



Cost of regulation: transparency of reporting

The Law Society and Solicitors Regulation Authority

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1. Introduction

Why are we doing work on the cost of regulation?

1. Establishing the cost of regulation in legal services is important because these costs are borne by businesses and ultimately by consumers. Establishing an evidence base about the cost of regulation can help the LSB and the approved regulators review any areas of regulation that appear disproportionately costly relative to any benefits derived from those regulations.
2. These reports do not set out to analyse the income and expenditure of each approved regulator, but simply to understand what information is made publicly available in this area. Alongside these reports the LSB is publishing a paper which summarises the overall findings of its cost of regulation project and sets out next steps.

What's this report about and how does it fit in?

3. Our research¹ has found concern among legal sector businesses about the cost of regulation, but little understanding about what these costs pay for. In particular, a number of respondents did not know what they paid for via their annual practising certificate fee, which makes up a significant element of the total regulatory burden. To help improve transparency around these costs, the LSB has produced a report for each regulator providing a basic analysis of its costs using information which is available in the public domain, but located in different places. We have used publicly available information only at this stage so we can understand what can be done with what is readily available, before discussing with each regulator what more may be required.
4. Specifically, each report aims to:
 - shine a spotlight on the publicly available information about the costs of the regulator concerned (including the LSB), to enhance accountability to the profession for these costs
 - show historic cost trends for each regulator over a five-year period
 - highlight where greater transparency of the regulator's costs is needed
 - help the board of the regulator hold its executive to account for the level of its spend, and for the level of information about its costs which is publicly available
 - provoke and inform wider discussion of what effective and efficient regulation should look like.
5. What this report does not do is seek to make any assessment of the benefits derived, proportionality of cost, compliance costs within a business or costs/benefits of being in one regulatory regime or another, whether there are quasi regulatory costs, differential costs of insurance or any other cost.

A key finding

6. Considering the approved regulators as a whole, compiling this information proved far more challenging and time-consuming than it should have been. The LSB recognises that it has not previously set requirements in this area, and further that each regulator will have reasons for deciding on the content and format of the financial information that it publishes. Nonetheless, the LSB was disappointed by the level of available information, which has frustrated our efforts to present as full a picture of the cost of the regulators as we would have liked.

Next steps

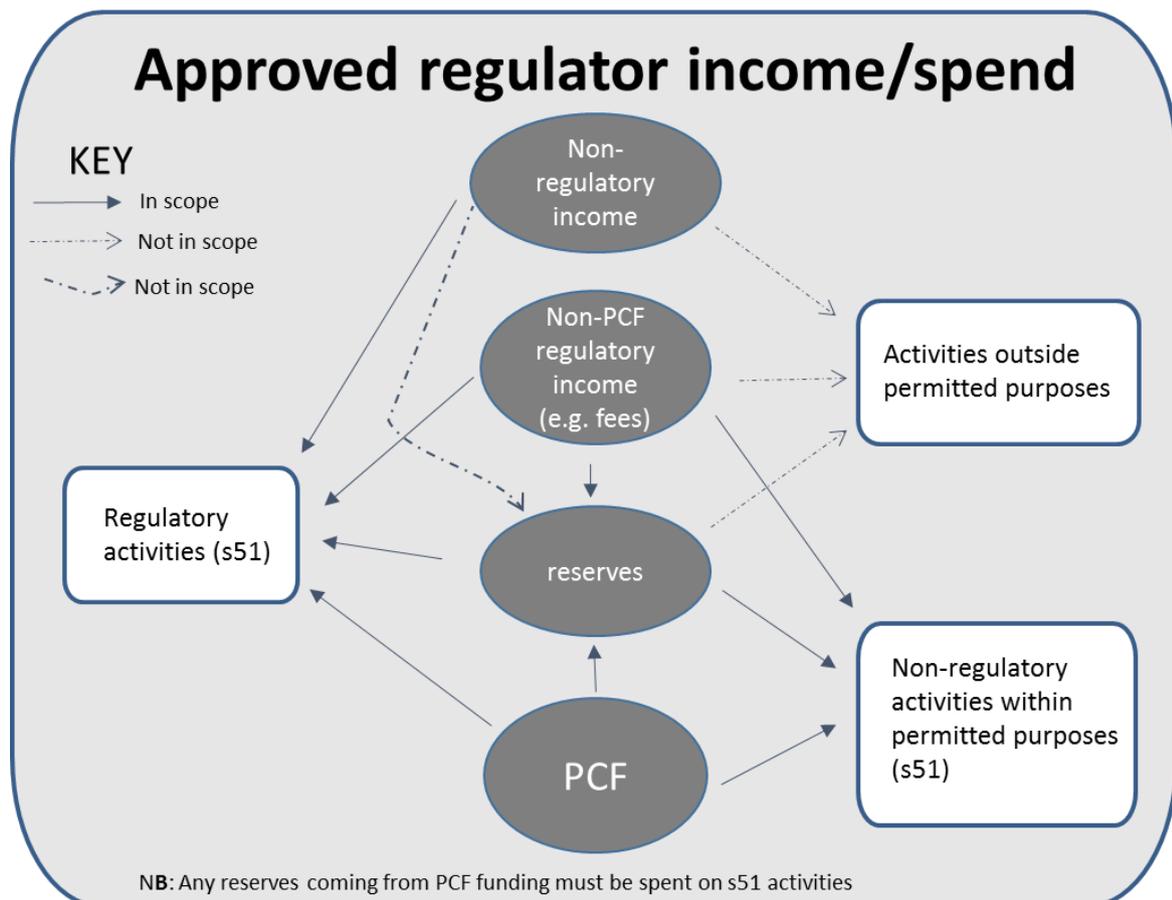
7. These reports are part of our wider project on the costs of regulation, which has also involved (as mentioned above) research asking providers for their views on the value for money of regulation and in-depth research to collect estimates from providers of their costs of compliance. Alongside the reports on each regulator on transparency of reporting, the LSB is publishing its overall findings, drawing together the conclusions from the different strands of our work and setting out what we intend to do in light of these conclusions. It has been challenging to bring together the information on the cost of each regulator from publicly available sources. There is a clear need to improve the level and quality of published information about regulatory costs. Over the coming months, we will be working, together with the approved regulators to ensure more data is available.

