

**Application made by the Law Society and the Solicitors
Regulation Authority to the Legal Services Board under
section 51 of the Legal Services Act 2007 for the approval
of practising fees 2019/20**



I. Summary and overview

1. This document asks the Legal Services Board (LSB) to approve the Law Society's (TLS)/Solicitors Regulation Authority's (SRA) application for practising fees for 2019/20. The total amount required is referred to internally as the net funding requirement (NFR).
2. The following fees, outlined in table 1, need LSB approval:
 - individual regulatory fee; and
 - firm regulatory fee for recognised sole practices, recognised bodies and licensed bodies (based on turnover bandings).

Table 1: Fee levels

Practising Fees	2019/20 NFR	2018/19 NFR	Variance
Individual regulatory fee	£278	£278	£0 0%
Individuals (total to be collected)	£41.0m	£39.9m	+ £1.1m + 2.8%
Firm fee (total to be collected)	£61.5m	£59.8m	+ £1.7m + 2.9%

3. The proposal is for no change in the individual practising fee relative to 2018/19. Practising fees charged to firms will be calculated on the same basis as previous years with the amount to be charged and collected based on a percentage of their turnover.
4. This application includes additional information on the expected impact on reserves of the SRA IT modernisation programme and the trajectory of fees in future years as requested by LSB last year.

Section II(a) The Law Society Group budget-setting and practising fees

Background

5. The current fee structure was set in 2010. In that year, the approach changed from collecting nearly all regulatory fees from individual practising solicitors, to a split between individuals and regulated entities. At that time, the SRA adopted the following guiding principles for the fees policy:
 - be fair to fee payers
 - be efficient and economical to administer
 - ensure a predictable income to meet the cost of regulation
 - be stable – charges should not vary considerably year on year
 - be as simple as possible – to enable the regulated profession to predict their likely fees
 - be based on data that can be verified
 - ensure that, where possible, the costs of processes that are not of general application should be borne by those making such applications, as far as possible, on a cost recovery basis
 - take some account of ability to pay, in particular in relation to small and new businesses, charitable and not for profit bodies – fees should not be a deterrent to new entrants.
6. In each subsequent year, the SRA Board has maintained the same basic structure for the collection of fees. This approach remains for the current application year 2019/20.
7. Under the Law Society's General Regulations, it is for the Law Society Council to determine the total amount to be raised from practising fees. It is for the SRA Board to determine how the total amount to be raised should be split between individual solicitors and firms.
8. Regulatory fees are split between:
 - individual: 40% of the total requirement
 - firm: based on turnover bandings: 60% of the total requirement.
9. Table 2 below summarises the total income by source and the split of costs by organisation that are funded by that income with a cross reference to the relevant table in the application where more detail is given.

Table 2: The Law Society Group Income and Expenditure

Budget item	2020 Draft Budget	2019 NFR	Variance	Refer to table
Income				
Practising Fee income	£102.5m	£99.7m	+ £2.8m	6
Commercial Income (permitted)	£12.0m	£13.0m	-£1.0m	5
Commercial Income (non-permitted)	£2.0m	£1.8m	+£0.2m	4
Regulatory Income	£3.1m	£2.9m	+£0.2m	3
SRA recoveries	£12.1m	£12.6m	-£0.5m	3
Funding from permitted reserves	£0.0m	£1.4m	- £1.4m	3
Funding from non-permitted reserves	£1.2m	£1.1m	+ £0.1m	4
Total	£132.9m	£132.5m	+£0.4m	
Expenditure				
TLS (permitted)	(£43.5m)	(£43.6m)	- £0.1m	5
TLS (non-permitted)	(£3.2m)	(£2.9m)	+ £0.3m	4
SRA	(£69.3m)	(£69.5m)	- £0.2m	3
LSB and LeO	(£13.4m)	(£13.2m)	+ £0.2m	6
SDT	(£3.2m)	(£3.0m)	+ £0.2m	6
OPBAS	(£0.3m)	(£0.3m)	£0.0m	6
Total	(£132.9m)	(£132.5m)	+ £0.4m	

10. The net funding requirement (NFR) for the Law Society Group is based on:

- the SRA and TLS's draft budgets
- levies required by:
 - the Legal Services Board (LSB)
 - the Solicitors Disciplinary Tribunal (SDT)
 - the Legal Ombudsman (LeO)
 - the Office for Professional Body Anti-Money Laundering Supervision (OPBAS)

11. The SRA's draft budget and NFR is approved by the SRA Board and recommended to the Law Society Council by the Business and Oversight Board.
12. In 2017 the Council of the Law Society resolved to alter its governance, creating a single Board to replace the four Boards (which included the Law Society Management Board). TLS's draft budget and NFR is approved by the Law Society Board and recommended to Council.
13. The Law Society Board and finally the Law Society Council then discuss and agree the total Law Society Group budget.
14. The 2019/20 draft budgets for the SRA and TLS – and therefore the NFR for each – include an allocation of TLS Group costs. The allocation of those costs has been reviewed as a part of the draft budget and NFR process. These allocations are reviewed annually.
15. To estimate fees that will cover the total NFR, assumptions have to be made about:
 - the number of practising certificates to be issued.
 - the turnover from all firms within the profession. This is based on information supplied by each of the firms as part of the 2018/19 renewal exercise.
16. The Law Society Council approved a total of £102.5m to be collected from practising fees – which is a £2.8m, or 2.8%, increase from £99.7m in 2018/19.
17. The individual practising fee will remain unchanged at £278 in 2019/20.
18. The Law Society Group's financial year ends on 31 October, so the budget year is aligned to the practising certificate year. Budgets for the SRA and TLS are finalised before the beginning of the financial year within the individual NFR envelopes set at the point of this application.
19. In 2019/20 the practising fee income will be shared between:
 - SRA (regulatory arm): £54.1m (2019: £52.6m)
 - TLS (professional body): £31.5m (2019: £30.6m)
 - LSB, LeO, SDT and OPBAS: £16.9m. (2019: £16.5m)

Section II(b) The SRA budget

20. In 2019/20, the SRA budget is made up of three key areas:
 - the primary budget
 - projects
 - group costs recharged from TLS.
21. During 2018/19 TLS and SRA have continued the process of decentralising their shared services operations. This will be completed by November 2019 with group related costs being managed by TLS and recharged to SRA. The SRA budget no longer includes a recharge for shared services costs.
22. The SRA Finance and Audit Committee considered the SRA 2019/20 draft budget and NFR and recommended it to the SRA Board, which approved both at its meeting on 23 May 2019. The Law Society Business and Oversight Board approved the SRA draft budget and NFR on 28 June 2019. It recommended both for approval by the Law Society Council. The Council approved the TLS group funding requirement on 3 July 2019.

23. Preparing the 2019/20 SRA budget takes the following into consideration:

- the SRA's Corporate Strategy 2017 to 2020
- the SRA's 2018/19 operational and financial position, including levels of activity, both in 2019 and a forecast for 2020
- the SRA's assessment of current regulatory challenges and priorities and operational performance
- the Modernising IT (MIT) programme.

24. The SRA published its three-year Corporate Strategy in November 2017. The NFR has been prepared to build on the objectives outlined in the strategy. The business plan, which is supported by the NFR and will set out the specific deliverables for year three of the three-year plan, will be finalised during the summer/autumn of 2019.

25. 2019/20 will continue to see the SRA focus on the four key areas of the introduction of its new Standards and Regulations in November 2019, the ongoing development of the Solicitors Qualifying Exam, the development of our approach to Anti Money Laundering and the continuation of our Modernising IT Programme. These areas of focus sit alongside our ongoing business as usual activity as a regulator.

26. The SRA 2019/20 budget for projects is set at £9.4m in line with previous years. This will allow us to build on the work done in recent years as the modernising IT programme comes to a conclusion during 2019/20. Spend on projects will be awarded and tracked on a project by project basis through the financial year with the SMT responsible for the allocation of funds supported by individual business cases.

27. In July 2016, TLS Council approved a major programme of investment in the IT across TLS Group. The total approved programme budget for the SRA is £34.5m. The SRA commenced work on this programme in November 2016, following a period of due diligence and work has continued throughout 2018/19. The SRA expects that the programme, MIT, will conclude in 2019/20. Ongoing investment in our new IT will continue after MIT ends.

28. When TLS Council approved the programme, it was agreed that part of this project's funding would come from reserves. This remains the case. The SRA forecast that it would spend around £9.6m from historical reserves across the course of the programme. As a result of an underspend on projects in 2017/18, we have reduced our overall dependency on reserves by £0.5m to £9.1m. The majority of this is expected to be utilised during 2018/19 with the remainder utilised as the programme is brought to a close during 2019/20.

