

**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 2018/19**



Law Society Practising Fees 2018/19

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Section 1: Introduction

1. This document asks the Legal Services Board (LSB) to approve the Law Society's (TLS)/Solicitors Regulation Authority's (SRA) application for practising fees for 2018/19.
2. The following fees, outlined in table 1, need LSB approval:
 - individual regulatory fee; and
 - firm regulatory fee for recognised sole practices, recognised bodies and licensed bodies (based on turnover bandings).

Table 1: Fee levels

Practising Certificate Fees	2019 NFR	2018 NFR	Variance
Individual regulatory fee	£278	£278	£0 0%
Individuals (total to be collected)	£39.9m	£39.4m	+ £0.5m + 1.3%
Firm fee (total to be collected)	£59.8m	£59.2m	+ £0.6m + 1.0%

Background

3. The current fee structure was set in 2010. In that year, the approach changed from collecting nearly 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
 - 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 2018/19.
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 split between individual solicitors and firms.

6. Regulatory fees are split between:

- individual: 40% of the total requirement
- firm: based on turnover bandings: 60% of the total requirement.

The funding for the Compensation Fund is divided equally between practising solicitors and firms holding client money.

7. The SRA has consulted on significant changes to its regulatory arrangements and the SRA Board made a new set of rules and regulations on 30 May 2018 to replace those in the current Handbook. These new rules and regulations have been submitted to the LSB and are subject to approval. The SRA has also consulted on changes to the indemnity insurance requirements and the Compensation Fund.
8. We planned to review the payment structure (summarised above) for the fees we charge and consult with the sector. We have done a significant amount of work on this but have decided that we should not propose changes at this time. This is because many of the relevant processes are likely to change because of our regulatory reform and work to modernise our IT. We now anticipate carrying out this review in 2019.
9. Table 2 below summarises the total income by source and the split of costs by organisation that are funded by that income with a cross reference to the relevant table in the application where more detail is given.

Table 2: The Law Society Group Income and Expenditure

Budget item	2019 draft budget	2018 NFR	Variance	Refer to table
Income				
Practising Fee income	£99.7m	£98.6m	+ £1.1m	3
Commercial Income (permitted)	£13.0m	£14.0m	-£1.0m	10
Commercial Income (non-permitted)	£1.8m	£1.7m	+£0.1m	9
Regulatory Income	£2.9m	£3.0m	-£0.1m	8
SRA direct recoveries	£11.0m	£10.9m	+£0.1m	8
SRA shared services recoveries	£1.6m	£2.0m	-£0.4m	8
Funding from permitted reserves	£1.4m	£1.3m	+ £0.1m	10
Funding from non-permitted reserves	£1.1m	£0.9m	+ £0.2m	9
Total	£132.5m	£132.4m	+£0.1m	
Expenditure				
TLS (permitted)	(£43.6m)	(£45.9m)	- £2.3m	10
TLS (non-permitted)	(£2.9m)	(£2.6m)	+ £0.3m	9
SRA	(£69.5m)	(£68.5m)	+ £1.0m	8
LSB and LeO	(£13.2m)	(£12.7m)	+ £0.5m	3
SDT	(£3.0m)	(£2.4m)	+ £0.6m	3
OPBAS	(£0.3m)	(£0.3m)	£0.0m	3
Total	(£132.5m)	(£132.4m)	+ £0.1m	

Section 2: The Law Society Group budget-setting and practising fees

10. The net funding requirement (NFR) for the Law Society Group is based on:
 - the SRA and TLS's draft budgets, which include shared services' costs.
 - levies required by:
 - the Legal Services Board (LSB)
 - the Solicitors Disciplinary Tribunal (SDT)
 - the Legal Ombudsman (LeO)
 - the Office of Professional Body Supervision (OPBAS), initial estimate of year 1 costs to be charged to the regulator.
11. The SRA's draft budget and NFR is approved by the SRA Board and recommended to the Law Society Council by the Business and Oversight Board.
12. In 2017 the Council of the Law Society resolved to alter its governance, creating a single Board to replace the four Boards (which included the Law Society Management Board). TLS's draft budget and NFR is approved by the Law Society Board and recommended to Council.
13. The Law Society Board and finally the Law Society Council then discuss and agree the total Law Society Group budget.
14. The 2018/19 draft budgets for the SRA and TLS – and therefore the NFR for each – include an allocation of shared service costs. The allocation of those costs has been reviewed as a part of the draft budget and NFR process. These allocations are reviewed annually.
15. To estimate fees that will cover the total NFR, assumptions have to be made about:
 - the number of practising certificates to be issued.
 - the turnover from all firms within the profession. This is based on information supplied by each of the firms as part of the 2017/18 renewal exercise.
16. The Law Society Council approved a total of £99.7m to be collected from practising fees – which is a £1.1m, or 1.1%, increase from £98.6m in 2017/18.
17. The individual practising fee will remain unchanged at £278 in 2018/19.
18. The Law Society Group's financial year ends on 31 October, so the budget year is aligned to the practising certificate year. Budgets for the SRA and TLS are finalised before the beginning of the financial year within the individual NFR envelopes set at the point of this application.
19. In 2018/19 the practising fee income will be shared between:
 - SRA (regulatory arm): £52.6m (2018: £52.6m)
 - TLS (professional body): £30.6m (2018: £30.6m)
 - LSB, LeO, SDT and OPBAS: £16.5m. (2018: £15.4m)