About the figures in this report

8. In this work, the LSB has focused on money raised via the practising certificate fee (PCF), other regulatory income and non-regulatory income which funds regulatory activities. As set out in the graphic overleaf, any non-regulatory income which funds activities outside of the permitted purposes of section 51 of the Legal Services Act 2007 is out of scope.
9. The charts in this report cover the period between 2010 and 2014, as all regulators have published data for this period. The cost profiles of some regulators may have changed since then. The compilation of the charts was undertaken by the LSB and the regulators were given an opportunity to check the charts for accuracy and provide relevant additional contextual information prior to publication.
10. The structures of the regulators vary, their regulated communities are different and these bodies' activities differ in scope and complexity. Regulators' fee charging mechanisms also vary although all are scrutinised and approved by the LSB. This may change between years and may also affect year on year comparisons between regulators and within the regulatory regime. All this means that it would be misleading to use the charts to compare one regulator directly against another.

11. A list of charts in the report is set out overleaf. References to the source material are highlighted in the data tables and can be found at the back of the document.

Diagram setting out scope of transparency of reporting analysis



List of charts used in this report

Ref	Name of Chart	Purpose of Chart
A1	Number of solicitors holding a practising certificate	This chart indicates the size of the regulator for contextual purposes based on the number of individuals it authorises. Solicitors must have a current practising certificate to be authorised to carry on reserved legal activities.
A2	Number of SRA authorised firms	This chart indicates the size of the regulator for contextual purposes based on the number of firms it authorises. Firms must be authorised to carry on reserved legal activities.
B1	PCF - individual	This chart indicates the direct cost to the profession of the regulator based on the annual PCF for individuals.
B2	Average firm fee	This chart indicates the average cost of the regulator to authorised firms based on the annual fee charged by the SRA
C1	Operating cost relative PCF and firm fee income and other income	This chart indicates operating cost relative to fee income and other income. Other income streams may be used to subsidise the cost of regulation.
D1	PCF income allocated to non-regulatory permitted purposes	This chart indicates the sums raised by the PCF allocated to non-regulatory permitted purposes carried out by the Law Society.
D2	Percentage of PCF income allocated to non-regulatory permitted purposes	This chart indicates the percentage of the PCF allocated to non-regulatory permitted purposes carried out by the Law Society.
E1	SRA's budget allocation for regulatory functions	This chart provides an illustrative overview of allocated spend for categories of regulatory activity.

2. Background to the Law Society and the Solicitors Regulation Authority

12. The Solicitors Regulation Authority (SRA) was established in January 2007. As the independent regulatory arm of the Law Society, it regulates more than 130,000 solicitors, registered European and foreign lawyers as well as firms and alternative business structures (ABS) in England and Wales. For more information about the SRA, please see its website.²
13. The time series in this report covers the period between 2010 and 2014. However, the market that the SRA regulates has continued to change since then. Further, over the period the SRA has undergone a significant change agenda including setting up the authorisation process for ABS and a programme of regulatory reform.
14. The fact box overleaf includes information about numbers and types of authorised individuals and bodies, staff numbers and reserved activities covered by the regulator as at November 2015. Each regulator in the legal sector is unique and varies significantly across these categories. Ideally the actual expenditure figure for the year running from November 2014 to October 2015 would be included below. However, as this figure is not available, this report uses the SRA total expenditure budget figure for 2015 from the PCF application submitted to the LSB for the 2015/16 PCF year. This figure is an expected spend figure. Furthermore, it has not been possible to identify a consistent number of ABS licenced by the SRA. Therefore, the number overleaf reflects the figure listed by the SRA webpage entitled "Search for a licensed body (ABS)" when searching with a blank search field for firms licenced from 01 January 2012 to 31 December 2015. As such this figure may include firms which are no longer licenced.
15. This report uses the number of holders of active practising certificates as a proxy for size of the regulator. However, the SRA also incurs a cost regulating non-practising solicitors admitted to the roll. Furthermore, the SRA regulates the non-lawyer or other lawyer owners and managers in many firms. Finally, the SRA regulates COLP & COFAs, trainees, students and others following various routes to admission. Most do not hold a practising certificate. This report also uses the number of authorised firms as a proxy for size. However, this excludes the number of in-house solicitors and solicitors working in other regulated entities.

