

**Application made by the Law Society and the Solicitors  
Regulation Authority to the Legal Services Board under  
section 57 of the Legal Services Act 2007 for the  
approval of practising fees**



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## Law Society Practising Fees 2010/11

Under the arrangements agreed between the Law Society and SRA, it is for the Law Society Council, having consulted the SRA Board, to determine the total amount to be raised from practising fees. It is for the SRA to determine how that amount should be apportioned between the different categories of fee payer.

This year, the SRA Board has made major changes to the way in which the fee burden is apportioned. Under the new arrangements, around 40 per cent of the costs of regulation will be recovered from fees charged to individuals, while 60 per cent will be charged to private practice firms, based on their turnover. The changes will transfer a significant proportion of the cost from the employed sector – the CPS, local government, commerce and industry, and law centres – to private practice, because the employed sector, which does not hold clients' money, will not pay the firm-based fee.

The Law Society Council approved a total of £121.7m to be collected from practising fees – a decrease of £0.5m on the figure collected in 2009/10. The reason for the decrease is primarily that there was an over-collection last year, as a result of unduly cautious assumptions about the timing of payment of the levies for implementation of the Legal Services Board and the Office for Legal Complaints, and the number of practising certificates to be taken out. This factor is largely counter balanced by the decision of the SRA Board that some costs which were formerly borne by the Compensation Fund should in future be borne by the practising fee account.

Individual practising fees are likely to be just under £500. Private practice firms will also pay a fee based on their UK turnover. The proportion of turnover charged declines as turnover increases. The effect of this is that each segment of private practice (in terms of size of the firm) will bear the same proportion of overall cost as before although the impact on individual firms will depend on their composition.

The sum required for the Compensation Fund is £2.1m, down from £20.9m last year. That partly reflects the SRA decision about allocation of costs, and partly that Compensation Fund reserves are currently higher than is necessary.

The overall cost to the profession is thus expected to fall from £143.1m in 2009/10, to £123.8m in 2010/11, a reduction of 13 per cent. In addition to the factors noted above, this reflects continued stringent action to contain costs throughout all parts of the Law Society Group. In particular, staff salaries, which are the largest item of expenditure throughout the Law Society Group, have been frozen since January 2009.

Although budgets for the Law Society Group in 2011 are not set until later in the year, it is anticipated at present that the practising fee income will be applied broadly as follows:

- Solicitors Regulation Authority - £69.6m.
- The Law Society (professional body) - £31m.
- The Legal Complaints Service - £6.5m.
- Statutory levies (Legal Services Board, Office for Legal Complaints, Solicitors Disciplinary Tribunal) - £14.6m.

## Section 1: Developing the application / Setting the Budget

### Budget Setting Process:

The budget, or net funding requirement for the Law Society Group, is based around the Q1 reforecast of the 2010 budget and looks out for the next 3 years, i.e. the 2010/11 Practising Fee year and the following 2 years to take into account the short and medium term funding requirement. By basing the 2010/11 funding requirement on the Q1 re forecast, this takes into account both the 2010 budget and the actual figures for the first quarter with a forecast for the remainder of the year.

The process is worked through on a bottom up basis from each of the Entities (SRA, LCS, the Law Society and associated levies) starting with cost centres, business units and Directorates and it is at the Directorate level which the 2010/11 application is shown. The budget is submitted by each of the Directorates and entities and authorised by the Board of the relevant part of the Group with a full Law Society Group budget discussed and agreed by both the Law Society Management Board and the Law Society Council. The decision making plan can be seen below:

2010 Budgetary Planning Decision Making Timetable: Key dates									
Process	Activity / Deadline	Decisions Required	Papers	Meeting	Mar	Apr	May	Jun	Jul
3 Year Plan / PC Fee Setting	3 CEO meeting	Agree process and Group assumptions	26-Mar	31-Mar	26-31				
	EMB Board	Sign off TLS & SS 3YP & 2011 funding req't	13-May	17-May			13-17		
	LCS Board	Sign off LCS 2011 funding req't	21-May	02-Jun			21	2	
	3 CEO meeting	Sign off of 3YP & 2011 funding req't	04-Jun	09-Jun			4-9		
	EMB Board	Backup - TLS & SS 3YP & 2011 funding req't	10-Jun	16-Jun			10-16		
	SRA Board	Sign off SRA 3YP & 2011 funding req't Provisional sign off fee structure figures, percentages, bandings	04-Jun	18-Jun			4	10	
	Mgmt Board	Sign off of TLSSG 3YP & 2011 funding req't	11-Jun	23-Jun			11	23	
	SSRB	Resolve any SRA funding req't disputes	01-Jul	08-Jul				1	8
	Council	Sign off of TLSSG 3YP & 2011 funding req't	01-Jul	14-Jul				1	14
	SRA Board	Sign off fee structure figures, percentages, bandings	05-Jul	16-Jul				05	16
	LSB	Sign off individual fee & turnover bandings	16-Jul	27-Jul				16	27

## **Budget Setting Approach:**

When setting practising fees levels we are working against anticipated budgetary figures which will not be finalised until November.

The net funding requirement is also produced in conjunction with the assumptions used on what elements of costs are recovered from the Compensation Fund, which have changed for the 2010/11 practising fee year as a result of decisions of the SRA Board explained more fully below.

Where actual information is known then this is used. Where information is not fully known at the time of creating the net funding requirement then assumptions are used based on a range of scenarios and it is these assumptions and scenarios which are agreed by each CEO and Board prior to submission to the Law Society Management Board and the Law Society Council. Some examples of the issues for which assumptions need to be made are shown below:

- Number of interventions on Firms.
- Cost to be recharged to the Compensation Fund.
- Likely costs of introducing Outcomes Focussed Regulation (OFR) and Alternative Business Structures (ABS).
- Cost of group projects required.
- Interest rates, inflation rates and VAT assumptions.
- The costs of the Legal Complaints Service remaining in 2011.
- The level of any contingency required as a result of implementing the new fee structure in 2010/11.

There are a number of levy payments which are also included for the Legal Services Board, Legal Ombudsman and the Solicitors Disciplinary Tribunal. The funding requirement for these is based on funding requirement information from the relevant bodies.

In translating the net funding requirement in to proposed fees, we also need to make assumptions about:

- Number of practising certificates to be issued.
- The turnover from all Firms within the Profession, which is based on information supplied by each of the Firms as part of the 2009/10 renewal exercise and / or updated as part of the Fairer Fees project.