Table 3: Total Practising fee income and expenditure (permitted activities only) between 2017/18 and 2018/19:

Budget item	2018 draft budget	2018 NFR	Variance
Total Practising Fee income			
Total Practising Fee income	£99.7m	£98.6m	+ £1.1m + 1.1%
Split of Practising Fee expenditure			
SRA	(£52.6m)	(£52.6m)	£0.0m
TLS (permitted purposes)	(£30.6m)	(£30.6m)	£0.0m
LSB and LeO	(£13.2m)	(£12.7m)	+ £0.5m + 3.9%
SDT	(£3.0m)	(£2.4m)	+ £0.6m + 25.0%
OPBAS	(£0.3m)	(£0.3m)	£0.0m
Total	(£99.7m)	(£98.6m)	+ £1.1m + 1.1%

Contingency arrangements, reserves and capital IT investment

20. The SRA and TLS are expected to operate within approved budgets, reprioritising if necessary should unexpected needs arise in the year.

21. As at the end of May 2018, the Law Society Group had cash reserves totalling £129.4m and accounting reserves of £82.4m. It intends to use £2.5m from reserves to fund TLS and SRA activity in 2018/19.

- £1.1m to support activities that are outside the definition of permitted purposes under s51 LSA 2007.
- £1.4m to support in year IT transitional costs and funded from reserves generated by the SRA in the 2016/17 financial year.

22. Following a review of Corporate Solutions in 2015, the SRA and TLS undertook 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 have commenced 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 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. These systems will also be supported by separate IT teams in each organisation. As a result, it is planned that not only will services be more secure, resilient and flexible, but 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 organisations.

23. At the time of preparing the application both the SRA and TLS are in the middle of their respective programmes and expect the 2018/19 year to represent a year of transition for IT services as they move from a shared service based delivery to organisational based delivery. Both SRA and TLS have strong and robust governance processes in place to monitor the progress and performance of their respective IT programmes
24. The total gross capital investment (ie before the realisation of programme benefits) over the period 2015/16 to 2019/20 is currently estimated at £61m, with the net cost being £37m.
25. Within the draft budgets for the SRA and TLS which inform the NFR, sums of £9.4m (SRA) and £4.1m (TLS), a total of £13.5m, have been included for projects. The majority of these provisions will be applied to the development and implementation of the IT roadmaps in both bodies. The amount collected by the Group for projects remains unchanged from 2017/18.
26. It is planned that any programme costs above the level provided for in the 2018/19 NFR will be met by the use of reserves held by the Law Society Group.
27. Where 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. This means that towards the end of and beyond the completion 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 and the repayment of reserves, SRA and TLS expect to reduce the level of funding required for capital investment collected through annual fees.

Section 3: The SRA budget

28. In 2018/19, the SRA budget is made up of three key areas:

- the primary budget
- projects
- shared services costs.

29. This reflects the revised structure following the cessation of the Corporate Solutions business in 2015. The table below shows the direct year on year comparison between 2018/19 and 2016/17 along with the two previous years in the old structure.

Table 4: SRA budget since 2015

SRA budget time series (£m)						
	2015	2016	2017	2018	2019	Variance 2019/18
SRA budget excluding the cost of interventions	38.2	37.3	40.0	39.5	42.8	8.3%
SRA provision for the cost of interventions	9.3	6.8	6.6	6.6	6.6	-
Total SRA directly controlled budget for regulation	47.5	44.1	46.6	46.1	49.4	7.2%
SRA cost of shared services and capital projects provided by Corporate Solutions	27.1	27.0	N/A	N/A	N/A	N/A
SRA cost of TLS governance and property costs formerly in CS	N/A	N/A	4.1	4.3	4.1	-4.7%
SRA allocation of shared service costs	N/A	N/A	9.3	9.6	7.5	-21.9%
Capital projects	N/A	N/A	9.4	9.4	9.4	-
Total SRA budget for regulation	74.6	71.1	69.4	69.4	70.4	1.4%

Note - the SRA budget excluding the cost of interventions in 2017-2019 includes costs which were previously shown within SRA cost of shared services and capital projects provided by Corporate Solutions.

SRA budget 2018/19: context and overall approach

30. The SRA Finance and Audit Committee considered the SRA 2018/19 draft budget and NFR and passed it onto the SRA Board, which approved both at its meeting on 30 May 2018. The Law Society Business and Oversight Board approved the SRA draft budget and NFR by on 13 June 2018. It recommended both for approval by the Law Society Council. The Council approved the SRA's draft budget, the SRA's NFR and the Law Society Group NFR on 5 July 2018.

