

**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 2014/15**



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Law Society Practising Fees 2014/15

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Practising Certificate Fee application 2014/15 for the Law Society Group

Section 1 – Introduction

1. This document seeks the Legal Services Board's agreement to the Law Society (TLS) / Solicitors Regulation Authority (SRA) application for practising fees for 2014/15.
2. The following fees, outlined in Table 1, require LSB approval:
 - individual regulatory fee;
 - firm regulatory fee for both recognised bodies and licensed bodies (turnover bandings).

Table 1: Fee levels

Practising Certificate Fees	2014/15 Requirement	2013/14 (Current Year)	Variance (£ and %)
Individual fee – Regulatory	£320	£384	- £64 - 17%
Firm fee (total £m to be collected)	£62.7m	£70.1m	- £7.4m - 11%

Background

3. Significant changes were made to the fees structure in 2010, moving from collecting virtually the whole of the cost of regulation from practising individuals to the cost being borne by individuals and firms. As part of the process the SRA adopted the following guiding principles for the fees policy:
 - 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, charitable and not for profit bodies – fees should not be a deterrent to new entrants.
4. In April 2011 the SRA Board agreed that the basic structure for the collection of fees for 2011/12 should remain the same as the previous year, meaning that the 40/60 split between individuals and firms for the apportionment of the regulatory requirements should be maintained and that the current discounts to the individual fee for maternity leave should be maintained.
5. The SRA Board agreed in 2012, 2013 and confirmed the position in 2014 to maintain the set apportionment and discounts of the regulatory requirements for 2014/15 and 2015/16. In making this decision the Board considered the review of the SRA approach to apportioning regulatory costs which is taking place.

6. 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 Board to determine how the amount required for regulation should be apportioned between the different categories of fee payer.
7. In 2010 the SRA changed the mechanism for collecting the regulatory net funding requirement and Compensation Fund requirement. The regulatory funding was split into an individual fee (40% of total) and a firm fee (60% of total) based on turnover bandings. The Law Society adopts the same approach to apportionment of the sums required for the Law Society's other 'permitted purposes' under the Legal Services Act. The Compensation Fund is apportioned at 50/50 flat ratio between individuals and firms holding client money.
8. When the SRA began licensing licensable bodies, the firm fee was based on estimated turnover as actual turnover figures would not be available. When consulting on this approach in March and April 2011, it was made clear that once actual turnover figures were available, fees would be based on these. Accordingly, the Draft Licensed Body fee determination [2014] includes an amendment to make it clear that licensed bodies that were licensed before 1 November 2012 will be charged fees based on actual turnover rather than estimated turnover.

Section 2: Setting the net funding requirement

The Law Society Group budget setting process

9. The foundations of the net funding requirement (NFR) for the Law Society Group are submissions from the business based on their expected activity in 2014/15. The process is worked through on a bottom up basis from the SRA, the Law Society and Corporate Solutions, starting with cost centres, business units and directorates and it is at the directorate level which the 2014/15 application is shown. The budget is submitted by each of the Directorates and authorised by the relevant Board¹. The full Law Society Group budget is then discussed and agreed by both the Law Society Management Board and finally the Law Society Council.
10. The NFR also includes a provision for levy payments to the LSB, Legal Ombudsman and the Solicitors Disciplinary Tribunal. The funding requirement for these is based on funding requirement information from the relevant bodies.
11. In translating the net funding requirement into proposed fees, we also need to make assumptions about:
 - the 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 2013/14 renewal exercise.
12. The Law Society Council approved a total of £104.9m to be collected from practising fees – a decrease from £116.8m collected in 2013/14.

¹ The SRA Board for the SRA, the Business and Oversight Board for Corporate Solutions and the Law Society Management Board for The Law Society.

13. The individual practising fee is £320, a decrease from £384 in 2013/14. Private practice firms (including licensed bodies as they are authorised) will also pay a fee based on their UK turnover. The proportion of turnover charged declines as turnover increases.

14. The Law Society Group financial year ends on 31 October rather than 31 December, as in previous years ensuring that the budget year is aligned to the Practising Certificate year. However, the budget for the group is not finalised until later in the year after the funding level had been finalised but before the beginning of the financial year. In 2014/15² the practising fee income is expected to be applied as follows:

- Solicitors Regulation Authority - £52.9m³;
- The Law Society (professional body) - £31.9m⁴;
- statutory levies (Legal Services Board (LSB), Legal Ombudsman (LeO), Solicitors Disciplinary Tribunal (SDT)) - £20.1m.

15. Comparison of the overall practising fee allocation between 2014 and 2015:

Table 2: Total PC fee income and expenditure (Permitted activities only)

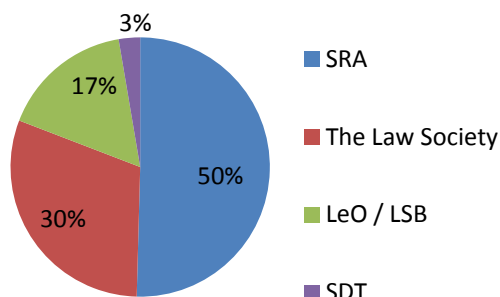
Budget Item	2014/15 Practising fee year	2013/14 Current Year (budget)	Variance	Commentary
Total PC fee income				
Total PC fee income	£104.9m	£116.8m	- £11.9m - 10%	
Total	£104.9m	£116.8m	- £11.9m - 10%	
Split of PC fee expenditure				
Solicitors Regulation Authority	(£52.9m)	(£53.6m)	- £0.7m - 1%	
The Law Society (permitted purposes)	(£31.9m)	(£32.1m)	- £0.2m - 1%	
Legal Ombudsman (LeO), Legal Services Board (LSB)	(£17.3m)	(£18.3m)	- £1.0m -5%	Lower budgeted expenditure by LeO / LSB
Solicitors Disciplinary Tribunal (SDT)	(£2.8m)	(£2.8m)	+ £0.0m + 0%	No change
Contingency / Provision	(£0.0m)	(£10.0m)	- £10.0m	No additional provisions are required for 2014/15
Total	(£104.9m)	(£116.8m)	- £11.9m - 10%	

² The 2014/15 financial year will run from the 1 November 2014 to the 31 October 2015.