29. The portion of the 2019/20 practising fee identified as SRA projects includes no further funding for the MIT programme the funding for this having been collected through the fee in previous years. Currently the planned replenishment of group reserves used to fund part of the MIT programme is expected to start in the 2020/21 financial year.

30. The SRA Finance and Audit Committee are provided with regular updates on the programme of works, actual spend and total forecast spend.

Table 3: Total income and expenditure allocated to SRA

Budget Item	2019 Draft budget	2018 NFR	Variance	Commentary
Total income allocated to the permitted purposes for regulatory functions				
Total PC fee income	£54.1m	£52.6m	+ £1.5m	
Funding from reserves	£0.0m	£1.4m	- £1.4m	Funding not required in 2019/20
Recoveries	£12.1m	£12.6m	- £0.5m	
Other Income	£3.1m	£2.9m	+ £0.2m	
Total	£69.3m	£69.5m	- £0.2m	
Total SRA expenditure by directorate				
Chief Executive Office	(£4.3m)	(£4.5m)	£0.2m	
Operations and Performance	(£22.8m)	(£22.4m)	- £0.4m	
Client Protection	(£8.8m)	(£8.9m)	£0.1m	
General Counsel	(£4.0m)	(£3.5m)	- £0.5m	Additional work in relation to anti money laundering
External Affairs	(£3.9m)	(£3.6m)	- £0.3m	
Finance	(£2.2m)	(£1.9m)	- £0.3m	
IT	(£8.0m)	(£9.4m)	£1.4m	Removal of transitional costs incurred in 2018/19
Major Cases	(£0.3m)	(£0.3m)	£0.0m	
SRA Projects	(£9.4m)	(£9.4m)	£0.0m	
Facilities and group recharges	(£5.6m)	(£5.6m)	£0.0m	
Total	(£69.3m)	(£69.5m)	£0.2m	

Section II(c): The Law Society Budget

2009 Review

31. Since the introduction in 2010 of section 51 and the Practising Fee Rules 2009, the Law Society has continued to follow the established methodology created as part of the 2009 review of determining which activities fell under the “permitted” definition. Practising fees are only applied for permitted activities and it is only the expenditure on these activities that is included within the net funding requirement (NFR) and the practising fees.

Expenditure allocation

32. In calculating this year’s NFR The Law Society has continued with the methodology whereby expenditure is split into permitted and non-permitted categories using activity-based analysis codes. The NFR calculation exercise was signed off by Board at its meeting of 24 May 2019.
33. TLS budget includes costs which will be spent on projects which for 2019/20 is set at £4.1m (2018/19 £4.1m) and represents the amounts to be collected via the PC fee.
34. Investment in projects contributes to both permitted and non-permitted activity within TLS and as such the planned expenditure is allocated on a proportionate basis across permitted and non-permitted activity.
35. In July 2016, TLS Council approved a major programme of investment in the IT across TLS Group. The total approved programme budget for the TLS was £26.1m. TLS commenced work on this programme during 2016/17 and this has continued through 2017/18 and the current financial year ending 31st October 2019. Against the original allocation TLS anticipates that expenditure to the end of 2018/19 will total £14.8m against that original £26.1m. When TLS Council approved the programme, it was agreed that any in year expenditure which exceeded the sums available through the NFR exercise would be funded from reserves. This remains the case.
36. During 2017/18 TLS Council approved an additional project regarding the refurbishment of its headquarters in Chancery Lane. The project seeks to modernise the workspace in 113 Chancery Lane enabling the Society to seek to lease 114 Chancery Lane, which currently forms part of the staff working environment of the Society. As well as the primary aim of improving the working environment for TLS staff and enabling better use of technology for agile working arrangements this project will enable both an operating cost reduction for TLS as well as generating a rental income for 114 Chancery Lane. Council approved the funding of the project from group reserves.
37. This formed part of the TLS 5-year plan to modernise the organisation which went to Council in September 2018. 2018/19 and 2019/20 are now peaks years of activity in the programme to be delivered with the final elements being completed by 2021/22.
38. TLS Board are provided with regular updates on the programme of works, actual spend, and total forecast spend.
39. Spend on projects other than IT Transformation (funded by the £1.0m other projects budget) will be awarded and tracked on a project by project basis through the financial year with the leadership team responsible for the allocation of funds supported by individual business cases and where appropriate this will also include joint sign off with the SRA.

TLS Group Costs

40. From 1 November 2019 the TLS Group Shared Service will have been decentralised with functions such as IT and Procurement becoming part of the business as usual teams within TLS and the SRA. There are some activities which will still support the overarching TLS Group such as the preparation of group accounts, treasury and tax services, the Apprenticeship Levy and organisational insurance. These will come under the day to day management of TLS and an appropriate recharge made to the SRA.
41. TLS levies a facilities recharge to the SRA to cover the costs of its occupation of the Cube and Martin Lane along with the provision of facilities maintenance services by TLS. As well as relevant governance functions this recharge has been updated to reflect the wider group services which it will still receive under the revised organisational arrangements and have been reviewed and agreed as appropriate for inclusion in the SRAs proposed NFR.
42. The remaining group expenditure referable to TLS is then proportionately allocated to departments and thereafter between permitted and non-permitted activity according to each department's set expenditure and allocation percentages.

Commercial income

43. Commercial income arises from both non-permitted and permitted activities. Examples of permitted activities which generate commercial income are the accreditation schemes which the Society runs.

The approach to commercial income

44. For 2019/20 the Law Society has applied the same methodology as previous years using activity-based analysis codes for commercial income. Table 4 shows the budgeted figures for the Law Society's expenditure, by directorate, on non-permitted activities, and the income funding it. Figures for the 2018/19 NFR budget are included for comparison purposes. The table shows a net budgeted deficit of £1.2m on non-permitted activities which will be funded from non-permitted reserves.

2019 Review

Table 4: Total commercial income and non-permitted expenditure

45. This table shows the budgeted figures for the expenditure of the Law Society on non-permitted activities.

Budget Item	2020 Draft budget	2019 NFR	Variance	Commentary
Commercial income (non-permitted)	£2.0m	£1.8m	£0.2m	
Funding from non-permitted reserves	£1.2m	£1.1m	£0.1m	
Total	£3.2m	£2.9m	£0.3m	
Directorate of the CEO	(£0.3m)	(£0.2m)	£0.1m	
External Affairs	-	(£0.3m)	(£0.3m)	
Strategic Insight & Influence	(£0.2m)	-	£0.2m	Previously External Affairs, with a transfer in of Research from what was the Membership Services Directorate. Communities, Risk & Compliance and Relationship Management have transferred to Member Experience.
Membership Services	-	(£0.3m)	(£0.3m)	
Business Development	-	(£1.3m)	(£1.3m)	
Member Experience	(£1.5m)	-	£1.5m	Previously Membership Services and Business Development with a transfer out of Research from what was the Membership Services Directorate. Communities, Risk & Compliance and Relationship Management have transferred in from what was External Affairs.
Delivery & Performance	-	(£0.8m)	(£0.8m)	
Corporate Strategy & Performance	(£1.2m)	-	£1.2m	Previously Delivery & Performance. This area also holds the BAU costs which have transferred in from shared services, such as IT, as well as the recharges to the SRA for Group Services.
Total	(£3.2m)	(£2.9m)	£0.3m	

46. 2018/19 has seen a restructure of the directorates in TLS with there now being one less directorate than previous with more detail on the structure being set out below:

- **Directorate of the CEO** – This includes the Law Society’s Chief Executive Officer and its office holders and provides strategic support to the leadership of the Law Society and includes Planning & Strategy and General Counsel.
 - Strategy & Planning leads on translating policy and Board strategic priorities into our corporate and business plans and performance management, to ensure member value. This includes governance who provide the support necessary for the Law Society Council, boards and committees to perform their functions as well as the Executive Office.
 - The General Counsel is responsible for making sure we operate within a robust corporate governance and legal framework, to discharge our obligations, manage risk and protect our reputation.

- **Strategic Insight & Influence** – This was formed out of the previous External Affairs Directorate and includes Brand & Communications, Future & Insight, Policy and Public Affairs.
 - Brand & Communications shapes and maintains the value of the Law Society brand and stakeholder strategy across all our activities to deliver increased value and perception of what we do.
 - Futures & Insight works to strengthen Law Society policy, influencing and member services through the systematic use of our knowledge, alongside new research and insight.
 - Policy leads on legal and regulatory policy positions for the Law Society, informed by the strategic policy agenda formed by Council and the development and management of policy IP and demand.
 - Public Affairs works closely with Policy to create a voice for the Law Society and influence parliament and key stakeholders in the UK and targeted international jurisdictions, about our role and our work to promote the rule of law and access to justice.