## **Contingency arrangements:**

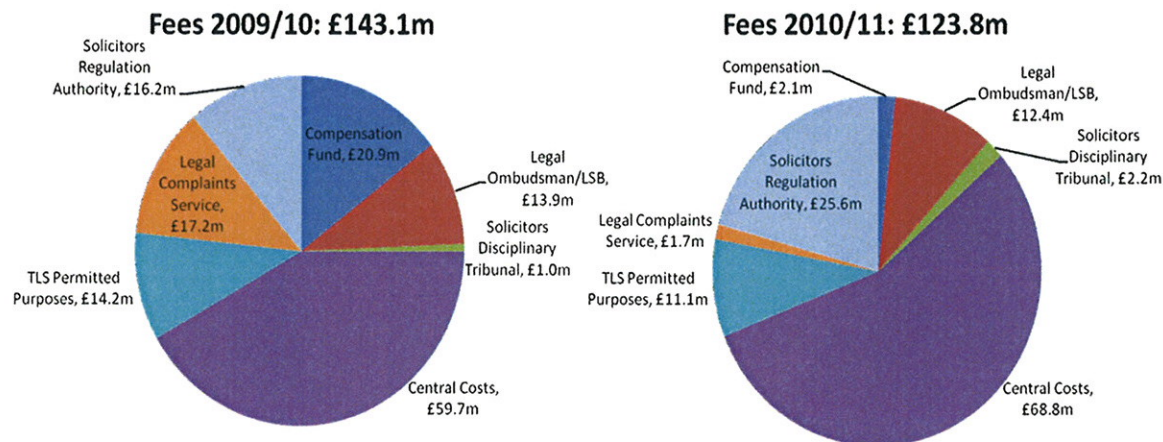
SRA, like other parts of the Law Society group, is expected to live within its approved budget, re-prioritising if necessary should unexpected needs arise in year. However, if re-prioritisation is not practical, the SRA can seek approval for additional funding. The Law Society currently has sufficient reserves to accommodate such requests if satisfied that they are justified.

## **Strategic Plans:**

The impact of both the SRA Enabling Programme (which supports the introduction of new business processes, new IT, and new skills across the organisation) and the Law Society Blueprint has been taken into account, so far as information is currently known.

## Details of Practising Fee level variance between years

The Law Society Council approved a total of £121.7m to be collected from practising fees. This represents a decrease of £0.5m on the figure collected in 2009/10.



Note that Fees 2009/10 information is based on Budget whereas the transparency allocations further down the document are based on 2009/2010 projections based on actuals and reforecast (QRF1)

The main items causing fluctuations in practising fees between 2009/10 and 2010/11 are:

- **LSB & Legal Ombudsman implementation costs**

The apparent decrease in 2010/11 is primarily due to an over-collection last year, as a result of unduly pessimistic assumptions about the timing of payment of the levies for implementation of the Legal Services Boards and the Office for Legal Complaints.

- **Cautious estimation of number of practising certificates**

Given the economic uncertainty, the assumption last year about the expected number of practising certificates to be taken out was for a 5% reduction: that turned out not to be the case.

- **A change to the recharge model for the Compensation Fund**

In previous years, indirect as well as direct costs of administering the Fund have been recharged. However, following internal and external consultations in 2010 it was determined by the SRA Board that only the direct costs of the Fund should be allocated to the Compensation Fund in order to improve transparency. This has the impact of increasing the regulatory funding requirement by £19.6m from 2011/2012 onwards.

There is currently a surplus in the Compensation Fund reserves and therefore for this year only, the cost of interventions and legal fees will continue to be allocated to the Compensation Fund. As a result, the increased regulatory funding in 2010-2011 is £8.1m rather than the £19.6m which will apply to future years.

Please look at Appendix 2: Council Paper Practising Fees for 2010/2011 for more detailed information.



**Details of Total Revenue Raised Last Year (2009/10) and Planned for Next Year (2010/11)**

Income		£m	
		2009/10	2010/11
SRA	SRA Income	7.9	7.9
	Compensation Fund Recoveries* <sup>1</sup>	21.7	13.6
	Legal Fee Recoveries	3.0	3.0
	SRA Practising Fees Income	16.2	25.6
	SRA Share of Central Costs* <sup>3</sup>	36.2	44.0
	<b>Total SRA</b>	<b>85.0</b>	<b>94.1</b>
LCS	LCS Income	0.2	0.0
	LCS Practising Fees Income* <sup>2</sup>	15.9	1.7
	LCS Share of Central Costs* <sup>3</sup>	15.7	4.8
	<b>Total LCS</b>	<b>31.8</b>	<b>6.5</b>
Levies	Solicitors Disciplinary Tribunal (SDT) Practising Fees Income	2.2	2.2
	Legal Ombudsman & Legal Services Board Practising Fees Income	7.1	12.4
	Over Collection in 2009/10	0.0	6.8
	<b>Total Levies</b>	<b>9.3</b>	<b>21.4</b>
TLS S51	TLS Income	0.1	1.3
	TLS Recoveries	0.3	0.3
	TLS Practising Fees Income	12.4	11.1
	Contribution from TLS Non S51	7.2	7.4
	TLS S51 Share of Central Costs* <sup>3</sup>	13.4	20.0
	<b>Total TLS S51</b>	<b>33.4</b>	<b>40.0</b>
TLS Non S51	TLS Non S51 Income	15.2	15.6
	TLS Non S51 Practising Fees Income	0.0	0.0
	Contribution to TLS S51	(7.2)	(7.4)
	<b>Total TLS Non S51</b>	<b>8.0</b>	<b>8.2</b>
<b>Total</b>		<b>167.5</b>	<b>170.2</b>

**Income year on year fluctuations:**

The main items causing significant fluctuations between the income for the various years are:

- **\*<sup>1</sup> A change to the recharge model for the Compensation Fund**  
In previous years, all relevant direct as well as indirect costs of administering the Fund have been recharged to the Fund. However, following internal and external consultations in 2010 it was determined by the SRA Board that we should move toward only the direct costs of the fund remaining in the Compensation Fund in order to improve transparency.

There is currently a surplus in the size of the Compensation Fund reserves and therefore for this year only, we will retain the cost of interventions and legal fees within the Compensation Fund and only require a very small contribution from the profession to the Compensation Fund. The results of these decisions is that the regulatory funding requirement will increase by £8.1m for 2010-11 and by a further £11.5m (totalling £19.6m) in future years. For the year 2011/12 onwards, only the direct costs of administering the Fund will be recharged.

- **\*2 Shift of LCS Practising Fee Income to LeO and LSB levies**

With LCS closing in 2011, there is of course reduced need to fund it in 2010/11 which will drop to nothing from the following year. It is of course replaced by an increase in levies for the Legal Ombudsman (LeO) and Legal Services Board.

- **\*3 Reallocation of LCS Contribution to Central Costs to SRA and the Law Society**

Historically the Central Costs of the Law Society Group were able to be split between the SRA, the Law Society and LCS. With LCS closing, the Law Society will seek to make savings wherever possible, but the majority of these costs are fixed and will remain and therefore need to be attributed only to the remaining parties SRA and the Law Society. The attribution between the two is calculated on the basis of a number of indicators, including headcount, revenue, utilised square feet and project spend.



