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Financial performance update

Reason for paper	This paper provides the Board with an overview of the financial performance and position of the SRA, the Compensation Fund, and the Solicitors' Indemnity Fund (SIF) at the end of June 2026, month eight of the financial year.
Recommendations(s)	The Board is asked to consider the financial performance and position of the SRA, the Compensation Fund, and the Solicitors' Indemnity Fund (SIF).
Previous Board and committee consideration	The Board considered the SRA's previous financial position at its April meeting.
Next steps	The Board is asked in a separate paper to consider the budget for 2026/27. That should be considered alongside the expected position for the financial year discussed in this paper.

If you have any questions about this paper please contact: Liz Rosser, Executive Director, Operations and Resources

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Annex 2 - Financial performance update

1 This paper includes:

a. the SRA's financial performance versus the forecast for the eight-month period ended June 2026, together with our financial position (balance sheet) as at the end of June 2026.

b. the financial performance and position of the Compensation Fund

c. the financial performance and position of the Solicitors Indemnity Fund (SIF).

SRA financial performance compared to forecast

Summary

2 At the end of the eighth month of the financial year, the net stable position (representing operational activity that impacts on the deficit or surplus and which is within the control of senior management) is £1.7m more favourable than expected at this stage.

3 Our headcount increased to 995 full time equivalents (FTE) and will continue to increase throughout the remainder of the year. However, we are still 2% below the forecast headcount position.

4 Expenditure within Client Protection was £2.1m higher than forecast due to increased numbers of interventions. We have had more interventions so far this year than the whole of last year (45 at the end of June compared to 42 in the whole of 2024/25).

Analysis

5 The tables below (and the accompanying annexes) report on our income and expenditure against the forecast for the eight months to June 2026, including the recently revised full year forecast.

6 The income and expenditure are as usual presented in the best manner to enable effective analysis of performance, separating out the stable, more "business as usual" activities, from the inherently unstable ones.

7 We started the 2025/26 year with an estimated £5.5m full year deficit. The first forecast of the year suggested that this would increase to £11.5m. The latest reforecast has revised the expected deficit down to £9.9m and we continue to challenge expenditure and look to reduce where possible. There is likely to be further reductions in project expenditure with some costs moving into 2026/27.

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SRA Financial Summary 30 June 2026	YTD Actual £000	YTD Forecast £000	Variance £000	Variance %	Revised Full Year Forecast £000s
Income					
Practising Fee income	57,352	57,362	(10)	0%	86,603
Regulatory Income	2,195	2,155	40	2%	3,416
Total Income	**59,547**	**59,517**	**30**	**0%**	**90,019**
Expenditure (net of recharge to Compensation Fund)					
Staff Costs	(39,107)	(39,055)	(52)	0%	(59,567)
Non staff costs	(22,142)	(22,761)	619	3%	(37,009)
Projects	(4,569)	(5,560)	991	18%	(7,948)
Total Expenditure	**(65,818)**	**(67,376)**	**1,558**	**2%**	**(104,524)**
Recovery of SDT costs	1,118	1,034	84	8%	1,559
Net stable business position	**(5,153)**	**(6,825)**	**1,672**	**-**	**(12,946)**
SQE					
SQE Income	29,117	29,637	(520)	(2%)	50,310
SQE costs	(28,667)	(29,230)	563	2%	(49,530)
SQE Total	**450**	**407**	**43**	**-**	780
Client Protection					
Compensation Fund direct cost recharges	17,488	15,368	2,120	14%	24,242
Expenditure	(17,774)	(15,657)	(2,117)	(14%)	(24,697)
Client Protection total	**(286)**	**(289)**	**3**	-	455
SRA Net position (exc. investments)	**(4,989)**	**(6,707)**	**1,718**	**-**	**(12,621)**
Interest received	1,557	1,636	(79)	(5%)	1,802
Investment gain	912	-	912	-	912
SRA Net position	**(2,520)**	**(5,071)**	**2,551**	**-**	**(9,907)**

8 Total income was on track compared to the forecast for the year to date.

9 Total expenditure (net of recharge to Compensation Fund) is now £1.6m (2%) under forecast with underspends across non-staff costs and projects.

10 Staff costs remain close to forecast despite headcount being 2% under forecast due to a built-in expectation for vacancies.

11 Full time equivalent (FTE) headcount at the end of June was 995. We are now 2% under the forecasted headcount.

12 Progress is being made against the budgeted end of year position of 1,017 FTE and the forecast end of year position is 1,037 FTE. This includes permanent, fixed term contract and agency staff and excludes staff on maternity leave. At the end of June we had 35 roles in active recruitment.

