



The Law Society

Council
14th July 2010

Item xx

Classification – Confidential

Purpose – For decision

Practising fees for 2010/2011

The Issues

This paper presents the proposed net funding requirement and practising fees for 2011 for The Law Society Group. It is based primarily on the 2010 budget and the Q1 forecast (QRF1) with assumptions identified later within this paper.

A number of different scenarios have been prepared based on the current economic environment and the known strategies of the organisation to determine the main pressure on the financial expenditure of the Law Society Group.

This paper should be read in conjunction with the paper on the recommended contribution for the Compensation Fund and will be supported by a presentation to Council, which shows a movement from a complex matrix fee structure based on the number of years an individual has held a Practising Certificate and whether an individual holds client money (maximum £390) in 09/10 to a simple £10 individual fee and £120 firm fee.

Notice that under Fairer Fees, there is a new funding structure which consists of an individual component of 40% of net funding requirement and a firm based element of 60% which is based on banded turnover.

The net funding requirement for TLS Group for 10/11 is £121.7m

Decision

Council are invited to approve the net funding requirement for TLS Group of £121.7m.

Remit

The Board's terms of reference (5) "To deal with all matters relating to the finances....of the Society...including (a) financial controls, (d) investment management".

Policy Position

Any policy position is set out in the attached paper.

Financial and Resourcing implications

The Practising fees for 2011 are based on the 2010 budget and the QRF1.

Communication

This will be available for viewing on the Law Society corporate business website.

Equality and Diversity implications

None

Consultation

Regular presentations have been made to the 3 CEO's, Management Board and SRA Board detailing the key assumptions to be made in the 3 year plan.

The numbers and commentary have been received and agreed by all the senior management teams.

Director: Peter Beddows
Author: Jules Radford
Date of report: 30th June 2010

Executive Summary

Key messages

- 3 Year Plan with realistic assumptions rather than 5 Year Plan with extrapolations.
- Agreed assumptions with 3 CEOs at the outset.
- Considered a wide range of Risks and Opportunities.
- LSB/LEO/SDT costs included.
- SRA significantly reducing / eliminating the cost re-charge to Comp Fund
 - This drives up (relatively) Practising Fee and commensurately down the Comp Fund contribution.
- Fairer Fees will split practising fees between individuals and firms – SRA will present on this at July Council.
- We have provided “steady state” view for consistency and to allow ease of comparison.
- Total “tax on profession” will be down 27.6% at **£1,137** for a typical fee payer.
 - (a) Comp Fund fee will reduce from £390 in 2009/10 to **£19** (equivalent) in 2010/11.
 - (b) Practising Fee is flat in 2010/11 at **£1,118** (equivalent) vs £1,180 in 2009/10.
 - (c) Without the change in Comp Fund recharge, the Practising fee would be £1,040 in 2010/11, £1,049 in 2011/12 and £938 in 2012/13.
- This reflects funding need of £121.7m in 2010, a change of £0.5m on the 2009 indicative figure.
- Comp Fund Reserves are being reduced from £49.1m in 2010/11 to £27.3m in 2012/13. The annual contribution will increase from c.£10 per solicitor and c.£120 per firm in 2010/11 to c.£100 per solicitor and c.£1,480 per firm in 2012/13.
- Group Reserves remain strong at £67m but need to be viewed in the context of Pension Fund deficit.

The Three Year Financial Plan

The impact on the Funding Requirement and historical Practising Certificate fees are projected as follows:

	2008/2009 Budget	2008/2009 Actuals	2009/2010 Budget	2010/2011	2011/2012	2012/2013
Number of Practising Certificates (Jan)	116,643	111,092	112,790	116,527	119,461	122,394
Funding Requirement (£000)	105,678	93,729	122,221	121,704	137,011	127,158
Historical PC Fee Equivalents	106,253	110,462	103,544	108,814	111,553	114,292
Historical PC Fee (£)	995	-	1,180	1,118	1,228	1,113

Key recommended group assumptions

The assumptions are designed to present a realistic but stretching financial projection using the following key group assumptions and are based on the 2010 budget and QRF1. Note that key assumptions for individual entities are set out under the sections for those entities.

Staff costs	<ul style="list-style-type: none"> • Inflation and wage rises = zero. (1% wages rise = £0.5m, £5 on the historical PC fee) • Bonus held at QRF1 levels c.£1m • Pension Payment - £10.4m/yr to 2014 • Pensions 2012 impact - £0.3m in 2012 rising to potentially £1.2m in 2016/17 onwards
Number of Practising Certificates & Turnover	Based on a regression method known as "seasonal indexes" which considers the average number of PC holders over a period. This also factors in the seasonal variations and uses this to predict future values.
GPIF	£15.5m in both 2010, 2011, £10.5m in 2012 & 2013.
Contingency	2% of total funding requirement
Interest	1% in 2011, 1.9% in 2012, 2.9% in 2013 (based on treasury forecasts)
VAT	Increase to 20% from 2011
Enabling Programme	Benefits of £0.7m in 2011, £2.6m in 2012 and £0.2m in 2013 to be taken out of SRA budget. Cumulative benefits of £3.5m
Alternative Regulators	Left out for time being but note that a 1% reduction in PC's would equal £4 extra on Practising fees (individual component). It is difficult to ascertain what the impact would be with regard to a reduction of turnover on the firm fee given the number of permutations around the distribution of turnover
LCS	£1.7m run-off costs in 2011, zero from 2012 onwards