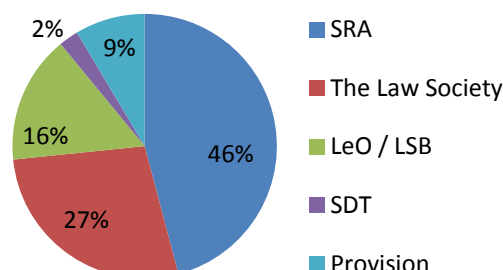
³ Including shared services and central costs allocation of £24.0m (2014 budget £23.5m)

⁴ Including shared services and central costs allocation of £16.8m (2014 budget £13.5m)

Total PCF income split by expenditure category - 2014/15



Total PCF income split by expenditure category - 2013/14



Contingency arrangements and reserves

16. All parts of the group are expected to operate within its approved budget, reprioritising if necessary should unexpected needs arise in the year.
17. At the end of October 2013 the Law Society Group had cash reserves totalling £126m and accounting reserves of £60.9m. Although there are no planned calls on reserves during the remainder of 2014, it is intended to utilise £7.0m from reserves to fund activity during 2015.
18. It should also be noted that cash reserves of £28.6m were held by the Solicitors Indemnity Fund (SIF) on 31 October 2013.
19. The Society carries a potential liability to meet the costs of claims made against the ARP together with the qualifying insurers. These claims and costs are likely to emerge over a period of in excess of 10 years. In the accounts for the year ending 31 October 2013 the Law Society Group has made a provision of £4.1m to cover these claims. At the end of the current financial year ending 31 October 2014 that provision will be further reviewed.
20. The only source to meet actual cash calls against that provision is the cash reserves held by the group (which includes SIF surplus). The Society has also met a cash call from the ARP manager in the current financial year of £0.4m. A sum of £5m was included in the net funding requirement for 2013/14 to provide for these future costs.

Section 3: The SRA Budget

21. The SRA budget consists of three elements:
 - the directly controlled SRA budget;
 - the portion of Corporate Solutions budget that supports the SRA;
 - the element of the central Group capital investment budget (controlled by the Projects Review Committee on behalf of the Business Oversight Board (BOB)) that will be spent either wholly on SRA projects or on Corporate Solutions infrastructure projects for which the SRA carries a proportion of the cost.
22. The directly controlled SRA draft budget has been considered and approved by the SRA SMT. The Finance and Resources Committee (F&RC) considered the budget and

recommended it to the SRA Board, which approved the budget at the meeting on 21 May 2014. At this stage the SRA Board has set a draft budget primarily for the purpose of informing the NFR. The final budget, including budget allocations to specific activities and departments will be set in September/October.

23. The SRA's draft budgeted expenditure for 2015 represents a £5.1m (10%) decrease against the 2014 budget; a reduction of expenditure on interventions of £2.6m and a further £2.5m on general regulatory costs. Together, these offset a significant cut in income expectations, with some £1.9m in regulatory fee income due to cease as we strip out activity of limited regulatory value and a further £0.5m reduction in legal fee recoveries which move across to the Compensation Fund. Overall, once recoveries are taken into account, we see a balancing effect with the income reduction absorbed and a steady net funding requirement level at £30.9m.
24. In addition, the SRA Board decided to utilise underspend against SRA regulatory income in 2014 of approximately £2m in order to meet the NFR for 2015 (which was subsequently approved by Council). This means that the sum sought from the profession for 2015 through the annual renewals process reduces to approximately £28.9m.

SRA budget 2015 – context and overall approach

25. The major context for the preparation of the 2015 SRA budget is provided by:
- the SRA Strategic Plan 2013/15;
 - the SRA's 2014 budget.
 - our assessment of current regulatory challenges and priorities and operational performance.
26. The SRA Strategic Plan 2013/15 was developed and approved by the SRA Board in 2012 and published in December of that year. The SRA executive and Board have been reviewing the SRA's performance in delivery against core purpose and through this, identified a set of priorities to inform future work programmes. This marks the start of a strategic review and re-focusing as part of our planning activity for 2015, including development of a new 2015-17 Strategic Plan to replace the final year of the current plan.
27. A renewed focus on good customer service, timeliness, improved operational delivery and better relations across the legal market will underpin our delivery of the next year's delivery plans. We are also reassessing our own performance to update our 2012 self assessment. This, alongside a strong focus on reducing regulatory burdens and the deepening of our commitment to proportionate and targeted regulation, will support the development of new policy initiatives.

Regulatory challenges and priorities

28. The Strategic Plan sets out our assessment of the regulatory environment in which we are operating. Our overall assessment is developing as we gain experience of regulating an increasingly diverse legal market:
- The R-view programme is reaching an important milestone where the business case is being finalised after a year of detailed business requirement definition and scoping.

This is likely to lead to a smaller R-view programme as some elements are de-scoped and others are refocused or incorporated into our business as usual activity.

- We continue to see the emergence of complex ownership structures as the number of ABS grows significantly. However the absence of significant numbers of MDPs has led us to re-evaluate our approach and this is likely to lead to an increase in the number of MDPs. There are costs in regulating a diverse or plural legal market because of the wider range of expertise and increased segmentation that is required. We are seeking to minimise these and to take opportunities to reduce costs through better targeting of regulatory activity.
- The financial weakness of a significant number of firms, identified as a risk in the Plan, has remained a significant issue so far in 2014 with significant firm failures. The SRA welcomes entry and exit from the market as a sign of dynamism and competition, but there are costs associated with avoidance of disorderly exit such as emergency intervention to protect client money, complete transactions and ensure confidentiality of client records. This has had a significant impact on the use of Supervision resource as well as on the cost of interventions. It will still be necessary to invest Supervision resources over and above those expected at the time of the creation of the Strategic Plan – this will be necessary both to ensure consumer protection but also to constrain the cost of interventions.

Directly controlled SRA budget

29. The SRA's draft budget for 2015 is as follows:

Table 3 – Overview of SRA's draft 2015 budget and comparison with 2014 budget

SRA budget (£000, excluding shared service costs)	2015 draft budget	2014 budget	Variance
Total expenditure	(47,727)	(52,809)	5,082
Regulatory fee income	3,478	5,384	(1,906)
Compensation fund & legal recoveries	13,365	16,537	(3,172)
Net position (NFR)	(30,884)	(30,891)	7

30. Expenditure is planned to decrease by £5.1m (10%). Of this some £2.6m is as a result of forecast reduced expenditure on interventions. The balance derives from reductions in a number of areas but, primarily, through reductions in external legal fees and spending on R-View (compared to 2014 expenditure).

31. In 2015 we anticipate a £1.9m (35%) reduction in income from regulatory fees as a result of policy changes. In addition, there will be a reduction of £2.6m in recoveries from the Compensation Fund to match reduced expenditure on interventions. The total reduction in regulatory fee income and Compensation Fund and legal recoveries in £5.1m.