- **Member Experience** – This has been formed from a restructure of what was Membership Services and Business Development and includes; Member Experience, Member Service Development, Sales & Marketing, Commercial Development, Gazette Editorial, and Relationship Management.
 - The Member Experience team leads the consistent delivery of agreed membership services and products, directly and working in partnership with others. This area includes Events, Support Centre, Practice Advice Service, Library and Professional Development Centre teams.
 - The Member Service Development team designs and packages new products and services and also adapts and develops our existing ones to deliver member value. Their work is informed by policy, strategic objectives and research. This area includes Risk & Compliance, Accreditations, Publications and our member learning & development offer.
 - Sales & Marketing shapes the alignment of our commercial offer, working closely with Member Service Development to determine the value of any commercial membership offers.
 - Commercial Development is responsible for driving corporate income development and investment plans as well as leading on the overall strategy for growth in each product area and are responsible for identifying and investing in new growth areas.
 - The Gazette Editorial team deliver the legal weekly magazine covering the latest news, features, analysis and commentary.
 - The Relationship Management team focuses on member engagement in order to create value for members and for the Law Society. The team includes relationship management and communities (junior lawyers, in-house, law management, small law firms, careers, competition law, property law, private client, civil litigation, risk & compliance, family law and advocacy).

- **Corporate Strategy and Performance** – This includes Finance & Corporate Services, IT, People & Organisational Development and Transformation. These areas support the various front-line activities of the Law Society including systems and processes and the physical environment via facilities.

Table 5: Total practising fee income and permitted expenditure

47. This table shows budgeted figures for the expenditure of the Law Society on permitted purposes, split by directorate, and for the sources of income that fund it. The expenditure figures include the Law Society's allocation of the residual TLS group costs. The figure shown for total practising fee income constitutes the net funding requirement of the Law Society for permitted purposes.

Budget Item	2020 draft budget	2019 NFR	Variance	Commentary
Commercial income (permitted)	£12.0m	£13.0m	(£1.0m)	
Drawn from permitted reserves	£0.0m	£0.0m	£0.0m	
Total Practising Fee income	£31.5m	£30.6m	£0.9m	Increase in the membership base from 2018/19
Total	£43.5m	£43.6m	(£0.1m)	
Directorate of the CEO	(£4.1m)	(£4.3m)	(£0.2m)	
External Affairs	-	(£12.9m)	(£12.9m)	
Strategic Insight & Influence	(£10.0m)	-	£10.0m	Previously External Affairs, with a transfer in of Research from what was the Membership Services Directorate. Communities, Risk & Compliance and Relationship Management have transferred to Member Experience.
Membership Services	-	(£11.8m)	(£11.8m)	
Business Development	-	(£3.0m)	(£3.0m)	
Member Experience	(£13.7)	-	£13.7m	Previously Membership Services and Business Development with a transfer out of Research from what was the Membership Services Directorate. Communities and Relationship Management have transferred in from what was External Affairs.
Delivery & Performance	-	(£11.6m)	(£11.6m)	
Corporate Strategy & Performance	(£15.7m)	-	£15.8m	Previously Delivery & Performance. Transfer in of decentralised shared service functions to TLS BAU, such as IT has resulted in a net increase in cost to this directorate as they are treated as a support the business function. Only the remaining residual group costs are allocated out across directorates.
Total	(£43.5m)	(£43.6m)	(£0.1m)	

Section II(d) Contingency arrangements, reserves and capital IT investment

48. The SRA and TLS are expected to operate within approved budgets, reprioritising if necessary should unexpected needs arise in the year.
49. As at the end of May 2019, the Law Society Group had cash reserves totalling £113.9m and accounting reserves of £69.3m. It is not intended to use any reserves to fund TLS permitted and SRA core activities in 2019/20.
50. Following the review of group shared services in 2015, the SRA and TLS undertook further analysis of the current Group IT applications and infrastructure and produced IT strategies and roadmaps for each of the businesses. During 2018/19 TLS has effectively moved away from all aspects of shared IT services and is now responsible for its own infrastructure, maintenance and support. Where group solutions remain in place they are, during 2018/19, moving into the respective organisations with an expectation that contributing to running costs will continue as necessary via recharges between SRA and TLS. As a result, it is expected that services will be more secure, resilient and flexible. In addition, the improved services will enable the realisation of business, customer service and cost benefits in both organisations.
51. Within the draft budgets for the SRA and TLS which inform the NFR, sums of £9.4m (SRA) and £4.1m (TLS), a total of £13.5m, have been included for projects in 2019/20. The majority of these provisions will be applied to the continued development and implementation of the IT roadmaps in both bodies. The amount collected by the Group for projects remains unchanged from 2018/19.
52. It is planned that any programme costs above the level provided for in the 2019/20 NFR will be met by the use of reserves held by the Law Society Group.
53. Where Group reserves are used to fund the IT programmes, it is planned to replace those reserves from future fee collections. It is planned that through the lifecycle of the programme the element of the NFR for capital investment for the Group will remain flat. This means that towards the end of and beyond the completion of the programme sums in excess of in-year expenditure will be collected and applied to restore the level of reserves. Following completion of the programmes' lifecycle and the repayment of reserves, SRA and TLS expect to reduce the level of funding required for capital investment collected through annual fees.

C. Regulatory activities

- The SRA can confirm that it has been given sufficient resources to carry out its functions in compliance with section 30 of the Act and the supporting Internal Governance Rules.

III. Consultation on PCF

Engagement and consultation

54. In 2018/19 both the SRA and TLS have undertaken extensive programmes of engagement and consultation to inform the development of the programmes of work and services provided. It is the output of this engagement and consultation, in the form of the strategies and forward work programmes for both bodies, on which the draft budgets and funding requirements are based.

SRA

55. As is standard practice, a comprehensive communications plan was drawn up to promote the determination of the 2019/20 practising fees, including the proportion of Compensation Fund contributions. The purpose of the communications plan was to make sure that the regulated community and relevant stakeholders were informed of:

- what their fees pay for
- the availability of the fees calculator to help them
- the level of fees to be collected.

56. The following elements of the communications plan for fees have been delivered or are scheduled for delivery:

- 11 December 2018 – outlined SRA Business Plan to journalists at media briefing. Comments on plan and associated spending are invited from fee payers each year
- 22 May - We outlined information about the work we do, paid for by PC fees, in our Annual Review.
- 5 June - The Law Society Group published its net funding review consultation
- The consultation was publicised through media releases by both us and the Law Society.
- Social media posts – including LinkedIn, Facebook and Twitter, also promoted this consultation.
- Further promotion came through the Law Society's Professional Update weekly newsletter, and our newsletters, Compliance News (7 June)
- 17 July – SRA Board agrees fee-collection mechanism
- Updated fees webpage on the SRA website (with caveat that LSB still needs to approve), which explain how fees are spent, an online fee calculator, a revised turnover table and indicative Compensation Fund contributions, published 18 July
- This page will be promoted through SRA Update, which is sent to everyone with a mySRA account, around 140,000 recipients
- Mid August – following LSB decision/approval update of web materials confirming fees
- September – large-scale communications will be sent to firms ahead of the renewal period

TLS

57. The Law Society is the voice of solicitors, drives excellence in the profession and safeguards the rule of law. We consult with members in the following ways:

- Our long-term horizon scanning research reports such as “the future of legal services”
- An annual statistically representative member survey on priorities for the organisation which feeds into business planning.
- An annual survey of the profession on “the state of the nation” for solicitors which also informs our work.

- Targeted surveys and qualitative research on particular issues and services with our “Insights Panel” around 2000 members who volunteer to give us their views
- Calls for input on specific issues and consultations through our website, e-newsletters, social media and local law society updates.
- Through our representative Council and a range of policy and special interest committees
- Through our field team of relationship managers who bring intelligence back into the business
- At an annual strategic planning weekend with Council which considers data on the profession and sets priorities

58. We have now set out our member offer, based on member research which outlines the member needs we focus on: Influencing for impact in the public interest and in the interest of our members, promoting the profession, keeping members up to date, supporting practice excellence and being members’ career companion.

Consultation on fees

59. The Law Society and SRA has worked together to publish a detailed consultation on the proposed level of the NFR and publicised this widely. A copy of the executive summary of the results is attached at Annex A. A detailed analysis of all consultation responses was considered and circulated to all Law Society Council members before the Council made its decision on the total amount to be collected in regulatory fees.