Key risks / Suggested actions

- All
 - The number of practising certificates reduces. *(2% contingency included in the plan)*
 - Impact of the alternative regulators status. *(2% contingency included in the plan)*
 - Fairer Fees – as part of the Fairer Fees project, the turnover information supplied by firms may be inaccurate, which may not facilitate complete funding of the Law Society group. *(2% contingency included in the plan)*
 - Firms merging reduces the value of firm fees collected due to banded turnover model *(2% contingency included in the plan)*
 - LCS closure may result in Shared Service costs allocations increasing *(Shared Service cost reductions being reviewed)*
- SRA
 - Corporate regulation development costs as a result of Outcome Focused Regulation (OFR) and Alternative Business Structures (ABS) work are forecasted as £2.5m in 2011 and 2012; however, there is a risk that these costs may be higher. *(Costs to be monitored and potential increases escalated early. Consideration should be given to governing the development work as a separate project).*
 - The SRA is unable to regulate ABS if they are not set up properly.
 - Enabling Programme benefits may not be fully defined /cashed.
 - There is a risk of higher claims from higher and larger interventions *(volume and size of interventions to be monitored)*
 - Income from the authorisation of Course Providers may reduce by £0.5m p.a. as a result of a new strategy for CPD in the OFR environment. There will be a smaller number of providers but subject to more rigour. *(Review and consult prior to implementing any changes).*
- LCS
 - Political uncertainty affecting the run off of LCS - the additional cost per month for every month we end up paying full costs of LCS after Dec 2010 are £1.3m, based on the 2010 budget.
 - We have currently only included £1.7m of run off costs in 2011, but have included full LCS cost up to December 2010.
- The Law Society
 - Impact of Project Blueprint not taken into account, although £4m has been included in GPIF.
- Shared Services -
 - The £15.5m GPIF includes the EP business.
 - There is a risk that the pension's 2012 impact of £0.3m in 2012 may rise to £1.2m in 2016/17 onwards.
 - Forecast for severance costs arising from SRA and other restructures may be exceeded. *(All future material severance costs should be subject to business authorisation process).*
 - It may not be possible to reduce Shared Services costs once LCS has closed.
- LSB – We are solely reliant on the LSB for providing details of the costs and timetable of LeO/LSB. Details are set out in Appendix 8.

Opportunities:

- SRA
 - The corporate regulation development costs will cease in 2013.
 - There are likely to be benefits from the Enabling Programme further to those identified to date.
 - £0.2m new income streams are currently being reviewed.
- The Law Society
 - £0.7m included for marketing campaign – discretionary spend.
 - Launch of new Membership Schemes (Home Buyer Review, Lexcel re-launch) could increase revenues and the bottom line.
 - Find A Solicitor Business case – potential £0.1m revenue in 2011
 - Commercial exploitation of Accreditation Schemes may result in more income.
 - Impact of Project Blueprint not taken into account
- Shared Services
 - Review of the Investment policy to place deposits in higher interest earning accounts.
 - Potential savings of £1.3m in Facilities.
 - Potential for further reductions in costs following the close of LCS.
- Reserves – If the reserves policy was based on 3 months net funding requirement, the amount required would be £32m, if 6 months this would rise to £63.9m. The level of reserves as at 31 December 2009 was £66.6m. This will need to be viewed in the context of Pension Fund deficit.

Executive summary

	2009	2010		2011	2012	2013	Variance	
	Actual	Budget	QRF1*				QRF1-2011	QRF1-2013
£m								
TLS income	12.3	14.3	15.3	16.9	17.0	17.1	1.7	1.8
SRA Income	5.7	9.9	7.9	7.9	7.9	7.9	0.0	0.0
Investment Income & Interest	(0.3)	0.6	1.1	1.3	2.3	3.1	0.2	2.0
Other Income	8.0	0.3	0.2	0.0	0.0	0.0	(0.2)	(0.2)
Income	25.7	25.0	24.4	26.2	27.2	28.1	1.7	3.6
Staff Expenditure	(72.8)	(69.4)	(68.6)	(59.7)	(56.5)	(56.5)	8.9	12.1
Non-Staff Expenditure	(70.3)	(78.2)	(82.0)	(83.7)	(75.5)	(72.5)	(1.7)	9.4
Total Expenditure	(143.2)	(147.6)	(150.6)	(143.4)	(132.0)	(129.1)	7.2	21.5
Net Expenditure Exc Recoveries	(117.5)	(122.6)	(126.2)	(117.2)	(104.8)	(101.0)	8.9	25.1
Comp Fund Recoveries	18.7	22.9	21.7	13.6	2.2	2.2	(8.1)	(19.6)
Legal Fee Recoveries	3.0	2.5	3.0	3.0	3.0	3.0	0.0	0.0
Other Recoveries	0.6	0.1	0.3	0.3	0.3	0.3	0.0	0.0
Total Net Position	(95.2)	(97.1)	(101.2)	(100.4)	(99.4)	(95.6)	0.8	5.6
Special Pension Payment	0.0	(10.4)	(10.4)	(10.4)	(10.4)	(10.4)	0.0	0.0
LeO/LSB Costs	0.0	0.0	(7.1)	(12.4)	(28.6)	(22.6)	(5.2)	(15.5)
Less Depreciation	1.5	1.7	1.4	1.4	1.4	1.4	0.0	0.0
Total Funding Requirement	(93.7)	(105.8)	(117.3)	(121.7)	(137.0)	(127.2)	(4.4)	(9.9)
SRA	(22.5)	(16.2)	(16.2)	(25.6)	(34.5)	(32.0)	(9.4)	(15.8)
LCS	(16.3)	(15.9)	(15.9)	(1.7)	0.0	0.0	14.2	15.9
The Law Society	(13.2)	(12.4)	(12.4)	(11.1)	(11.0)	(11.0)	1.3	1.4
Shared Services	(41.4)	(59.0)	(63.4)	(68.8)	(60.7)	(59.4)	(5.3)	4.1
SDT	(0.3)	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)	(0.0)	(0.0)
LeO/LSB Costs**	0.0	0.0	(7.1)	(12.4)	(28.6)	(22.6)	(5.2)	(15.5)
Total Funding Requirement	(93.7)	(105.8)	(117.3)	(121.7)	(137.0)	(127.2)	(4.4)	(9.9)

* QRF1 has been adjusted to show a cashflow upon which the net funding requirement for Practising Fees is calculated.

** LeO/LSB costs are discussed in more detail within the Appendix 8

Year on Year movements, compared to 2010 QRF1

Income

- TLS income grows by £1.7m from 2010 to 2011 due to increasing events and remains at this higher level throughout the plan period.
- Investment income and Interest increase by c. £1m in 2012 and 2013 due to an assumed increase in interest rates.

Staff expenditure

- Decreases by £8.9m in 2011. The key elements are an £11.2m reduction in LCS and an increase of £2.6m in Shared Services, primarily due to SRA restructure costs.
- Decreases by a further £3.2m in 2012: £0.5m LCS and £2.7m Shared Services, as a result of the SRA restructure costs in 2011.

