



ILEX and IPS Practising Certificate Fee (PCF) application 2011/12

Introduction

This submission is presented on the basis of an increase to the ILEX PCF, agreed by the ILEX Council and IPS Board at their July meetings. The Fee was proposed at the Council meeting in May, and following a period of consultation with Fellows, was agreed in July.

Independence

We confirm that IPS determines its regulatory strategy and sets its budget independently. Under the Finance section of the ILEX/IPS Protocols, 12 – 15, there is a requirement on ILEX to make available to IPS the resources required to enable IPS to carry out its regulatory functions.

IPS set its regulatory strategy in January/February 2011. However, as a result of several recent changes to regulatory projects, of which the LSB is aware, the regulatory strategy is under review by the IPS Board. IPS will communicate its revised Strategy to ILEX in due course (we anticipate in September), and at that time may request additional resources from ILEX to support its direct regulatory costs. ILEX confirms that such a request for additional resources will be met. IPS has no concerns about securing such resources.

For the subsequent PC Fee applications, IPS will take the lead in identifying the costs of regulatory activities. IPS will consult with those paying practising fees.

A handwritten signature in black ink, appearing to read 'Diane Burleigh'.

Diane Burleigh
Chief Executive
The Institute of Legal Executives

A handwritten signature in black ink, appearing to read 'Ian Watson'.

Ian Watson
Chief Executive
ILEX Professional Standards

Section 1: Developing the application / Setting the Budget

- The Practising Certificate fee is shown in Table 1 below.

Table 1: Fee levels

PC Fee	2011 Current Year	2012 Budget year	Variance (Number & %)
Authorised Person	£250	£275	+£25 (+10%)

The Practising Certificate fee was set in the context of ILEX Group's three-year budget and business planning process, described below:

- The Budget Process

The ILEX Group's budget process incorporates three main phases:

- A strategy development period;
- Production of a 'top-down' three year budget, and finally;
- A detailed 'bottom-up' budget for the next financial year.

The strategic phase examines the political, economic, regulatory and competitive context of the sectors and markets the ILEX Group operates in, and this informs the development of the three year financial projection.

Assumptions are made regarding inflation, resource requirements, the numbers of "authorised persons", students and affiliates, and the likely numbers of examination entries and courses sold, amongst others.

A major consideration over the planning period is the additional cost of regulation and how this is to be funded. In a continuation of the strategy adopted last year, these costs will be met by drawing from reserves and applying greater than inflationary increases in Practising Certificate Fees. The increase in the fee for 2012 of 10%, and the increase in the following year, is expected to reduce the deficit towards nil by the end of 2013.

Council set a new fee level at its meeting in July 2011 after due consideration of the forward budget and the business plan, and consultation with Fellows. Council agreed greater than inflationary increases to all the membership grades, with the exception of students, whose fees will **not** increase.

The budget for ILEX Professional Standards is developed and set by the IPS Board and is then consolidated into the ILEX Group.

- Contingency Arrangements

The ILEX Group has accumulated considerable cash reserves in accordance with its Reserves Policy. This policy was developed specifically so that ILEX can meet unexpected needs of all sorts, including regulatory needs. Cash reserves at the end of 2010 were £7.2m, nearly three times PC Fee and membership fee income for that year.

- ILEX Group Draft 2012 Budget Summary – see Table 3, attached.
- Consultation process

Following the PC Fee proposals at the May Council meeting, referred to above, the Chief Executive wrote to all Fellows to seek their views on the fee increase. 32 responses were received, the majority of which did not support the increase.

The main issues highlighted were that members had either seen a pay freeze, or salary reduction over the last few years, particularly those lawyers working in residential conveyancing. Additionally, local government employers would no longer pay our members' PC fees, despite paying those of local government solicitors.

Section 2: Permitted Purposes

- The budgeted income from Practising Certificate Fees in 2012 of £1,888.8k is used entirely to meet regulatory expenditure of £2,012.3k. The majority of the resultant shortfall (deficit) of £114.2k, together with the deficit on Permitted Purposes of £986.5k is funded by the Group's other activities, including membership and training, with the remainder coming from Group reserves.

Section 3: Regulatory functions

- IPS sets its budget independently. The IPS Board determines its resource requirements for the budget period and once approved, their budget is incorporated into the ILEX Group budget.
- Table 3 below shows how PCF income is spent on regulatory activities including IPS, and ILEX Group departments. The Table also shows how permitted purposes income is used by departments within ILEX Group.

The shortfall on regulatory and permitted purposes activities is largely subsidised by the surplus on other Group activities, with the remaining shortfall being met by Group reserves. This can be seen in Table 3.