SRA Fact Box (November 2015)

Number of authorised individuals	136,294 practising solicitors 5,506 registered European, foreign and exempt lawyers ³
Reserved activities	<ul style="list-style-type: none"> • Exercise of a right of audience • Conduct of litigation • Reserved instrument activities • Probate activities • Administration of oaths
Entity regulator	Yes – 10,336 ⁴
Licensing authority	Yes – 440 alternative business structure firms ⁵
Employees	12 months period to October 2014 ⁶ . 541 FTE – SRA 292 FTE – TLS 166 FTE – Corporate services
SRA total expenditure (expected) budget 2015	£47,461,000 ⁷

General notes to SRA figures

16. The SRA makes practising certificate information available in the following ways:
 - a. The SRA publishes information on its website⁸ about the fees, what the SRA charges, why and where the money goes – this includes a fee calculator, case studies and an overall breakdown of how the funds are spent.
 - b. The SRA provides information to the LSB, its oversight regulator, for scrutiny and publication.
 - c. The SRA has intermittently written to all those that it regulates over recent years with details of the practising certificate fee.
17. Data for this report has chiefly been drawn from two different sources. For end of year accounting data, figures from The Law Society's annual reports 2010 to 2014 have been used. However, as this data is very high level, more detailed information about SRA's PCF income and SRA's regulatory costs have been drawn from the annual PCF applications from the Law Society/SRA to the LSB. Data from PCF applications refer to allocated budget figures which means that final actual cost may have been different to these figures.
18. The Law Society Group changed its accounting year in 2013. From 31 October 2013, the reporting period moved to 1 November to 31 October. This means that figures for 2013 cover a ten months period between January and October 2013. For consistency, the LSB has adjusted the figures for this period to represent a pro rata indication of costs, which allows a comparison of costs between different years. Where the LSB has apportioned costs in this way, the original figures covering the period between January and October 2013 have been included in the endnotes to the relevant data table.
19. The annual accounts and the PCF applications cover two separate periods as set out below. Where figures drawn from the two reports are used in the same table, this report has mapped the reports to each other based on maximising the overlapping time period as set out in the table overleaf.

Annual Accounts	PCF applications
1 Jan 2010 - 31 Dec 2010	Nov 2009 – Oct 2010
1 Jan 2011 - 31 Dec 2011	Nov 2010 – Oct 2011
1 Jan 2012 - 31 Dec 2012	Nov 2011 – Oct 2012
1 Jan 2013 - 31 Dec 2013 ⁹	Nov 2012 – Oct 2013 for PCF rates and 2013 for budget data
1 Nov 2013 -31 Oct 2014	Nov 2013 – Oct 2014

20. The SRA shares corporate services with the Law Society. These are provided by an internal department known as Corporate Solutions (CS). CS manages operational infrastructure and among other things provides tailored services for HR, IT and Finance. The annual accounts and the PCF applications treat corporate solutions differently. In the former, this cost is separate from the cost of the SRA and in the latter this cost is included in the figures for the SRA. As the cost of regulation includes the SRA's share of the corporate solutions cost, this cost has been included where possible. However, this has not been possible for the figures for SRA operating cost included in tables C1 and F1.

3. Transparency of reporting

A. Number of individuals and firms authorised by the SRA

21. The cost of a regulator must be considered relative to the number of individuals or firms that a regulator authorises. Therefore, before this report sets out data on costs, the chart overleaf provides information about the number of solicitors and firms authorised by the SRA. Costs drivers also include, where applicable, the volume of regulatory activity that is undertaken, infrastructure investment which may take several years to produce a return on investment, financial policies within regulators to create or reduce reserves and operation improvements. In this report we have not sought to investigate the factors, nor to analyse or comment on their impact in any particular regulator.

22. Solicitors are the largest regulated legal profession. Every year solicitors must renew their practising certificate (PC) with the Solicitors Regulation Authority to continue to be authorised to carry out reserved legal activities.

23. The number of authorised solicitors holding a practising certificate increased by 13.12 per cent between 2010 and 2014 from 117,862 to 133,327 respectively.

24. For Table A1, this report uses data for 2010 from the Law Society's annual statistical reports which give data for solicitors with a practising certificate for 31 July each year. Data for practising solicitors for subsequent years are from SRA population statistics as of October each year. Data for authorised firms is sourced from SRA Summary of Performance Measures and Statistics from March 2010 and March 2011. No data is available for 2012. From November 2013 data from the SRA's website¹⁰ has been used. This means that for Table A1 figures cover different dates as follows:

Solicitors holding PC	Authorised firms
31 July 2010	31 March 2010
October 2011	31 March 2011
October 2012	<i>missing</i>
October 2013	<i>missing</i>
October 2014	March 2014

Table A1 - Number of solicitors and authorised firms

	PCF year					% change 2010 - 2014
	2009/10	2010/11	2011/12	2012/13	2013/14	
Solicitors holding PC	117,862 ¹¹	125,011 ¹²	127,353 ¹³	130,643 ¹⁴	133,327 ¹⁵	+13.12%
Authorised firms	10,975 ¹⁶	10,927 ¹⁷	-	-	10,316 ¹⁸	-6%