Non staff expenditure

- Increases by £1.7m in 2011:
 - £3.2m saving from the closure of LCS.
 - £1.5m increase in contingency.
 - £1.7m increase in irrecoverable VAT.
 - £2m increase in SRA intervention and archiving costs.
- A further decrease of £8.4m in 2012 is caused by:
 - Reduction in GPIF spend- £5.0m
 - £2.5m savings from EP efficiency
 - £1.2m saving from the closure of LCS.
 - £1.0m cost increase assumed for the single site project.

Recoveries

- Comp Fund recoveries are due to reduce by £8.1m in 2011 and by a further £11.5m in 2012

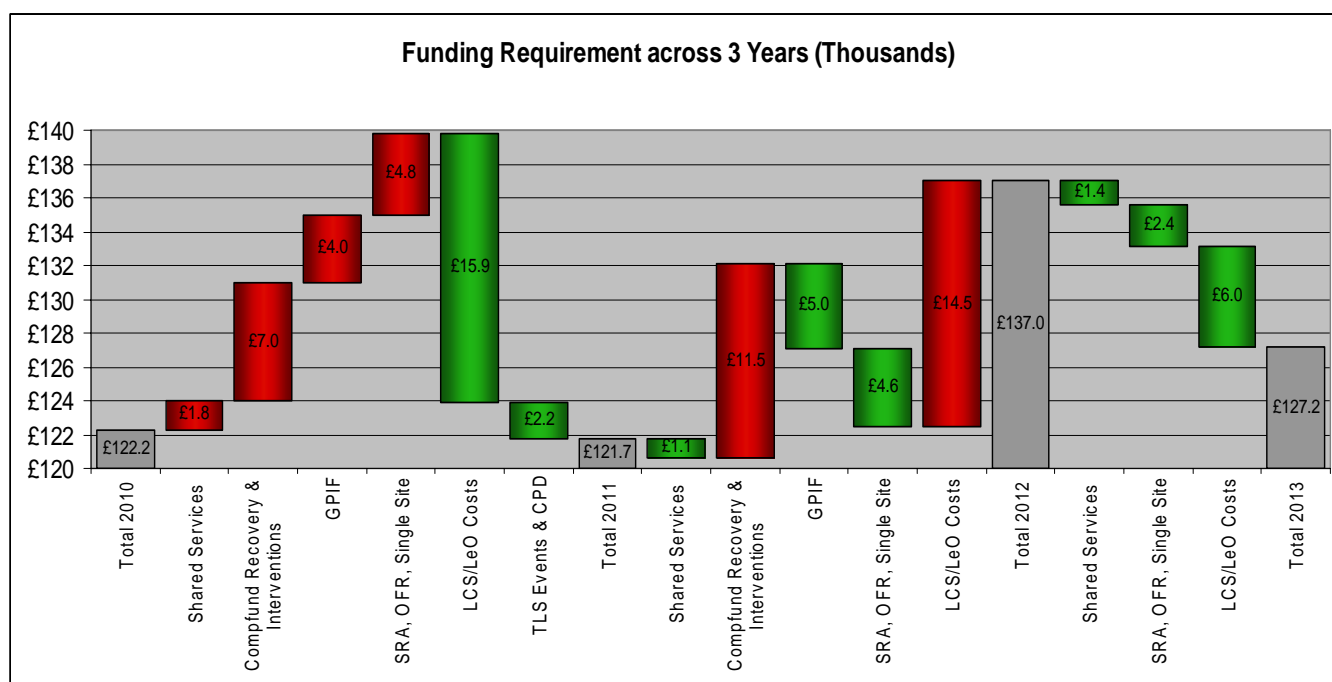
LeO/LSB Costs

- Additional £12.2m running cost in 2011, offset by £6.8m collection release.

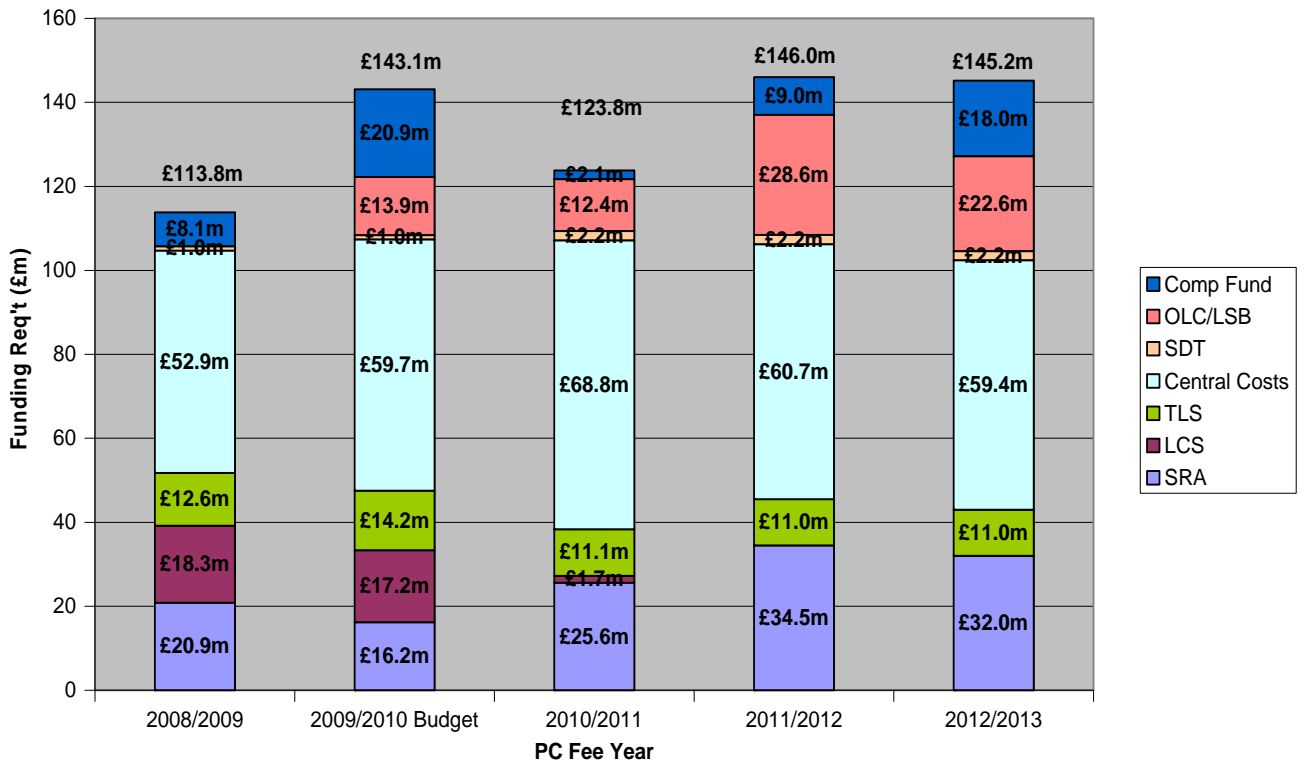
Comparison of 2011 funding requirement to the original 2010 funding requirement