## Details of Income against Expenditure Last Year (2009/10) and Planned for Next Year (2010/11).

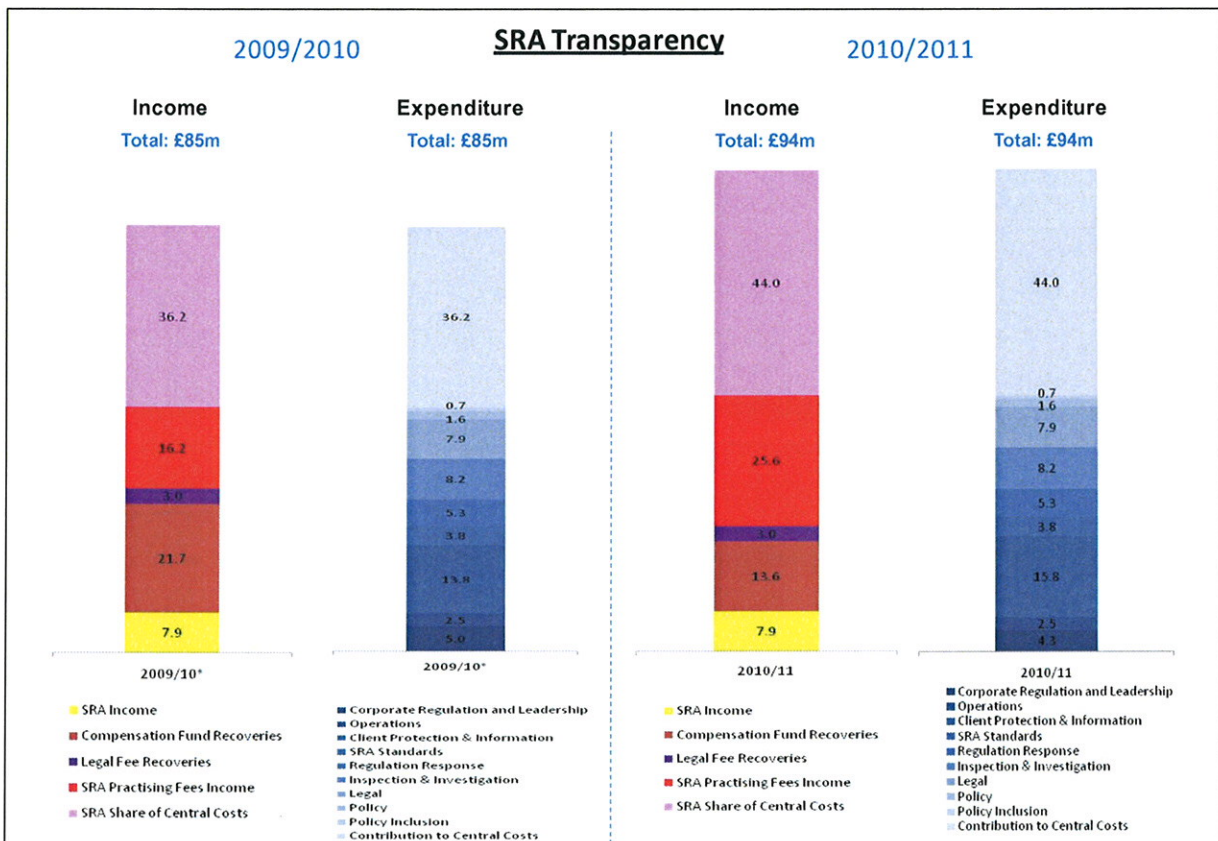
All figures are in millions of pounds.

### SRA – 100% Regulatory function:

Please note that an allocation of the shared Central Costs has been allocated to the SRA. These costs are not all directly controllable by the SRA: they are an allocation which is based on a combination of factors including headcount, turnover, occupied square feet and split of group projects. Please also note that the SRA is undergoing an organisation restructure but information is shown in the current organisation structure. The increase in SRA share of central costs is mainly due to the closedown of LCS, where the majority of costs attributable to LCS in 2009/10, which have not been saved from efficiencies, have now been allocated to SRA & the Law Society.

Income	£m	
	2009/10	2010/11
SRA Income	7.9	7.9
Compensation Fund Recoveries	21.7	13.6
Legal Fee Recoveries	3.0	3.0
SRA Practising Fees Income	16.2	25.6
SRA Share of Central Costs	36.2	44.0
<b>Total</b>	<b>85.0</b>	<b>94.0</b>

Expenditure	£m	
	2009/10	2010/11
Corporate Regulation and Leadership	(5.0)	(4.3)
Operations	(2.5)	(2.5)
Client Protection & Information	(13.8)	(15.8)
SRA Standards	(3.8)	(3.8)
Regulation Response	(5.3)	(5.3)
Inspection & Investigation	(8.2)	(8.2)
Legal	(7.9)	(7.9)
Policy	(1.6)	(1.6)
Policy Inclusion	(0.7)	(0.7)
Contribution to Central Costs	(36.2)	(44.0)
<b>Total</b>	<b>(85.0)</b>	<b>(94.0)</b>



### Explanation of Significant Variance

The decrease in Corporate Regulation and Leadership is as a result of efficiency savings. The increase in the Client Protection & Information Directorate is largely as a result of a forecast increase in the number and complexity of Interventions.