Chart A1 - Number of solicitors holding a practising certificate

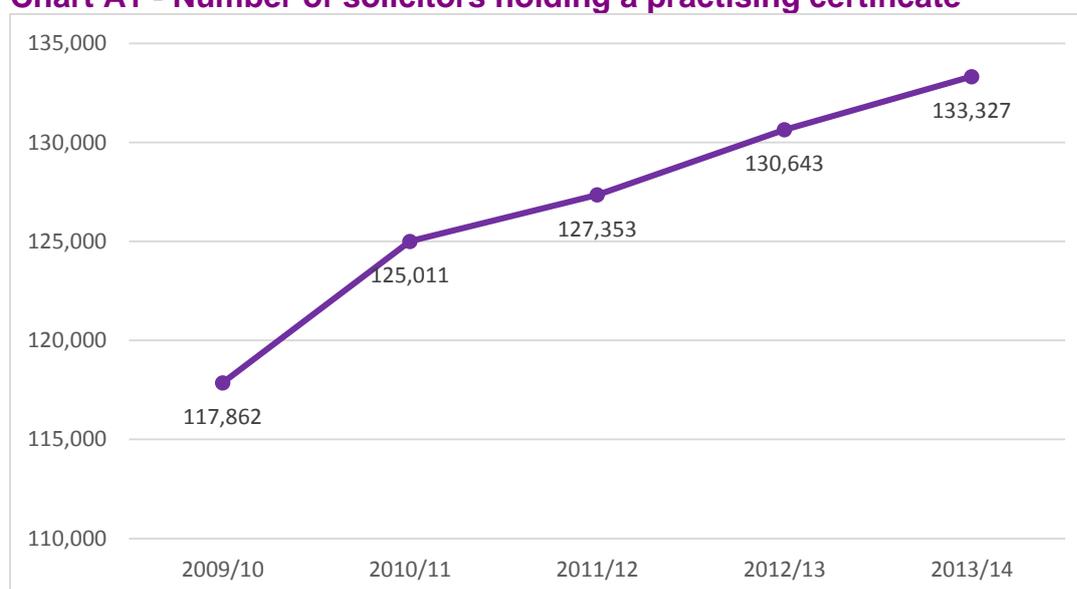
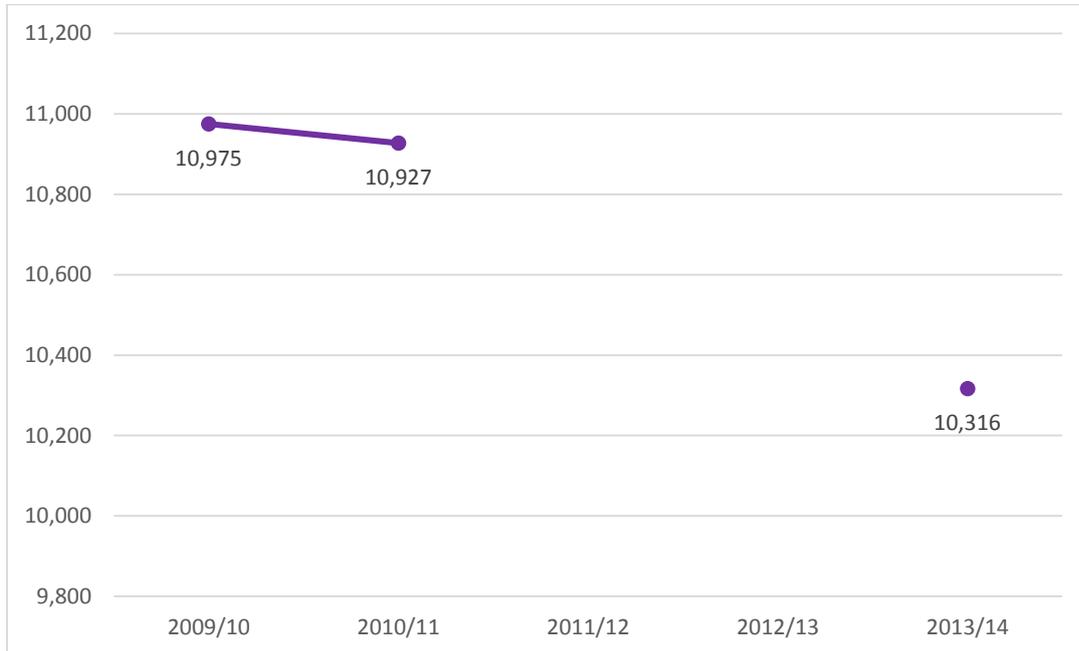


Chart A2 - Number of SRA authorised firms



B. Practising certificate fee (PCF)

25. A direct cost of regulation for solicitors and firms authorised by the SRA is experienced when they renew their practising certificate or pay their annual periodical fee for their licence. Income from this source is used in part to fund the cost of regulation for the SRA. Fee income is also used to fund non-regulatory permitted purposes by the TLS, and other items such as the Solicitors Disciplinary Tribunal and statutory levies for LSB and the Legal Ombudsman.¹⁹
26. The SRA charges a fee for the practising certificate which authorised individuals hold in order to carry on reserved legal activities in England and Wales. The SRA charges entities, whether firms or alternative business structures, a fee to authorise them to carry on reserved legal activities in England and Wales.
27. A key aspect of the SRA's regulatory model is the maintenance of a compensation fund. If a solicitor or SRA regulated firm has not accounted for money belonging to somebody else, or their dishonesty has led to loss, a claim can be made on the compensation fund to cover the loss. For example, a client could make an application for compensation if their solicitor failed to pay stamp duty land tax on a property purchase and didn't return the money to the client. Individual solicitors and registered foreign/European lawyers make a contribution to the compensation fund when they obtain their first practising certificate and each subsequent year when they renew that certificate (a statutory exemption applies to CPS solicitors). Each SRA-regulated firm that holds client money also makes a contribution to the compensation fund. A contribution is made both when the firm is first authorised and each subsequent year it remains authorised. The overall amount required to maintain the compensation fund is calculated by calculating the minimum reserve required and forecasting future cash outflows and inflows for the year ahead. The level of contribution required is currently split evenly between all SRA regulated firms holding client money and individual solicitors. Currently, flat fees of £32 for individual solicitors and £548 for SRA regulated firms are payable.
28. For Table B1 the report includes the total PCF income for the Law Society and the SRA as recorded in the TLS annual report to provide an overview of the PCF and fee income that the SRA and TLS received between 2010 and 2014. Ideally the actual figure collected from authorised firms would be used to calculate the average firm fee. However, this data is not available. In its place, this report uses the total predicted firm fee set out in the Law Society/SRA's annual PCF application to the LSB. This may differ from the total fees the SRA actually collect. The figure for the total number of firms is sourced from the SRA Summary of Performance Measures and Statistics and the SRA website providing "Regulated population statistics breakdown of solicitor firms" which

begins from November 2013. As such while all other data points are from March any given year the firm figure for 2013 is from November.