32. The NFR for 2015 is £30.884m, effectively flat in cash terms with 2014. However, following the SRA Board's decision to utilise the £2 million under spend (subsequently approved by the Council) a lower sum is being sought from the profession for 2015 than was the case for 2014.

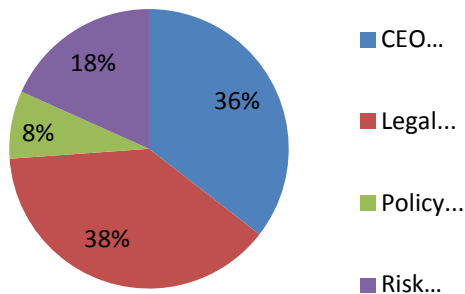
Table 4: Total income & expenditure allocated to regulatory functions (SRA)

This table shows the expenditure of the Solicitors Regulation Authority, split by directorate, and the sources of income that fund that expenditure.

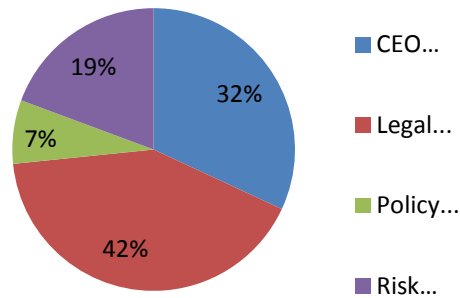
Budget Item	2014/15 Practising fee year	2013/14 Current Year (budget)	Variance (£ and %)	Commentary
Total income allocated to the permitted purposes for regulatory functions				
Total PC fee income	£52.9m	£53.6m	- £0.7m - 1%	
Funding from reserves	£3.0m ⁵	£0.0m	+ £3.0m	Under spend in 2014 used to fund spending in 2015
Recoveries	£13.3m	£16.5m	- £3.2m - 19%	
Other Income	£3.5m	£5.4m	- £1.9m - 35%	
Total	£72.7m	£75.5m	- £2.8m - 4%	
Total expenditure on permitted purposes that are regulatory functions by directorate				
Chief Executive Office	(£25.8m)	(£24.1m)	+ £1.7m + 7%	
Legal, Enforcement, Client Protection and Intelligence and Investigations	(£27.9m)	(£31.3m)	- £3.4m - 12%	
Policy, Education and Training, Ethics Guidance	(£5.7m)	(£5.5m)	+ £0.1m + 4%	
Risk, Communications, Strategy, Operations and Performance and Inclusion	(£13.3m)	(£14.6m)	- £1.3m - 10%	
Total SRA	(£72.7m)	(£75.5m)	- £2.8m - 4%	

⁵ £3m under spend used to Fund 2015 activity includes £2m on directly controlled SRA budget referred to in paragraph 32 and a further £1m on project costs allocated to the SRA.

Total PC fee expenditure on Regulatory Functions by directorate - 2014/15



Total PC fee expenditure on Regulatory Functions by directorate - 2013/14



Section 4 - The Law Society Budget

Permitted purposes

33. During 2011, the Law Society Group reviewed all the group activities and allocated them between a) regulatory activities, b) permitted activities and c) non-permitted activities. The definition of permitted purposes comes from the Practising Fee Rules 2009 made under the Legal Services Act 2007 (c.29), section 51(3) and (6). In getting to this point, the following methodology has been used and agreed with the Law Society Management Board and the Law Society Council. It is only the costs for permitted activities which are included within the net funding requirement and the practising fee.
34. A detailed study of the Law Society activities, covering both costs and revenues was undertaken, reviewed and signed off by the Law Society's senior 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 and central costs. Shared services and central costs are budgeted for within Corporate Solutions and have been allocated based on a number of drivers such as headcount and floor space.
35. 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 or head of business unit.

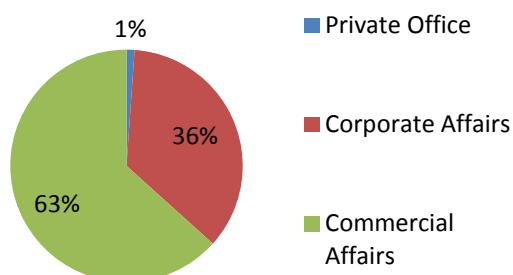
Table 5: Total non-Section 51 permitted income & expenditure

This table shows income in relation to non-permitted activities and associated expenditure. Any excess of income over expenditure contributes to the cost of the Law Society's permitted activities as shown in table 5.

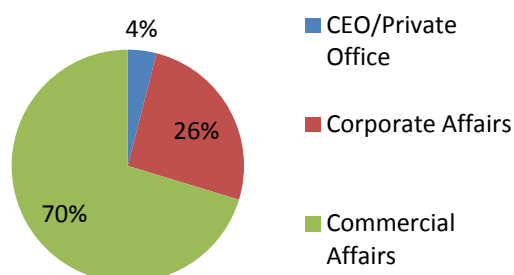
Budget Item	2014/15 Practising fee year	2013/14 Current year (budget)	Variance
TLS non-S51 income	£5.0m	£11.1m	- £6.1m -55%
Contribution of non-S51 income to permitted activities	(£0.0m)	(£1.0m)	+ £1.0m 100%
Funding from reserves	£4.0m	£0.0m	+ £4.0m
Total	£9.0m	£10.1m	- £1.1m - 10%
CEO/Private Office	(£0.1m)	(£0.4m)	- £0.3m - 75%
Chief of Corporate Affairs	(£0.1m)	(£0.1m)	£0m 0%
Communications	(£1.1m)	(£0.3m)	+ £0.8m +267%
Legal Services	(£0.4m)	(£0.3m)	+ £0.1m + 33%
Legal Policy	(£0.9m)	(£1.5m)	- £0.6m - 40%
International	(£0.1m)	(£0.0m)	+ £0.1m
Governance	(£0.4m)	(£0.4m)	£0.0m 0%
Government and Parliamentary Affairs	(£0.1m)	(£0.0m)	+ £0.1m
Relationship Management	(£0.1m)	(£0.0m)	£0.0m 0%
Brussels	(£0.0m)	(£0.0m)	£0.0m 0%
Commercial Affairs	(£5.7m)	(£7.1m)	- £1.4m - 20%
Total	(£9.0m)	(£10.1m)	- £1.1m - 10%

Chief of Corporate Affairs, Communications, Legal Services, Legal Policy, International, Governance, Government and Parliamentary Affairs and Relationship Management collectively form Corporate Affairs.