The original funding requirement of £122.2m for 2010 (PC fee paper presented July 2009), is £0.5m higher than the 2011 funding requirement of £121.7m. The large items contributing to this variance are as follows:

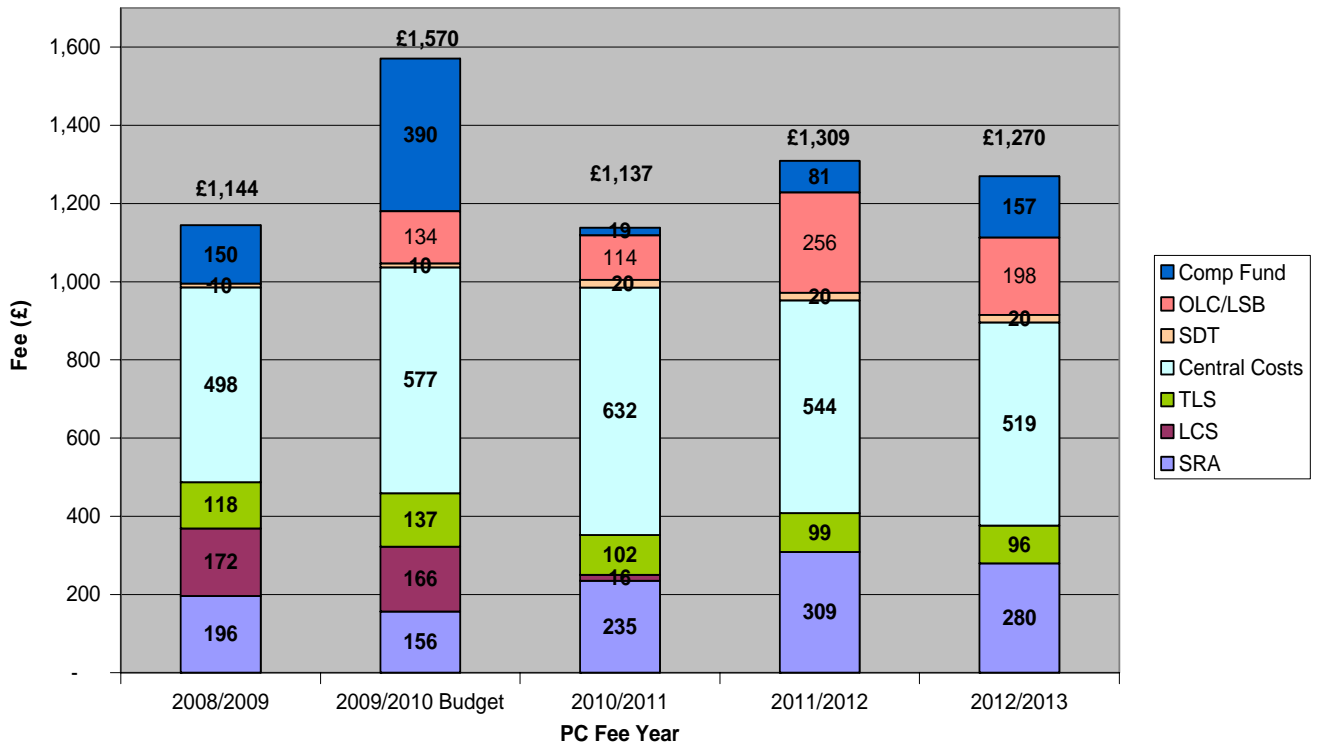
- £1.8m increase Shared Services costs due mainly to increase in irrecoverable VAT.
- £6.2m increase in SRA Intervention costs plus £0.8m reduction in Comp Fund recoveries to the SRA.
- £4m increase in GPIF projects, primarily SRA EP, LCS close down and Blueprint.
- £3m SRA restructuring costs, plus £1.8m OFR & ABS costs forecasted in 2011.
- £14.4m saving in 2011: LCS closure in late 2010, replaced by £5.1m increase in LeO/LSB running costs in 2011 (this is off set by the £6.8m collection release in 2010).
- £2.2m increase in TLS income due to new events in 2011.