31. Preparing the 2018/19 SRA budget takes the following into consideration:

- the SRA's Corporate Strategy 2017 to 2020
 - the SRA's 2017/18 operational and financial position, including levels of activity, both in 2018 and a forecast for 2019
 - the SRA's assessment of current regulatory challenges and priorities and operational performance
 - the Modernising IT (MIT) programme.
32. The SRA published its three-year Corporate Strategy in November 2017. The NFR has been prepared to build on the objectives outlined in the strategy. The business plan, which is supported by the NFR and will set out the specific deliverables for year two of the three-year plan, will be finalised during the summer/autumn of 2018.
33. The SRA's programme of regulatory reform will continue in 2018/19, subject to LSB approval. Key priorities include:
- continuing work to implement changes following our review of the Handbook
 - implementing changes to make it easier for consumers to access information that helps them find and choose an appropriate legal services provider
 - appointing a supplier to develop, test and deliver the Solicitors Qualifying Examination (SQE)
 - continuing with work to prepare operational systems and processes for the introduction of the SQE
 - developing and using our framework for evaluating the impacts of our reforms
 - continuing to refine our approach to anti money laundering (AML) regulation, including responding to external development
 - the SRA will also be continuing its wide engagement programme with stakeholders.
34. We will continue with our work on developing our technical capabilities and our decision making framework as well as continuing to develop the capabilities and skills of our people managers through a range of formal and informal routes. We will enter the final year of our legal services contract with Capsticks and will begin considering how that contract will evolve beyond the original term.
35. We will continue to improve how we work with our stakeholders and have a communications approach. We have a wide range of activities planned, which include continuing with our highly successful conference programmes. Also included is a continued focus on the Welsh market, with relevant and targeted communications and engagement.
36. In preparing the 2018/19 budget, the SRA Board has considered a number of potential risks and has ensured suitable allowance has been made. These areas are broadly consistent with previous years, and include:
- information governance and ensuring compliance with and ability to meet the demands of the new rules that came into force with the new General Data Protection Regulations (GDPR) in May 2018
 - the conclusion of our Modernising IT programme, our delivery approach for IT services and ongoing development beyond that point
 - increased requirements and complexities arising from the new AML supervision regime.
37. One of the SRA's largest non-staff budget items is for external legal work on disciplinary cases. The volume of such work has been historically difficult to estimate accurately as significant costs can arise in a small number of complex cases. During 2017, the SRA entered into a contract with a third party, asking them to be the sole supplier for a large

portion of this work. This contract has resulted in increased financial certainty that was anticipated and the budget for 2018/19 has been set on the basis of this commercial agreement. Allowances have been made for other relevant external legal costs.

38. The SRA 2018/19 budget for projects is set at £9.4m. This is split into three key areas:

- Modernising IT: £5.0m
- other projects: £3.3m
- transitional one-off costs: £1.1m

39. In July 2016, TLS Council approved a major programme of investment in the IT across TLS Group. The total approved programme budget for the SRA is £34.5m. The SRA commenced work on this programme in November 2016, following a period of due diligence and work will continue throughout 2018/19. The SRA expects that the programme, MIT, will conclude in the second half of 2018/19. Ongoing investment in our new IT will continue after MIT ends.

40. When TLS Council approved the programme, it was agreed that part of this project's funding would come from reserves. This remains the case. The SRA forecast that it would spend around £6.8m from historical reserves in 2016/17 with £2.8m being spent in 2017/18, an overall total of £9.6m. In our application last year, we indicated that we would expect to spend the majority of this in 2017/18. This remains the case, though due to the estimated live date, some of this may be deferred into early 2018/19. Additionally, as a result of an underspend on projects in 2017/18, we have reduced our overall dependency on reserves by £0.5m to £9.1m.

41. As the exact timing of the reserves spend cannot be confirmed, the only confirmed spend on MIT in 2018/19 is £5.0m, which is fully funded from the practising fee.

42. Having commenced the programme of work, the total forecast spend remains within the total approved spend of £34.5m. The SRA Finance and Audit Committee are provided with regular updates on the programme of works, actual spend and total forecast spend.

43. Spend on projects other than MIT (funded by the £3.3m other projects and £1.1m one off IT transitional cost budget) will be awarded and tracked on a project by project basis through the financial year with the SMT responsible for the allocation of funds supported by individual business cases.

SRA budget and NFR

44. Table 5 below sets out details of the directly controlled SRA draft budget for 2018/19 (ie excluding shared service costs and project costs) and provides a like for like comparison with 2017/18.

Table 5: SRA directly controlled budget and NFR

SRA directly controlled budget and NFR	2019 draft budget	2018 NFR	Variance
Total expenditure	£49.4m	£46.1m	+ £3.3m
Regulatory fee income	(£2.9m)	(£3.0m)	+ £0.1m
Compensation fund & legal recoveries	(£11.1m)	(£10.9m)	- £0.2m
Funding from permitted reserves	(£1.4m)	£0.0m	- £1.4m
Net position (NFR)	£34.0m	£32.2m	+ £1.8m

Note - total expenditure for 2019 includes activities previously included within the shared services budget.

45. In addition to the directly controlled spend, the SRA budget also includes project and shared services costs and recharges of property and governance costs from TLS. Table 6 below details proposed budget and prior year comparatives on a like for like basis.

Table 6: SRA budget and NFR for formerly shared services

SRA budget and NFR for formerly shared services	2019 draft budget	2018 NFR	Variance
Cost of property, facilities and Group level governance recharged by TLS to SRA	£4.1m	£4.1m	-
SRA projects	£9.4m	£9.4m	-
SRA allocation of shared services	£6.6m	£8.9m	- £2.3m
Total expenditure	£20.1m	£22.4m	- £2.3m
Compensation fund recoveries	(£1.5m)	(£2.0m)	+ £0.5m
Net position (NFR)	£18.6m	£20.4m	- £1.8m

46. Table 7 shows the overall combined NFR for the SRA. This takes into consideration directly controlled, shared services and project costs.