Total non-PC fee expenditure on non-permitted purposes by directorate- 2014/15



Total non-PC fee expenditure on non-permitted purposes by directorate- 2013/14



- **Private Office** - this includes the chief executive and the office holders. Provides strategic support to the leadership of the Law Society.
- **Communications** - includes media, branding, public affairs and corporate social responsibility (CSR) (i.e. equality & diversity). CSR involves promoting best practice throughout the profession.
- **Legal Services** – included in Corporate Affairs.
- **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. 8 teams covering law reform, legal aid, professional representation and policy, regulatory affairs, equality diversity and CSR, family and social justice, strategic policy and research.
- **International** – included in Corporate Affairs.
- **Governance** – included in Corporate Affairs.
- **Government and Parliamentary Affairs** – included in Corporate Affairs.
- **Relationship Management** – included in Corporate Affairs.
- **Commercial Affairs** - includes commercial services, membership services and events. 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.
- **Brussels** – The Law Society’s operation in Brussels

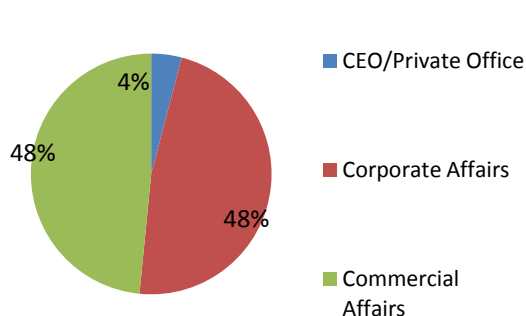
Table 6: Total PC fee income & expenditure allocated to non-regulatory functions (TLS)

This table shows the expenditure of the Law Society on permitted activities, split by directorate, and the sources of income that fund this expenditure. Any surplus from non-permitted activities will reduce the cost of permitted activities (see table 5).

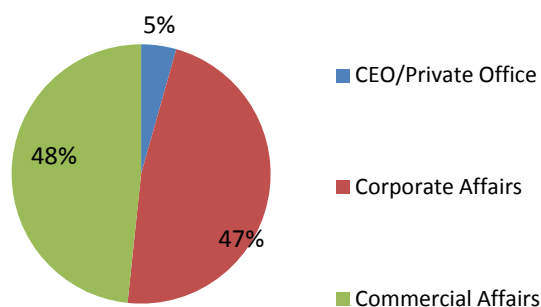
Budget Item	2014/15 Practising fee year	2013/14 Current Year (budget)	Variance	Commentary
Total income allocated to the permitted purposes for non-regulatory functions				
Section 51 permitted income	£9.8m	£5.9m	+ £3.9m + 66%	
Non-S51 Income (from table 3)	£0.0m	£1.0m	- £1.0m - 100%	
Total PCF income	£31.9m	£32.1m	- £0.2m - 1%	
Total	£41.7m	£38.9m	+ £2.8m + 7%	
Total expenditure on permitted purposes that are non-regulatory functions by directorate				
CEO/Private Office	(£1.7m)	(£1.7m)	+ £0.0m + 0%	
Chief of Corporate Affairs	(£0.4m)	(£0.4m)	+ £0.0m + 0%	
Communications	(£3.3m)	(£3.2m)	+ £0.1m +3%	
Legal Services	(£1.8m)	(£1.8m)	+ £0.0m + 0%	
Legal Policy	(£6.2m)	(£6.2m)	+ £0.0m + 0%	
International	(£2.0m)	(£1.7m)	+ £0.3m -13%	
Governance	(£1.9m)	(£1.8m)	+ £0.1m + 5%	
Government and Parliamentary Affairs	(£0.4m)	(£0.4m)	+ £0.0m + 0%	
Relationship Management	(£2.9m)	(£2.3m)	+ £0.6m + 26%	
Brussels	(£0.9m)	(£0.6m)	+£0.3m + 50%	Change in allocation of overhead costs
Commercial Affairs	(£20.2m)	(£18.8m)	+ £1.4m + 7%	
Total	(£41.7m)	(£38.9m)	+ £2.8m + 7%	

Detail of the contents of each directorate can be found under Section 4: Permitted purposes above.

Total PC fee expenditure on Non-regulatory functions by directorate - 2014/15



Total PC fee expenditure on Non-regulatory functions by directorate - 2013/14



Directly controlled Law Society (TLS) budget

36. The TLS draft budget for 2015 is as follows

Table 7 – Overview of TLS draft 2015 budget and comparison with 2014 budget

TLS Budget (£000's excluding shared service costs)	2015 draft budget	2014 budget	Variance
Income (non-permitted)	5,008	11,111	(6,103)
Income (permitted)	9,823	5,850	3,973
Total income	14,832	16,961	(2,129)
Expenditure (non-permitted)	(5,489)	(6,813)	1,324
Expenditure (permitted)	(25,005)	(25,579)	574
Total expenditure	(30,494)	(32,392)	1,897
Funding from reserves	481	0	481
Net funding requirement	(15,181)	(15,431)	250

37. Total income in 2015 is expected to be £2.1m (13%) lower than in the 2014 budget while expenditure is planned to be £1.9m (6%) lower. A deficit of expenditure over income in relation to non-permitted activity has resulted in the requirement to fund £0.5m of non-permitted expenditure from reserves in 2015; this requirement was approved at Council in July 2014.

38. The NFR for 2015 is therefore £15.181m, a reduction in cash terms of £250k compared to 2014.

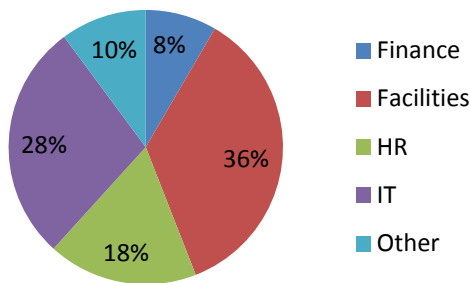
Section 5 - The Corporate Solutions budget

Table 8: Total PC fee income & expenditure on Corporate Solutions

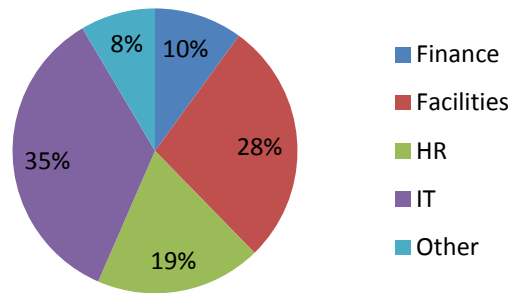
This table shows the expenditure relating to shared services and central costs, split by area. These costs are allocated to the SRA and the Law Society and are included in the total expenditure in tables 4, 5 and 6. Corporate Solutions costs are allocated to directorates based on a number of drivers including headcount, floor space and usage. Once allocated to a directorate, the amount relating to non-permitted activities is calculated based on the proportion of other expenditure in that directorate related to non-permitted activities.