13 Non staff costs are now £0.6m (3%) below forecast. The majority of this relates to the work of panel firms who are supporting the Assessment and Early Resolution Team (AERT) as well as lower spend on consultancy and contractors than originally expected. This followed a review of expenditure when it became clear that the forecast for the year was likely to exceed budget. We revisited our requirements for this work and reduced the scale of outsourcing to ensure we achieved the best possible value for money while mindful of the overall impact on SRA expenditure. This saving was then in part offset by overspend on cost orders and legal fees for the review of PM Law.

14 Project expenditure was £1m (18%) below forecast at the end of June. This is partly due to delays in bringing in temporary contract resource (often very specialised and hard to recruit) across multiple projects and rephasing of activity to later in the year and into 2026/27. We have continued to challenge the need for external specialist resource across various projects which has enabled us to continue to prioritise key programmes of work and provide resource to new projects such as the end-to-end review of investigation work and supervisory pilots without increasing the overall project envelope from the previous forecast.

15 Client protection expenditure is now £2.1m above forecast. As the full cost of interventions and most activity in Client Protection is recharged to the Compensation Fund, there is no net impact on the SRA financial performance.

16 The value of our investments increased by £912k up to the end of June. However, some degree of volatility is expected throughout the year. The forecast for the remainder of the year assumes no change in the value of investments.

Balance sheet

17 Appendix 1a shows the movement on the balance sheet from the beginning of the financial year.

18 We forecast to be below the unrestricted reserves range of from £17.7m to £25.0m at the end of the financial year. When setting the 2026/27 practising fee we considered this and agreed to include £10.3m in the 2026/27 funding request to increase reserves. This was recently approved by the Legal Services Board.

Financial reforecast

19 Forecast two is now concluded and will be reported against in the next Board update. The revised forecast is reduced by £1.6m from the previous forecast, in a large part reflecting the savings already made against the previous forecast. There is little change in forecast income, but expenditure has reduced overall.

20 Total income remains very close to forecast one. We expected to collect around £150k in additional practising fees and regulatory income, in part due to the continued growth in solicitor numbers.

21 Staff costs are higher in forecast two than in the previous forecast. This is mostly due to an active drive to maintain high levels of headcount in the Investigation teams and higher recruitment costs (one-off senior leadership recruitment).

22 The largest variances within non-staff costs are due to reduced external engagements and delays in agreeing a new lease for additional floorspace in Birmingham.

23 We have completed a thorough review of all planned project activity. As part of this we have reduced the overall forecast by £322k. In many cases the change in forecast spend for this year is delayed rather than reduced spend. This adds pressure to next year's project budget. A separate paper on the budget for 2026/27 discusses this further.

24 Client protection costs are now expected to be £2.9m higher than forecast one. Of this, £2.1m represents year-to-date overspend due to higher number of interventions in the year. As the full cost of interventions is recharged to the Compensation Fund, there is no net impact on the SRA financial performance overall, however this does impact the balance of the Fund.

25 The year-to-date gain on investments is £912k with no further movements included in Forecast Two. While some degree of volatility is to be expected throughout the year it is not considered prudent to include any variance within the forecast.

26 The table below shows the latest forecast compared to the previous forecast shared with the Board.

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SRA Financial Reforecast Full year 2025/26	Revised Forecast £000	Previous Forecast £000	Variance £000	Variance %
Income				
Practising Fee income	86,603	86,500	103	0%
Regulatory Income	3,416	3,368	48	1%
Total Income	**90,019**	**89,868**	**151**	**0%**
Expenditure (net of recharge to Compensation Fund)				
Staff Costs	(59,567)	(58,729)	(838)	(1%)
Non staff costs	(37,009)	(38,158)	1,149	3%
Projects	(7,948)	(8,270)	322	4%
Total Expenditure	**(104,524)**	**(105,157)**	**633**	**1%**
Recovery of SDT costs	1,559	1,541	18	1%
Net stable business position	**(12,946)**	**(13,748)**	**802**	
SQE				
SQE Income	50,310	50,830	(520)	
SQE costs	(49,530)	(50,093)	563	
SQE Total	780	737	43	6%
Client Protection				
Compensation Fund direct cost recharges	24,242	21,364	2,878	
Expenditure	(24,697)	(21,819)	(2,878)	
Client Protection total	455	357	98	22%
SRA Net position (exc. investments)	**(12,621)**	**(13,466)**	**845**	
Interest received	1,802	1,980	(178)	(10%)
Investment gain	912	-	912	
SRA Net position	**(9,907)**	**(11,486)**	**1,579**	

27 In the absence of any exceptional events in the remainder of the year this forecast should be seen as a worst-case position. We are still applying enhanced scrutiny to all recruitment and other spending decisions to ensure that we restrict expenditure where possible without compromising delivery of core activities.