IV. Permitted Purposes¹

Table 6: Practising fee income and expenditure (permitted activities only)

Budget item	2020 draft budget	2019 NFR	Variance
Total Practising Fee income			
Total Practising Fee income	£102.5m	£99.7m	+ £2.8m + 2.8%
Split of Practising Fee expenditure			
SRA	(£54.1m)	(£52.6m)	£1.5m +2.8%
TLS (permitted purposes)	(£31.5m)	(£30.6m)	£0.9m +2.9%
LSB and LeO	(£13.4m)	(£13.2m)	+ £0.2m + 1.5%
SDT	(£3.2m)	(£3.0m)	+ £0.2m + 6.25%
OPBAS	(£0.3m)	(£0.3m)	£0.0m
Total	(£102.5m)	(£99.7m)	+ £2.8m + 2.8%

¹ See Section C of the LSB Practising Fee Rules 2016.

Table 7: Proportional application of Practising Fee to permitted purposes for the Law Society Group

Functional Area	Permitted Purposes Gross Cost	The regulation, accreditation, education and training of applicable persons	The payment of a levy imposed on the regulator	Participation in law reform and the legislative process	The provision of applicable persons of legal services or reserved legal services, immigration advice or immigration services to the public free of charge	The promotion of the protection by law of human rights and fundamental freedoms	Promotion of relations between the approved regulator and national or international bodies, governments or the legal professions of other jurisdictions	Increasing public understanding of the citizen's legal rights and duties	Permitted Purposes Sub-Total	Non Permitted Purposes Gross Cost	Not in scope of PP
	£m	s51 (a)	s51 (b)	s51 (c)	s51 (d)	s51 (e)	s51 (f)	s51 (g)	£m		
Levies											
LSB and LeO	13.4		100%						100%		
SDT	3.2	100%							100%		
OPAS	0.3		100%						100%		
SRA											
Chief Executive Office	4.3	100%							100%		
Operations and Performance	22.8	100%							100%		
Client Protection	8.8	100%							100%		
General Counsel	4.0	100%							100%		
External Affairs	3.9	100%							100%		
Finance	2.2	100%							100%		
IT	8	100%							100%		
Major Cases	0.3	100%							100%		
SRA Projects	9.4	100%							100%		
Facilities and Group Recharges	5.6	100%							100%		
TLS											
Directorate of the CEO	4.1	63%	0%	10%	0%	9%	12%		94%	0.3	6%
Strategic Insight & Influence	10.0	46%	0%	13%	5%	14%	20%		98%	0.2	2%
Member Experience	13.7	76%	0%	1%	0%	1%	12%		90%	1.5	10%
Corporate Strategy & Performance	15.7	65%	0%	7%	1%	7%	14%		93%	1.2	7%
Total Gross Expenditure	129.7									3.2	

The figures in the table exclude commercial income, recoveries and other income which help reduce the gross expenditure charged against permitted purposes.

60. The SRA utilises all income from Practising Fees to undertake permitted activities and considers that this is covered within the scope of section 51(4)(a) of the Legal Services Act 2007.
61. TLS non-Practising Fee income comes from two areas, i) Corporate income from advertising, partnerships & sponsorships, forms, licences and royalties and commercial investments, ii) Member income from accreditations, publications, professional development, events and communities.
62. TLS income is allocated between permitted and non-permitted activity using the same methodology as that used for expenditure. Only income generated from non-permitted activity such as partnerships is used to support non-permitted purposes. This income does not support permitted activity but is used to fund the costs associated with non-permitted activities. All income generated from permitted activity is used to support permitted expenditure and to help negate cost pressures on the net funding requirement.

63. TLS undertakes a number of permitted activities – these will be activities which have been identified as having as their dominant purpose one of the permitted purposes set out in section 51 of the Legal Services Act 2007. In particular, the Society regularly undertakes activities coming within the scope of:

- 51(4)(a) – *accreditation, education and training of applicable persons...including:*

(i) the maintaining and raising of their professional standards; and

(ii) the giving of practical support, and advice about practice management, in relation to practices carried on by such persons

- 51(4)(c) – *the participation by the Approved Regulator in law reform and the legislative process.* This will include, for example the Society’s responding to Government consultations, some strategic litigation and specific law reform campaigns such as the legal aid means test campaign.
- 51(4)(e) - *the promotion of the protection by law of human rights and fundamental freedoms.* This will include work such as the Society’s Rule of Law Program, some strategic litigation and much of the access to justice campaigning work.
- 51(4)(f) - *the promotion of relations between the Approved Regulator and relevant national or international bodies, governments or the legal professions of other jurisdictions.*
- 51 (4)(g) - *increasing public understanding of the citizen’s legal rights and duties.*

V. Transparency of PCF information to fee-paying members

Transparency

64. The SRA website has a dedicated page that provides a description of how fee income is allocated to the relevant bodies. This allows fee payers to see how their contributions are spent. The website also details key SRA activities to show how fees fund its activities.
65. This section of the website is updated to include details of the exact fees shared between the various bodies once decisions have been taken on budgetary requirements. Fee payers are continually invited to feed back to the SRA with any comments on this information.
66. In addition, transparency is enhanced through the detail provided in the annual fee consultation referred to at paragraph 59 above.
67. This webpage is publicised by being linked to the “fees calculator”, which gives firms a rough estimation of the fees they might have to pay before budget requirements are agreed. Further details are available in the consultation section.

VI. Regulatory and Equality Impact assessment

68. 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.
69. We intend to review our overall approach to fees in the second half of 2020. Equality, diversity and inclusion considerations are at the heart of this work. The review will look at a range of issues such as our approach to discounting and refunding policy as well as the impact of our fee structures (if any) on various groups including those with protected characteristics.
70. We have also extended the discount available for those on statutory maternity leave to a wider group so that it includes those who are on a period of leave equivalent to statutory maternity leave, for example, those on adoption or shared parental leave. This is dealt with in more detail in an application for an exemption for approval that will be submitted to the LSB in July 2019.
71. As outlined in paragraphs 60-63 the practising fees have been prepared in accordance with the Regulatory objectives and we have provided an allocation of the costs funded by the practising fees against those Regulatory objectives. The basis for the calculation of the fees has remained consistent from previous year. The practising fees are set at a level that allows the group to undertake its activities as efficiently as possible whilst at the time same time providing sufficient resources to discharge its legal responsibilities.

VII. Other supporting information

Practising fees 2019/20

72. As stated at the outset of this application, under the arrangements agreed between TLS and the SRA, it is for the Law Society Council, having consulted with the SRA Board, to determine the total amount to be raised from practising fees. It is for the SRA to determine how that amount should be apportioned between the different categories of fee payer.
73. On 17 July 2019 the SRA Board made the fee determinations attached as annexes B-D, subject to the approval of the LSB.

VIII. Contact details

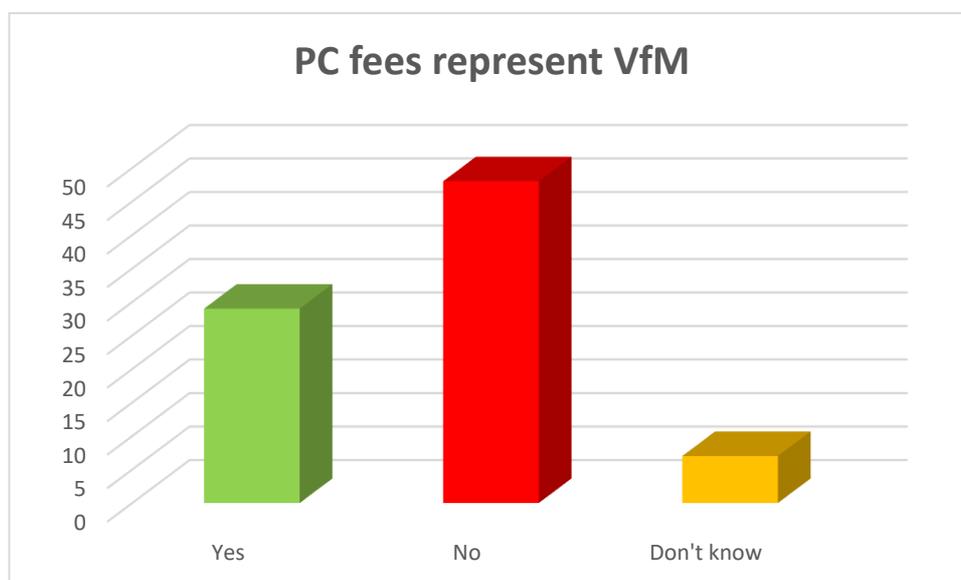
74. For any queries, please contact either
75. Tom Fothergill, Chief Operating Officer – Corporate Strategy and Performance, The Law Society,
Tom.Fothergill@lawsociety.org.uk
76. Mark Draisey, Executive Director - Interim, SRA, Mark.Draisey@sra.org.uk

Annex A – Summary Results of Practising Certificate (PC) Fee Consultation

The PC fee consultation ran from Wednesday 5 to Friday 28 June 2019. It was promoted on the website, in 7 June Professional update and through our Law Society Twitter feed during the 3 weeks of the survey. There were 84 responses (for context we had 210 responses in June 2014, 187 responses in 2015, 132 responses in 2016, 96 in 2017 and 20 in 2018).