29. The total firm fee to be collected for the 2012/13 PCF year in the Table B1 below is given as a 2013 budget figure. The LSB has not been able to establish from the PCF application whether this time period refers to the full 2013 calendar year, the 10 months period used for TLS annual accounting or the 2012/13 PCF year. As such, the LSB has left the original figure without seeking to annualise it in a similar way to annual report figures.
30. For the 2010/11 PCF year the SRA changed its policy on practising certificate and entity fees as part of the “fairer fees” programme. Up until this point approximately 90% of the income required to support the activities of the Law Society and the SRA was collected through practising certificate fees paid by or on behalf of individual solicitors. For subsequent years, there was a significant reduction in individual practising certificate fees and an accompanying increase in fees for entities to be authorised, which was based on turnover.²⁰ As firm fees are based on turnover fluctuating firm fee income reflects the economic and market conditions of the period between 2010 and 2014.

Table B1 - Individual PCF and average firm fee

	Accounting year					% change 2010 - 2014
	1 Jan 2010 - 31 Dec 2010	1 Jan 2011 - 31 Dec 2011	1 Jan 2012 - 31 Dec 2012	1 Jan 2013 - 31 Dec 2013	1 Nov 2013 - 31 Oct 2014	
Total PCF Income (SRA and TLS) ²¹	£130,995,000 ²²	£122,588,000 ²³	£98,008,000 ²⁴	£105,270,000 ²⁵ ₂₆	£121,027,000 ²⁷	-7.61%
Individual PCF	£1,180 ²⁸	£428 ²⁹	£328 ³⁰	£344 ³¹	£384 ³²	-67.46%
Total firm fee to be collected (budget)	-	£72,000,000 ³³	£56,900,000 ³⁴	£62,000,000 ³⁵	£70,100,000 ³⁶	-2.64%
Total no. of firms	10,975 ³⁷	10,927 ³⁸	-	10,650 ³⁹	10,316 ⁴⁰	-5.59%
Average firm fee	-	£6,589	-	£5,822	£6,795	+3.13% ⁴¹

Chart B1 - PCF - individual



Chart B2 - Average firm fee



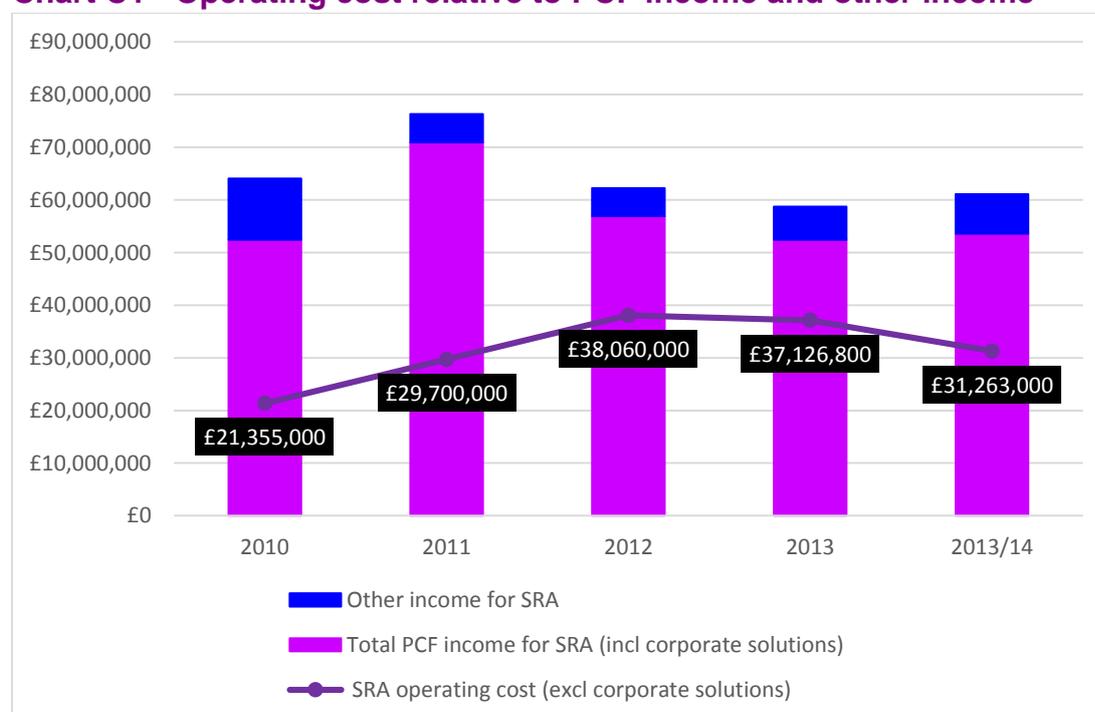
C. Operating cost relative to PCF income and other income