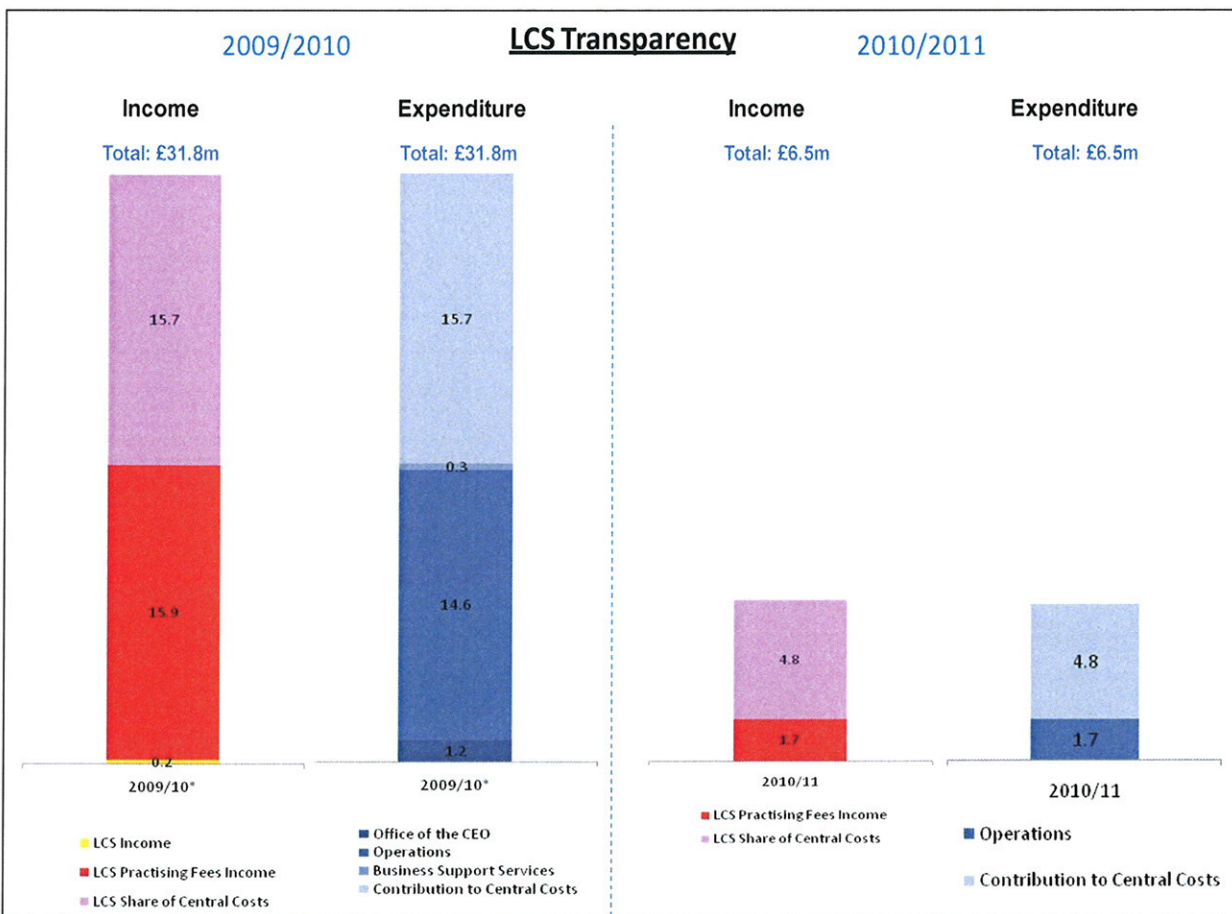
- **Corporate Regulation and Leadership** – includes costs of SRA CEO and Senior Management Team and costs of corporate regulation
- **Operations** – includes costs of customer contact centre, business planning and performance and operations
- **Client Protection & Information** – includes costs of interventions, claims management, archiving, case working and applications and statutory trust work.
- **SRA Standards** - includes the costs of legal education, ethics policy and guidance and professional indemnity
- **Regulation Response** – includes the costs of conduct and regulatory investigations, the fraud and confidential intelligence bureau and risk.
- **Inspection & Investigation** – includes the costs of casework investigations, forensic investigations and practice standards.
- **Legal** – includes the costs of discipline and legal team, disciplinary legal fees and adjudication
- **Policy** – includes policy support, SRA Board, and Communications
- **Policy Inclusion** – includes equality and diversity work and complaints about the SRA.



**LCS – 100% Regulatory:**

Income	£m	
	2009/10	2010/11
LCS Income	0.2	0.0
LCS Practising Fees Income	15.9	1.7
LCS Share of Central Costs	15.7	4.8
<b>Total</b>	<b>31.8</b>	<b>6.5</b>

Expenditure	£m	
	2009/10	2010/11
Office of the CEO	(1.2)	0.0
Operations	(14.6)	(1.7)
Business Support Services	(0.3)	0.0
Contribution to Central Costs	(15.7)	(4.8)
<b>Total</b>	<b>(31.8)</b>	<b>(6.5)</b>



Please note that legends are in reverse order to the graphs above each of them.

### Explanation of Significant Variance

Variance over the years is based on closure of Legal Complaints Service and transition to fully operational Legal Ombudsman and Legal Services Board.

**Office of the CEO:** Costs of leadership and Governance of the LCS.

**Operations** – Includes costs of casework, technical and policy support and customer contact centre.

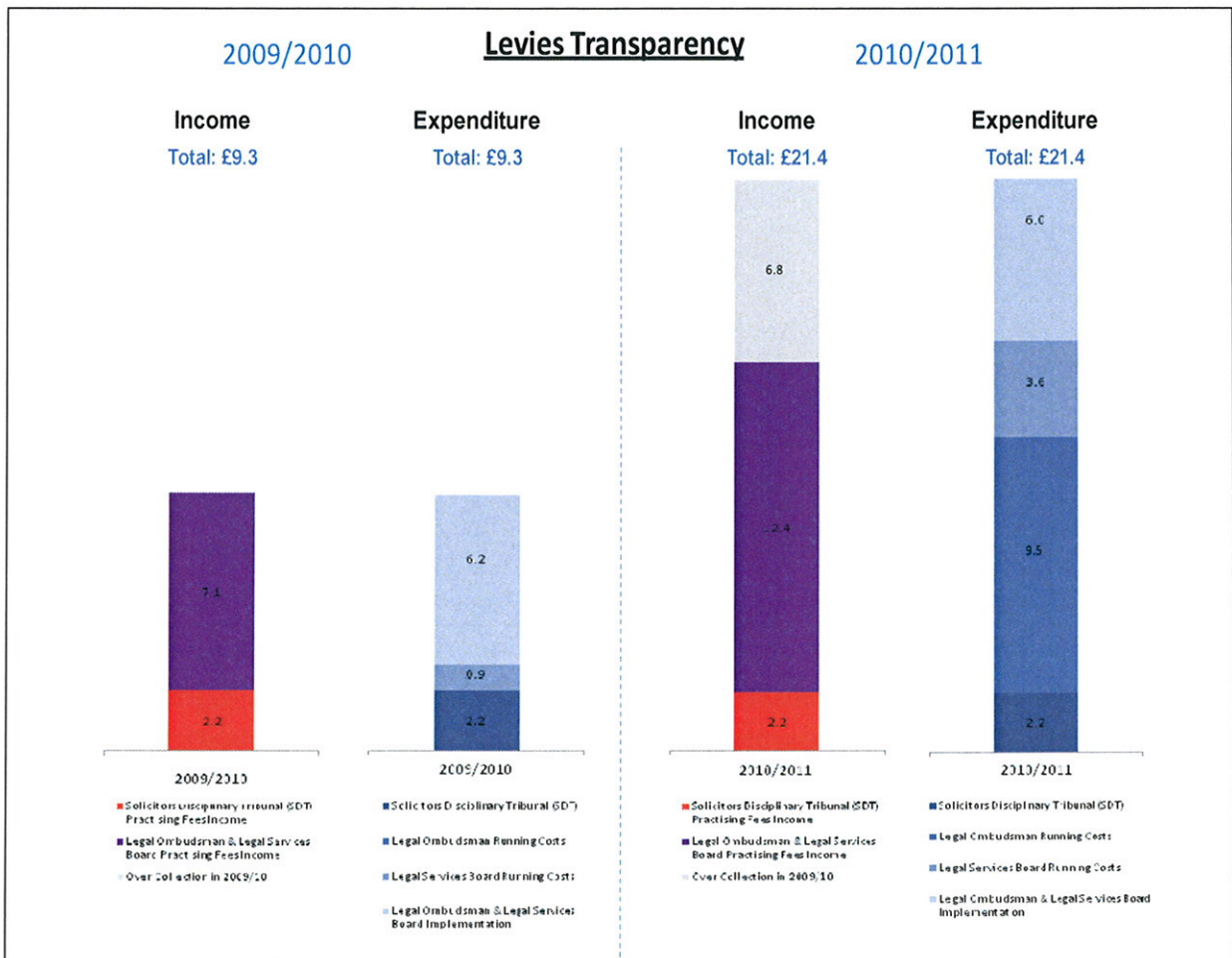
**Business Support Services** – Includes costs of business support services, legal complaints board, regulatory affairs team and communications.

