LSB. This decision has been made under the authority delegated to me as the Chief Executive.

We welcome the reduction in the level of PCF for both individuals and firms. As you know, cost of regulation continues to be a key focus for us, and our expectation is that approved regulators should be taking steps to deliver reductions in fees and we are pleased that this was achieved again this year.

There are however, two matters of significance that I need to raise at this time.

The first is in relation to the very short consultation between 23 June and 2 July. We acknowledge that the PCF is being reduced this year, and that the budgetary planning timetable means that there is a short window in which to consult on the budget and level of the fee. Nonetheless, the LSB is very concerned about such a short consultation which hinders meaningful input into the process. We would ask The Law Society Group to consider how it might best incorporate the views of the regulated community in future budget and PCF rounds.

The second matter is The Law Society's allocation of expenditure between permitted and non-permitted activities. We were clear in our decision letter for the 2016 PCF settlement

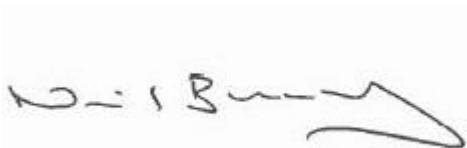
that any proposals made in the future in respect of the allocation of financial resources received by an approved regulator from its permitted activities will be taken into consideration in deciding the appropriate level of practising fee to be borne by authorised persons. This is set out in the Practising Fee Rules 2016, as too is the obligation to have regard to the principles of clarity and transparency in the application of revenue for permitted purposes. When considering all PCF applications, the LSB will also have regard to the compatibility of the proposal with the regulatory objectives and its other statutory duties.

We noted from the application that this year The Law Society has changed its methodology of allocation of PCF revenue between permitted and non-permitted activities. While the LSB has no objection in principle to The Law Society altering its methodology, the LSB does have an interest in ensuring that any new approach does not lead inadvertently to monies raised from PCF being used for non-permitted purposes. In assisting us in making our assessment of the application we asked for further details from The Law Society, including examples of how the allocation had worked in practice. Unfortunately this information did not provide us with the reassurance we were seeking. Indeed, the examples caused us concern, as it appeared that resources were being classified as permitted purposes despite them seeming to have substantive elements of representative activity.

We could not conclude our enquiries on this aspect in the time allotted to make a decision on the whole application. However, as the PCF level is being reduced and taking into account that we were content with the SRA parts of the application, we did not consider it appropriate or proportionate to refuse the application solely on the lack of clarity of allocation. However, transparency remains crucial and the LSB will continue to look into the matter of The Law Society allocation of funds to permitted and non-permitted activity. If it transpires that PCF funds have been allocated to non-permitted activity through the new methodology and this has had an impact on the PCF level, we will expect an off-set correction in the PCF proposals for 2018/19.

I will be back in touch about the further work that will be necessary to clarify the allocation of expenditure.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Neil Buckley', with a stylized flourish at the end.

Neil Buckley  
Chief Executive

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