Table 7: Total SRA NFR

Budget Item	2019 draft budget	2018 NFR	Variance
SRA directly controlled NFR requirement	£34.0m	£32.2m	+ £1.8m
SRA shared cost and capital project NFR requirement	£18.6m	£20.4m	- £1.8m
Net position (NFR)	£52.6m	£52.6m	£0.0m

47. Table 8 shows the sources of income and expenditure of the SRA split by directorate.

Table 8: Total income and expenditure allocated to SRA

Budget Item	2019 Draft budget	2018 NFR	Variance	Commentary
Total income allocated to the permitted purposes for regulatory functions				
Total PC fee income	£52.6m	£52.6m	£0.0m	
Funding from reserves	£1.4m	£0.0m	+ £1.4m	
Recoveries	£12.6m	£12.9m	- £0.3m	
Other Income	£2.9m	£3.0m	- £0.1m	
Total	£69.5m	£68.5m	+ £1.0m	
Total SRA expenditure by directorate				
Chief Executive Office	(£1.9m)	(£1.8m)	£0.1m	
External Affairs	(£3.6m)	(£3.7m)	- £0.1m	
General Counsel	(£1.1m)	(£1.2m)	- £0.1m	
Case Direction	(£0.7m)	(£0.7m)	£0.0m	
Operations and Quality	(£20.8m)	(£21.0m)	- £0.2m	
Client Protection	(£9.0m)	(£9.3m)	- £0.3m	
Policy	(£3.8m)	(£3.8m)	£0.0m	
Strategy and Resources	(£8.5m)	(£4.6m)	+ £3.9m	Transfer of IT functions from shared services and additional costs associated with GDPR and IT transition.
SRA Projects	(£9.4m)	(£9.4m)	£0.0m	
Shared services	(£6.6m)	(£8.9m)	- £2.3m	Transfer of some IT functions to SRA as above
Facilities & Governance Recharge	(£4.1m)	(£4.1m)	£0.0m	
Total	(£69.5m)	(£68.5m)	+ £1.0m	

Section 4: The Law Society Budget

2009 Review

48. Since the introduction in 2010 of Section 51 and the Practising Fee Rules 2009, the Law Society has continued to follow the established methodology created as part of the 2009 review of determining which activities fell under the “permitted” definition. 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 (NFR) and the practising fees.

Expenditure allocation

49. In calculating this year’s NFR The Law Society has continued with the changed methodology introduced in last year’s submission whereby expenditure is split into permitted and non-permitted categories using activity-based analysis codes. The NFR calculation exercise was signed off by Board at its meeting of 23 May 2018.
50. The LSB has sought clarification from the Law Society about the approach taken by the Society to allocate expenditure to permitted and non-permitted purposes. Discussions have been held and the Society has updated its internal guidance to reflect comments offered by the LSB. While the Society and the LSB have not fully resolved the approach to allocation of expenditure, the guidance has been applied for the purpose of this year’s application and remains consistent with the approach taken in the previous year.
51. TLS budget includes costs which will be spent on projects which for 2018/19 is set at £4.1m (2017/18 £4.4m). This is split down into two principal elements and represents the amounts to be collected through the practising fee:
- IT Transformation £3.1m
 - other BAU Projects £1.0m
52. Investment in projects contributes to both permitted and non-permitted activity within TLS and as such the planned expenditure is allocated on a proportionate basis as part of the allocation of the analysis codes across permitted and non-permitted activity.
53. In July 2016 Council approved a major programme of investment in the IT infrastructure across TLS. The total approved programme budget for TLS is £26.1m. TLS formally commenced work on this programme in early 2017 following the recruitment of an IT Director to lead the work.
54. As a result of the delay to the start of the programme and a review of the delivery methodology the spend profile has changed from that originally forecast across 2016/17 and 2017/18 with spend now being pushed forward into 2018/19.
55. This change in profile meant that TLS did not utilise the full sum collected via the practising fee in 2016/17. Current expectations are that the funds collected via the practising fee for 2017/18 will be utilized with a drawdown of unused funds from previous years (£6.5m). This will leave £9.6m of funds available for drawdown – it remains uncertain if these funds will be required (and if so the value) but Council is content to continue to support the proposed approach in order to avoid unnecessary variations in the practising fee.
56. Having commenced the programme of work the total forecast spend remains within the total approved spend of £26.1m. TLS Board are provided with regular updates on the programme of works, actual spend, and total forecast spend.

57. Spend on projects other than IT Transformation (funded by the £1.0m other projects budget) will be awarded and tracked on a project by project basis through the financial year with the leadership team responsible for the allocation of funds supported by individual business cases and where appropriate this will also include joint sign off with the SRA.

Shared services expenditure allocation

58. Shared services expenditure is budgeted for within shared services itself. 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.

59. TLS also levies a facilities recharge to the SRA to cover the costs of its occupation of the Cube and Martin Lane along with the provision of facilities maintenance services by TLS. In prior years this cost recovery was allocated to departments and permitted/ non-permitted activities across TLS on the same basis as the shared services expenditure referable to TLS.

60. Since the costs for this support are located within the Facilities team of the Delivery & Performance Directorate and as the activity of the SRA is wholly regulatory and therefore permitted the methodology for allocation of the recovery has been adjusted to reflect this. This means that the £4m recovery is offset in its entirety against permitted expenditure incurred by TLS. Based on the permitted/ non-permitted split of activity that took place last year this is the equivalent of a £200k net funding requirement reduction on permitted expenditure.

Commercial income

61. 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

62. For 2018/19 the Law Society has applied the same methodology as last year using activity-based analysis codes (as described above in paragraph 50) for commercial income. Table 9 shows the budgeted figures for the Law Society's expenditure, by directorate, on non-permitted activities, and the income funding it. Figures for the 2017/18 budget are included for comparison purposes. The table shows a net budgeted deficit of £1.1m on non-permitted activities which will be funded from non-permitted reserves.

