Solicitors Regulation Authority

Impact assessment on the regulatory portion of the practising certificate fee, the compensation fund contribution and the SRA's Business Plan for 2026/27

Annex 3

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Introduction

This is the Impact Assessment of:

1) the activities outlined in the SRA's Business Plan 2026/27
2) the regulatory portion of the annual practising certificate (PC) fee for 2026/27
3) the compensation fund apportionment and contributions for 2026/27.

We are considering the impacts of these changes together, as individuals and firms consider the cost increases together, rather than splitting them into the component parts. Analysing the impacts jointly also allows us to better understand their cumulative impacts.

The focus of this impact assessment is on the regulatory and equality impacts of the regulatory proportion of the practising certificate and the compensation fund contributions given the significant increase. The apportionment of the compensation fund (the fund) is explored in detail given this will redistribute costs across groups. The analysis in the final impact is the same as the initial impact assessment, and we have reflected on consultation responses in this document.

We appreciate that increasing the cost of regulation and consumer redress schemes affects all practitioners and this can in turn impact the way law firms and those employing solicitors operate.

In response to the consultation on the draft Business Plan, PC fee and compensation fund contributions, there was support for the SRA investing to increase its capacity and capability. There has also been consistent support for the compensation fund to protect consumers and the reputation of the profession. However, there was concern raised about the extent of the rises in fees and contributions proposed. Particular concerns were raised about the impact on smaller firms in less profitable, consumer facing areas. The overrepresentation of some groups of solicitors with protected characteristics in these firms was also highlighted by stakeholders.

We have set out in our Business Plan the reasons why we consider these increases to be necessary and appropriate. In this document we highlight our assessment of the impact of the fees and contributions considering different protected characteristics and changes that we have made to mitigate some of the negative impacts.

We will also further assess the impacts of specific work that we initiate under the priority headings outlined in our Business Plan and will monitor impacts to inform next year's PC fee levels and compensation fund contributions.

Potential impact of the Business Plan 2026/27

The regulatory portion of the PC fee provides the core funding that enables us to carry out our functions. We have set out the work we are proposing to deliver in our Business Plan 2026/27.

Regulatory, as well as equality, diversity and inclusion (EDI) considerations inform all areas of our work. For our core workstreams and commitments in the Business Plan 2026/27, we will evaluate the regulatory and equality impacts of our proposals on a case-by-case basis.

The regulatory portion of the practising certificate fee and compensation fund contribution for 2026/27

The regulatory portion of the practising certificate fee

Practising fees are determined annually and are paid by:

1) individual practising solicitors and registered lawyers who each pay a flat fee
2) law firms that pay a fee based on their turnover.

These fees cover the annual funding requirement, which includes the regulatory portion (our operating costs), certain Law Society activities and levies that fund the work of:

- the Solicitors Disciplinary Tribunal
- the Legal Services Board
- the Office for Professional Body Anti-Money Laundering Supervision
- the Legal Ombudsman.

Sixty per cent of the annual funding requirement is met by practising fees paid by law firms, called periodic fees, and determined firm-by-firm based on their turnover. The annual funding requirement due from firms has increased to £106.9m this year from £89m in 2025/26. The periodic fees have increased across all turnover bands.

The remaining 40 per cent is met by a flat fee payable by individual practising solicitors and registered lawyers.

As set out in our Business Plan and funding requirement 2026/27 the regulatory portion of the individual PC fee will be £240. This represents an increase of £50 compared to 2025/26, which was £190.

The compensation fund contribution

The compensation fund is financed entirely by annual contributions paid by:

- all practising solicitors (except those working for the Crown Prosecution Service) and registered lawyers
- all law firms that hold client money.

The compensation fund contributions for 2026/27 are:

- £170 for individuals – an increase of £100 from the £70 that individuals paid in 2025/26
- £2,170 from law firms that hold client money – an increase of £220 from the £1,950 that law firms holding client money paid in 2025/26.

The contribution is a flat fee, rather than being dependent on the law firm or individual's income or turnover or other characteristics.

Previously 50 per cent of the required total amount for the compensation fund was met by individual contributions, and the remaining 50 per cent was met by law firm contributions.