### Statutory Levies

Please note that all related practising income received is allocated straight back out to the corresponding entity. Also note that the over collection in 2009/10 is being used to offset the costs of the levies in 2010/11:

Income from Practising Fees to Fund	£m	
	2009/10	2010/11
Solicitors Disciplinary Tribunal (SDT)	2.2	2.2
Legal Ombudsman & Legal Services Board	7.1	12.4
Over Collection in 2009/10	0.0	6.8
<b>Total</b>	<b>9.3</b>	<b>21.4</b>

Expenditure	£m	
	2009/10	2010/11
Solicitors Disciplinary Tribunal (SDT)	(2.2)	(2.2)
Legal Ombudsman Running Costs	0.0	(9.5)
Legal Services Board Running Costs	(0.9)	(3.6)
Legal Ombudsman & Legal Services Board Implementation	(6.2)	(6.0)
<b>Total</b>	<b>(9.3)</b>	<b>(21.4)</b>



Please note that legends are in reverse order to the graphs above each of them.

### Explanation of Significant Variance

Variance over the years is based on closure of Legal Complaints Service and transition to fully operational Legal Ombudsman and Legal Services Board.

The LSB and LeO are accounted for based on the period of operation up to 31<sup>st</sup> March each year. In 2009/2010 there is also 3 months of LSB from 1<sup>st</sup> January to the 31<sup>st</sup> March and in 2010/2011 there is a full year of LSB and 6 months if the LeO.

The LeO/LSB figures include an over collection in 2009/10 as a result of assumptions about the timing of payment for the implementation levy for LeO and LSB being unduly cautious.



## The Law Society – Combination of Permitted and Non-Permitted activities

Please note that the incremental income from Non-S51 permitted activity above the related expenditure is used to reduce the Practising Fee Funding Requirement – see cells highlighted in green.

Income	£m					
	S51		Non S51		Total	
	2009/10	2010/11	2009/10	2010/11	2009/10	2010/11
TLS Income	0.1	1.3	15.2	15.6	15.3	16.9
TLS Recoveries	0.3	0.3	0.0	0.0	0.3	0.3
TLS Practising Fees Income	12.4	11.1	0.0	0.0	12.4	11.1
Contribution from TLS Non S51	7.2	7.4	0.0	0.0	7.2	7.4
TLS S51 Share of Central Costs	13.4	20.0	0.0	0.0	13.4	20.0
<b>Total</b>	<b>33.3</b>	<b>40.0</b>	<b>15.2</b>	<b>15.6</b>		

Expenditure	£m					
	S51		Non S51		Total	
	2009/10	2010/11	2009/10	2010/11	2009/10	2010/11
CEO/Private Office	(2.0)	(1.5)	0.0	(0.0)	(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	(13.4)	(20.0)	0.0	0.0	(13.4)	(20.0)
Contribution to TLS S51	0.0	0.0	(7.2)	(7.4)	(7.2)	(7.4)
<b>Total</b>	<b>(33.3)</b>	<b>(40.0)</b>	<b>(15.2)</b>	<b>(15.6)</b>		



2009/2010

**S51 TLS Transparency**

2010/2011

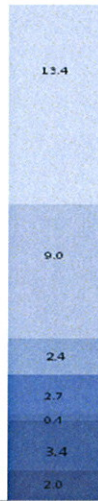
**Income**  
Total: £33.3m



2009/2010

- TLS Income
- TLS Recoveries
- Contribution from TLS Non-S51
- TLS S51 Share of Central Costs

**Expenditure**  
Total: £33.3m



2009/2010

- CEO/Private Office
- Government Relations
- Communications
- Government Counsel
- Legal Policy
- Law Society Services
- Contribution to Central Costs

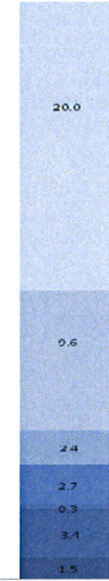
**Income**  
Total: £40m



2010/2011

- TLS Income
- TLS Recoveries
- Contribution from TLS Non-S51
- TLS S51 Share of Central Costs