2018 Review

Table 9: Total commercial income and non-permitted expenditure

63. This table shows the budgeted figures for the expenditure of the Law Society on non-permitted activities.

Budget Item	2019 draft budget	2018 NFR	Variance	Commentary
Commercial income (non-permitted)	£1.8m	£1.7m	£0.1m	
Funding from non-permitted reserves	£1.1m	£0.9m	£0.2m	
Total	£2.9m	£2.6m	£0.3m	
Directorate of the CEO	(£0.2m)	£0.0m	£0.2m	
Executive Office	£0.0m	(£0.4m)	- £0.4m	Now split into Directorate of the CEO and External Affairs
External Affairs	(£0.3m)		£0.3m	
Membership Services	(£0.3m)	(£0.1m)	£0.2m	
Business Development	(£1.3m)	(£1.4m)	- £0.1m	
Delivery & Performance	(£0.8m)	(£0.7m)	£0.1m	
Total	(£2.9m)	(£2.6m)	£0.3m	

- **Directorate of the CEO** – This includes the Law Society’s Chief Executive Officer and its office holders, provides strategic support to the leadership of the Law Society. This also 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.

- **External Affairs** – This was split out of the Executive Office following a restructure during 2017/18 and includes Communications, Relationship Management, Public Affairs and also City & International.
 - 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 provide communication support across Law Society's activities, including its law reform work
 - Relationship Management support relations with the profession to assist across the Law Society' activities
 - Public Affairs manage relations with external stakeholders and assist with lobbying in law reform work.
- **Delivery and Performance** – This includes Business Planning & Performance Management, Finance, HR, Project Office and Property & Facilities which support various activities across the Law Society.
- **Business Development** – This includes Commercial Investments, Innovation, Partnerships and Sponsorship & Gazette Publishing.
 - Commercial Investments is responsible for existing TLS investments, such as 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.
- **Membership Services** – This includes Accreditations, Communities & Product Management, Corporate Responsibility, Equality & Diversity, Events & Publications, Library and Practice Advice & Support Centre.
 - Accreditations deal with the accreditation of practitioners
 - Communities support practitioners in various practice-based and demographic-type communities by providing advice, support and access to training
 - 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.
 - Research.

64. 2017/18 has seen further restructures taking place in TLS. External Affairs has been created with Public Affairs, Relationship Management & Communications being moved from the Executive Office.

Table 10: Total practising fee income and permitted expenditure

65. 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. The figure shown for total practising fee income constitutes the net funding requirement of the Law Society for permitted purposes.

Budget Item	2019 draft budget	2018 NFR	Variance	Commentary
Commercial income (permitted)	£13.0m	£14.0m	- £1.0m	
Drawn from permitted reserves	£0.0m	£1.3m	- £1.3m	
Total Practising Fee income	£30.6m	£30.6m	£0.0m	
Total	£43.6m	£45.9m	- £2.3m	
Directorate of the CEO	(£4.3m)	(£0.0m)	£4.3m	
Executive Office	(£0.0m)	(£16.4m)	- £16.4m	Now split into Directorate of the CEO and External Affairs.
External Affairs	(£12.9m)	(£0.0m)	£12.9m	
Membership Services	(£11.8m)	(£10.0m)	£1.8m	
Business Development	(£3.0m)	(£2.5m)	£0.5m	
Delivery & Performance	(£11.6m)	(£17.0m)	- £5.4m	Change in SRA facilities recharge allocation methodology discussed in para 58.
Total	(£43.6m)	(£45.9m)	- £2.3m	

Note: Detail of the contents of each directorate can be found under Table 10 above.

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

66. Table 11 below shows the expenditure relating to shared services and central costs, split by area. These costs are allocated to the SRA and TLS 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.

67. The draft shared services budget was approved by both the SRA and TLS's senior management teams, both of whom needed shared services to support their activities in 2017/18. The draft budget and allocations were then approved by the SRA Board and the Law Society Board as a part of each body's overall draft budget and NFR.

Table 11: Draft shared services budget and NFR

Budget Item	2019 draft budget	2018 NFR	Variance	Commentary
Total Practising Fee income	£12.1m	£14.4m	- £2.3m	
Contribution from non-S51 income	£0.3m	£0.3m	£0.0m	
Other income	£1.7m	£1.7m	£0.0m	Investment income
Total	£14.1m	£16.4m	- £2.3m	
Internal Audit	(£0.3m)	(£0.3m)	£0.0m	
Finance	(£2.7m)	(£2.6m)	+ £0.1m	
Human Resources and Development	(£1.9m)	(£1.9m)	£0.0m	
IT	(£8.8m)	(£11.0m)	- £2.2m	Transfer of IT functions to SRA
Sourcing	(£0.5m)	(£0.6m)	- £0.2m	
Total	(£14.1m)	(£16.4m)	- £2.3m	

Allocation of costs to TLS and SRA

68. 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 correctly reflects the drivers of costs within shared services.