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Compensation Fund

28 The Compensation Fund is managed by the SRA on behalf of the profession, and its results and position are reported to the SRA Board as required under its governance arrangements. Its financial reporting is on a different basis of accounting to the SRA and SIF. This basis excludes accrual accounting for income and assets, and expenditure and liabilities, except for money owed to or from the SRA. This means no provision is made for the value of claims made that have not yet been paid, nor asset recognised for the value of statutory trusts that have not yet been transferred to the Fund.

29 The table below summarises the financial performance for November 2025 to June 2026, together with the resulting change in reserves over the period.

Compensation Fund Financial Summary November 2025 - June 2026	£000	£000
Opening reserves		**41,327**
Income		
Compensation Fund contributions	1,924	
Received from Statutory Trusts	2,232	
Compensation Fund recoveries	14,153	
Investment income and interest	670	**18,979**
Expenditure		
Compensation Fund grants	(29,429)	
Direct operating costs	(3,558)	
Intervention costs	(15,317)	
Other costs	(631)	**(48,935)**
Deficit for the period		**(29,956)**
Closing reserves		**11,371**

30 The overall position at the end of June 2026 shows a deficit of £30m for the year to date. This follows the large-scale intervention into PM Law, accounting for over 50% of the grants paid figure, as well as overall increase in interventions size and volume experienced in the year to date.

31 There were 45 interventions at the end of June 2026 compared with 24 at the same point in 2024/2025 and 42 in the full 2024/2025 financial year.

32 The Board has previously discussed the potential impact of interventions into firms dealing in high volume consumer claims, but we have not seen any of a scale that would concern us from a Compensation Fund perspective as the corresponding level of grants payments are not expected to be material.

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33 The Board agreed an increase in the level of contributions to the Fund in 2026/27. This will improve the financial position of the Fund and ensure grants can be paid as necessary throughout the next financial year. Most contributions are received in October each year and recognised in the accounts at that point which explains the relatively low level of contributions shown in the table above.

34 The table below presents the Fund's balance sheet position on 30 June 2026. The net assets of the Fund at that date were £11.4m.

SRA Compensation Fund Balance sheet	£000 01/11/2025	£000 30/06/2026	£000 Movement
Assets			
Investments	-	-	-
Cash	21,484	26,730	5,246
Money owed from the SRA	19,843	-	(19,843)
Liabilities			
Money owed to the SRA	-	(15,359)	(15,359)
Net Assets	**41,327**	**11,371**	**(29,956)**
Capital and reserves			
Accumulated funds	(41,327)	(41,327)	-
Deficit for the year	-	29,956	29,956
Closing reserves	**(41,327)**	**(11,371)**	**29,956**

35 There has been a movement of £35.2m in the intercompany balance between the Compensation Fund and SRA, resulting in a liability to SRA of £15.4m at the end of the period. The ARC previously agreed that the balance between the Fund and the SRA would, where practical, reflect the costs of intervention related provisions recharges to the fund (currently £14.5m at the end of the period). This ensures that the payments from the Fund represent cash payments made by SRA as closely as possible.

36 Because the Compensation Fund is accounted for on a primarily cash receipts and payments basis, not the accrued income and expenditure basis used for entities like the SRA, it is important for good financial management to consider the financial position more widely.

37 In order to do this in appendix 1b we consider the value of claims made to the Fund, noting that not all of these are paid, and the value of statutory trust account balances (former client account balances of firms we have intervened in, taking over management of their finances), since we can recover some of these funds where corresponding grants have been paid. The adjusted net asset view is broadly aligned with the publicly reportable position.

38 The proposed 2025/26 contributions together with the risk mitigation provided by the £10m banking facility with Barclays will ensure the viability of the Fund and allow grants to be paid when needed throughout the 2025/26 financial year and beyond.

39 At the time of writing the LSB was still reviewing our application for proposed contributions totalling £46.3m for 2026/27. We expect to have received approval by the Board meeting at which this paper is considered.