- 2012 Budget PCF Income and Expenditure

Table 3 provides the detailed figures showing how total PCF income is spent. However, for clarity, it should be noted that PCF income is only used for regulatory activities. The break-down of how PCF income is expected to be spent in the 2012 budget is summarised in Table 2 below:

Table 2: 2012 Draft Budget PCF Income & Regulatory Expenditure

	2011	2012
	£'000s	£'000s
PCF Income	1,753.3	1,888.8
Expenditure:		
Regulatory-body budget (IPS)	692.3	657.9
Regulatory levies	467.5	270.0
Other Regulatory activities	1,003.2	1,084.4
Total Expenditure	2,163.0	2,012.3
Surplus/(Deficit)	(400.7)	(114.2)

The differences between the 2011 and 2012 budgets in table 2 above relate to:

- PCF income reflects the increase in the fee.
- The regulatory-body budget reflects the draft IPS 2012 budget. Please note that, in accordance with the planning processes that IPS are undertaking (referred to in the introduction, above), their resource requirements may change.
- Regulatory levies. The 2011 budget anticipated higher levels of the regulatory burden.
- Other regulatory activities. This represents all the regulatory activities carried out by ILEX and the provision of services to IPS, and which are governed by the ILEX/IPS Protocols. The SLAs detail those services.
- Regulatory and permitted purpose activities within the ILEX Group are carried out both by ILEX as the Approved Regulator and by IPS, its devolved regulatory body. ILEX also provides services to IPS.

The departments within ILEX that carry out those activities and/or provide services to IPS under Service Level Agreements (SLA's) are:

- ILEX Membership department. Provides and maintains the Fellows & members database, issues PCF invoices, liaises with authorised persons, maintains CPD records, provides information to IPS about Fellows and members etc.
- ILEX Awards and International department. Provides support to ensure that standards of qualification, training and assessment are fit for purpose;

- provides details of assessment results by candidate, centre and student; provides reports & minutes of relevant committee meetings; liaison with Ofqual; provides details of any alleged misconduct. Maintains relations with overseas ILEX centres; attendance at stakeholder meetings with Skills for Justice; attendance at professional institute forums etc.
- ILEX Journal department. Provides the use of the Legal Executive Journal publication; editorial support; educational articles; direct mailing to authorised persons & members etc.
 - ILEX Corporate Affairs department. Provides representation, liaison and support in the areas of law reform, policy, lobbying, equality & diversity, pro bono, judicial appointments. Manages relationship with LSB, other Approved Regulators and government.
 - ILEX Communications & Marketing department. Maintains & supports the IPS website; IPS publications; press releases and liaison etc.
 - ILEX Central Resources department. Provides HR, finance & accounting, the Group CEO, pays the LSB & OLC levies etc.

Section 4: Clarity and transparency

- A copy of the letter which will be sent to those paying practising fees is appended to this application.

Legal Executives are the members of ILEX as the company limited by guarantee and as such are the only voting members of the company. They receive the ILEX Annual Report including audited accounts in time to attend the AGM and raise issues there, or indeed in advance. The Annual Report and Accounts is available on the ILEX website at [2010 Annual Report](#). The Business Plan and revised Budget will also be published online.

Section 5: Regulatory and diversity impact assessments

- ILEX will publish a new Group Equality and Diversity Objective and Action Plan in August 2011, which identifies ways in which we can continue to improve access to our services. This new Plan encompasses the requirements of the Equality Act 2010.
- We have not completed the optional Equality Analysis, but have informally identified the potential impact on various groups within our membership both through Council papers and consultation with our Fellows. These impacts (such as residential conveyancers and local government lawyers) are detailed in the further Practising Fees paper which was presented to the July Council meeting. In summary, the impact of the fee proposals, based on 32 responses to the initial consultation, can be summarised as follows:

- Members from local government cited the very difficult financial circumstances under which their local authorities are operating. Some indicated that their employer did not pay their PC fee (whereas the employer did pay the Solicitor's PC fee).
- Conveyancing members indicated that they had not received a pay increase for three years; some had seen the value of their salary reduced.
- We benchmarked the proposed fees against other professional bodies, using data from PARN (Professional Associations Research Network). Our fees were above the mean but below the maximum charged.

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

ILEX has taken no action in this regard. Legal Executives are regulated and pay Practising Certificate fees as individuals. There is no direct or substantive impact on non-commercial legal services providers.

Table 3: ILEX Group Draft 2012 Budget

Table 3 provides a summary of the draft Group 2012 budget and the variance to the 2011 budget. The main features are:

- Increased income derives primarily from the proposed increase in PCF and other ILEX membership rates.
- The reduction of the anticipated regulatory levies is based on the experience in 2011 and the change in the accounting treatment of the LSB start-up costs.
- Increases in payroll costs reflect cost-of-living increases.
- Changes to operating expenses represent reductions in spend on IT and other activities compared to 2011.
- Reductions in administration expenses reflect savings in non-essential expenditure.
- The additional income, together with reduced expenditure in 2012 is the continuation of the strategy to move towards a balanced budget in the medium-term.
- This is a draft budget. Detailed work will be carried out in the next several months before an approved budget is adopted in November.
- IPS will produce its own budget which will be incorporated into the total ILEX Group budget.
- Please note that none of the Central Resources budget is allocated to IPS. It remains part of ILEX regulatory activities.