The results of the survey are indicative only, as the sample size is not large enough to be fully representative of the whole profession.

1. Do you think the PC fees for 2019/20 represent value for money in terms of the benefits you gain as a solicitor?



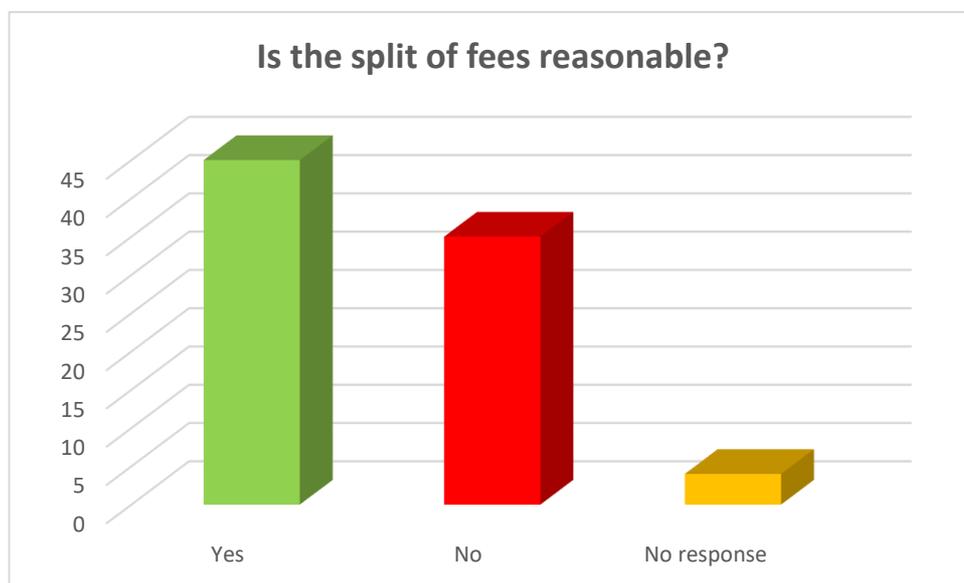
Answer	Number	Percentage
Yes	29	34.5%
No	48	57.1%
Don't know	7	8.4%
Total responses	84	100%

Key themes from 38 qualitative comments:

- **Overall cost of fees** especially to sole practitioners or in house solicitors within current climate of austerity
- **Value for money and lack of benefits** – Law Society not lobbying on behalf of members hard enough, doubt about what wider benefits are or complete lack of knowledge of wider benefits. No understanding of what Law Society does to represent members, especially for small firms.
- **Lack of benefits for their specific role** – particularly for in house solicitors and sole practitioners or solicitors where firm pays their PC fee
- **No demonstration of efficiency measures or accountability** from Law Society or SRA to show spending PC fee wisely or attempting to save money

- **SRA issues** – no understanding of what SRA actually does. Concern SDT doesn't function properly. Claim SRA abuses solicitors and that there are no checks and balances in regulation and that there is a lack of due process. The CEO of the SRA talks of collateral damage yet does nothing.
- **Positive comments** – 6 comments recognised work Law Society and SRA do and that regulation and representation is costly and fees provide a balance between cost and service. Suggestion that more could be done to promote the profession and support local law societies.

2. Do you think the split of spending across the Law Society Group between the Law Society professional body, the Solicitors Regulation Authority, Legal Ombudsman, Legal Services Board, Solicitors Disciplinary Tribunal and Financial Conduct Authority is reasonable?



Answer	Number	Percentage
Yes	45	53.6%
No	35	41.6%
No response	4	4.8%
Total responses	84	100%

3. Do you have any other comments for the Law Society Group? (29 comments)

Overall cost of PC fee - too high (especially on top of training and qualification costs) and should be reduced particularly for sole practitioners.

Split between regulators – too many separate regulatory bodies involved and costs for all should be reduced. No accountability of how these regulators spend their portion of PC fees. More information on how split of fee is determined would be useful. Ombudsman should be self-financed with unjustified complainants being charged a case fee.

Specific comments on SDT and SRA - SDT should fine erring practitioners and use this to fund operation. SDT overly punitive to newly qualified solicitors who make mistakes but seem disinterested in those highly paid long qualified who act fundamentally outside of the conduct rules with none of the same concerns a newly qualified lawyer would have but with

absolutely no consequences. Money paid to SRA is a waste.

LEO and LSB - LeO delays in complaint handling is excessive - maybe funds paid to them should increase? LSB is becoming less relevant and often just a vehicle for those who would cease to make the legal profession uneconomic to be a part of. If government want it then it should be funded out of taxes not the PC fee. Lack of understanding about what LSB does. Recent performance of the LSB, and in particular their recent inexplicable decision on client protection despite objection from consumer bodies, justifies the investment.

Positive – 4 positive comment about supporting profession and keeping up good work and allocating more funds to promote the profession.

Annex B – Practising Certificate Fee Determination 2019

This determination is made by the Solicitors Regulation Authority Board under section 11 of the Solicitors Act 1974, paragraph 2(1)(b) of Schedule 14 to the Courts and Legal Services Act 1990, regulation 1.1 of the SRA Practising Regulations 2011, rule 1.1 of the SRA Application, Notice Review and Appeal Rules and regulation 7.7 of the SRA Authorisation of Individuals Regulations, with the approval of the Legal Services Board under section 51 of the Legal Services Act 2007.

Practising certificate fee

1. The fee to be paid to the Law Society for each practising certificate issued will be £278 unless paragraphs 2, 3 or 4 below apply.

Newly admitted solicitors and returning to practice

2. Subject to paragraph 3, any solicitor who applies for their first practising certificate during the practising certificate year commencing 1 November 2019 or any solicitor admitted prior to 1 November 2019 who has previously held a practising certificate and who returns to practice shall pay a fee in accordance with the following scale:
 - (a) Practising certificate issued 1 November 2019 to 31 December 2019 inclusive - £278
 - (b) Practising certificate issued 1 January 2020 to 31 March 2020 inclusive - £221
 - (c) Practising certificate issued 1 April 2020 to 30 June 2020 inclusive - £163
 - (d) Practising certificate issued 1 July 2020 to 31 October 2020 inclusive - £106

Paragraphs 2(b) to 2(d) do not apply if during the solicitor's last period without a certificate they undertook any duties which required a practising certificate.

Former registered European lawyers and former registered foreign lawyers

3. A solicitor who has, at any time during the practising certificate year commencing 1 November 2019, registered or re-registered as a registered European lawyer or registered foreign lawyer and who applies for their first practising certificate shall be subject to a practising certificate fee of £0.

Maternity or equivalent leave provisions

4. A solicitor who applies for a practising certificate during the practising certificate year 1 November 2019 to 31 October 2020 and who is on or has been on statutory maternity leave or a period of leave equivalent to statutory maternity leave within the previous practising year shall pay a fee in accordance with the following scale:
 - (a) Practising certificate issued 1 November 2019 to 31 December 2019 inclusive - £163
 - (b) Practising certificate issued 1 January 2020 to 31 March 2020 inclusive - £134
 - (c) Practising certificate issued 1 April 2020 to 30 June 2020 inclusive - £106
 - (d) Practising certificate issued 1 July 2020 to 31 October 2020 inclusive - £77

This scale does not apply if the solicitor received a reduction for their practising certificate in the previous year for the same period of statutory maternity leave or period of leave equivalent to statutory maternity leave.