31. As well as income from practising certificate fees some approved regulators receive other income from sources such as training or corporate hospitality. This income may be used to reduce the cost of the PCF so that instead of collecting the entire cost of regulation from authorised individuals or authorised firms these regulators can collect less money from the profession than would otherwise have been necessary. Table C1 shows how much of the cost of regulation to the profession is reduced by other income generated by the regulator. This shows that the total fee income is only between 82% and 93% of total income for the SRA between 2010 and 2014. The SRA's income is made up of PCF and entity fees, regulatory fees paid for specific activities (e.g. authorisation of new entities) and the Compensation Fund contribution. It recovers some costs linked to investigation, interventions and enforcement.
32. In Table C1, the report uses data from the TLS annual reports for other income for the SRA and SRA operating cost. These figures are final audited figures. Ideally, this report would include actual total PCF income for SRA but the only source for this data is the annual PCF applications, where data reflects current budget year and thus reflects expected spend rather than actual spend. Furthermore, data from the TLS annual report separates out the cost of corporate solutions while the PCF data includes the SRA proportion of the corporate solutions budget. To get an estimate of total income for the SRA, this report has added the PCF income and other income. However, as set out in the general notes, the two datasets reflect two different time periods and mix actual and expected income and therefore this figure is illustrative only.

Table C1 - Operating cost relative to PCF income and other income

	Accounting year					% change 2010 - 2014
	1 Jan 2010 - 31 Dec 2010	1 Jan 2011 - 31 Dec 2011	1 Jan 2012 - 31 Dec 2012	1 Jan 2013 - 31 Dec 2013 ⁴²	1 Nov 2013 - 31 Oct 2014	
total PCF income for SRA (incl. corporate solutions) ⁴³	£52,400,000 ⁴⁴	£70,900,000 ⁴⁵	£56,900,000 ⁴⁶	£52,400,000 ⁴⁷	£53,600,000 ⁴⁸	+2.29%
Other income for SRA ⁴⁹	£11,685,000 ⁵⁰	£5,400,000 ⁵¹	£5,345,000 ⁵²	£6,337,200 ⁵³	£7,503,000 ⁵⁴	-35.79%
total SRA income	£64,085,000	£76,300,000	£62,245,000	£58,737,200	£61,103,000	-4.65%
SRA Operating cost ⁵⁵ (excluding corporate solutions)	£21,355,000 ⁵⁶	£29,700,000 ⁵⁷	£38,060,000 ⁵⁸	£37,126,800 ⁵⁹	£31,263,000 ⁶⁰	+46.40%
% SRA PCF income to all income	82%	93%	91%	89%	88%	

Chart C1 - Operating cost relative to PCF income and other income



D. Spend of the Approved Regulator on non-regulatory permitted purposes

33. In the case of some regulators part of the cost of regulation for providers is where income from the individual practising certificate fee and the firm fee pays for the cost of permitted non-regulatory activities. Table D1 sets out how the proportion of the PCF spent on non-regulatory permitted activities has varied over the last five years. This shows that total PCF income reduced by 7.6% over this period, but the proportion of this income allocated to non-regulatory permitted purposes increased by 24.4%.
34. Section 51 of the Legal Services Act 2007⁶¹ sets out how the approved regulator may spend income derived from the practising certificate fee that all authorised persons must pay to their regulator. These activities are commonly referred to as permitted purposes and cover the following areas:
- a) the regulation, accreditation, education and training of relevant authorised persons and those wishing to become such persons, including—
 - a. the maintaining and raising of their professional standards, and
 - b. the giving of practical support, and advice about practice management, in relation to practices carried on by such persons;
 - b) the payment of a levy imposed on the approved regulator under section 173;⁶²
 - c) the participation by the approved regulator in law reform and the legislative process;
 - d) the provision by relevant authorised persons, and those wishing to become relevant authorised persons, of reserved legal services, immigration advice or immigration services to the public free of charge;
 - e) the promotion of the protection by law of human rights and fundamental freedoms;
 - f) the promotion of relations between the approved regulator and relevant national or international bodies, governments or the legal professions of other jurisdictions.
35. These activities can be broken down into regulatory and non-regulatory permitted purposes. Regulatory functions are those carried out by the regulatory arm (SRA) and non-regulatory activities are those carried out by the Law Society as part of its role in representing solicitors and other non-regulatory permitted purposes.
36. The data in Table D1 is drawn from TLS annual accounts and PCF applications to the LSB. For consistency the accounting year has been adopted as the time period. Notes on data on page 7 for information on this report matches the accounting and PCF years throughout this report. The figure for PCF allocated to non-regulatory permitted purposes is a budget figure as it has not been possible to find an actual end of year figures for this category.