Following the Business Plan and funding consultation 2026/27, the SRA Board has decided to change the compensation fund's apportionment to 70 per cent for regulated individuals and 30 per cent for regulated firms holding client money in 2026/27. While we do not have definitive quantitative evidence around the impact of this change, we consider it is justified for the following reasons:

- **mitigates impacts on smaller firms:** Given the scale of the increases to the firm contribution, small firms would have been significantly impacted (£3,600 under 50:50 apportionment) compared to what they will pay under 70:30 (£2,170). By moving to 70:30 we will mitigate the cost to small firms. Although larger firms will pay a greater share (as they typically pay the contributions on behalf of their employees), relative to turnover the increase is small compared with the reduction for small firms

- **change in structure of the profession:** Moving to a 70:30 apportionment means that we rebalance the split of fees to reflect the increase in individuals and reduction in firms since the current split was established. This means that the increased overall ask of individual solicitors is spread across a larger population.

We have discounted changing the wider compensation fund contribution model for the 2026/27 year. This is not possible within the timeframes and our previous consultation in 2024 showed that this would be a challenging, long-term endeavour. There was no agreement about a new methodology and there would be significant impacts.

We have prioritised making the changes to the current regime per the Legal Services Board Axiom Ince Directions over exploring further how the model of contributions could be changed (ie a risk- or turnover-based). Going forward, we will need to consider whether we can prioritise a review of the approach to contributions to the compensation fund given other key outstanding policy questions. This includes revisiting the model of firms holding client money and whether we should move to a senior accountability regime.

We know that moving to a 70:30 apportionment will shift the burden of costs for the compensation fund. This means some groups will pay less and others will pay more relative to a 50:50 apportionment. The impacts are considered further below.

Our assessment of potential impacts

Individual regulatory portion of the practising certificate fee and compensation fund contribution

We apportion the practising certificate fee so that the greater burden of the total financial requirement is met by law firms (60 per cent), mitigating the effects of increases to individuals. Other mitigations include:

- provision of a reduction in the individual fee for those who take time away from work because of parental leave
- reducing the level of any fee payable for those who start practising part-way through the practising year.

Although these mitigations will help, there will still be a negative impact caused by the increase in the practising certificate fee for those who pay their own fees. In addition, apportioning compensation fund contributions 70:30 will increase individuals' contributions compared with the previous 50:50 split, further increasing costs for this cohort.

These increases will not directly affect the majority of solicitors whose individual fees and contribution to the fund are met by their employers. However, there may be indirect impacts on individuals that accrue from increased firm costs where firms do pay these contributions. By reducing the cost of the firm compensation fund contribution, smaller practices, including those firms that pay individuals' costs that employ up to 29 solicitors, will be better off overall under a 70:30 apportionment, despite this higher increase in individual fees.

Sole practitioners will receive a net benefit from the lower firm compensation fund contributions as owners of their business. This will reduce equalities impacts for this cohort. Owners of small firms (2-5 partners) are likely to also benefit in this way if they are solicitors. However, individual solicitors employed by small firms will only be better off if firms pay for their individual costs, meaning the equalities impacts on employees of small firms is unclear.

Both the direct and the indirect impacts are likely to be felt more acutely by those who earn less (perhaps because of the type of firm or the sector they work in). As set out in the diversity insights section above, individuals from the following diversity groups are more likely to be affected because they are overrepresented in potentially lower paid areas:

- men
- Asian and Black solicitors
- those aged over 45

- disabled solicitors
- Muslim solicitors
- those from a lower or intermediate socio-economic background.

Firm portions of the practising certificate fee and compensation fund contributions

Under the 70:30 compensation fund apportionment for 2026/27, we are increasing the required contribution levels for firms by £220 for firms that hold client money. We anticipate that 66 per cent of firms – if they cover individuals' costs – will pay less than under a 50:50 split.

In addition, there will be an increase to the periodic fee firms pay, determined firm-by-firm based on their turnover. The percentages charged at each turnover band have increased slightly since 2025/26. Impact on firms is proportionate to firm turnover so firms which have a higher turnover, and have a greater ability to pay, will pay more than those with a lower turnover.