69. The proposed allocations for 2018 are £5.8m to TLS and £6.6m to SRA.

70. The total costs of shared services are therefore split as shown in the table 12 below.

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

	2019 draft budget	2018 NFR	Variance
Allocated to TLS	£5.8m	£5.8m	+ £0.0m
Allocated to SRA	£6.6m	£8.9m	- £2.3m
Total	£12.4m	£14.7m	- £2.3m

Section 6: Transparency, engagement, consultation and communication

Transparency

71. The SRA website has a dedicated page that provides a description of how fee income is allocated to the relevant bodies. This allows fee payers to see how their contributions are spent. The website also details key SRA activity to show how fees fund its activities.
72. 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.
73. In addition, transparency is enhanced through the detail provided in the annual fee consultation referred to at paragraph 81 below.
74. This webpage is publicised by being linked to the “fees calculator”, which gives firms a rough estimation of the fees they might have to pay before budget requirements are agreed. Further details are available in the Communication section.

Engagement and consultation

75. In 2017/18 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

76. The SRA has built on a continued track record of engagement with the profession and public alike. As well as local law societies and other targeted solicitor groups, the SRA has convened face-to-face meetings with the public at the likes of the Citizens’ Advice Bureau conferences. This engagement started early in 2017/18 as the SRA consulted on its draft Corporate Strategy for 2017-2020 from 27 July 2017 to 21 September 2017. The profession and other stakeholders were asked for opinions on the SRA’s priorities and work programme, giving respondents the chance to influence activities over a three-year span.
77. The engagement also informed 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.
78. 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. They are also beginning to yield results, such as changing the requirements for submitting accountants’ reports, with the focus switched to utilising the expertise of the accountants to identify risks, rather than merely picking out technical breaches of the rules.

TLS

79. In November 2015 the Law Society launched its new strategy, which sets out clearly how it 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 the draft strategic aims with members.
80. The Law Society 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. It also explored their different needs and interests depending on their career stage, where they work and their area of practice. It 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.
81. The Law Society engaged members in a range of ways, from meetings to round tables and one-to-one interviews. It held meetings with committee, section and division chairs. It encouraged debate and discussion with even more members through dedicated twitter hours using the hashtag #lawsociety2020, and through LinkedIn and its website.

Consultation on fees

82. The Law Society and SRA has worked together to publish 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

83. Communications plans are in place to inform the individuals and firms about the 2018/19 practising fees, including the Compensation Fund contributions. The purpose of the plans is to ensure that the regulated community and relevant stakeholders are informed of:
- the 2017-18 fees structure
 - the availability of the fees calculator to help them
 - the level of fees to be collected (once agreed).
84. The communications plans include the following:
- Updated fees webpage on the SRA website (with caveat that LSB still needs to approve), which explain how fees are spent, an online fee calculator, a revised turnover table and indicative Compensation Fund contributions, published 12 June
 - An SRA news release to promoting changes to the Compensation Fund contributions went out on 12 June, this included a link to the Law Society Group consultation on practising fees for 2018/2019
 - A Law Society news release outlining the joint consultation was sent out on 12 June.
 - Information on the changes to the Compensation Fund contributions was in the SRA's June newsletter to compliance officers, Compliance News, which was sent to 11,000 recipients. This included a link to the Law Society Group consultation on practising fees for 2018/2019

- An SRA news release on the SRA Board's decision on fee determinations will be issued in July
- LSB approval of the fee levels will be publicised in a media release in mid-August.
- The LSB approval and final fees will be promoted through Compliance News in September, which is sent to 200,000 recipients, including all those with a mySRA account
- The SRA will also explain fees and Compensation Fund contributions in its instructions to the profession on the renewal of practising certificates
- All news releases are published on the SRA website and promoted through social media channels (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 2018/19

85. As stated at the outset of this application, under the arrangements agreed between TLS and the SRA, it is for the Law Society Council, having consulted with 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.

86. On 18 July 2018 the SRA Board made the following fee determinations, subject to the approval of the LSB.

Annex A: Practising Certificate Fee determination [2018]

87. 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;
- preserves a lower fee for RFLs who are based abroad and deals with other special cases.

Annex B: Recognised Body and Recognised Sole Practice Fee determination [2018]

88. 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 and recognised sole practices (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
- 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 [2018]

89. 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
- makes it clear that licensed bodies that were licensed before 1 November 2016 will be charged fees based on actual turnover rather than estimated turnover.

ANNEXES

Annex A – Practising Certificate Fee Determination [2018]

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 £278 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 2018 or any solicitor admitted prior to 1 November 2018 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 2018 to 31 December 2018 inclusive - £278
 - (b) Practising certificate issued 1 January 2019 to 31 March 2019 inclusive - £221
 - (c) Practising certificate issued 1 April 2019 to 30 June 2019 inclusive - £163
 - (d) Practising certificate issued 1 July 2019 to 31 October 2019 inclusive - £106

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 2018, 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 2018 to 31 October 2019 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 2018 to 31 December 2018 inclusive - £163
 - (b) Practising certificate issued 1 January 2019 to 31 March 2019 inclusive - £134
 - (c) Practising certificate issued 1 April 2019 to 30 June 2019 inclusive - £106
 - (d) Practising certificate issued 1 July 2019 to 31 October 2019 inclusive - £77

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 2018, 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 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 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 2018, 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 2018.

Annex B - Recognised Body and Recognised Sole Practice Fee Determination [2018]

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 2018 to 31 December 2018;
 - (b) £800 on applying for initial recognition to commence in the period 1 January 2019 to 31 March 2019;
 - (c) £600 on applying for initial recognition to commence in the period 1 April 2019 to 30 June 2019;
 - (d) £400 on applying for initial recognition to commence in the period 1 July 2019 to 31 October 2019.
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 2018 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 2018 to 31 October 2019, 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 2018 to 31 October 2019, 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 2017 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 2017;
- (b) the only changes since 31 October 2017 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 2017.