Budget Item	2014/15 Practising fee year	2013/14 Current Year (budget)	Variance
Total PC fee income	£40.8m	£37.0m	+£3.8m + 10%
Funding from reserves	£4.5m	£0.0m	+£4.5m
Contribution from non-S51 income	£0.0m	£3.3m	-£3.3m - 100%
Recharged to Compensation Fund	£1.9m	£2.3m	- £0.4m -17%
Other income	£0.5m	£0.5m	+ £0.0m +0%
Total	£47.7m	£43.1m	+ £4.6m + 11%
Chief Operating Officer	(£1.5m)	(£0.9m)	+ £0.6m + 67%
Internal Audit and Risk	(£0.7m)	(£0.7m)	+ £0.0m +0%
Finance	(£2.9m)	(£3.3m)	- £0.4m - 12%
Facilities	(£12.3m)	(£9.1m)	+£3.2m + 35%
Human Resources and Development (HRD)	(£6.1m)	(£6.2m)	- £0.1m - 2%
IT	(£9.7m)	(£11.5m)	- £1.8m - 16%
Sourcing	(£0.6m)	(£0.6m)	+ £0.0m +0%
Portfolio Project Management Office	(£0.7m)	(£0.6m)	+ £0.1m +17%
Group Projects	(£13.2m)	(£10.2m)	+ £3.0m + 29%
Total excluding Depreciation	(£47.7m)	(£43.1m)	+ £4.6m + 11%

Total PC fee expenditure on Corporate Solutions by directorate - 2014/15



Total PC fee expenditure on shares services by directorate - 2013/14



- **Finance** – costs for the group including corporation tax and pension provisions;
- **Facilities** – costs relating to expenditure on facilities in London and the Midlands;
- **HRD** – costs for the group of recruiting, redundancy payments, training and pension management;
- **IT** – the group costs of running all IT systems;
- **Sourcing** – the cost of the sourcing team responsible for group wide procurement;
- **Portfolio Project Management Office** – management and support of group projects;
- **Group Projects** - this includes the costs of all projects across the group.

Section 6: Clarity and transparency

Consultations

39. As described in Section 1, we are not changing our approach to the fees structure. This decision was made at the public session of the SRA Board in January 2014.
40. The SRA website provides a description of how fee income is allocated so that fee-payers can see how their contributions are spent. Fee-payers have been invited to feed back to the SRA with any comments on this information. This section of the website will be updated to include details of how fees are shared between the various bodies once decisions have been taken on budgetary requirements.
41. A raft of consultations was launched as part of the SRA's regulatory reform programme and drive to reduce unnecessary administrative burdens, and these consultations have afforded respondents the opportunity to influence certain aspects of fee-setting arrangements or the amount that need to be collected.
- This has included the first of two consultations on compensation arrangements. This looks at the eligibility criteria for claimants. A second consultation on further aspects of compensation arrangements - including how contributions are allocated - will be launched in the summer.
 - Also being considered is the removal of the requirement for firms to file an annual accountants' report, which would save the Authority £200,000 a year.

- The SRA is looking to reform the minimum terms and conditions for professional indemnity insurance. While this has no direct impact on the level of fees paid, the aim is to reduce direct costs for firms by lowering their insurance premium.
- The SRA has also consulted on removing the annual requirement to apply to stay on the roll of solicitors, which will save those who apply to stay on the roll the £20 application fee.
- Numerous consultations have taken place around the removal of a number of regulations around training that again remove a series of administrative tasks that offered little regulatory value, but which took time to complete. These training regulations were removed as part of the latest version of the Handbook on 1 July.
- Before Christmas, there was a consultation aimed at lowering the cost of retaining files after an intervention, A review of around 30 interventions carried out over a two-year period compared the cost of storing files in line with the existing policy compared to the proposed policy. The savings would be £2.5m across the lifetime of the interventions. The proposed policy would apply to all future interventions and therefore, will continue to produce savings in the future.
- The SRA will be carrying out an extensive consultation on its fee arrangements over the turn of the year. The Wider Fees Review will examine the fees that the SRA collects from the profession and the fees it charges for services provided.
- The SRA also consulted on removing the need for sole practitioners to apply for recognition on an annual basis and awarding them lifetime authorisation in line with firms with more than one partner. This project is progressing through the LSB and Ministry of Justice at the moment, with implementation planned for the Autumn 2015.

Communications

42. A communications plan was drawn up to ensure that those we regulate and other stakeholders were kept informed of progress towards full approval of the fees structure and the implications for those the SRA regulates. Communications activity in this plan included:

- The decision of the SRA Board to maintain the fee structure for practising fees for this and the forthcoming year was announced in the SRA's newsletter to the profession, SRA Update, which is sent to 200,000 recipients, including all those with a mySRA account. This announcement was sent out on 19 March and again on 29 April.
- In April a verification process was undertaken for the turnover figures submitted online by firms as part of the 2014/15 renewals process.
- In June the on-line calculator was made available with an indicative individual fee of £320, a revised turnover table and indicative Compensation Fund contributions of £32 (individual) and £548 (firm).
- The publication of the on-line calculator was announced through a news release on 27 June 2014 and inclusion in Compliance News, a dedicated e-newsletter for compliance officers, on 1 July, and will be followed up in SRA Update on 15 July. All

communications relating to the online calculator make reference to the requirement for LSB approval to take place.

- Online calculator communications also took visitors to the Fees 2014-15 page that outlined how fees were spent by the SRA and which offered the opportunity for feedback.
- Following a well-received addition to last year's fees-setting process, the Chair of the SRA Board will be writing to the senior partner of all SRA-regulated firms in July to outline key points from the 2014-15 budget.
- On 19 June the Law Society launched a consultation on the practising certificate fee so that the results could inform the Council's decision on the Net Funding Requirement.
- Following the Law Society Council's approval of the indicative budget and the SRA Board approval of the fee determinations, press releases were issued by both the Law Society and the SRA.
- Assuming the LSB approves the budget requirement of the Law Society Group, that decision will be publicised in a one-off SRA Update on 19 August.
- As is the Communications Unit's practice, all news releases on the subject of fees were circulated to groups such as the Sole Practitioners' Group, the Association of Women Solicitors, and the Association of Black Lawyers, for publication in their in-house newsletters and website.
- Further standard practice for the Communications Unit is to publicise all news releases through social media channels, namely Twitter and LinkedIn.
- In advance of the meeting of Council scheduled to review the budgets and NFR, the Law Society's Treasurer wrote to all Local Law Societies, Recognised Groups and Practitioner Associations drawing their attention to the NFR proposals and inviting comment or questions.

