



Probate authorising and licensing fees 2018 - approval request

EXECUTIVE SUMMARY

1. The Professional Standards(PS) probate financial target follows the self-financing, sometimes called 'user pays', principle i.e. firm registration fees are set at a level where income is expected to cover applicable costs. This principle is adopted in all areas of PS regulation and assurance.
2. The probate budget and financial strategy addresses the challenge of estimating future firm volumes for registration, expectations from the oversight bodies, short and long term compensation scheme funding, return of original investment and, crucially, of providing sufficient resources in order to; carry out statutory and regulatory functions, deliver a range of services, such as quality assurance and conduct, and to address potential changes in the relevant regulatory and legal environment.

To note, there is no budget subsidy to probate activities from ICAEW membership subscriptions, member practising certificate fees or other areas of regulation.

3. Probate budgeted income is sourced from firm registration fees and a levy. The registration income is calculated to cover for example the expected operational costs including staffing, office and project costs and an allocation of ICAEW overhead. The levy income is used to source funding for the operation and building of a compensation scheme fund and the associated annual insurance.
4. After support from the ICAEW probate committee of a small fee increase, the purpose of this paper (assessed under section 51 of the Legal Services Act) is to propose for approval to the Legal Services Board(LSB):

A 1% increase in firm registration authorising and licensing fees. This reflects the strong financial results to date, the impact of inflation which increases general operating and overhead costs, and staff wage inflation estimated at 2% for 2018.

There is no proposed increase for the firm levy amount. This is because progress against a fully funded compensation scheme target is good and insurance costs are adequately covered at the current level of levy.

RECOMMENDATION:

5. That the LSB approves the 1.0% fee increase recommendation.

Probate registration fees

6. Example fee changes are illustrated below based on the 1.0% increase recommendation:

	2017 fee	2018 fee
Authorised firm		
Single principal, 1 office	£350	£353
2-5 principals, 1 office	£610	£616
Licensed firm		
Single principal, 1 office	£350	£353
6-9 principals, 2-10 offices	£9,900	£9,999

7. Based on a forecast and estimated profile of firms including their size (number of principals and offices), and growth in authorisation/licensing from 1 January 2017 to 2018, registration income for 2018 is expected to be c£400k, with a further c£250k income generated from the levy in order to fund the ongoing establishment and operation of the compensation scheme and its associated insurance.
8. An annual financial summary of actual results is published on the ICAEW website.

Probate Committee terms of reference

9. The Probate Committee, with approval from the LSB, can set the level of regulatory fee and levy.
10. The proposal to increase fees for 2018 by 1% has been shared with the ICAEW Regulatory Board (IRB) but noted that the decision on the increase rests with the Probate Committee and the LSB.
11. Were a future proposed increase in probate fee or levy be above wage inflation it is recommended the ICAEW Probate Committee also consult with the IRB as part of the approval process.

Timing and communication

12. The changes in fees would be effective from 1 January 2018.
13. A reference to the fees scale is included on probate fee pro-forma invoices which are prepared for distribution in November.
14. The new fee scales will be placed on the ICEAW website in November 2017. Terms and conditions in relation to payment are also available at icaew.com

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SUPPORTING ANALYSIS

Key financial characteristics

- The self-financing model principle where target income, generated from fees, is set at a level to cover applicable costs. Income levels therefore represent cost levels.
- The firm levy funds the compensation scheme and associated insurance.
- Should income exceed operating costs and return of investment (start-up funding), the surplus will be transferred to the compensation scheme fund in order to accelerate the building of a reserve.
- The target for the reserve, to be built over 10 years, is as agreed with the Legal Services Board.
- Should longer term projections of levy income indicate that the compensation scheme fund reserve will be ahead of target the levy per firm may be reduced. This calculation and projection will be subject to the outcomes of complaints and investigations.
- Committee annual reports and financial results are published online at <http://www.icaew.com/en/technical/legal-and-regulatory/probate-and-alternative-business-structures>
- 2016 results are shown here including analysis of cost <http://www.icaew.com/-/media/corporate/files/technical/legal-and-regulatory/probate-and-abs/icaew-probate-2016-financial-report.ashx>

Registration volume and income analysis

	2017	Forecast 2018	
Registration volume	250	285	+14%
£,000			
Registration renewals	364	400	+10%
Levy	230	250	+9%
	<hr/> 594	<hr/> 650	

Registration fees and Levy represents income collected from those registered for the January renewal date.

Registration volumes expected in January 2018 and the mix of firms has been estimated.

There may be new registrations during the year (there have been during 2017), and therefore total year income could be higher than the renewal figure in 2018.

New registrations, numbers of withdrawals in Q4 2017 or maintaining current volumes cannot be guaranteed.

Registrations are a mix of firm sizes, smaller firms pay less fees.

Cost

Under the principle of the self-financing model, income levels are estimated to represent estimated cost levels.

Costs of delivery include; staff, committee, legal, overheads, compensation scheme, insurance, research and project costs.

Staff costs include administration, registration, policy, quality assurance and conduct.

Overheads include property, administration, systems and support costs.