Application to registered European lawyers

5. The fee to be paid to the Law Society for initial registration or renewal of registration as a registered European lawyer shall be governed in all respects by the provisions of paragraphs 1 to 4 in the same way as the fee for a solicitor's practising certificate, and for this purpose:
 - (a) references to a solicitor shall be interpreted as references to a registered European lawyer or to a European lawyer applying for registration, and references to practice as a solicitor shall be interpreted as references to the provision of legal services in the United Kingdom under, or in reliance upon, a European lawyer's professional title as such;
 - (b) references to practising certificates and the issuing of practising certificates, shall be interpreted as references to initial registration or renewal of registration in the register of European lawyers, and references to a first practising certificate shall be interpreted as references to a lawyer's first registration in the register of European lawyers;
 - (c) paragraph 3 shall apply to a European lawyer who has, at any time during the practising certificate year commencing 1 November 2019, registered or re-registered as a registered foreign lawyer and who applies for his or her first registration as a registered European lawyer.

Application to registered foreign lawyers

6. The fee to be paid to the Law Society for initial registration or renewal of registration as a registered foreign lawyer shall, subject to paragraph 7 below, be governed in all respects by the provisions of paragraphs 1 to 4 in the same way as the fee for a solicitor's practising certificate, and for this purpose:
 - (a) references to a solicitor shall be interpreted as references to a registered foreign lawyer or to a lawyer applying for registration as a registered foreign lawyer, and references to practice as a solicitor shall be interpreted as references to the provision of legal services in England and Wales under, or in reliance upon, a foreign lawyer's professional title as such; and
 - (b) references to practising certificates and the issuing of practising certificates, shall be interpreted as references to initial registration or renewal of registration in the register of foreign lawyers, and reference to a first practising certificate shall be interpreted as reference to a lawyer's first registration in the register of foreign lawyers.
 - (c) paragraph 3 shall apply to a foreign lawyer who has, at any time during the practising certificate year commencing 1 November 2019, registered or re-registered as a registered European lawyer and who applies for his or her first registration as a registered foreign lawyer.

7. The fee for a registered foreign lawyer practising mainly from an office or offices outside England and Wales shall be £100.

Interpretation

8. In this determination:

Practising certificate means the certificate issued in accordance with sections 9 and 10 of the Solicitors Act 1974;

Practising certificate year means the period from 1 November to 31 October inclusive each year during which a practising certificate is operative;

Practising certificate fee means the sum to be paid by a solicitor for a practising certificate for the whole or part of a practising certificate year;

Practice as a solicitor means the provision of legal services under, or in reliance upon, the title "solicitor" whether as a principal, under a contract of employment or under a contract for the provision of services;

Registered European lawyer means a European lawyer registered with the SRA under regulation 17 of the European Communities (Lawyer's Practice) Regulations 2000;

Registered foreign lawyer means a lawyer registered with the SRA under section 89 of the Courts and Legal Services Act 1990;

All other terms are to be interpreted in accordance with the SRA Handbook Glossary 2012 or, after 25 November 2019, the SRA Glossary.

10. The singular includes the plural and vice versa.

Commencement

11. This determination shall come into force on 1 November 2019.

Annex C - Recognised Body and Recognised Sole Practice Fee Determination 2019

This determination is made by the Solicitors Regulation Authority Board under Rules 2.1 and 8.3 of the SRA Authorisation Rules 2011, rule 1.1 of the SRA Application, Notice, Review and Appeal Rules and rule 7.1 of the SRA Authorisation of Firms Rules, with the approval of the Legal Services Board under section 51 of the Legal Services Act 2007.

Initial Applications

1. The fee payable by a body or sole practitioner applying for initial recognition as a New Firm is:
 - (a) £1,000 on applying for initial recognition to commence in the period 1 November 2019 to 31 December 2019;
 - (b) £800 on applying for initial recognition to commence in the period 1 January 2020 to 31 March 2020;
 - (c) £600 on applying for initial recognition to commence in the period 1 April 2020 to 30 June 2020;
 - (d) £400 on applying for initial recognition to commence in the period 1 July 2020 to 31 October 2020.
2. Where an initial recognition for a New Firm commences in a different period from the period in which the application was made, the fee payable under paragraph 1 shall be adjusted accordingly.
3.
 - (a) This paragraph applies when a body or sole practitioner is applying for initial recognition on or after 1 November 2019 in the following circumstances:
 - (i) the application is being made by an existing recognised body or recognised sole practice which is changing its legal status; or
 - (ii) the application is being made by a Successor Firm.
 - (b) Where in paragraph 3(a) the predecessor authorised body has paid a fee for the practising year 1 November 2019 to 31 October 2020, the fee shall be £200.
 - (c) Where in paragraph 3(a) the predecessor authorised body has not paid a fee for the practising year 1 November 2019 to 31 October 2020, the fee shall be determined in accordance with the following:
 - (i) in the case of a predecessor recognised body or recognised sole practice, paragraphs 4, 5 or 6, as appropriate, plus an additional application fee of £200; or
 - (ii) in the case of a predecessor licensed body, paragraph 5 of the Licensed Body Fee Determination 2016, plus an additional application fee of £200.

Annual Periodical fees

Recognised Bodies and recognised sole practices are required to pay annual periodical fees, calculated by reference to the firm's turnover, by the prescribed date which is 31 October in any year. The way that the annual periodical fee is determined will depend on whether the firm is a continuing firm, a new firm or a successor firm. Paragraphs 4 to 6 below deal with the way that the fee is determined in relation to each of those categories.

4. The annual periodical fee payable by a recognised body or recognised sole practice where it is a Continuing Firm shall be determined by taking the Turnover Figure and carrying out the calculations in respect of the relevant band in accordance with appendix 1.
5. The annual periodical fee payable by a New Firm which first obtained authorisation after 31 October 2018 shall be calculated by taking the estimate of the Turnover Figure for the first 12 months of practice and carrying out the calculations in respect of the relevant band in accordance with appendix 1.
6. The annual periodical fee payable by a Successor Firm shall be determined by calculating the Successor Turnover Figure and carrying out the calculations in respect of the relevant band in accordance with appendix 1.

Overseas Branch Offices

7. A recognised body or recognised sole practice which has one or more overseas branch offices shall pay an additional fee of £200 in respect of each overseas office.

Application for the SRA to determine Successor Turnover Figure

8. Where a Notice of Succession does not include the agreement of all relevant firms to the apportionment of turnover, the Notice shall be treated as an application for the SRA to determine the relevant Successor Turnover Figure and the fee for the application is £250.

Interpretation

9. In this determination:

Continuing Firm means a recognised body or recognised sole practice which is not a Successor Firm and in which:

- (a) the number and identity of the managers has not changed since 31 October 2018;
- (b) the only changes since 31 October 2018 in the number or identity of the managers are as a result of one or more managers leaving or joining the recognised body; or
- (c) the identity of the sole practitioner has not changed since 31 October 2018.

New Firm means a recognised body or recognised sole practice which obtained recognition after 31 October 2018 and is not a Successor Firm;

Notice of Succession means a notice required under Rule 8.3(f) of the SRA Authorisation Rules 2011 or rule 16.1 of the SRA Authorisation of Firms Rules;

Successor Firm means for the purposes of calculating the annual periodical fees, a recognised body or recognised sole practice which after 31 October 2018 succeeds to the whole or any part of any authorised body, for value or otherwise, in any of the following cases:

case (I):

a recognised body or recognised sole practice which acquires the whole or a part of one or more authorised bodies;

case (II):

a recognised body or recognised sole practice resulting from the merger between the whole or part of two or more authorised bodies;

case (III):

a recognised body or recognised sole practice remaining after it has split or ceded part of its practice to another authorised body;

Successor Turnover Figure means as set out in appendix 3;

Turnover Figure means as set out in appendix 2.

All other terms are to be interpreted in accordance with the SRA Handbook Glossary 2012 or, after 25 November 2019, the SRA Glossary.