Solicitors Indemnity Fund (SIF)

40 Activity within SIF remains low, and the total value of cash and investments (net of amounts owed to the SRA) was £34.1m at the end of June 2026. This has increased from £32.7m at the end of October 2025. The changes are predominantly related to the movements in the value of investments. We continue to remain confident that SIF is well resourced, and the reserves remain more than sufficient to pay claims as they arise without the need for additional funding. There were 29 open claims at the end of June (31 in February); the amount expected to be paid out on these claims is around £1.3m (unchanged from February).

Cash flow

41 The chart in appendix 1c shows predicted cash and investment balances over the next financial year. At the lowest point cash balances are expected to fall significantly below three months' operating expenditure. This is at the start of October 2026 in advance of the practising fee collection exercise. Our overall cash position remains healthy. The reduction in cash held in SRA is in part due to the changed approach to the intercompany balance between the SRA and the Fund. This means that cash is held in the Fund rather than SRA.

42 We continue to actively manage the balances held with Cazenove to maximise the return on our working capital in line with the investment approach agreed with the Board.

Appendices

Appendix 2a - Balance sheet on 30 June 2026
Appendix 2b - Adjusted net assets view of the Compensation Fund's financial position
Appendix 2c – Cash flow forecast
Appendix 2d - Comparison to original budget

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Appendix 2a – SRA Balance sheet on 30 June 2026

Category	1 November 2025 £000	30 June 2026 £000	Movement £000	Notes
Assets				
Fixed assets	1,319	1,327	8	Depreciation and additions in year
Debtors (restricted)	409	197	(212)	SQE Access and Reinvestment Fund[1]
Debtors	28,278	13,357	(14,921)	Year-end balance was predominantly practising fees now collected. June balance includes £4m SQE debtor (offset in creditors)
Cash	139,074	37,480	(101,594)	Cash usage in year reduces the balance
Investments	15,270	16,182	912	Growth in investments
Money owed by the Compensation Fund	0	15,359	15,359	Costs incurred in SRA on behalf of Compensation Fund[2]
Money owed by SIF	105	34	(71)	Costs incurred in SRA on behalf of SIF (settled monthly)
Liabilities				
Money owed to the Law Society	(27,987)	0	27,987	At year end we owe the Law society its share of practicing certificate income collected – this is paid regularly to the Law Society.
Money owed to the Compensation Fund	(19,843)	0	19,843	Collection of contributions to the Fund – now paid to the Fund.
Deferred Practising Fee income	(82,275)	(28,645)	53,630	Income invoiced in October and recognised throughout the year
Creditors	(14,115)	(15,805)	(1,690)	Largest creditor is SQE costs (offset by debtor)
Provisions	(16,973)	(18,744)	(1,771)	Ongoing interventions and legal cases[2]
Net Assets	**23,262**	**20,742**	**2,520**	
Capital and reserves				
Capital Contribution	(13,337)	(13,337)	0	
Accumulated reserves	(9,925)	(9,925)	0	
Surplus for the period	0	2,520	2,520	
	(23,262)	**(20,742)**	**(2,520)**	

[1] This fund represents service credits from Kaplan which are then utilised by SRA to improve accessibility of the SQE. These funds can only be used for this purpose.
[2] The balance owed by the Fund to the SRA represents provisions for future costs recognised in the SRA but not yet paid. Cash is transferred from the Fund in line with payments by SRA.