Section 7: Regulatory and diversity impact assessment

43. The significant changes made to the fee structure in 2010 were subject to considerable consultation with stakeholder groups and a published Equality Impact Assessment which indicated that, while there would be winners and losers in relation to firms in different size groups, overall the new structure would be beneficial to all in in-house practice and that more small firms would see an overall reduction in the total fees payable, as opposed to an increase.
44. Based on that analysis and the SRA Board's decision not to change the fee allocation policy, we believe the impact remains the same.

Section 8: Practising fees determination 2014/15

45. 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.

46. On 2 July 2014 the SRA Board made the following fee determinations, subject to the approval of the LSB.

46.1. Annex A: Draft Practising Certificate fee determination [2014]

46.1.1. 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;
- sets the firm fee for continuing recognised sole practitioners (based on turnover);
- sets 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;
- sets the fee at £250 for the SRA to determine relevant turnover following a Notice of Succession where the relevant firms cannot agree.

46.2. Annex B: Draft Determination of Sole Practitioner Fees [2014]

46.2.1. This separate fee determination is required to set the application fee for the recognition of a sole practitioner who applies during the course of a practising certificate year. It includes an amendment to make 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.

46.3. Annex C: Draft Recognised Body fee determination [2014]

46.3.1. This

- sets the application fee for authorisation as a recognised body;
- includes an amendment to make 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 (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.

46.4. Annex D: Draft Licensed Body fee determination [2014]

46.4.1. 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.;
- includes an amendment to make it clear that licensed bodies that were licensed before 1 November 2012 will be charged fees based on actual turnover rather than estimated turnover.

ANNEXES

Annex A – Draft Practising Certificate Fee Determination [2014]

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 £320 unless paragraphs 2, 3, or 4 below apply, or unless any of paragraphs 5 to 12 apply so as to impose an increased or additional fee.

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 2014 or any solicitor admitted prior to 1 November 2014 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 2014 to 31 December 2014 inclusive - £320
 - (b) Practising certificate issued 1 January 2015 to 31 March 2015 inclusive - £252
 - (c) Practising certificate issued 1 April 2015 to 30 June 2015 inclusive - £184
 - (d) Practising certificate issued 1 July 2015 to 31 October 2015 inclusive - £116Paragraphs 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 2014, 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 2014 to 31 October 2015 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 2014 to 31 December 2014 inclusive - £184
 - (b) Practising certificate issued 1 January 2015 to 31 March 2015 inclusive - £150
 - (c) Practising certificate issued 1 April 2015 to 30 June 2015 inclusive - £116
 - (d) Practising certificate issued 1 July 2015 to 31 October 2015 inclusive - £82This 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.

Recognised sole practitioners

Initial applications

5. Subject to paragraph 6, where a solicitor makes an initial application for a practising certificate or applies for a replacement of a practising certificate, and the certificate applied for is to include initial authorisation as a recognised sole practitioner, the fee payable under paragraphs 1, 2, 3 or 4 shall be increased by:
 - (a) £1,000 if the certificate is to commence in the period 1 November 2014 to 31 December 2014;
 - (b) £800 if the certificate is to commence in the period 1 January 2015 to 31 March 2015;
 - (c) £600 if the certificate is to commence in the period 1 April 2015 to 30 June 2015;
 - (d) £400 if the certificate is to commence in the period 1 July 2015 to 31 October 2015.

6.
 - (a) This paragraph applies where a solicitor on or after 1 November 2014:
 - i. makes an initial application for a practising certificate or applies for replacement of a practising certificate, which includes an application for initial authorisation as a recognised sole practitioner; and
 - ii. the solicitor is succeeding to the whole or part of a practice of an authorised body or recognised sole practitioner.

 - (b) Where in 6(a) the predecessor authorised body or recognised sole practitioner has paid a fee for the practising year 1 November 2014 to 31 October 2015, the fee payable under paragraphs 1, 2, 3, or 4 above shall be increased by an application fee of £200.

 - (c) Where in 6(a) the predecessor authorised body or recognised sole practitioner has not paid a fee for the whole or part of the practising year 1 November 2014 to 31 October 2015, the fee payable under paragraphs 1,2,3 or 4 shall be increased by an amount determined as if the solicitor were applying for renewal in accordance with paragraphs 7 to 10 below as appropriate, plus an additional application fee of £200.

Renewal of authorisation as a recognised sole practitioner

From 1 November 2010 recognised sole practitioners who apply to renew authorisation as such are required to pay a practising certificate fee under paragraphs 1, 2, 3 or 4 above and an additional sum which is calculated by reference to the firm's turnover. The way that the turnover is determined will depend on whether the firm is a continuing recognised sole practitioner, a new recognised sole practitioner renewing for the first time or a successor recognised sole practitioner. Paragraphs 7 to 9 below deal with the way that the fee is determined in relation to each of those categories.

7.
 - (a) This paragraph applies where a Continuing Recognised Sole Practitioner makes an application for a practising certificate and the certificate applied for is to include renewal of authorisation as a recognised sole practitioner.

 - (b) The fee payable under paragraphs 1, 2, 3 or 4 shall be increased by the amount arrived at after taking the Turnover Figure and carrying out the calculations in respect of the relevant band in accordance with appendix 1.

8.
 - (a) This paragraph applies where a New Recognised Sole Practitioner who first became authorised as a recognised sole practitioner after 31 October 2013

makes an application for a practising certificate and the certificate applied for is to include renewal of authorisation as a recognised sole practitioner.

- (b) The fee payable under paragraphs 1, 2, 3 or 4 shall be increased by the amount arrived at after 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.
9. (a) This paragraph applies where a Successor Recognised Sole Practitioner makes an application for a practising certificate and the certificate applied for is to include renewal of authorisation as a recognised sole practitioner.
- (b) The fee payable under paragraphs 1, 2, 3 or 4 shall be increased by the amount arrived at after taking the Successor Turnover Figure and carrying out the calculations in respect of the relevant band in accordance with appendix 1.

Overseas Branch Offices

10. Where a recognised sole practitioner has one or more overseas branch offices, the fee payable under any of the applicable paragraphs above shall be increased by £200 in respect of each overseas office.

