

SRA BOARD
17 July 2019

CLASSIFICATION – PUBLIC



This paper will be published

2019/20 Practising Fees and Compensation Fund contributions final decisions

Purpose

- 1 To finalise the 2019/20 Practising Fees and Compensation Fund contributions.

Recommendation

- 2 The Board is asked to make the following determinations:
 - (a) the Practising Certificate Fee Determination [2019] in annex 1 (paragraph 11)
 - (b) the Recognised Body and Recognised Sole Practice Fee Determination [2019] in annex 2 (paragraph 12)
 - (c) the Licensed Body Fee Determination [2019] in annex 3 (paragraph 13)
 - (d) the Determination of Compensation Fund Contributions [2019] in annex 4 (paragraph 14)
 - (e) the Determination of Compensation Fund Contributions for Licensed Bodies [2019] in annex 5 (paragraph 15).

Equality, Diversity and Inclusion considerations

- 3 This paper refers to the Practising Fees and Compensation Fund contributions for the coming financial year and does not, therefore, deal with any specific issues relating to EDI. Board papers which deal with initiatives and projects funded from this budget will continue to consider EDI issues in detail.

**If you have any questions about this paper please contact: Mark Draisey,
Executive Director for Modernising IT, mark.draisey@sra.org.uk**

SRA BOARD

17 July 2019

CLASSIFICATION – PUBLIC



2019/20 Practising Fees and Compensation Fund contributions final decisions

Introduction

- 4 The Board is asked to make its final decision on Practising Fees and Compensation Fund contributions apportionment for 2019/20, following the decision of the Law Society Council on the total funding requirement on 3 July 2019.
- 5 The Finance and Audit Committee (at its meetings in March and May 2019) and Board (at its meeting in May 2019) have considered and agreed the NFR, Practising Fee and levels of contribution to the Compensation Fund for 2019/20. The NFR and draft budget were considered and agreed by the Business and Oversight Board at its meeting on 28 June 2019.
- 6 The Practising Fee was subject to a public consultation undertaken by the Law Society which has now taken place but has not resulted in any changes to the proposals. A summary of the 87 responses received is attached at annex 6.
- 7 The Net Funding Requirement (NFR) for the Law Society group for 2019/20 is £102.5m, which is a 2.8% increase from £99.7m in 2018/19. The individual Practising Certificate fee will remain at £278 for 2019/20. SRA authorised firms also pay an entity fee based on their UK turnover. The proportion of turnover charged declines as turnover decreases. The total amount to be collected from firms through the entity fees will increase from £59.8m to £61.5m.
- 8 The Compensation Fund contribution for individuals will reduce from £90 last year to £60 this year and for firms holding client money from £1,680 to £1,150. The calculation of these contributions is on the same basis as previous years with specific adjustments made to take account of significant investment fraud schemes which may have a significant impact on the Compensation Fund.

Fee/contribution determinations for regulated individuals and recognised bodies

- 9 The draft fee and contribution determinations are attached as annexes to this paper and broadly follow those made last year. The fees and detail in the turnover table are based on achieving the current estimated total funding requirement for 2019/20.
- 10 The key points to note in relation to all of the draft practising fees and Compensation Fund contribution determinations are summarised below.

Practising fees determination

- 11 Annex 1: Draft Practising Certificate Fee determination [2019]. This:
 - sets the practising certificate fee and equivalent registration and renewal fees for Registered European Lawyers (RELs) and Registered Foreign Lawyers (RFLs).
 - provides for a 50% reduction for those who are or who have been on maternity leave or a period of leave equivalent to statutory maternity leave.

SRA BOARD

17 July 2019

CLASSIFICATION – PUBLIC



- preserves a lower fee for RFLs who are based abroad and deals with other special cases

Recommendation: the Board is asked to make the Practising Certificate Fee determination [2019].