The table below provides some illustrative examples of the overall impact of the total increased costs on firms of different sizes. This table assumes that firms pay individuals' costs and that turnover is unchanged year on year. Increased turnover would of course lead to a larger fee increase. Firms that do not hold client money do not pay the firm related compensation fund contribution.

	Turnover	Practising solicitors	Client money	Total fees 2026/27	Total fees 2025/26	Increase (£)	Increase (%)
A	£200k	1	No	£1,703	£1,512	£191	13%
B	£200k	1	Yes	£3,873	£3,462	£411	12%
C	£2m	9	No	£15,059	£12,510	£2,549	20%
D	£2m	9	Yes	£17,229	£14,460	£2,769	19%
E	£50m	150	No	£226,791	£185,546	£41,245	22%
F	£50m	150	Yes	£228,961	£187,496	£41,465	22%

This table shows that under a 70:30 apportionment, smaller firms will have a lower increase in costs than firms with higher turnover.

Our original proposal with the 50:50 apportionment highlighted impacts on individuals working in small firms, with potential attendant equality impact assessments. We also note the impact of any increases on individuals who pay their own contributions, and that firms that do not hold client money but pay individuals' costs cannot offset any increases in individual contributions against lower firm contribution.

Options to mitigate impacts are limited, and the equality impacts overall are uncertain, not least because we do not have full data on which individuals pay their own fees. Nonetheless, we decided to change the apportionment to 70:30 in light of the reasons outlined above. Given other competing priorities, consideration of alternative contribution models is on hold. We believe that changing the apportionment is a proportionate approach, and an appropriate way to deliver the objectives of the compensation fund.

Impacts on employers and firms that do not hold client money

As part of our consultation, we heard that employers and firms that do not hold client money but pay individuals' costs may see costs increase in an absolute sense from 2025/26, as well as relatively under a 70:30 apportionment compared to a 50:50 apportionment. We were told that these employers are unable to offset the increase in individuals' costs against a lower firm fee, so no matter their size they will be paying more. We received this feedback from employers in the local government and not-for-profit legal services sectors. In addition, these sectors may not charge fees for their work (ie not-for-profits often run on donations) so there could be limited ability to pass on the increased costs to their clients.

We do not have definitive evidence regarding the extent to which employers and firms that do not hold client money will be impacted by the changes in 2026/27. We are unable to comment on the potential equality impacts of this change currently.

However, we will look at options for building information about the potential impact and how to mitigate any unintended consequences for particular cohorts if they arise ahead of determining next year's contributions. We will consider longer term options to mitigate impacts on these cohorts should the need arise.

Impacts on firms that hold client money – medium to larger firms

As highlighted above, most solicitors have their individual fees and contributions paid for by their employers. The increases to individual fees will therefore have a flow on impact to firms – firms' costs will increase with the number of solicitors employed.

Due to the change in compensation fund apportionment, firms holding client money and paying individuals' costs that employ more than 29 solicitors will pay more in compensation fund contributions under a 70:30 apportionment than under a 50:50 apportionment; the lower firm contribution will be outweighed by covering the greater individual contributions for firms that employ 29 (or more) practising solicitors.

Impacts on firms that hold client money – smaller firms

Cost increases for smaller firms (1-5 partners) that have fewer than 29 solicitors will be lowered by the move to a 70:30 apportionment. However, despite the mitigation of changing the apportionment, small firms' costs are still increasing in 2026/27. As many of these firms operate on tight margins, we anticipate that smaller firms, and firms operating in less

profitable areas of work, will still be affected by the increases. For example, those doing much of their work in criminal law.

As set out in the diversity insights section below, the diversity groups who are overrepresented in the firms more likely to be affected by the increase are:

- men
- Asian and Black solicitors
- those aged over 45
- disabled solicitors
- Muslim solicitors
- those from a lower or intermediate socio-economic background.

Impacts on Access to Justice

Changing the apportionment to reduce the increase for smaller firms will partially mitigate the potential cost pressure on these firms and any longer-term impact on the fees charged by these firms or their viability. And therefore, any impact on the range and cost of services they provide to consumers. This may be important for access to justice for consumers who rely on these firms. Cost pressures and the impact that this would have on small firms were raised as concerns by many who responded to our consultation.