Application for the SRA to determine Successor Turnover Figure

11. 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.

Late delivery of an accountant's report

12. 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

13. 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 12 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 2014, 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

- 14. 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 15 below, be governed in all respects by the provisions of paragraphs 1, 2, 4 and 12 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 2014, registered or re-registered as a registered European lawyer and who applies for his or her first registration as a registered foreign lawyer.
- 15. The fee for a registered foreign lawyer practising mainly from an office or offices outside England and Wales shall be £100.

Interpretation

- 16. In this determination:

Continuing Recognised Sole Practitioner means a recognised sole practitioner who became authorised as a recognised sole practitioner before 31 October 2013 and who is not a Successor Recognised Sole Practitioner;

New Recognised Sole Practitioner means a recognised sole practitioner who first became authorised as a recognised sole practitioner after 31 October 2013 and who is not a Successor Recognised Sole Practitioner;

Notice of Succession means notice required under regulation 5.3 of the SRA Practising Regulations 2011 or Rule 8.3(f) of the SRA Authorisation Rules for Legal Services Bodies and Licensable Bodies 2011;

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;

Successor Recognised Sole Practitioner means for the purposes of calculating the renewal fees, a recognised sole practitioner who after 31 October 2013 succeeds to the whole or any part of any authorised body or recognised sole practitioner, for value or otherwise, in any of the following cases:

case (I):

a recognised sole practitioner who acquires the whole or a part of one or more authorised bodies or recognised sole practitioners;

case (II):

a recognised sole practitioner resulting from the merger between the whole or part of two or more authorised bodies or recognised sole practitioners;

case (III):

a recognised sole practitioner remaining after it has split or ceded part of its practice to another authorised body or recognised sole practitioner;

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.

17. The singular includes the plural and vice versa.

Commencement

18. This determination shall come into force on 1 November 2014.

Annex A - Draft Practising Certificate 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	0.84%	£0	£100
B	£20,000 - £149,999	0.50%	£20,000	£268
C	£150,000 - £499,999	0.48%	£150,000	£918
D	£500,000 - £999,999	0.46%	£500,000	£2,598
E	£1,000,000 - £2,999,999	0.44%	£1,000,000	£4,898
F	£3,000,000 - £9,999,999	0.30%	£3,000,000	£13,698
G	£10,000,000 - £29,999,999	0.25%	£10,000,000	£34,698
H	£30,000,000 - £69,999,999	0.23%	£30,000,000	£84,698
I	£70,000,000 – £149,999,999	0.21%	£70,000,000	£176,698
J	£150,000,000 +	0.08%	£150,000,000	£344,698

* % is equivalent to 'divided by 100' (e.g. 0.65% = 0.0065)

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

1. Identify which band the turnover (T) falls in from column A.
2. Subtract the figure in the corresponding column C from (T).
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:
 $(£0 - £0) \times 0.84\% + £100 = £100$

Example 2: For Turnover of £200,000:
 $(£200,000 - £150,000) \times 0.48\% + £918 = £1,158$

Example 3: For Turnover of £813,421:
 $(£813,421 - £500,000) \times 0.46\% + £2,598 = £4,040$

Example 4: For Turnover of £279,123,528:
 $(£279,123,528 - £150,000,000) \times 0.08\% + £344,698 = £447,997$

Annex A – Draft Practising Certificate 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 2014 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 2013, 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 2013 (e.g. 31 March 2013). The latest acceptable annual accounting period end date is 31 October 2013.
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 2012 to 31 October 2013, 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 2012 figure if an updated 2013 figure based on closed accounts has not been received by 31 August 2014.
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 2013) 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 2013 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 2013)
 - Alternatively, if this is not possible then take the last closed accounts period prior to the 1 November 2013 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 at renewal it should respond as if there were no change in status.

Annex A - Draft Practising Certificate 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 B – Draft Determination of Sole Practitioner Fees [2014]

This determination is made by the Solicitors Regulation Authority Board under section 13ZB of the Solicitors Act 1974 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.

- (1) Subject to paragraph (3), the fees under section 13ZB of the Solicitors Act 1974 for a certificated solicitor or a registered European lawyer who makes a **separate** application for initial authorisation as a recognised sole practitioner to commence during the period 1 November 2014 to 31 October 2015 shall be set at:
 - (a) £1000 if the authorisation is to commence in the period 1 November 2014 to 31 December 2014;
 - (b) £800 if the authorisation is to commence in the period 1 January 2015 to 31 March 2015;
 - (c) £600 if the authorisation is to commence in the period 1 April 2015 to 30 June 2015;
 - (d) £400 if the authorisation is to commence in the period 1 July 2015 to 31 October 2015.
- (2) Where an initial authorisation as a recognised sole practitioner 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 where a solicitor on or after 1 November 2014:
 - i. makes a **separate** application for initial authorisation as a recognised sole practitioner: and
 - ii. the solicitor is succeeding to the whole or part of a practice of an authorised body or recognised sole practitioner.
 - (b) Where in (3)(a) the predecessor authorised body or recognised sole practitioner has paid a fee for the practising year 1 November 2014 to 31 October 2015, the fee payable is £200.
 - (c) Where in (3)(a) the predecessor authorised body or recognised sole practitioner has not paid a fee for the practising year 1 November 2014 to 31 October 2015, the fee payable shall be determined as if the solicitor were applying for renewal in accordance with paragraphs 8 to 10 of the Practising Certificate Fee Determination 2014 as appropriate, plus an additional application fee of £200.
- (4) All terms in this determination are to be interpreted in accordance with the Practising Certificate Fee Determination 2014.
- (5) This determination shall come into force on 1 November 2014.

Annex C - Draft Recognised Body Fee Determination [2014]

This determination is made by the Solicitors Regulation Authority Board under Rules 2.1 and 8.3 of the SRA Authorisation Rules for Legal Services Bodies and Licensable Bodies 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 applying for initial recognition as a New Recognised Body is:
 - (a) £1000 on applying for initial recognition to commence in the period 1 November 2014 to 31 December 2014;
 - (b) £800 on applying for initial recognition to commence in the period 1 January 2015 to 31 March 2015;
 - (c) £600 on applying for initial recognition to commence in the period 1 April 2015 to 30 June 2015;
 - (d) £400 on applying for initial recognition to commence in the period 1 July 2015 to 31 October 2015.
2. Where an initial recognition for a New Recognised Body 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 is applying for initial recognition on or after 1 November 2014 in the following circumstances:
 - (i) the body is succeeding to a practice of a recognised sole practitioner.
 - (ii) the application is being made by an existing recognised body which is changing its legal status; or
 - (iii) the application is being made by a Successor Recognised Body.
 - (b) Where in paragraph 3(a) the predecessor sole practitioner or authorised body has paid a fee for the practising year 1 November 2014 to 31 October 2015, the fee shall be £200.
 - (c) Where in paragraph 3(a) the predecessor sole practitioner or recognised body has not paid a fee for the practising year 1 November 2014 to 31 October 2015, the fee shall be determined in accordance with paragraphs 4, 5 or 6, as appropriate, plus an additional application fee of £200.