Funding Requirement History and Compensation Fund Contributions

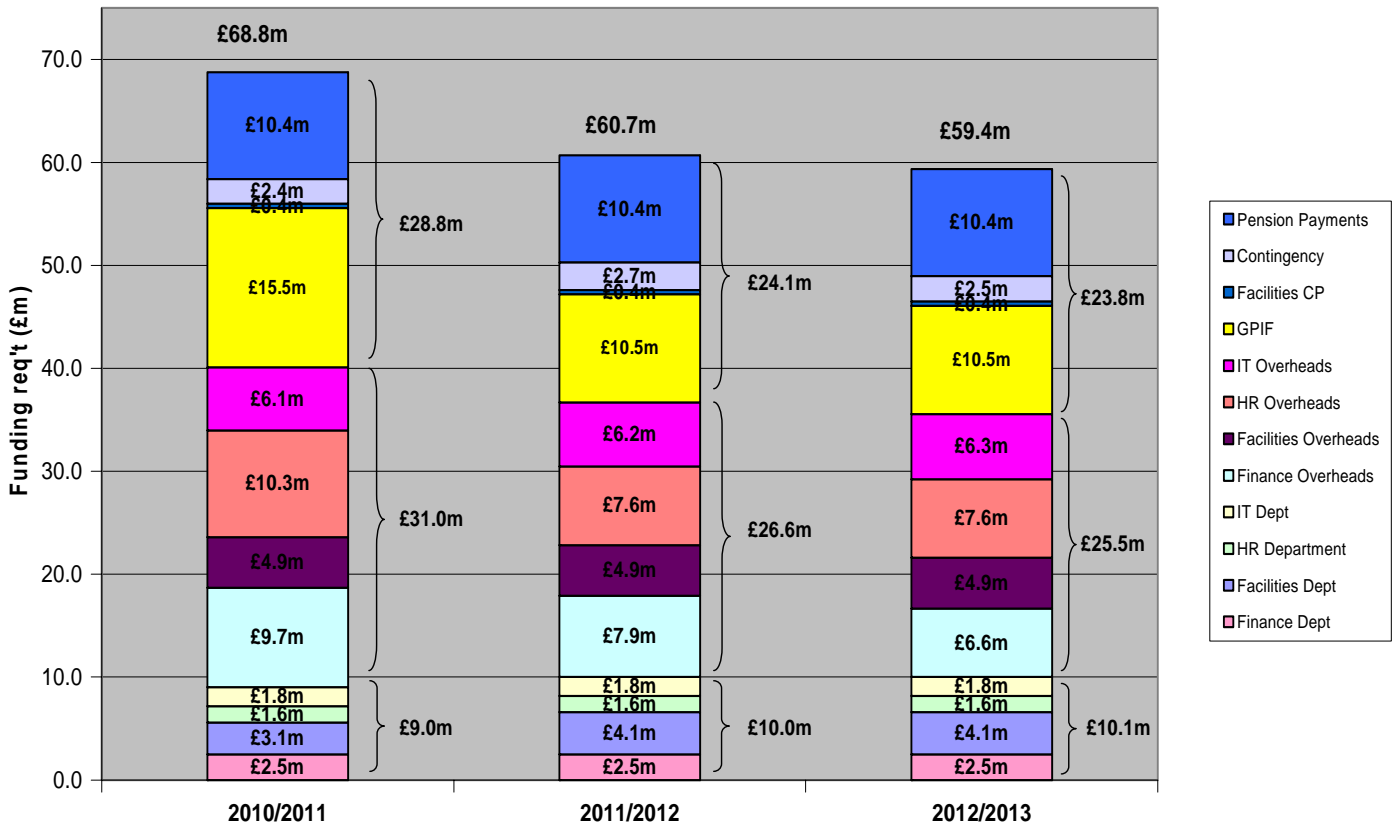


Practising Certificate Fees History and Compensation Fund Contributions

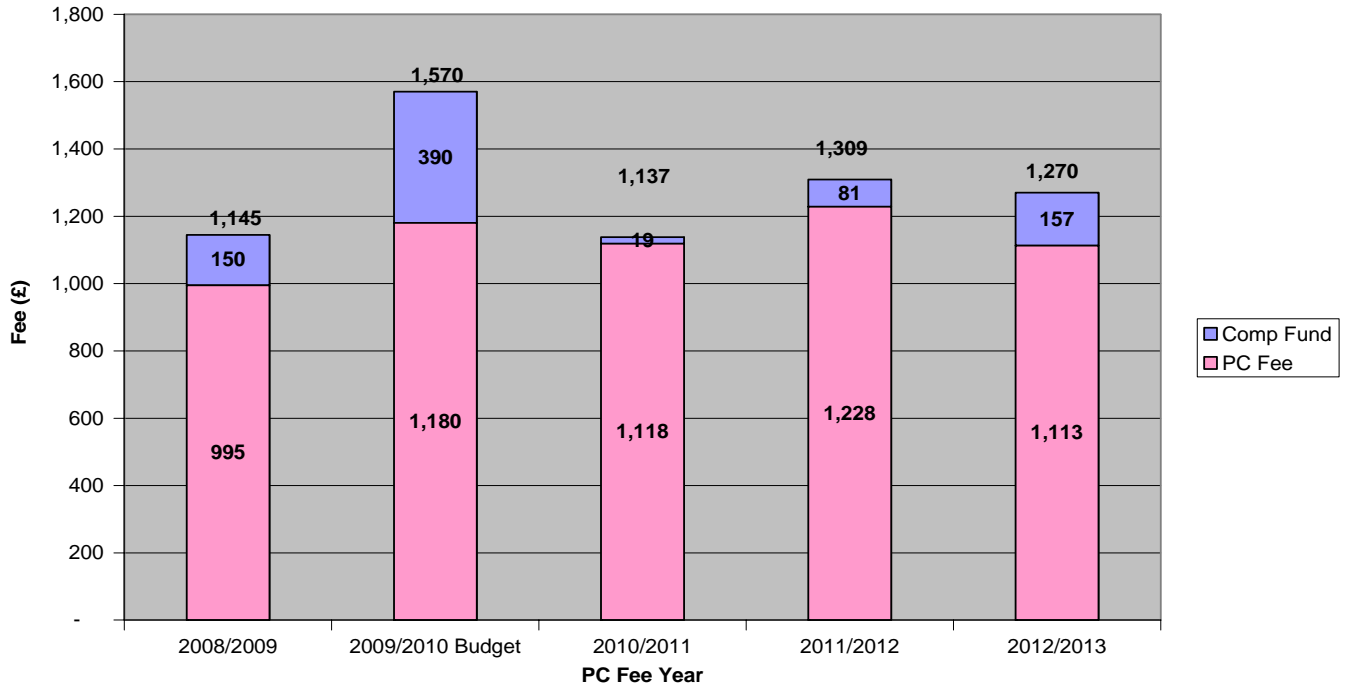


* The 2010/11 Comp Fund contribution equates to the £10 individual and £120 firm fee.

Split of Central Costs



Practising Fee History and Compensation Fund Contribution – Typical Payer Profile



*From From 2010/11 onwards, the total practising fee funding requirement will be split 40% individual and 60% firm fee. There is no typical payer with the new fee structure.

Please note that only activities permitted under section 51 of the Legal Services Act are included. Further transparency information will be published online to the profession in July..