New Firm means a recognised body or recognised sole practice which obtained recognition after 31 October 2017 and is not a Successor Firm;

Notice of Succession means a notice required under Rule 8.3(f) of the SRA Authorisation Rules 2011;

Successor Firm means for the purposes of calculating the annual periodical fees, a recognised body or recognised sole practice which after 31 October 2017 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 2018.

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

Turnover band	Turnover Range (A)	Pay %* of Turnover within band (B)	Minimum Turnover in band (C)	Minimum Fee in Band (D)
A	£0 - £19,999	0.72%	£0	£100
B	£20,000 - £149,999	0.42%	£20,000	£244
C	£150,000 - £499,999	0.41%	£150,000	£790
D	£500,000 - £999,999	0.39%	£500,000	£2,225
E	£1,000,000 - £2,999,999	0.37%	£1,000,000	£4,175
F	£3,000,000 - £9,999,999	0.25%	£3,000,000	£11,575
G	£10,000,000 - £29,999,999	0.21%	£10,000,000	£29,075
H	£30,000,000 - £69,999,999	0.20%	£30,000,000	£71,075
I	£70,000,000 - £149,999,999	0.18%	£70,000,000	£151,075
J	£150,000,000 +	0.07%	£150,000,000	£295,075

* % is equivalent to 'divided by 100' (e.g. 0.42% = 0.0042)

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

1. Identify the turnover value (T) and which corresponding band the turnover falls into from column A.
2. Subtract the figure in the corresponding column C from T for that turnover band.
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:
 $(£0 - £0) \times 0.72\% + £100 = £100$

Example 2: For Turnover of £200,000:
 $(£200,000 - £150,000) \times 0.41\% + £790 = £995$

Example 3: For Turnover of £813,421:
 $(£813,421 - £500,000) \times 0.39\% + £2,225 = £3,447$

Example 4: For Turnover of £279,123,528:
 $(£279,123,528 - £150,000,000) \times 0.07\% + £297,125 = £385,461$

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 2018 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 2017, 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 2017 (e.g. 31 March 2017). The latest acceptable annual accounting period end date is 31 October 2017.
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 2016 to 31 October 2017, 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 2016 figure if an updated 2017 figure based on closed accounts has not been received by 31 August 2018.
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 2017) 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 2017 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 2017)
 - Alternatively, if this is not possible then take the last closed accounts period prior to the 1 November 2017 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 - Licensed Body Fee Determination [2018]

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;
 - (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 2018 to 31 October 2019 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 2019.
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 2019.
 - (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 2016, 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 2018.

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	Turnover Range (A)	Pay %* of Turnover within band (B)	Minimum Turnover in band (C)	Minimum Fee in Band (D)
A	£0 - £19,999	0.72%	£0	£100
B	£20,000 - £149,999	0.42%	£20,000	£244
C	£150,000 - £499,999	0.41%	£150,000	£790
D	£500,000 - £999,999	0.39%	£500,000	£2,225
E	£1,000,000 - £2,999,999	0.37%	£1,000,000	£4,175
F	£3,000,000 - £9,999,999	0.25%	£3,000,000	£11,575
G	£10,000,000 - £29,999,999	0.21%	£10,000,000	£29,075
H	£30,000,000 - £69,999,999	0.20%	£30,000,000	£71,075
I	£70,000,000 – £149,999,999	0.18%	£70,000,000	£151,075
J	£150,000,000 +	0.07%	£150,000,000	£295,075

* % is equivalent to 'divided by 100' (e.g. 0.42% = 0.0042)

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

1. Identify the turnover value (T) and which corresponding band the turnover falls into from column A.
2. Subtract the figure in the corresponding column C from T for that turnover band.
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:
 $(£0 - £0) \times 0.72\% + £100 = £100$

Example 2: For Turnover of £200,000:
 $(£200,000 - £150,000) \times 0.41\% + £790 = £995$

Example 3: For Turnover of £813,421:
 $(£813,421 - £500,000) \times 0.39\% + £2,225 = £3,447$

Example 4: For Turnover of £279,123,528:
 $(£279,123,528 - £150,000,000) \times 0.07\% + £297,125 = £385,461$

Annex C - Licensed Body Fee Determination: Appendix 3

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 2016, the turnover figure should no longer be estimated. In such cases, the turnover figures that will be used when billing firms in October 2018 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 2016, 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 2017 (e.g. 31 March 2017). The latest acceptable annual accounting period end date is 31 October 2017.
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.

