

Crispin Passmore  
Legal Services Board  
Victoria House  
Southampton Row  
WC1B 4AD



The Law Society

21 July 2010

Dear Crispin,

### **Practising Fee Application**

When we met last week you asked us to let you have some further information on two issues.

- The way in which we currently apportion central service costs.
- The way in which the figures for Law Society expenditure respectively coming within section 51 of the Act and outside it would look if we adopted a different approach to the allocation of costs.

### Central Service Costs

As shown in the table on page 17 of the application the central costs are split between:

- Directorate costs of Finance, Facilities, IT and HRD of £9m
- Group Overheads of £31m, of which £8m related to irrecoverable VAT incurred by the Group along with the costs of delivering Facilities and IT services and the Group HR costs relating to severance (mainly SRA), recruitment and training
- Project and other costs of which £10.4m related to funding the pension deficit and £15.5m for Group projects including £8m for the SRA Enabling programme

The overheads costs are allocated between SRA, the Law Society, LCS and Shared Services based on the most appropriate driver such as number of FTE for costs which are primarily headcount driven, floor space for facility related costs, and a number of defined benefit pension members for the pension deficit. Project costs, are allocated to the entity where the majority of the spend will take place such as £8m for the SRA Enabling Programme. Where costs are for definite spend items, e.g. severance costs within the SRA, then these have been directly allocated to the relevant entity.

The costs of the Shared Services Directorates are attributed to SRA, the Law Society and LCS based broadly on estimated respective use. We also looked at allocating this based on FTE within SRA, the Law Society and LCS and the results were broadly similar.

As you will appreciate, the closure of LCS will lead to an increase in the apparent costs of both the Law Society and SRA because we will no longer be able to attribute

part of the central service costs to LCS. Although we will seek to make savings wherever possible, the majority of these costs will remain and will therefore need to be attributed only to the remaining parts of the Group, namely SRA and the Law Society.

### Section 51

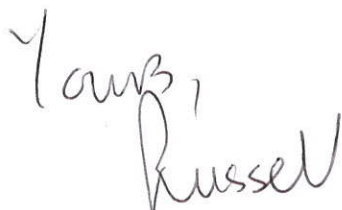
So far as the balance between Law Society expenditure falling within, and outside, section 51 of the Act is concerned I set out below a table which is different in two respects from the table which formed part of our application.

- We have allocated a proportion of the costs of the CEO's office (and the Director of Legal Policy's office) to non section 51 activities, notwithstanding the fact that the Law Society would not be able to realise those savings even if we ceased to undertake the non section 51 activities.
- We have divided central service costs proportionately between section 51 activities and non section 51 activities – although again (as experience with LCS is demonstrating) we could not eliminate anywhere near this level of central service costs even if we ceased to undertake non section 51 activities.

Expenditure	£m					
	S51		Non S51		Total	
	2009/10	2010/11	2009/10	2010/11	2009/10	2010/11
CEO/Private Office	(1.8)	(1.3)	(0.2)	(0.2)	(2.0)	(1.5)
General Counsel	(3.4)	(3.4)	(0.1)	(0.1)	(3.5)	(3.5)
Government Relations	(0.4)	(0.3)	0.0	0.0	(0.4)	(0.3)
Communications	(2.7)	(2.7)	(0.9)	(0.9)	(3.6)	(3.6)
Legal Policy	(2.4)	(2.4)	(0.3)	(0.3)	(2.7)	(2.7)
Law Society Services	(9.0)	(9.6)	(6.7)	(7.0)	(15.7)	(16.6)
Contribution to Central Costs	(9.2)	(14)	4.2	6	(13.4)	(20)
Contribution to TLS S51	0.0	0.0	(3)	(1.4)	(3.2)	(1.4)
<b>Total</b>	<b>(28.9)</b>	<b>(33.7)</b>	<b>(15.2)</b>	<b>(15.9)</b>		

I hope this additional information is helpful.

Please do not hesitate to let me know if there is any more information you would like.



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Director of Government Relations

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