Fairer Fees

The way in which the cost of regulation has previously been allocated among the profession through the practising certificate fee can lead to anomalies and unfairness.

The SRA is now introducing a fairer fee system, reflecting regulatory activity by allocating less of the cost to individuals and more to private practice firms (between 60 per cent and 80 per cent of regulatory activity is focused on firms rather than individuals).

This means that the individual fee will be substantially lower than at present. Firms' regulatory payments will be based on their turnover (defined as England and Wales gross fees), assessed in different bandings.

Summary of new fee structure

The new fee structure comprises four main components:

1. Individual regulatory fees (PC, REL, RFL fees): £428 per regulated individual
2. Firm regulatory fee (recognition renewal): Calculated on banded turnover

Calculation of Turnover

Turnover Range (A)	Pay %* of Turnover within band (B)	Minimum Turnover in band (C)	Minimum Fee in Band (D)
£0 - £19,999	1.10%	£0	£100
£20,000 - £149,999	0.65%	£20,000	£320
£150,000 - £499,999	0.63%	£150,000	£1,165
£500,000 - £999,999	0.60%	£500,000	£3,370
£1,000,000 - £2,999,999	0.57%	£1,000,000	£6,370
£3,000,000 - £9,999,999	0.39%	£3,000,000	£17,770
£10,000,000 - £29,999,999	0.33%	£10,000,000	£45,070
£30,000,000 - £69,999,999	0.30%	£30,000,000	£111,070
£70,000,000 – £149,999,999	0.27%	£70,000,000	£231,070
£150,000,000 and above	0.10%	£150,000,000	£447,070

Using the table above, the firm fee can be calculated based on turnover by following the steps below:

- Identify which band the turnover falls in from the 'Turnover Range' column.
- Take the corresponding value from the percentage column and multiply it by the difference between the turnover and the corresponding value in the 'Minimum Threshold Turnover Banding' column.
- Then add on the corresponding value in 'Minimum Fee in Band' column.

(NB: Individual regulatory fee, banding and percentages are provisional and will be finalised when the funding requirements are confirmed. Note that more examples and detailed explanation are available on <http://www.sra.org.uk/fees/>)

3. Individual Compensation Fund contribution: £10 per regulated individual (irrespective of whether they hold client money).
4. Firm Compensation Fund contribution for firms that hold client money: £120 per Firm.

There will also be a flat rate fee of £200 per branch office of the firm that are outside England and Wales.

Explanation for why the fees are different from the indicative ones communicated

1. Indicative fees were based on 2009/2010 practising year's net funding requirement and Practising Certificate fee level of £1180
2. Change to the number of PC equivalents
 - a. more PCs in 2010 than in the original budget
 - b. assumption that the number of PCs will rise in 2010/2011
3. Shift of £8.1m compared to assumption of £9m in our modelling assumptions as a result of Compensation Fund indirect costs being shifted into the the net funding requirement to improve transparency
4. Improved information about the total and distribution of turnover across the profession

Definition of firm turnover

The recognised body's turnover figure means the 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).
- Specifically excluded: interest, reimbursement of disbursements, VAT, remuneration from a non-private practice source, dividends, rents and investment profit.

Please see Appendix 3 for more detail.

Impact of new Fee Structure

The following table shows how the new fee structure will affect firms of different sizes, in terms of what proportion of firms in each firm size band will have a decrease, versus those who will have a small, medium or large increase in their overall fee burden.

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

Please see the appendix 18 for examples of the new fee burden compared to the old burden, for a range of sample firms. An Equality Impact Assessment has also been completed which provides more information on the impact on different diversity groups.

Appendices to PC Fee Paper for 2011

- 1. SRA Commentary**
- 2. LCS Commentary**
- 3. The Law Society Commentary**
- 4. Shared Services Commentary**
- 5. Key Assumptions**
- 6. 2011 GPIF Key Spend**
- 7. 3 Year Plan Scenarios**
- 8. LeO/LSB Payments**

SRA Commentary

Key messages – Compensation Fund recharges are due to reduce by £8.1m in 2011 and a further £11.5m in 2012. These figures are included in the FPC paper which is being presented to the SRA Board on 18th June.

	2009	2010	2011	2012	2013	Variance	
	Actual	Budget	QRF1*			QRF1-2011	QRF1-2013
£m							
Income	5.7	9.9	7.9	7.9	7.9	0.0	0.0
Staff Expenditure	(25.3)	(27.3)	(26.9)	(26.9)	(26.9)	0.0	0.0
Non-Staff Expenditure	(23.6)	(24.0)	(21.9)	(23.1)	(18.1)	(1.3)	3.7
Total Expenditure	(49.0)	(51.3)	(48.8)	(50.0)	(45.0)	(1.3)	3.7
Net Expenditure Exc Recoveries	(43.2)	(41.4)	(40.9)	(42.1)	(37.1)	(1.3)	3.7
Comp Fund Recoveries	17.8	22.7	21.7	13.6	2.1	(8.1)	(19.6)
Legal Fee Recoveries	3.0	2.5	3.0	3.0	3.0	0.0	0.0
Total Funding Requirement	(22.5)	(16.2)	(16.2)	(25.6)	(34.5)	(9.4)	(15.8)
CEO	3.4	4.1	3.1	(4.2)	(13.1)	(7.4)	(13.8)
COO	(2.0)	(2.2)	(2.2)	(2.2)	(2.2)	0.0	0.0
CLIENT PROTECTION & INFORMATION	(2.1)	2.7	1.4	(0.6)	(0.6)	(2.0)	(2.0)
POLICY INCLUSION	(0.4)	(0.7)	(0.7)	(0.7)	(0.7)	0.0	0.0
INSPECTION & INVESTIGATION	(4.9)	(5.1)	(4.7)	(4.7)	(4.7)	0.0	0.0
LEGAL	(9.6)	(6.6)	(5.1)	(5.1)	(5.1)	0.0	0.0
SRA POLICY	(1.9)	(2.0)	(1.6)	(1.6)	(1.6)	0.0	0.0
REGULATION RESPONSE	(3.9)	(4.1)	(4.3)	(4.3)	(4.3)	0.0	0.0
STANDARDS	(1.3)	(2.2)	(2.1)	(2.1)	(2.1)	0.0	0.0
Total Funding Requirement	(22.5)	(16.2)	(16.2)	(25.6)	(34.5)	(9.4)	(15.8)

* QRF1 has been adjusted to show a cashflow upon which the net funding requirement for PC Fee is calculated.