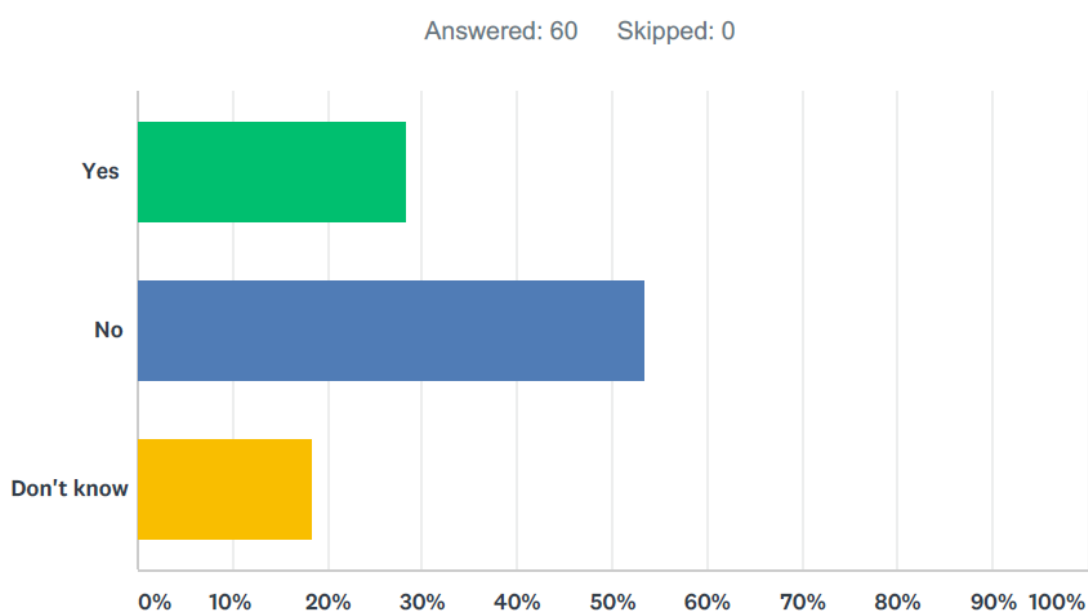
Annex D - NFR Consultation Response Executive Summary

The consultation ran from 12 June – 1 July and was promoted on the website, via social media, the weekly Council and local law societies update, a headline story in Professional Update and in the Law Society double page spread in the Gazette.

There were 60 responses (for context we have had a steadily declining response rate in June 2014 we had 210 responses in 2015 - 187 responses, in 2016 – 132 responses and in 2017 – 96 responses).

Below is a summary of the findings. The full results are available on request.

Q1: Do you think the PC fees for 2018-19 represent value for money in terms of the benefits you gain as a solicitor



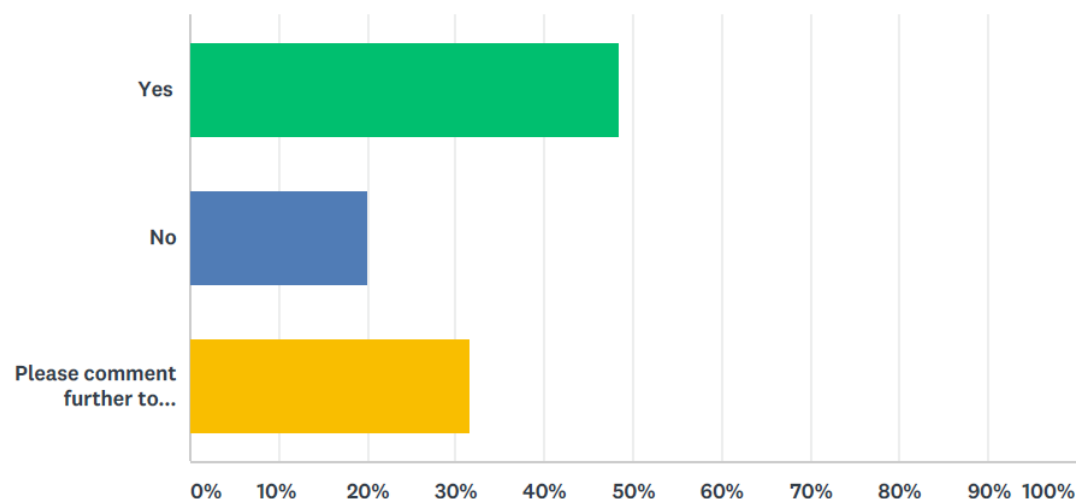
Answer	Number	%
Yes	17	28.33
No	32	53.34
Don't know	11	18.33
Total responses	60	100

Key Themes (24 comments)

- Concern that it takes no account Value from Law Society is questionable for various groups (e.g. local authority solicitors, in house or small firms who feel representation skewed towards high profile firms and City)
- Some members still unclear about benefits of Law Society membership
- Would like comparisons with other professional bodies
- Want to see more forceful campaigning on issues which will seriously affect solicitors
- Takes no account of income levels or ability to pay

Q2: 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 and Financial Conduct Authority is reasonable?

Answered: 60 Skipped: 0



Answer	Number	%
Yes	30	50
No	20	33.33
Don't know	10	16.67
Total responses	60	100

Key Themes (19 comments)

- Suggestion that membership fees for Law Society should be optional with firms/individuals able to pay for services they value (e.g. International, as well as lobbying and campaigning to promote the profession)
- SRA should get less and there is no incentive for them to keep costs low
- Fees should just go to Law Society and not other bodies
- Legal sector is over regulated

Q3: Do you have any other comments (21 comments)

- Positive comments about level of PC fee and that it has been decreasing over last few years and the work done by the Law Society
- Want to see more work on promoting the value of solicitors to the public and level of client satisfaction
- Increased support for solicitors in light of Brexit and further campaigning to promote England and Wales as market leaders in legal services
- Lack of representation for local government and other in house solicitors and smaller firms of sole practitioners. Perception that the Law Society focuses on large firms and the City
- Would like Law Society to challenge over regulation
- Show more interest in solicitors and wages not partners earnings

- Simplify process so members know who to contact about specific issues
- More support for PI solicitors who may need to change practice areas
- More transparency – e.g. publication of council and other board meeting minutes and SRA meetings.