Annual Periodical fees

Recognised Bodies 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

recognised body, a new recognised body or a successor recognised body. Paragraphs 3 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 where it is a Continuing Recognised Body 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 Recognised Body which first obtained authorisation after 31 October 2013 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 Recognised Body 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 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 Recognised Body means a recognised body which is not a Successor Recognised Body and in which either:

- (a) the number and identity of the managers has not changed since 31 October 2013; or
- (b) the only changes since 31 October 2013 in the number or identity of the managers are as a result of one or more managers leaving or joining the recognised body;

New Recognised Body means a recognised body which obtained recognition after 31 October 2013 and is not a Successor Recognised Body;

Notice of Succession means a notice required under Rule 8.3(f) of the SRA Authorisation Rules for Legal Services Bodies and Licensable Bodies 2011.

Successor Recognised Body means for the purposes of calculating the annual periodical fees, a recognised body which after 31 October 2013 succeeds to the whole or any part of any authorised body or recognised sole practitioner, for value or otherwise, in any of the following cases:

case (I):

a recognised body which acquires the whole or a part of one or more authorised bodies or recognised sole practitioners;

case (II):

a recognised body resulting from the merger between the whole or part of two or more authorised bodies or recognised sole practitioners;

case (III):

a recognised body remaining after it has split or ceded part of its practice to another authorised body or recognised sole practitioner;

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 2014.

Annex C - Draft Recognised 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	0.84%	£0	£100
B	£20,000 - £149,999	0.50%	£20,000	£268
C	£150,000 - £499,999	0.48%	£150,000	£918
D	£500,000 - £999,999	0.46%	£500,000	£2,598
E	£1,000,000 - £2,999,999	0.44%	£1,000,000	£4,898
F	£3,000,000 - £9,999,999	0.30%	£3,000,000	£13,698
G	£10,000,000 - £29,999,999	0.25%	£10,000,000	£34,698
H	£30,000,000 - £69,999,999	0.23%	£30,000,000	£84,698
I	£70,000,000 – £149,999,999	0.21%	£70,000,000	£176,698
J	£150,000,000 +	0.08%	£150,000,000	£344,698

* % is equivalent to 'divided by 100' (e.g. 0.65% = 0.0065)

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

1. Identify which band the turnover (T) falls in from column A.
2. Subtract the figure in the corresponding column C from (T).
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:
 $(£0 - £0) \times 0.84\% + £100 = £100$

Example 2: For Turnover of £200,000:
 $(£200,000 - £150,000) \times 0.48\% + £918 = £1,158$

Example 3: For Turnover of £813,421:
 $(£813,421 - £500,000) \times 0.46\% + £2,598 = £4,040$

Example 4: For Turnover of £279,123,528:
 $(£279,123,528 - £150,000,000) \times 0.08\% + £344,698 = £447,997$

Annex C - Draft Recognised Body 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 2014 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 2013, 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 2013 (e.g. 31 March 2013). The latest acceptable annual accounting period end date is 31 October 2013.
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 2012 to 31 October 2013, 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 2012 figure if an updated 2013 figure based on closed accounts has not been received by 31 August 2014.
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 2013) 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 2013 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 2013)
 - Alternatively, if this is not possible then take the last closed accounts period prior to the 1 November 2013 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 at renewal it should respond as if there were no change in status.

Annex C - Draft Recognised Body 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 D - Draft Licensed Body Fee Determination [2014]

This determination is made by the Solicitors Regulation Authority Board under Rules 2.1 and 8.3 of the SRA Authorisation Rules for Legal Services Bodies and Licensable Bodies 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, and includes a contribution towards the setting up of the appellate body;
 - (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 2014 to 31 October 2015 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 2015.
4. (a) Where a licensed body has succeeded to the whole of the practice of a recognised sole practitioner or 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 recognised sole practitioner or authorised body in respect of each month between the date of authorisation of the licensed body and 31 October 2015.
 - (b) Where a licensed body has succeeded to part of the practice of a recognised sole practitioner or 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 2012, 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 regulation 5.3 of the SRA Practising Regulations 2011 or 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 2014.

Annex D - Draft Licensed Body Fee Determination

Appendix 1

1. The initial payment of £2000 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 £9000.
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 £3000 and £5000 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 D - Draft 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	0.84%	£0	£100
B	£20,000 - £149,999	0.50%	£20,000	£268
C	£150,000 - £499,999	0.48%	£150,000	£918
D	£500,000 - £999,999	0.46%	£500,000	£2,598
E	£1,000,000 - £2,999,999	0.44%	£1,000,000	£4,898
F	£3,000,000 - £9,999,999	0.30%	£3,000,000	£13,698
G	£10,000,000 - £29,999,999	0.25%	£10,000,000	£34,698
H	£30,000,000 - £69,999,999	0.23%	£30,000,000	£84,698
I	£70,000,000 – £149,999,999	0.21%	£70,000,000	£176,698
J	£150,000,000 +	0.08%	£150,000,000	£344,698

* % is equivalent to 'divided by 100' (e.g. 0.65% = 0.0065)

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

1. Identify which band the turnover (T) falls in from column A.
2. Subtract the figure in the corresponding column C from (T).
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:
 $(£0 - £0) \times 0.84\% + £100 = £100$

Example 2: For Turnover of £200,000:
 $(£200,000 - £150,000) \times 0.48\% + £918 = £1,158$

Example 3: For Turnover of £813,421:
 $(£813,421 - £500,000) \times 0.46\% + £2,598 = £4,040$

Example 4: For Turnover of £279,123,528:
 $(£279,123,528 - £150,000,000) \times 0.08\% + £344,698 = £447,997$

Annex D - Draft Licensed Body Fee Determination

Appendix 3

Turnover Figure

The following paragraphs describe how the estimated 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, recognised body, licensed 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 2012, the turnover figure should no longer be estimated. In such cases, the turnover figures that will be used when billing firms in October 2014 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 2013, 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 2013 (e.g. 31 March 2013). The latest acceptable annual accounting period end date is 31 October 2013.
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.