Overall impact

As most individuals have their costs met by their employers, we expect the direct impact on individuals of these changes to be low. However, individuals who pay their own costs will see an increase in what they pay in 2026/27. They may also be affected indirectly by the increases in costs their employer will face.

All firms face increasing costs. However, we have partially mitigated the potential impact on smaller firms by changing to a 70:30 apportionment for the compensation fund. This will shift compensation fund costs to firms that hold client money and employ more than 29 solicitors, as well as employers of all sizes that pay individuals' costs but do not pay the firm fee as they do not hold client money.

We recognise there will be an impact on the profession due to the increases, and we have explained why we think it is justified in our Business Plan 2026/27.

Diversity data insights

This impact assessment is informed by data we collect from law firms, and which we publish in our law firm diversity data tool. We have used this data to understand the diversity breakdown of firms and individuals most likely to be impacted by the fees for 2026/27.

We do not collect data about individual solicitor income. However, for this assessment we make the following overarching assumptions about earning levels:

- solicitors working predominately or entirely in particular areas of law which are less profitable – such as criminal law – will be more likely to have lower personal income. This is compared to solicitors working predominantly or entirely in more profitable areas of law, such as commercial law
- solicitors working in smaller law firms might be more likely to earn less than solicitors working in larger law firms
- solicitors working part-time or intermittently might be more likely to earn less than solicitors who are working consistently or on a full-time basis.

We do not have data about which solicitors work part-time or intermittently. However, we do have data about the diversity of solicitors working in firms by size and by different areas of law.

For this assessment we are defining smaller firms as those operating with between one and five partners. Our law firm diversity data illustrates the diversity profile of solicitors working in these firms:

- there is a higher proportion of men in law firms with one to five partners (45 per cent) compared with their proportion in all firms (43 per cent)
- there is a higher proportion of Asian solicitors in law firms with one to five partners (20 per cent), compared with their proportion in all firms (12 per cent)
- there is a higher proportion of Black solicitors in law firms with one to five partners (5 per cent), compared with their proportion in all firms (3 per cent)
- there is a higher proportion of solicitors aged 45 and over in law firms with one to five partners (52 per cent), compared with their proportion in all firms (39 per cent). This is true for all three of the older age categories: 45 to 54, 55 to 64 and 65+
- there is a higher proportion of disabled solicitors in law firms with one to five partners (10 per cent), compared with their proportion in all firms (7 per cent)

- there is a higher proportion of Muslim solicitors in law firms with one to five partners (12 per cent), compared with their proportion in all firms (6 per cent)

- there is a higher proportion of solicitors from lower socio-economic backgrounds in law firms with one to five partners (18 per cent), compared with their proportion in all firms (15 per cent)

- there is a higher proportion of solicitors from intermediate socio-economic backgrounds in law firms with one to five partners (13 per cent), compared with their proportion in all firms (11 per cent).

We have also used data to consider different groups that are more or less likely to work in legal services that may be less profitable than others, such as criminal law.

In firms where the majority of work is in the criminal law sector, we can see that there are some differences:

- there is a higher proportion of men (55 per cent) compared with all firms (43 per cent)

- there is a higher proportion of solicitors from Asian (23 per cent) and Black (6 per cent) groups compared with all firms (12 per cent and 3 per cent respectively)

- there is a higher proportion of solicitors aged 45 and over (58 per cent) compared with all firms (39 per cent)

- there is a higher proportion of disabled solicitors (13 per cent) compared with all firms (7 per cent)

- there is a higher proportion of Muslim solicitors (15 per cent) compared with all firms (6 per cent)

- there is a higher proportion of solicitors from lower socio-economic backgrounds (18 per cent) compared with all firms (15 per cent).

All solicitors and firms in these cohorts are likely to feel the impact of increased fees. But overall, there is greater representation of the following diversity groups:

- men
- Asian and Black solicitors
- those aged over 45
- disabled solicitors
- Muslim solicitors
- those from a lower or intermediate socio-economic background.

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