Key assumptions

Interventions	Expected to increase by c.25%, highly speculative based around ABS introduction putting pressure on small firms, OFR having a destabilising effect, uncertainty around insurers, possibility of interventions becoming larger in size
Archives	Expected to increase in line with the number of interventions
Comp Fund	Likely to change in line with Fees 2010 and FPC recommendations <ul style="list-style-type: none">• £8.1m transferred to Regulatory fee in 2010/11• A further £11.5m transferred to Regulatory fee in 2011/12 and onwards
Enabling Programme	Benefits of £0.7m in 2011, £2.6m in 2012 and £0.2m in 2013 to be taken out of SRA budget. Cumulative benefits of £3.5m
OFR / ABS	Eventually be BAU, with development costs into 2011 & 2012 @ same level as this year. £2.1m in 2013

Risks and Opportunities

Risks:

- Interventions may increase further once ABS comes into force.
- CPD authorisation to fall by approx £0.5m per annum - further work required on process & rationale.
- EP efficiencies may not be realised.
- OFR and ABS – development costs may exceed current estimations.

Opportunities:

- Potentially £0.2m year of new income, yet to be assessed thoroughly.
- Organisational restructure and cultural change taking place in 2010 will result in efficiencies over the 3 year period.

LCS Commentary

Key Messages: £1.7m run-off costs in 2011 and no cost from 2012 onwards.

	2009	2010		2011	Variance
	Actual	Budget	QRF1*		QRF1-2011
£m					
Income	0.4	0.3	0.2	0.0	(0.2)
Staff Expenditure	(14.5)	(11.9)	(11.7)	(0.5)	11.2
Non-Staff Expenditure	(2.1)	(4.3)	(4.4)	(1.2)	3.2
Total Expenditure	(16.7)	(16.2)	(16.1)	(1.7)	14.4
Net Expenditure Exc Recoveries	(16.3)	(15.9)	(15.9)	(1.7)	14.2
Total Recoveries	0.0	0.0	0.0	0.0	0.0
Total Funding Requirement	(16.3)	(15.9)	(15.9)	(1.7)	14.2
BUSINESS SUPPORT SERVICE	(0.8)	(0.3)	(0.3)	0.0	0.3
CEO	(0.7)	(0.5)	(1.2)	0.0	1.2
OPERATIONS	(14.8)	(15.1)	(14.4)	(1.7)	12.7
Total Funding Requirement	(16.3)	(15.9)	(15.9)	(1.7)	14.2

* QRF1 has been adjusted to show a cashflow upon which the net funding requirement for Practising Fees are calculated.

Risks & Opportunities

Closure may be later than anticipated. The costs of keeping LCS open will amount to approximately £1.3m per month, based on the 2010 budget.

The Law Society Commentary

Key messages: Income has increased by 11% due to increased volume of events and new services taking place. Non Staff costs have increased accordingly. A substantial investment continues to be made in the Private Client Marketing Campaign.

	2009	2010	2011	2012	2013	Variance	
	Actual	Budget	QRF1*			QRF1-2011	QRF1-2013
£m							
Income	12.3	14.3	15.3	16.9	17.0	1.7	1.8
Staff Expenditure	(14.1)	(14.7)	(14.2)	(14.0)	(14.0)	0.3	0.3
Non-Staff Expenditure	(11.7)	(12.2)	(13.7)	(14.3)	(14.3)	(0.6)	(0.7)
Total Expenditure	(25.8)	(27.0)	(27.9)	(28.3)	(28.3)	(0.4)	(0.4)
Net Expenditure Exc Recoveries	(13.5)	(12.7)	(12.6)	(11.3)	(11.3)	1.3	1.4
Comp Fund Recoveries	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Other Recoveries	0.1	0.1	0.3	0.3	0.3	0.0	0.0
Total Funding Requirement	(13.2)	(12.4)	(12.4)	(11.1)	(11.0)	1.3	1.4
PRESIDENT'S OFFICE	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)	0.0	0.0
CDPE	(0.6)	(1.0)	(0.7)	(0.3)	(0.3)	0.5	0.5
CEO	(0.7)	(0.6)	(0.8)	(0.8)	(0.8)	0.0	0.0
COMMUNICATIONS, INCLUSIONS & CSR	(2.6)	(2.7)	(3.2)	(3.2)	(3.2)	0.0	0.0
GENERAL COUNSEL	(4.1)	(3.7)	(3.5)	(3.5)	(3.5)	0.0	0.0
GOVERNMENT RELATIONS	(0.3)	(0.3)	(0.4)	(0.3)	(0.3)	0.1	0.1
LEGAL POLICY	(2.5)	(2.7)	(2.7)	(2.7)	(2.7)	0.0	0.0
LAW SOCIETY SERVICES	(2.0)	(0.9)	(0.6)	0.2	0.2	0.7	0.9
Total Funding Requirement	(13.2)	(12.4)	(12.4)	(11.1)	(11.0)	1.3	1.4

* QRF1 has been adjusted to show a cashflow upon which the net funding requirement for Practising Fees are calculated.

Key assumptions

Communications	£0.7m for Private Client Campaign for 2010, rolled into 2011
CEO	Inclusion of £0.2m for future research projects in 2010 and 2011
Government Relations	£0.1m for Access to Justice Project removed for 2011
CDPE	Removal of £0.5m for staff to be transferred to the LeO/LSB Project
Events/Courses	<ul style="list-style-type: none"> Increase in Events in 2011 driving increased Revenue of £1m and Net Position of £0.6m vs. QRF1. Online CPD – Revenue increases in 2012 & 2013 c£0.1m year on year
Membership Schemes	New Risk & Compliance service driving extra £0.5m revenue, £0.3m cost

Risks

- LCS closure may result in Shared Service costs allocations increasing.
- Impact of Project Blueprint not taken into account.

Opportunities

- £0.7m included for marketing campaign – discretionary spend.
- Launch of new Membership Schemes (Home Buyer Review, Lexcel re-launch) could increase revenues and the bottom line.
- Find A Solicitor Business case – potential £0.1m revenue in 2011.
- Commercial exploitation of Accreditation Schemes may result in more income.
- Impact of Project Blueprint not taken into account.