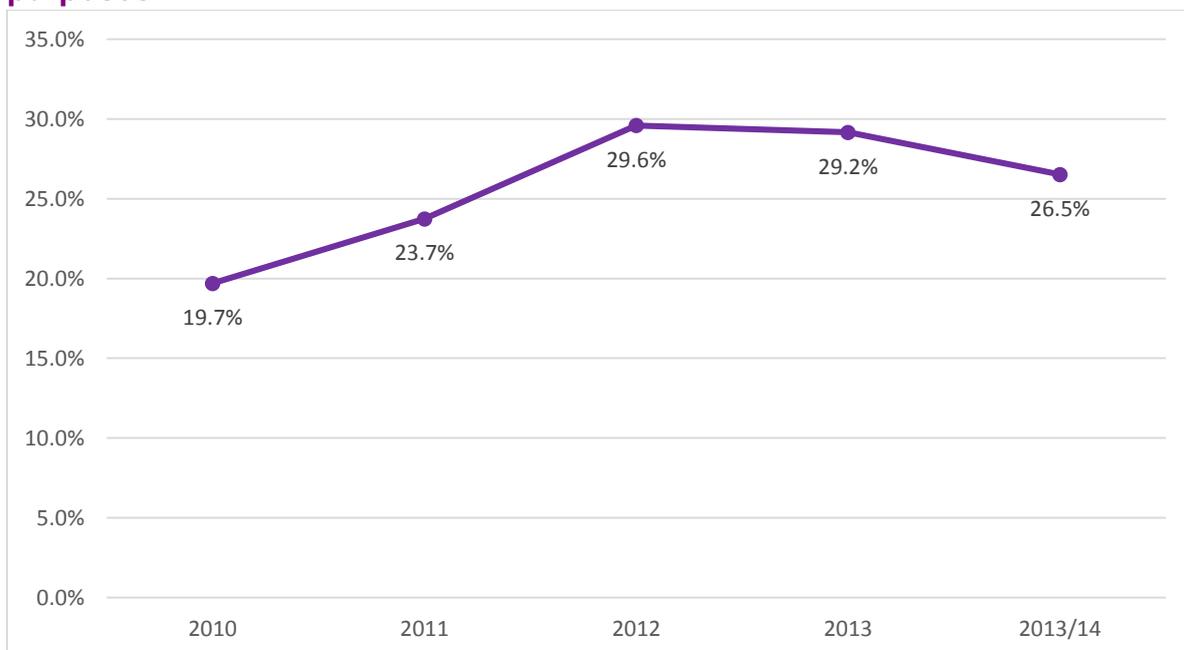
Table D1 - PCF income allocated to non-regulatory permitted purposes

	Accounting year					% change 2010 - 2014
	1 Jan 2010 - 31 Dec 2010	1 Jan 2011 - 31 Dec 2011	1 Jan 2012 - 31 Dec 2012	1 Jan 2013 - 31 Dec 2013	1 Nov 2013 - 31 Oct 2014	
Total PCF income (SRA and TLS) ⁶³	£130,995,000 ⁶⁴	£122,588,000 ⁶⁵	£98,008,000 ⁶⁶	£105,270,000 ⁶⁷ ⁶⁸	£121,027,000 ⁶⁹	-7.61%
Amount PCF income allocated to non- regulatory permitted purposes ⁷⁰	£25,800,000 ⁷¹	£29,100,000 ⁷²	£29,000,000 ⁷³	£30,700,000 ⁷⁴	£32,100,000 ⁷⁵	+24.42%
% of PCF income allocated to non- regulatory permitted purposes	19.7%	23.7%	29.6%	29.2%	26.5%	

Chart D1 - PCF fee income allocated to non-regulatory permitted purposes



Chart D2 - Percentage of PCF income allocated to non-regulatory permitted purposes



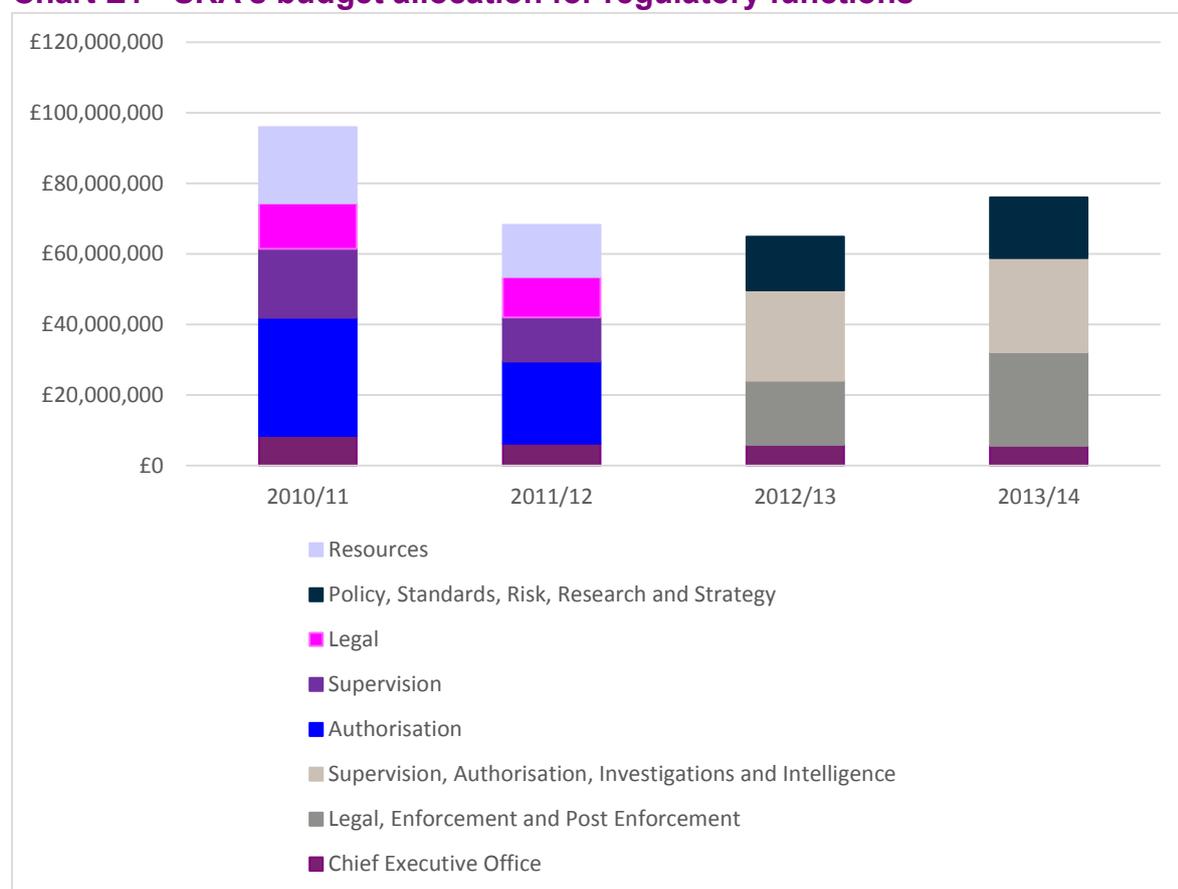
E. Allocated spend on regulatory functions over time