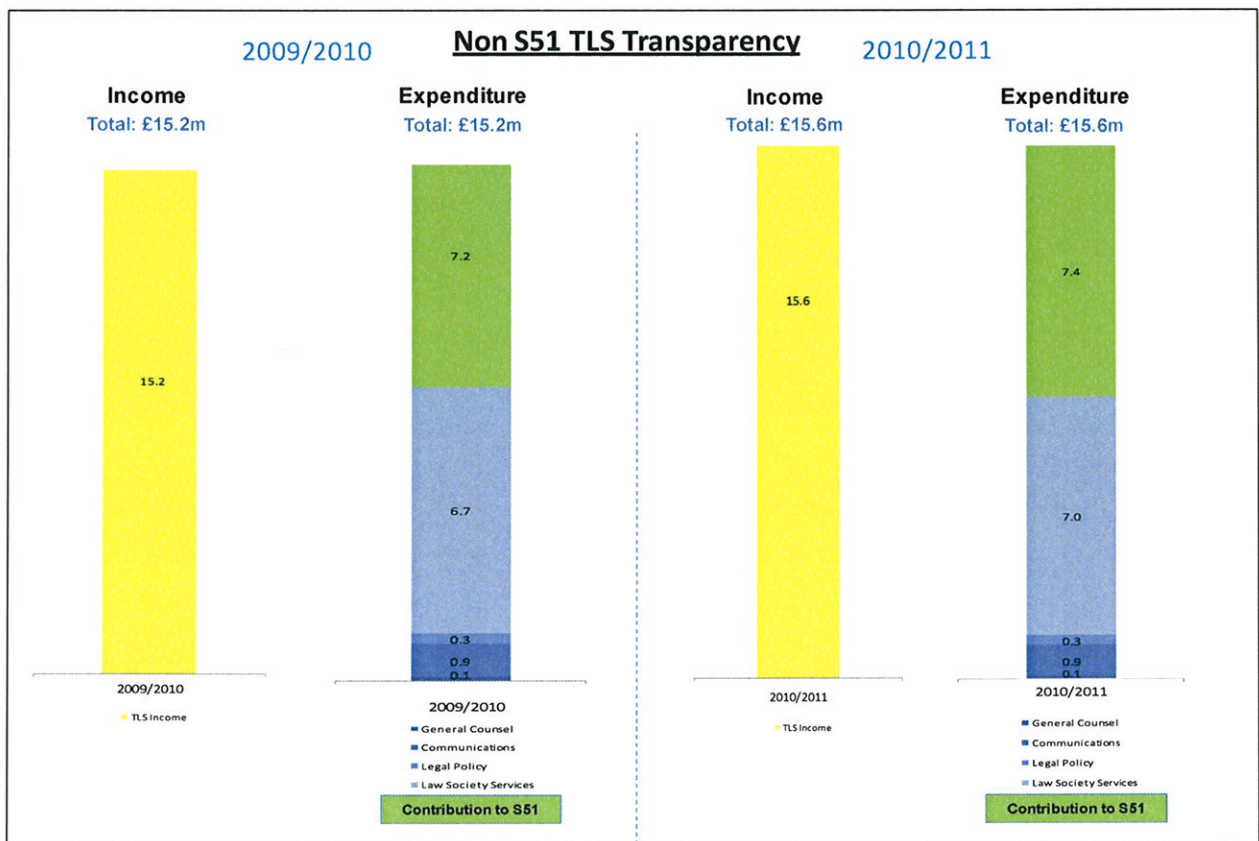
**Expenditure**  
Total: £40m



2010/2011

- CEO/Private Office
- Government Counsel
- Government Relations
- Communications
- Legal Policy
- Law Society Services
- Contribution to Central Costs

Please note that legends are in reverse order to the graphs above each of them.



Please note that legends are in reverse order to the graphs above each of them.

### Explanation of Significant Variance

The increase in the Law Society share of central costs is mainly due the closedown of LCS, where the majority of costs attributable to LCS in 2009/10, which have not been saved from efficiencies, have now been allocated to SRA & the Law Society.

- **CEO/President's Office** - This includes the Chief Executive and the Office Holders. Provides strategic support to the leadership of the Law Society.
- **General Counsel** - Comprises Constitutional Affairs and Legal Services Department. Constitutional Affairs supports the Council including the elections. Legal Services is the in-house solicitors department which carries out or supervises the Society's legal affairs.
- **Government Relations** - Responsible for the Law Society's role as approved regulator under the Legal Services Act. Main activities include liaison with the Legal Services Board and responses to its consultations and representing the Society's interests in the implementation of the Legal Services Act.
- **Communications** - Includes Media, Branding, Public Affairs and Corporate Social Responsibility (CSR) (i.e. Equality & Diversity). CSR is around promoting best practice around the profession and includes raising funds for the Law Society's Charity.
- **Legal Policy** - To develop policy to support the profession and ensure that the Society is recognised as one of the significant players in the legal system. 5 teams covering Law Reform, Legal Aid, Professional Representation and Policy, Regulatory Affairs and Research.
- **Law Society Services** - Includes Commercial Services, Membership Services, Events and also International and UK Operations. Commercial activity covers Magazines, Book Publishing, Venue Hire, Catering and Affinity Schemes. Membership services include Sections and Accreditation Schemes as well as the Practice Advice Service and the Library.

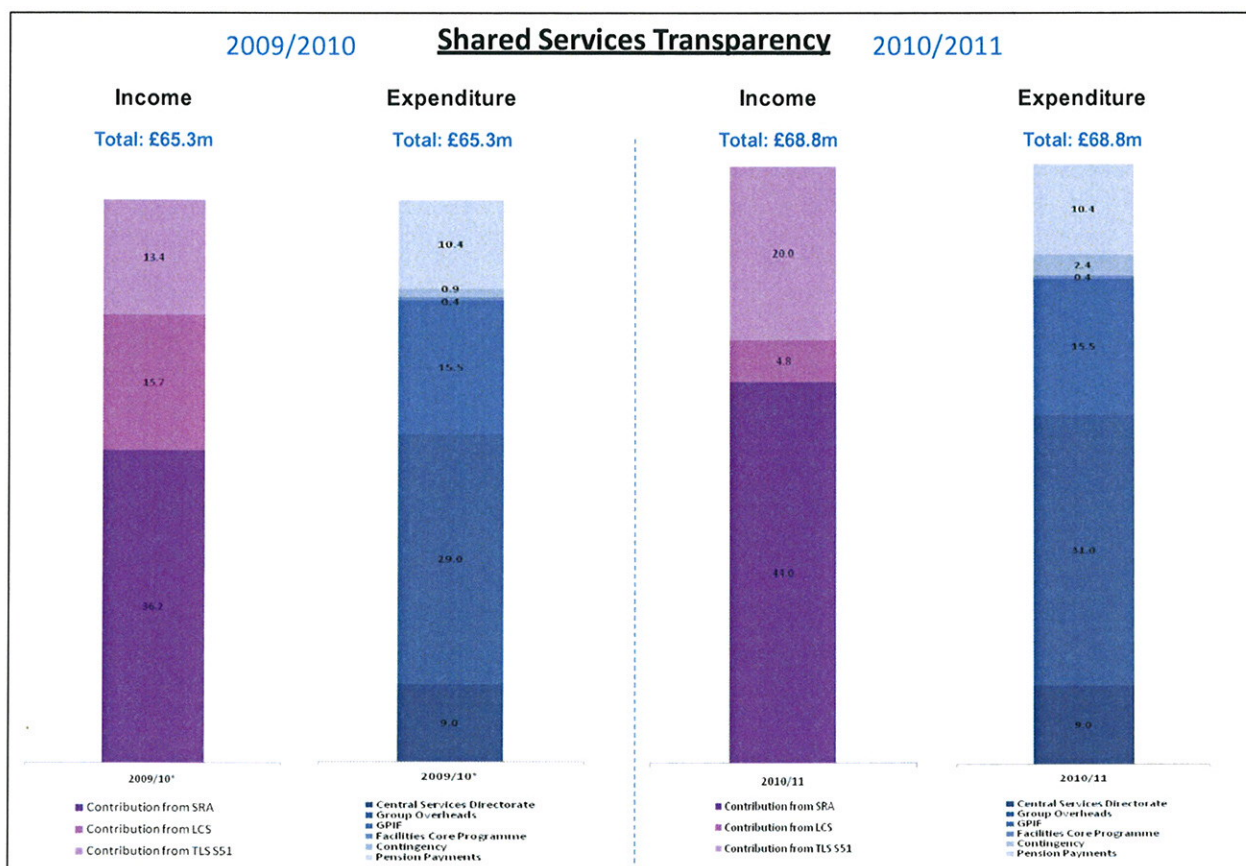
## Group and Central Costs:

Central costs have been allocated to regulatory and permitted activities based on a number of drivers, mainly headcount. After conducting a detailed review of central cost drivers, it is clear that there would be no significant savings if the non permitted activities were stopped and therefore all central costs have been allocated to permitted activities.