10. The singular includes the plural and vice versa.

Commencement

11. This determination shall come into force on 1 November 2019.

Annex C - Recognised Body and Recognised Sole Practice Fee Determination

Appendix 1

Turnover band	Turnover Range (A)	Pay %* of Turnover within band (B)	Minimum Turnover in band (C)	Minimum Fee in Band (D)
A	£0 - £19,999	0.71%	£0	£100
B	£20,000 - £149,999	0.42%	£20,000	£241
C	£150,000 - £499,999	0.40%	£150,000	£787
D	£500,000 - £999,999	0.39%	£500,000	£2,187
E	£1,000,000 - £2,999,999	0.37%	£1,000,000	£4,137
F	£3,000,000 - £9,999,999	0.25%	£3,000,000	£11,537
G	£10,000,000 - £29,999,999	0.21%	£10,000,000	£29,037
H	£30,000,000 - £69,999,999	0.19%	£30,000,000	£71,037
I	£70,000,000 – £149,999,999	0.17%	£70,000,000	£147,037
J	£150,000,000 +	0.07%	£150,000,000	£283,037

* % is equivalent to 'divided by 100' (e.g. 0.42% = 0.0042)

Using the table above to calculate the firm fee based on the firm's turnover (T)

1. Identify the turnover value (T) and which corresponding band the turnover falls into from column A.
2. Subtract the figure in the corresponding column C from T for that turnover band.
3. Multiply this figure by the corresponding percentage in column B.
4. Finally add this figure to the corresponding figure in column D.
5. Firm fee then needs to be rounded to the nearest pound (i.e. if less than 50p then round down and if equal to or more than 50p then round up)

Formula: (T - C) x B + D

Example 1: For Turnover of £0:
 $(£0 - £0) \times 0.71\% + £100 = £100$

Example 2: For Turnover of £200,000:
 $(£200,000 - £150,000) \times 0.40\% + £787 = £987$

Example 3: For Turnover of £813,421:
 $(£813,421 - £500,000) \times 0.39\% + £2,187 = £3,410$

Example 4: For Turnover of £279,123,528:
 $(£279,123,528 - £150,000,000) \times 0.07\% + £283,037 = £373,424$

Annex C - Recognised Body and Recognised Sole Practice Fee Determination

Appendix 2

Turnover Figure

The following paragraphs describe how the turnover figure that will be used for the purposes of determining the fee should be calculated:

1. Turnover figure means a firm's total gross fees arising from work undertaken from offices in England and Wales.
 - *Gross fees includes*: all professional fees of the firm including remuneration, retained commission, and income of any sort whatsoever of the firm (including notarial fees). Work in Progress (WIP) should be included.
 - *Gross fees does not include*: interest, reimbursement of disbursements, VAT, remuneration from a non-private practice source, dividends, rents, and investment profit.
2. The turnover figures that will be used when billing firms in October 2019 will be based on **closed accounts**, audited where possible.
 - Closed accounts are defined, in order of preference, as:
 1. an audited set of financial statements
 2. an unaudited set of financial statements signed off by an accountant
 3. a submitted tax return for the year.
3. Bad debt should be handled under normal accounting procedures. Where it has been allowed for in the turnover figure for a firm's last closed accounting period prior to 1 November 2018, that is acceptable. If a bad debt has been discovered after closing the firm's accounts, then the turnover figure cannot be re-adjusted. Those adjustments could potentially be accounted for in the following year's closed accounts.
4. The turnover figure should, wherever possible, be for the last complete (12 months) accounting period prior to the 1 November 2018 (e.g. 31 March 2018). The latest acceptable annual accounting period end date is 31 October 2018.
5. The turnover figure should be an exact figure wherever possible. A figure rounded to the nearest £1,000 will be acceptable only if more detail is unavailable.
6. Those firms who do not have closed accounts which ended within the period from 1 November 2017 to 31 October 2018, should provide the SRA with an estimate of the turnover figure as well as the previous year's turnover figure based on accounts which have been closed. The SRA will determine at its discretion whether to use the 2017 figure if an updated 2018 figure based on closed accounts has not been received by 31 August 2019.
7. The turnover figure must be for a 12 month period.
 - (a) For a brand new firm (i.e. not a successor firm nor one resulting from change in status), an estimate for the first 12 months of practice (irrespective of whether this is after 31 October 2018) will be accepted; the basis upon which the firm has made the estimate should be provided to the SRA.

- (b) If a firm has changed its annual accounting period, its latest closed accounting period prior to the 1 November 2018 will be shorter or longer than 12 months. The following approach should be used by the firm, providing an explanation of how they have derived their turnover figure:
- Preferably, provide the turnover for the 12 month period immediately preceding the new accounting period end date (as long as prior to 1 November 2018)
 - Alternatively, if this is not possible then take the last closed accounts period prior to the 1 November 2018 and scale it appropriately (e.g. if the last closed accounting period was for six months then it should be doubled; if the last closed accounting period was for 15 months, then it should be divided by 15 and then multiplied by 12).
8. If a firm has a change in status (e.g. partnership to LLP, sole practitioner to partnership), then it should respond as if there were no change in status.

Annex C - Recognised Body and Recognised Sole Practice Fee Determination

Appendix 3

Successor Turnover

Successor turnover is relevant where firms have changed through, for example, an acquisition, merger or split. Certain firms affected are required to submit a Notice of Succession to the SRA with an agreed apportionment of turnover among the affected firms.

As guidance successor turnover shall be calculated based on the Turnover Figures for each of the affected firms.

If a firm has succeeded to the whole or a part of one or more firms (e.g. through merger or acquisition), successor turnover will be calculated by combining the appropriate proportion of the Turnover Figure for each of the affected firms which has become part of the successor practice:

- In a simple merger between firms A and B, combine the Turnover Figures for each firm.
- In a merger of one firm (firm A) with part of another firm (e.g. one third of firm B) then firm A should add the corresponding proportion of firm B's Turnover Figure to its Turnover Figure (e.g. firm A's Turnover Figure + third of firm B's Turnover Figure)

For a firm which has split or ceded part of their practice to another firm and wishes this change to be reflected in a successor turnover figure, the successor turnover figure will be a proportion of the Turnover Figure, as long as it is clear how the Turnover Figure for such a firm is to be distributed between the successor firms. 100% of the Turnover Figure must be accounted for between the successor firms. For example:

- In a merger of firm A with one third of firm B then
 - firm B's successor turnover figure will be two thirds of its Turnover Figure, Firm A's will be its Turnover Figure plus one third of B's Turnover Figure
- Where firm A and one third of firm B become new firm C
 - firm A's turnover will be £0 (closed) and B's turnover will be two thirds of its Turnover Figure. Firm C's successor turnover figures will be the combination of A's Turnover Figure and one third of firm B's.

In a case where all successor firms agree on the apportionment of 100% of the Turnover Figures, then the SRA will accept the successor turnover figures.

In the case where all successor firms are unable to agree the apportionment of 100% of the Turnover Figures, then the SRA will treat the Notice of Succession as an application for it to determine the Turnover Figure for the purpose of calculating the fees. The SRA will determine this apportionment based on the information available and its decision will be final.

Annex D - Licensed Body Fee Determination 2019

This determination is made by the Solicitors Regulation Authority Board under Rules 2.1 and 8.3 of the SRA Authorisation Rules 2011, rule 1.1 of the SRA Application, Notice, Review and Appeal Rules and rule 7.1 of the SRA Authorisation of Firms Rules, with the approval of the Legal Services Board under section 51 of the Legal Services Act 2007.

Initial Applications

1. The application fee payable by a body applying for initial authorisation as a licensed body will be calculated as follows:
 - (a) an initial payment of £2,000, which is based on a day rate of £600;
 - (b) £150 in relation to each candidate subject to approval by the SRA under Part 4 of the SRA Authorisation Rules, excluding those deemed to be approved under Rule 13.2 of the SRA Authorisation Rules or under Part 4 of the SRA Authorisation of Firms Rules, excluding those deemed to be approved under rules 13.3 and 13.5 of the SRA Authorisation of Firms Rules;
 - (c) where the SRA's costs in considering the application exceed the amounts specified in (a) and (b) above then such additional costs will be charged at a day rate of £600;
 - (d) where the nature of the application means that the SRA has to seek external assistance, the full cost of that assistance will be charged;
 - (e) on initially considering an application, the SRA will notify those bodies whose applications it considers likely to exceed the amounts specified in (a) and (b) above and will indicate any additional sums payable in accordance with paragraphs (c) or (d) above;
 - (f) notwithstanding any additional sums notified under paragraph (e), the SRA may charge further additional sums in accordance with paragraphs (c) or (d) if unforeseen circumstances arise during the application process, however the SRA shall notify the applicant as soon as reasonably practicable as to the further liability to be incurred.
2. Appendix 1 contains information on the circumstances that may give rise to additional costs that may be chargeable under paragraphs 1(c) and (d) and the SRA may publish additional information from time to time.

Periodical fees

Licensed bodies are required to pay an initial periodical fee on authorisation which is calculated by reference to the firm's estimated turnover. Licensed bodies are also required to pay annual periodical fees by the prescribed date which is 31 October in any year. Paragraphs 3 and 4 below deal with the way in which the initial periodical fee will be calculated for the period which runs from 1 November 2018 to 31 October 2019 and paragraph 5 deals with the annual periodical fee.