37. This report has so far attempted to establish the summary level costs of the SRA and TLS. This section of the report seeks to provide a breakdown of how the SRA divides its allocated expenditure between different regulatory activities. This section is included to give an understanding of the various activities that together add up to the cost of regulation. Some regulators publish more information about their regulatory functions than others and some regulators will change their reporting categories and change what is included within categories from year to year.
38. The LSB has been unable to find data on actual spend different for regulatory activities. Table E1 is based on budget data from annual PCF applications to the LSB. Nevertheless, Table E1 overleaf gives an insight into the different activities that the SRA carries out, and the relative cost of each.
39. It has not been possible to establish whether the data overleaf includes spend on corporate solutions. Given the total amount of money budgeted for each year this is very likely as the sums in this table are substantially larger than the figure for SRA operating cost in Table C1, taken from the TLS annual report. However, even if the total sums in Table E1 include corporate solutions the sums still appear very large compared to the data in Table C1 and the LSB has been unable to find any data to explain this fact.
40. Ideally, this report would ideally have included data for the 2009/10 PCF year in line with data included in tables B1, C1, E1 and F1. However, the available data covers both the TLS and the SRA which means it cannot be compared to later years where the data is for SRA only.⁷⁶ Furthermore, ideally the data in table E1 would cover equal annual time periods. However, the time period used in PCF application for the 2012/13 year uses a different format from the rest of the applications. Furthermore, accounting categories differ from year to year. Therefore, in order to achieve consistency of categories and time periods the table overleaf uses current budget and budget forecast data for next year from two PCF applications: 2011/12 and 2013/14 PCF years. Using forecast budget figures for future years increases the likelihood of actual spend being different to the figures used in the table overleaf and as such Table E1 is an illustrative guide to expected spend on regulatory activities only.

Table E1 - SRA's budget allocation for regulatory functions

	PCF Year			
	2010/11 ⁷⁷	2011/12 ⁷⁸	2012/13 ⁷⁹	2013/14 ⁸⁰
Chief Executive Office	£8,400,000	£6,200,000	£5,900,000	£5,600,000
Legal, Enforcement and Post Enforcement	-	-	£18,200,000	£26,500,000
Supervision, Authorisation, Investigations and Intelligence	-	-	£25,600,000	£26,700,000
Authorisation	£33,500,000	£23,300,000	-	-
Supervision	£19,500,000	£12,500,000	-	-
Legal	£13,000,000	£11,500,000	-	-
Policy, Standards, Risk, Research and Strategy	-	-	£15,200,000	£17,200,000
Resources	£21,500,000	£14,700,000	-	-
Total	£95,900,000	£68,200,000	£64,900,000	£76,000,000

Chart E1 - SRA's budget allocation for regulatory functions



F. Unit cost

41. One way to analyse the cost of regulation to authorised persons is to calculate the unit cost of a regulator relative to the size of its regulated community. This is calculated by dividing the total expenditure by the number of authorised individuals. However, unit costs should be treated with a high degree of caution as they are not comparable from regulator to regulator as the scope and complexity of the activities of each regulator is different. Unit costs does not take account of the turnover, size and sophistication of the regulated market, the activities of the organisations being regulated and the diversity of those of those individuals and firms authorised ranging from sole practitioners to international, multidisciplinary professional service firms, and the number and range of customers. For example, the SRA authorises both individuals and entities, operating in a complex market with a turnover of £21 billion in England and Wales.
42. The SRA is the largest of all the approved regulators. Compared to the other regulators, it regulates markets that are more complex, markets that pose greater risks to the regulatory objectives and markets where consumers are more likely to be vulnerable. These challenges are significant and for the SRA to successfully deliver the required regulatory standards it, therefore, needs to have excellent systems and processes, substantial market intelligence and appropriate regulatory capacity and capability throughout the organisation. This level of complexity also means that, while the SRA is required to meet the same standards as the other approved regulators, the context is fundamentally different⁸¹.
43. Based on readily available data the LSB has been unable to calculate a unit cost for the SRA. To be able to calculate a unit cost a definite figure for the cost of the SRA is required and as set out in tables C1 and E1 there are three possible figures to choose from:
- 1) operating cost of the SRA (excluding corporate solutions) as set out in the TLS annual reports (Table C1)
 - 2) PCF income allocated to SRA (including corporate solutions) as set out in the annual TLS/SRA PCF applications to the LSB (Table C1)
 - 3) budget allocated to regulatory activities as set out in the annual TLS/SRA PCF applications to the LSB (Table E1).
44. Secondly, to calculate the unit cost, the LSB would need to establish a denominator to divide any total chosen to represent the cost of the SRA. We have been unable to do this. As set out in Table B1 figures exist for the number of authorised individuals and firms. However, as none of the possible cost figures set out which proportion of income come from individuals and firms

using either category as the denominator in a unit cost calculation would give a misleading result.

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