Income	£m	
	2009/10	2010/11
Contribution from SRA	36.2	44.0
Contribution from LCS	15.7	4.8
Contribution from TLS S51	13.4	20.0
<b>Total</b>	<b>65.3</b>	<b>68.8</b>

Expenditure	£m	
	2009/10	2010/11
Finance Dept (inc Internal Audit)	(2.5)	(2.5)
Facilities Dept	(3.1)	(3.1)
HR Dept (inc Pension staff costs)	(1.6)	(1.6)
IT Dept	(1.8)	(1.8)
<b>Central Services Directorate Total</b>	<b>(9.0)</b>	<b>(9.0)</b>
Finance Overheads (includes irrecoverable VAT at ~£8m)	(10.0)	(9.7)
Facilities Overheads	(4.9)	(4.9)
HR Overheads	(7.8)	(10.3)
IT Overheads	(6.3)	(6.1)
<b>Group Overheads Total</b>	<b>(29.0)</b>	<b>(31.0)</b>
Group Projects Investment Fund	(15.5)	(15.5)
Facilities Core Programme	(0.4)	(0.4)
Contingency	(0.9)	(2.4)
Pension Deficit Payments	(10.4)	(10.4)
<b>Total excluding Depreciation</b>	<b>(65.3)</b>	<b>(68.8)</b>





Please note that legends are in reverse order to the graphs above each of them.

### Explanation of Significant Variance

HR overheads includes the costs of recruitment and severance, which is forecast to be significant in 2010/11 due to restructuring within the SRA.

### Clarification of terms

- **Finance Department:** the costs of the finance team, including Internal Audit.
- **Facilities Department:** - the costs of the facilities team, and print and post.
- **HR Department** - the costs of the HR team (including Pension staff costs).
- **IT Department** - the costs of the IT team.
- **Finance Overheads** - costs for the group including Irrecoverable VAT and Audit fees.
- **Facilities Overheads** - costs relating to the expenditure on facilities in London and the Midlands.
- **HR Overheads** – costs for the group of recruiting, redundancy payments, training and pension management.
- **IT Overheads** - the group costs of running all IT systems includes Logica contract.
- **GPIF** -Group Project Investment Fund – this includes the group costs of all projects and for 2010/11 consists mainly of SRA Enabling Programme, LCS closedown and the Law Society Blueprint.
- **Facilities Core Programme** – Facilities small refurbishment projects.
- **Contingency** – money set aside for any unforeseen costs (including the potential of an income gap resulting from incorrect firm turnover information or changes in firm structures as a result of the Fairer Fees structure being introduced in 2010/11).
- **Pension payment** – the costs of funding the pension deficit.
- **Depreciation** – the costs of depreciating assets.

## **Sections 2 & 3: Pure regulation, permitted purposes and non permitted purposes (i.e. purely membership functions.)**

During 2009, the Law Society Group reviewed all the group activities and allocated them between a) regulatory activities, b) permitted activities and c) non permitted activities. We have been consistent with the definition of permitted purposes, based upon the Practising Fee Rules 2009 made under the Legal Services Act 2007 (c.29), section 51(3) and (6) which can be found at Appendix 1. In getting to this point, the following methodology was used and agreed with Management Board in October 2009.

A detailed study of the Law Society activities, covering both costs and revenues was performed, reviewed & signed off by the Law Society's executive management team. Directorate and department costs were calculated initially based on the directly assignable costs and / or revenues along with an apportionment of shared services costs. Central costs have been allocated to regulatory and permitted activities based on a number of drivers, mainly headcount. After conducting a detailed review of central cost drivers, it is clear that there would be no significant savings if the non permitted activities were stopped and therefore all central costs have been allocated to permitted activities.

Wherever applicable, the nature of income earned in business units was matched with an appropriate amount of costs required to generate a commercial return. This is especially relevant where the Law Society subsidises activities i.e. certain training events, and in this case the amount of costs attributable to s51 have been adjusted to take into account the more likely commercial profitability of these activities.

Where a department conducts both permitted and non-permitted activities and individual costs could not be directly associated with either, an appropriate allocation percentage was agreed and signed off by the relevant Director.

Confirmation of the s.51 apportionments has been agreed with the Law Society's Executive Directors along with legal opinion from the Legal Services team.

Finally, the results of this review were validated against previous submissions to the Lord Chancellor's department based around s47.

The tables in section 1 contain the detailed numerical information to support this process and split the net funding requirement for last year (2009/10) and the next three planned years between:

- a) Regulatory activities (SRA, LCS only)
- b) Permitted activities which are not regulatory (Proportion of the Law Society)
- c) Non permitted activities. (Proportion of the Law Society)
- d) Statutory Levies (SDT, LSB & LeO)

## **Section 4: Clarity and Transparency**

On the 5 July 2010 information was published on the Law Society website regarding the proposed budget requirements and 2010 fee structure to give the profession the opportunity to make representations before Council approved the budget on 14 July 2010.

We plan to publish online on the SRA Website a set of graphs and tables with a similar set of information to that which appears in this paper in section 1. It will likely appear alongside the 'Plain English summary of the new fee policy' which is attached in draft form in appendix 3 and the online calculator which enables firms to calculate the Fees, an example of which can be found at <http://www.sra.org.uk/solicitors/pc-registration-renewal/fees/fee-calculator.page> albeit with indicative fees rather than based on the latest funding requirement.



## Section 5: Regulatory and Diversity Impact Assessment

The fairer fees structure has been developed over the past year with consideration of the impact on different types of firm and equality and diversity group and has included three consultations as well as a series of workshops, press releases and stakeholder engagement activities. There are winners and losers from a change in fee structure. We consulted on what the guiding principles for the new fee policy should be and had a general consensus from the profession. The principles that we adopted are that the policy should:

- (1) be fair to fee payers
- (2) be efficient and economical to administer
- (3) ensure a predictable income to meet the cost of regulation
- (4) be stable - charges should not vary considerably year on year
- (5) be as simple as possible - to enable the regulated profession to predict their likely fees
- (6) be based on data that can be verified
- (7) 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
- (8) take some account of ability to pay, in particular in relation to small and new businesses - fees should not be a deterrent to new entrants.

We then continuously applied these principles throughout the process to determining the new fee structure for 2010/11. The impact of the new fee structure on the profession is likely to be as follows:

	Decrease	Increase		
		< 15%	15% - 50%	> 50%
<b>Sole Practitioner</b>	70.7%	10.9%	11.1%	7.3%
<b>2-4 Partners</b>	67.5%	13.2%	12.4%	6.8%
<b>5-10 Partners</b>	59.4%	20.2%	13.0%	7.4%
<b>11-25 Partners</b>	62.3%	16.7%	12.3%	8.7%
<b>26-80 Partners</b>	61.7%	17.3%	8.3%	12.8%
<b>81+ Partners</b>	56.0%	30.0%	12.0%	2.0%

We have also completed an Equality and Diversity Impact Assessment which is attached at Appendix 4.