Initial Periodical Fee

3. Subject to paragraph 4, the initial periodical fee payable by a licensed body shall be determined by:
 - (a) taking the estimate of the Turnover Figure for the first 12 months of business and carrying out the calculation in respect of the relevant band in accordance with appendix 2; and
 - (b) paying one twelfth of that amount in relation to each month or part of a month between the date of authorisation and 31 October 2020.
4. (a) Where a licensed body has succeeded to the whole of the practice of an authorised body the fee calculated in accordance with paragraph 3 shall be reduced by one twelfth of the firm fee already paid by the predecessor authorised body in respect of each month between the date of authorisation of the licensed body and 31 October 2020.
 - (b) Where a licensed body has succeeded to part of the practice of an authorised body the fee calculated in accordance with paragraph 3 shall be reduced as set out in paragraph 4(a) above but the reduction shall relate to such proportion of the firm fee as the SRA shall determine taking into account any Notice of Succession or other information.

Annual Periodical Fee

5. The annual periodical fee payable by a licensed body shall be determined by taking the estimate of the Turnover Figure for the first 12 months of business or, where the licensed body became a licensed body before 1 November 2017, the Turnover Figure, and carrying out the calculation in respect of the relevant band in accordance with appendix 2.

Overseas Branch Offices

6. A licensed body which has one or more overseas branch offices shall pay an additional fee of £200 in respect of each overseas office.

Interpretation

7. In this determination:

Notice of succession means notice required under Rule 8.3(f) of the SRA Authorisation Rules or rule 16.1 of the SRA Authorisation of Firms Rules;

Turnover Figure means as set out in appendix 3.

All other terms are to be interpreted in accordance with the SRA Handbook Glossary 2012 or, after 25 November 2019, the SRA Glossary.

Commencement

8. This determination shall come into force on 1 November 2019.

Annex D - Licensed Body Fee Determination: Appendix 1

1. The initial payment of £2,000 includes the costs that the SRA will incur in reviewing the application and considering whether, and if so how much, additional time and external assistance will be required. At the end of the review the SRA will notify the applicant of additional sums payable under paragraph 1 (c) and (d). Such estimate may be exceeded if unforeseen circumstances require additional time or external assistance.
2. The following list contains indicators of circumstances relating to the applicant body that may lead to the SRA seeking further information and incurring additional costs:
 - (a) proposed outsourcing arrangements;
 - (b) proposed initial public offering;
 - (c) proposed franchise model;
 - (d) proposed multiple fee sharing and /or referral arrangements;
 - (e) proposed multi disciplinary practice, involving other regulators;
 - (f) the applicant is part of a group including other organisations or permitted separate businesses which could cross sell services and /or give rise to potential conflicts.

This list is not exhaustive.

3. The SRA estimates that a combination of indicators that includes one or more of (a) to (d) above (moderate complexity) may require an additional 15 days of cost and an approximate additional charge of £9,000.
4. The SRA estimates that a combination of indicators that includes one or more of (e) and (f) together with any of the other indicators (high complexity) may require an additional 30 days of cost and an approximate additional charge of £30,000.
5. Additional costs may also be incurred where candidates, or sources of funding are located overseas. This could include the use of specialised external agencies to provide detailed reports on foreign individual and corporate owner applicants and may cost between £3,000 and £5,000 dependent on the jurisdiction.
6. Additional costs may also be incurred where there are complex ownership structures which require investigation in order to identify all persons who hold a material interest.

Annex D - Licensed Body Fee Determination: Appendix 2

Turnover band	Turnover Range (A)	Pay %* of Turnover within band (B)	Minimum Turnover in band (C)	Minimum Fee in Band (D)
A	£0 - £19,999	0.71%	£0	£100
B	£20,000 - £149,999	0.42%	£20,000	£241
C	£150,000 - £499,999	0.40%	£150,000	£787
D	£500,000 - £999,999	0.39%	£500,000	£2,187
E	£1,000,000 - £2,999,999	0.37%	£1,000,000	£4,137
F	£3,000,000 - £9,999,999	0.25%	£3,000,000	£11,537
G	£10,000,000 - £29,999,999	0.21%	£10,000,000	£29,037
H	£30,000,000 - £69,999,999	0.19%	£30,000,000	£71,037
I	£70,000,000 – £149,999,999	0.17%	£70,000,000	£147,037
J	£150,000,000 +	0.07%	£150,000,000	£283,037

* % is equivalent to 'divided by 100' (e.g. 0.42% = 0.0042)

Using the table above to calculate the firm fee based on the firm's turnover (T)

1. Identify the turnover value (T) and which corresponding band the turnover falls into from column A.
2. Subtract the figure in the corresponding column C from T for that turnover band.
3. Multiply this figure by the corresponding percentage in column B.
4. Finally add this figure to the corresponding figure in column D.
5. Firm fee then needs to be rounded to the nearest pound (i.e. if less than 50p then round down and if equal to or more than 50p then round up)

Formula: (T - C) x B + D

Example 1: For Turnover of £0:
 $(£0 - £0) \times 0.71\% + £100 = £100$

Example 2: For Turnover of £200,000:
 $(£200,000 - £150,000) \times 0.40\% + £787 = £987$

Example 3: For Turnover of £813,421:
 $(£813,421 - £500,000) \times 0.39\% + £2,187 = £3,410$

Example 4: For Turnover of £279,123,528:
 $(£279,123,528 - £150,000,000) \times 0.07\% + £283,037 = £373,424$

Annex D - Licensed Body Fee Determination: Appendix 3

Turnover Figure

The following paragraphs describe how the turnover figure that will be used for the purposes of determining how the periodical fee should be calculated:

1. Turnover figure means a firm's total gross fees arising from regulated activities undertaken from offices in England and Wales.
 - *Gross fees includes:* all professional fees of the firm including remuneration, retained commission, and income of any sort whatsoever of the firm (including notarial fees). Work in Progress (WIP) should be included.
 - *Gross fees does not include:* interest, reimbursement of disbursements, VAT, remuneration from a non-private practice source, dividends, rents, and investment profit.
2. Applicant bodies are required to provide an estimated turnover figure in the application and the SRA will seek information to support the figure and explain the basis on which the body has made the estimate during the authorisation process. Where the applicant body is succeeding to any legal practice carried on by a recognised sole practitioner, an authorised body or to a previously unregulated legal services business then the historic turnover figures for such businesses will be relevant in validating the estimated turnover for the new body.
3. The SRA may substitute an alternative estimated turnover figure for the purpose of the fee calculation where it reasonably considers that the estimated turnover figure produced by the applicant body does not fully reflect the true value of the legal services to be provided. The examples below indicate the sort of circumstances in which such a substitution may be made:
 - (a) The licensed body is part of a group of businesses which provide a range of services some of which may be bundled with legal services, where the legal services may be offered at a reduced rate or as a "free" service.
 - (b) The licensed body is part of an insurance company where some of the legal services may be supported by premium funding, rather than fee income.
 - (c) The licensed body provides a mix of regulated activities and other activities which are either unregulated or regulated by other regulators, and the services provided may include a mix of such activities which may be bundled as in (a) above.

In these cases the SRA will seek further information to help it determine a fair estimate and will seek to agree the figure with the applicant body but in the absence of such agreement the SRA's decision shall be final.
4. A licensed body will have provided an estimated turnover figure for the first 12 months of trading during the application process. This estimated turnover figure will be used to determine the annual periodical fee payable by the licensed body. In

some cases, the SRA may have chosen to substitute an alternative estimated turnover figure in the circumstances outlined in paragraph 3 above to ensure the estimated turnover reflects the true cost of legal services being provided. This figure will have been communicated to the applicant prior to the licence being granted. In such cases, the revised estimated turnover figure will be used to determine the annual periodical fee payable by the licensed body.

5. Where a licensed body became a licensed body before 1 November 2017, the turnover figure should no longer be estimated. In such cases, the turnover figures that will be used when billing firms in October 2019 will be based on **closed accounts**, audited where possible.
 - Closed accounts are defined, in order of preference, as:
 1. an audited set of financial statements
 2. an unaudited set of financial statements signed off by an accountant
 3. a submitted tax return for the year.
6. Bad debt should be handled under normal accounting procedures. Where it has been allowed for in the turnover figure for a firm's last closed accounting period prior to 1 November 2017, that is acceptable. If a bad debt has been discovered after closing the firm's accounts, then the turnover figure cannot be re-adjusted. Those adjustments could potentially be accounted for in the following year's closed accounts.
7. The turnover figure should, wherever possible, be for the last complete (12 months) accounting period prior to the 1 November 2018 (e.g. 31 March 2018). The latest acceptable annual accounting period end date is 31 October 2018.
8. The turnover figure should be an exact figure wherever possible. A figure rounded to the nearest £1,000 will be acceptable only if more detail is unavailable.