Shared Services Commentary

Key messages: The figures include a £3m increase in 2011 relating to the SRA restructure. There is an additional £1m in 2012 for the single site project. GPIF will remain at 2010 levels of £15.5m and then drop to £10.5m in 2012.

	2009	2010		2011	2012	2013	Variance	
	Actual	Budget	QRF1*				QRF1-2011	QRF1-2013
£m								
Investment Income And Interest	(0.3)	0.6	1.1	1.3	2.3	3.1	0.2	2.0
Other Income	6.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income	5.8	0.6	1.1	1.3	2.3	3.1	0.2	2.0
Staff Expenditure	(18.3)	(25.2)	(25.5)	(28.1)	(25.4)	(25.4)	(2.5)	0.2
Non-Staff Expenditure	(31.6)	(36.1)	(40.5)	(43.5)	(39.1)	(38.6)	(3.0)	1.9
Total Expenditure	(49.9)	(61.4)	(66.0)	(71.6)	(64.5)	(63.9)	(5.6)	2.1
Net Expenditure Exc Recoveries	(44.1)	(60.8)	(64.9)	(70.2)	(62.1)	(60.8)	(5.3)	4.1
Comp Fund Recoveries	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Recoveries	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Net Position	(42.9)	(60.7)	(64.9)	(70.2)	(62.1)	(60.8)	(5.3)	4.1
Less Depreciation	1.5	1.7	1.4	1.4	1.4	1.4	0.0	0.0
Total Funding Requirement	(41.4)	(59.0)	(63.4)	(68.8)	(60.7)	(59.4)	(5.3)	4.1
FACILITIES	(8.1)	(8.0)	(8.0)	(8.0)	(9.0)	(9.0)	0.0	(1.0)
FINANCE	3.7	(2.2)	(2.3)	(2.3)	(2.3)	(2.3)	0.0	0.0
HR DIRECTORATE	(2.4)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	0.0	0.0
IT DIRECTORATE	(7.8)	(8.1)	(8.1)	(8.0)	(8.1)	(8.2)	0.2	(0.0)
Total Shared Services	(14.6)	(21.0)	(21.1)	(20.9)	(22.0)	(22.1)	0.2	(1.0)
FINANCE OVERHEAD Less Depreciation	(11.9)	(19.0)	(18.8)	(20.3)	(18.5)	(17.3)	(1.5)	1.5
HR OVERHEADS	(5.5)	(6.6)	(6.8)	(9.3)	(6.6)	(6.6)	(2.5)	0.2
Total Shared Services Overheads	(17.4)	(25.6)	(25.6)	(29.6)	(25.1)	(23.9)	(4.1)	1.7
GROUP CONTINGENCY	0.0	(1.6)	(0.9)	(2.4)	(2.7)	(2.5)	(1.5)	(1.6)
GPIF	(9.4)	(10.5)	(15.5)	(15.5)	(10.5)	(10.5)	0.0	5.0
FACILITIES CORE PROGRAM	(0.0)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	0.0	0.0
Total Group Contingencies	(9.4)	(12.4)	(16.8)	(18.3)	(13.6)	(13.4)	(1.5)	3.4
Total Funding Requirement	(41.4)	(59.0)	(63.4)	(68.8)	(60.7)	(59.4)	(5.4)	4.1

* QRF1 has been adjusted to show a cashflow upon which the net funding requirement for Practising Fees are calculated.

Key assumptions

Severance	Estimated £1m in 2010 and £3m in 2011
Single Site	£1m/yr for planning purposes in 2012
HRD– Phase 2	£0.5m in 2011 relating to LCS Closure.
Logica	£0.2m saving in 2011, then a further £0.1m in 2012 and 2013
VAT	Increased to 20% from 2011.
Contingency	2% of net funding requirement results in a £1.5m increase.

Risks / Actions:

- There is a risk that the full £15.5m GPIF will not be spent within 2011. (*Actual and projected spend is monitored on a regular basis*).
- There is also a risk that the forecast for severance cost arising from restructures will be exceeded. (*This is subject to ongoing review*).

Opportunities

- £1.3m savings opportunity to be delivered on facilities 2010 Budget.
- An opportunity of £0.4m would arise if reserves are reinvested into fixed term bonds during 2010.

2011 GPIF Key Spend

2011 (£m)						
Un-approved Projects	SRA	LCS	TLS	Shared Services	Other	Total
Blueprint			4.0			4.0
LeO/LSB		1.7				1.7
SRA EP	7.5					7.5
Other					2.3	2.3
Total GPIF	7.5	1.7	4.0	0.0	2.3	15.5

Appendix 7

3 Year Plan Scenarios

The highlighted scenarios are the assumptions used in this paper.

Condition	Best	Mid	Worse
GPIF	£10.5m	£15.5m	£16m
Contingency	1%	2%	3%
	£1.3m	£2.4m	£3.7m
Inflation	0%	1.60%	3%
Wage rises	0%	3.10%	3.5%
Interest	0%	1%	1.90%
Number of Practising Certificates	117,847	116,527	115,207
Number of PC Fee Equivalentents		108,814	

Appendix 8

LeO/LSB Payments

1. Implementation costs: c. £6.0m in 2010, 2011 and 2012
2. LSB running costs: 3 months in 2010, full year in remaining years
3. LeO running costs: none in 2010, 6 months in 2011, 12 months in remaining years.
4. Collection released in 2011 of c.£6.8m, costs will go back up in 2012.

	Costs	2010		2011		2012		2013		
Implementation	(18.2)	34%	(6.2)	33%	(6.0)	33%	(6.0)	0%	0	
Running Costs	LSB	(3.6)	3mth	(0.9)	12mth	(3.6)	12mth	(3.6)	12mth	(3.6)
	LEO	(18.9)	0	0.0	6mth	(9.5)	12mth	(18.9)	12mth	(18.9)
Over Collection					6.8					
Total LEO/LSB costs			(7.1)		(12.4)		(28.6)		(22.6)	

NB: These cost have been calculated on a cash basis, ie. The likely payment in 31st March each year.