## **Section 6: Consultation with non-commercial bodies and the Consumer Panel**

The change in fee structure has from the outset had as primary intent, the objective to reduce the fee burden applying to those solicitors providing non-commercial legal services. Currently approximately 60% - 80% of the SRA and the Law Society's effort is on the regulation of firms rather than individuals, whereas the historic structure based only on individual Practising Certificate Fee resulted in individuals working in house paying too much.

The new fee structure results in those individuals who work in house (i.e. non commercial legal services) paying approximately 40% of what they paid previously.

We have shared details of the practising fee structure and indicative fees with the whole profession; as well as consultations and press announcements in the Gazette, every firm has also received a letter indicating the indicative impact of the fee structure (subject to change based on a variety of assumptions, most importantly the FY10/11 budget).

As well as the fairer fees consultations we have run over the past year, we also contacted 3 not-for-profit bodies in June (Citizens Advice, the Law Centres Federation, and the Advice Services Alliance) to offer them a further opportunity to inform us of any concerns they might have, regarding the impact of the new structure on their sector.

Since then we have received responses from two of these bodies, both of which have been supportive of the changes proposed.

## **Section 7: Practising Fees Determinations [2010]**

As stated at the outset of this application, under the arrangements agreed between the Law Society and SRA, it is for the Law Society Council, having consulted the SRA Board, to determine the total amount to be raised from practising fees. It is for the SRA to determine how that amount should be apportioned between the different categories of fee payer.

On 16 July 2010, the SRA Board made the following fee determinations, subject to the approval of the LSB:

Practising Certificate Fee Determination [2010] (Appendix 5);

Determination of Sole Practitioner Fees [2010] (Appendix 6);

Recognised Body Fee Determination [2010] (Appendix 7).

The above fee determinations were submitted to the LSB in draft form as part of the SRA's application for the approval of changes to regulatory arrangements relating to the fee structure and for the approval of consequential amendments to the SRA Practising Regulations and SRA Recognised Bodies Regulations. The SRA's application was granted by the LSB on 14 July 2010 but the final Practising Fee levels set out in the determinations are subject to LSB approval under section 51 of the Legal Services Act 2007 and therefore are now submitted for such approval.

A brief summary of the fee determinations is set out below:

### ***Appendix 5: Practising Certificate Fee Determination [2010]***

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;
- prescribes the firm fee for continuing recognised sole practitioners (based on turnover);
- prescribes the fee for brand new sole practitioners applying for recognition at the same time as renewal of a practising certificate;
- preserves a lower fee for RFLs who are based abroad and deals with other special cases; and
- sets out the criteria for the transitional fee moderation process.

### ***Appendix 6: Determination of Sole Practitioner Fees [2010]***

A separate resolution is required to set the application fee for the recognition of a sole practitioner who applies during the course of a practising certificate year. This is needed because of the way the Solicitors Act is drafted in providing for the recognition of sole practitioners.

### ***Appendix 7: Recognised Body Fee Determination [2010]***

This:

- prescribes the firm fee for recognised bodies (based on turnover) with different provisions applying to brand new firms, continuing firms and firms who have been affected by an acquisition, merger or split in the last 12 months;
- sets out the criteria for the transitional fee moderation process; and
- deals with special cases such as overseas offices.

## Appendix 1: Practising Fee Rules

The Legal Services Board has, on 9 December 2009, made the following rules under Legal Services Act 2007 (c.29), section 51(3) and (6):

### PRACTISING FEE RULES 2009

#### A. DEFINITIONS

1. The words defined in these rules have the following meanings:

**Act** the Legal Services Act 2007 (c.29)

**Applicable persons** includes “relevant authorised persons” as defined in Section 51(8) of the Act but extends also to other persons over which the Approved Regulator has regulatory powers

**Approved Regulator** has the meaning given in Section 20(2) of the Act

**Board** the Legal Services Board

**Consumer Panel** the panel of persons established and maintained by the Board in accordance with Section 8 of the Act

**Legal services** means services provided by a person which consist of or include “legal activities” as defined by Section 12(3) and 12(4) of the Act

**Permitted purposes** the purposes which an Approved Regulator may apply amounts raised by practising fees, as set out in Rule 6 of these Rules

**Person** includes a body of persons (corporate or unincorporated)

**Practising fees** has the meaning given by Section 51(1) of the Act

**Regulatory functions** has the meaning given by Section 27(1) of the Act

**Reserved legal services** have the meaning given in Section 207(1) of the Act. 11

#### B. WHO DO THESE RULES APPLY TO?

2. These Rules are the rules that the Board has made in compliance with 51(3) and 51(6) of the Act relating to the control of practising fees charged by Approved Regulators.

3. Accordingly, these Rules apply to each Approved Regulator that proposes to charge practising fees as part of its regulatory arrangements.

4. In the event of any inconsistency between these Rules and the provisions of the Act, the provisions of the Act prevail.

### **C. THE PERMITTED PURPOSES**

5. Monies raised through practising fees must not be applied for any purpose other than one or more of the permitted purposes.

6. The permitted purposes are:

(a) the regulation, accreditation, education and training of applicable persons and those either holding themselves out as or wishing to become such persons, including:

(i) the maintaining and raising of their professional standards; and

(ii) the giving of practical support, and advice about practice management, in relation to practices carried on by such persons;

(b) the payment of a levy imposed on the Approved Regulator under section 173 of the Act and/or the payment of a financial penalty imposed on the Approved Regulator under section 37 of the Act;

(c) the participation by the Approved Regulator in law reform and the legislative process;

(d) the provision by applicable persons, and those either holding themselves out as or wishing to become such persons, of legal services including reserved legal services, immigration advice or immigration services to the public free of charge;

(e) the promotion of the protection by law of human rights and fundamental freedoms;

(f) the promotion of relations between the Approved Regulator and relevant national or international bodies, governments or the legal professions of other jurisdictions;

(g) increasing public understanding of the citizen's legal rights and duties.



## **Appendix 2: Final Council Paper**



PC fee 10.1 paper  
v3.2 Council.doc

## **Appendix 3: Plain English Summary of the New Fee Policy**



Draft plain English  
summary of the new f

## **Appendix 4: Full Equality Impact Assessment (EIA): Fairer Fee Policy**



Annex 9 Equality  
Impact Assessment.d

## **Appendix 5: Practising Certificate Fee Determination [2010]**



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## **Appendix 6: Determination of Sole Practitioner Fees [2010]**



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## **Appendix 7: Recognised Body Fee Determination [2010]**



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