

SRA Reserves Policy: June 2022

Policy Statement

A reserves policy explains to existing and potential stakeholders why an organisation is holding a particular amount of reserves. A good reserves policy gives confidence to stakeholders that the organisation's finances are being properly managed and will also provide an indicator of future funding needs and its overall resilience.

Purpose

The SRA regulates solicitors in England and Wales. Solicitors Regulation Authority Limited operates as a company limited by guarantee. The SRA does not trade and operates as a not-for-profit entity. As such this policy was developed with regard to the Charity Commission guidance on reserves.

Deciding the level of reserves that a company needs to hold is an important part of financial management and forward financial planning. All companies should develop a policy on reserves which establishes a level of reserves that is right for the company and clearly explains to its stakeholders why holding these reserves is necessary.

Background

We are funded primarily from practising fee income collected from solicitors and law firms, with additional income from regulatory activities such as authorising firms to offer legal services. The level of practising fees is agreed annually by the Board, approved by the Legal Services Board and collected predominantly during October and November each year as part of an annual renewals exercise.

What are reserves

Reserves are that part of a company's unrestricted funds that is freely available to spend on any of the company's objectives. The items that should be excluded from reserves are:

- restricted funds which are not therefore freely available to spend on any purpose
- tangible fixed assets used to carry out the company's activities, such as land and buildings
- designated funds set aside to meet essential future spending, such as funding a project that could not be met from future income
- commitments that have not been provided for as a liability in the accounts.

Restricted funds

These are funds that can only be used for a particular purpose. The Solicitors Regulation Authority Limited is an eligible body in respect of the provision of education services, specifically in relation to the Solicitors Qualifying Examination. Any profit that might arise from the supplies of education and training is used solely for the continuation or

improvement of such supplies. Any such funds generated in this way are restricted funds and are not included within the level of reserves required by this policy.

General reserves policy

In identifying an appropriate level of reserves for us to hold, the Board considered:

- Required reserves for potential reductions in income
- Required reserves for additional liabilities or commitments
- Risks of unexpected expenditure in relation to legal costs
- Planned increases in expenditure

This approach provides a target level of general reserves between £15.7m and £22.5m. This represents between three and five months' expenditure in 2021/22.

Consideration is given to levels of reserves when setting the annual practising fee requirement. The level of reserves is assessed against the policy with consideration given to whether any adjustment is necessary and over what time period to remain within the agreed policy.

Monitoring and review

The policy is reviewed annually by the SRA Board.

The value of reserves is reviewed as part of regular budget monitoring and cash flow forecasting and reported to the board on a quarterly basis.

Our annual report includes details on the level of reserves held and any action to be taken to adjust those levels where they fall outside of the policy, given plans for future activities.

Approved by the SRA Board on

Date

Date of next review: June 2023