12 Annex 2: Draft Recognised Body and Recognised Sole Practice Fee determination [2019]. This:

- sets the application fee for authorisation as a recognised body or a recognised sole practice
- makes 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 and recognised sole practices (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 firms cannot agree.

Recommendation: the Board is asked to make the Recognised Body and Recognised Sole Practice Fee determination [2019].

13 Annex 3: Draft Licensed Body Fee determination [2019]. This:

- sets the application fee payable by licensable bodies, which comprises a minimum set fee, plus an additional amount for each person requiring approval as a role holder, 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 a banded turnover table
- sets the annual periodical fee for licensed bodies (based on turnover)
- includes an adapted definition of turnover to give us 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

SRA BOARD

17 July 2019

CLASSIFICATION – PUBLIC



- makes it clear that licensed bodies that were licensed before 1 November 2017 will be charged fees based on actual turnover rather than estimated turnover.

Recommendation: the Board is asked to make the Licensed Body Fee determination [2019].

Compensation Fund contribution setting for 2019/20

- 14 Annex 4: Draft Determination of Compensation Fund Contributions [2019]. This prescribes the individual and firm Compensation Fund contribution.

Recommendation: the Board is asked to make the Determination of Compensation Fund Contributions [2019].

- 15 Annex 5: Draft Determination of Compensation Fund Contributions for Licensed Bodies [2019]. This prescribes the Compensation Fund contribution payable by Licensed Bodies.

Recommendation: the Board is asked to make the Determination of Compensation Fund Contributions for Licensed Bodies [2019].

Risks

- 16 The fees raised under the fee determinations are needed to fund our regulatory activities and the Law Society's permitted purposes activities. Any delay in making the fee determinations, (and any subsequent delay in the LSB timelines for approval), which affects the planned renewal process in October therefore has the potential to cause major operational difficulties for the SRA and might lead the need for the Law Society group to draw upon reserves in order to continue to operate.

Changes to the Fee Determination

- 17 In previous years there was a mismatch between the wording of our Practising Certificate Fee Determination and our operational practice. Our Fee Determination allowed us to give discounts to those on maternity leave, but in practice we gave the discount to wider groups of individuals than the Determination provided for. This included applicants who are taking/have taken maternity, adoption, shared parental and paternity leave. To address this disparity, we have aligned the wording of our Practising Certificate Fee Determination with our operational practice for the upcoming Practising Certificate Renewal Exercise. This will make our approach to fees more transparent.

Fees review

- 18 We intend to review our overall approach to fees next year. This work will begin in the second half of 2020 to enable us to calculate the cost of applications based on our new IT systems. The review will look at a range of issues such as our approach to discounting and refund policy. We will provide the Board with a paper setting out our proposals for this work in the coming months.

SRA BOARD

17 July 2019

CLASSIFICATION – PUBLIC



Next steps

- 19 The Practising Fees and Compensation Fund contributions are subject to final approval by the Legal Services Board and we will make the appropriate application if the Board agrees the recommendations in this paper.

SRA BOARD

17 July 2019

CLASSIFICATION – PUBLIC



Supporting information

Links to the Strategic Plan and / or Business Plan

20 This work is essential to delivery of all strategic objectives.

What equality and diversity considerations relate to this issue

21 The approach to setting practising fees and Compensation Fund contributions follows the structure adopted in 2010 as a result of the three Fairer Fees consultations. A full Equality Impact Assessment was carried out in 2010 and there are no changes.

Author Mark Draisey, Executive Director for Modernising IT

Contact Details mark.draisey@sra.org.uk

Date 1 July 2019

Annexes

- Annex 1** Draft Practising Certificate Fee Determination [2019]
- Annex 2** Draft Recognised Body and Recognised Sole Practice Fee Determination [2019]
- Annex 3** Draft Licensed Body Fee Determination [2019]
- Annex 4** Draft Determination of Compensation Fund contributions [2019]
- Annex 5** Draft Determination of Compensation Fund contributions for Licensed Bodies [2019]
- Annex 6** Summary of Law Society consultation