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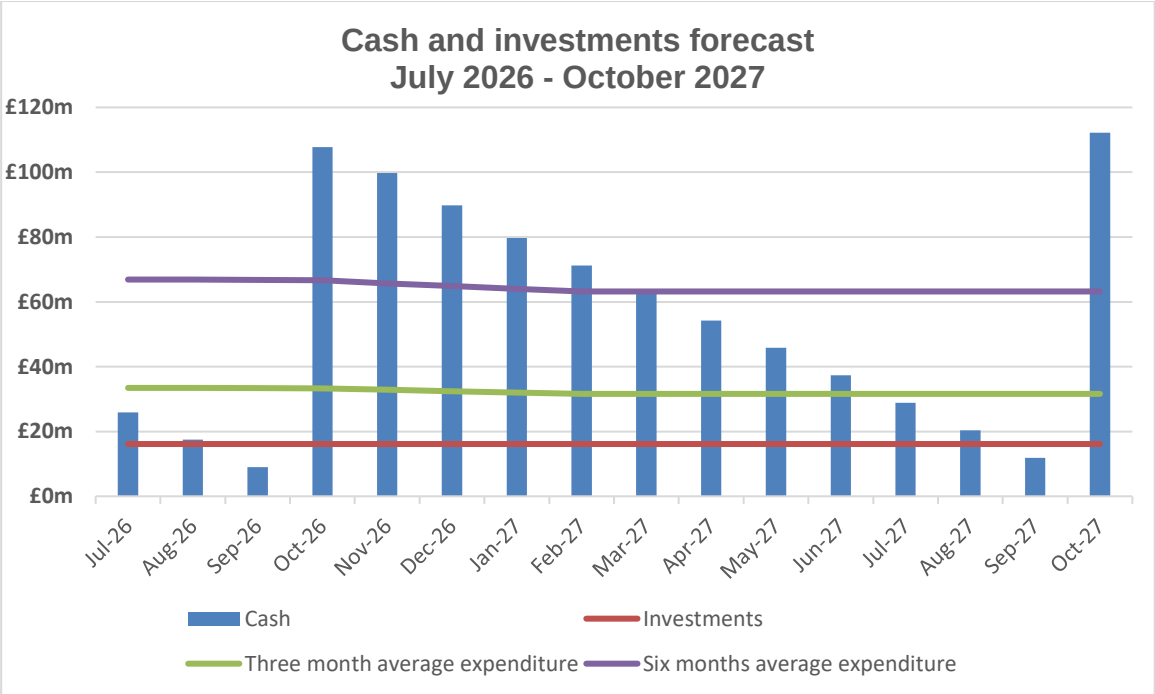
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Appendix 2b - Adjusted net assets view of the Compensation Fund's financial position

The total value of claims made on the Fund where we are yet to make a decision was £33.8m at 30 June 2026, of which we expect to pay out c£24.3m. The total value of statutory trust accounts (STAs) at the same date was £58.1m, of which we estimate that the Fund will receive £24.3m. This means, if we were accounting on an accruals basis, the Fund's balance sheet would be £0.1m better off. It can take a long time to resolve STAs, which means an inherent temporary cash flow impact on the Fund as claims payments are paid earlier than STA balances are received.

SRA Compensation Fund Summary	£000 30/06/2026
Net Assets	11,371
Money held in STAs expected to be transferred to the Fund	24,328
Claims received expected to be paid	(24,248)
Adjusted net assets	**11,451**

Appendix 2c – Cash flow forecast



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Solicitors Regulation Authority

Annex 2d – Comparison to original budget

SRA Financial Summary 30 June 2026	YTD Actual £000	YTD Budget £000	Variance £000	Variance %	Full Year Budget £000s
Income					
Practising Fee income	57,352	57,217	135	0%	86,500
Regulatory Income	2,195	2,087	108	(5%)	3,299
Total Income	**59,547**	**59,304**	**243**	**0%**	**89,799**
Expenditure (net of recharge to Compensation Fund)					
Staff Costs	(39,107)	(38,256)	(851)	(2%)	(57,578)
Non staff costs	(22,142)	(21,931)	(211)	(1%)	(33,917)
Projects	(4,569)	(5,630)	1,061	19%	(7,544)
Total Expenditure	**(65,818)**	**(65,817)**	**(1)**	**0%**	**(99,039)**
Recovery of SDT costs	1,118	1,000	118	12%	1,500
Net stable business position	**(5,153)**	**(5,513)**	**360**	**7%**	**(7,740)**
SQE					
SQE Income	29,117	31,072	(1,955)	(6%)	53,083
SQE costs	(28,667)	(30,663)	1,996	7%	(52,375)
SQE Total	**450**	**409**	**41**	**10%**	**708**
Client Protection					
Compensation Fund direct cost recharges	17,488	10,907	6,581	60%	16,487
Expenditure	(17,774)	(11,144)	(6,630)	(59%)	(16,844)
Client Protection total	**(286)**	**(237)**	**49**	**21%**	**(357)**
SRA Net position (exc. investments)	**(4,989)**	**(5,341)**	**450**	**9%**	**(7,389)**
Interest received	1,557	1,535	22	1%	1,893
Investment gain	912	0	912	n/a	0
SRA Net position	**(2,520)**	**(3,806)**	**1,384**	**36%**	**(5,496)**

The revised forecast for the financial year reflected decisions taken to increase headcount ahead of an increase in funding for 2026/27. This increase in headcount therefore results in an overspend against the staff budget for the year to date.

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Rescheduling planned project activity to later in the year or into 2026/27 has resulted in an underspend against forecast as mentioned in the body of the paper, but also creates a larger underspend against the budget to date. The reason for other variances to budget are aligned with the variances to the forecast figures.