



Council for Licensed Conveyancers

Application to the Legal Services Board

**to issue an Exemption Direction
in relation to Compensation Fund contributions
for the period 2019-2020**

August 2019

Rule	Requirement	Submission																																				
11a	CLC's Contact Details	Simon Blandy Director of Regulatory Standards CLC simonb@clc-uk.org 0203 971 7213																																				
11b	Details of the proposed alteration	<p>The LSB is asked to approve the CLC Fees Framework 2019 (at Annex 1) and to issue an Exemption direction in relation to contributions to the Compensation Fund. The proposed regulatory fees for the year commencing 1 November 2019 are as follows:</p> <p>Compensation Fund contribution payable by each CLC Practice is reduced by 60% (see further paragraph 9c and Annex 2 below) The revised contribution rates are as follows (the minimum fee has not been reduced):</p> <table border="1" data-bbox="891 930 1821 1345"> <thead> <tr> <th colspan="2" data-bbox="891 930 1200 986">Turnover Banding</th> <th colspan="4" data-bbox="1200 930 1821 986">Compensation Fund contribution</th> </tr> <tr> <th data-bbox="891 986 1055 1082">From</th> <th data-bbox="1055 986 1200 1082">To</th> <th data-bbox="1200 986 1397 1082">Minimum Fee in Band</th> <th data-bbox="1397 986 1476 1082"></th> <th data-bbox="1476 986 1581 1082"></th> <th data-bbox="1581 986 1821 1082"></th> </tr> </thead> <tbody> <tr> <td data-bbox="891 1082 1055 1137">0 and</td> <td data-bbox="1055 1082 1200 1137">100,000</td> <td data-bbox="1200 1082 1397 1137">500</td> <td data-bbox="1397 1082 1476 1137"></td> <td data-bbox="1476 1082 1581 1137"></td> <td data-bbox="1581 1082 1821 1137"></td> </tr> <tr> <td data-bbox="891 1137 1055 1197"></td> <td data-bbox="1055 1137 1200 1197"></td> <td data-bbox="1200 1137 1397 1197"></td> <td data-bbox="1397 1137 1476 1197"></td> <td data-bbox="1476 1137 1581 1197"></td> <td data-bbox="1581 1137 1821 1197"></td> </tr> <tr> <td data-bbox="891 1197 1055 1292"></td> <td data-bbox="1055 1197 1200 1292"></td> <td data-bbox="1200 1197 1397 1292">Minimum Fee in Band</td> <td data-bbox="1397 1197 1476 1292"></td> <td data-bbox="1476 1197 1581 1292"></td> <td data-bbox="1581 1197 1821 1292">On Turnover in excess of</td> </tr> <tr> <td data-bbox="891 1292 1055 1345">100,001</td> <td data-bbox="1055 1292 1200 1345">500,000</td> <td data-bbox="1200 1292 1397 1345">500</td> <td data-bbox="1397 1292 1476 1345">plus</td> <td data-bbox="1476 1292 1581 1345">0.16%</td> <td data-bbox="1581 1292 1821 1345">312,500</td> </tr> </tbody> </table>	Turnover Banding		Compensation Fund contribution				From	To	Minimum Fee in Band				0 and	100,000	500												Minimum Fee in Band			On Turnover in excess of	100,001	500,000	500	plus	0.16%	312,500
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11c	Details of the Applicant's Regulatory Arrangements as are relevant to the Application including a statement setting out:																																																																							
	i. Nature and effect of the existing Regulatory Arrangement	As a condition of being issued with a Licence, in addition to paying the Practice Fee due, all CLC Practices are required to make a contribution to the CLC's Compensation Fund. From 2010 the rates have been as follows:	<table border="1"> <thead> <tr> <th colspan="3">Turnover Banding</th> <th colspan="4">Compensation Fund contribution</th> </tr> <tr> <td></td> <td></td> <td></td> <th>Minimum Fee in Band</th> <td></td> <td></td> <td></td> <td></td> </tr> </thead> <tbody> <tr> <td>Between</td> <td>0 and</td> <td>£100,000</td> <td>£500</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <th>Minimum Fee in Band</th> <td></td> <td></td> <th>On Turnover in excess of</th> <td></td> </tr> <tr> <td>Between</td> <td>£100,001 and</td> <td>£500,000</td> <td>£500</td> <td>plus</td> <td>0.4%</td> <td>£100,000</td> <td></td> </tr> <tr> <td>Between</td> <td>£500,001 and</td> <td>£3,000,000</td> <td>£2,100</td> <td>plus</td> <td>0.3%</td> <td>£500,000</td> <td></td> </tr> <tr> <td>Over</td> <td>£3,000,000</td> <td></td> <td>£9,600</td> <td>plus</td> <td>0.2%</td> <td>£3,000,000</td> <td></td> </tr> </tbody> </table>							Turnover Banding			Compensation Fund contribution							Minimum Fee in Band					Between	0 and	£100,000	£500																Minimum Fee in Band			On Turnover in excess of		Between	£100,001 and	£500,000	£500	plus	0.4%	£100,000		Between	£500,001 and	£3,000,000	£2,100	plus	0.3%	£500,000		Over	£3,000,000		£9,600	plus	0.2%	£3,000,000	
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	ii. Nature and effect of the proposed alteration	<p>With the exception of the minimum fee which remains unchanged at £500, the rate payable in each banding is proposed to be reduced by 60%.</p> <p>The Compensation Fund contribution rates have not been amended since 2011 as the CLC has been increasing reserve levels. On the basis of the rates proposed the Compensation Fund is projected to make a surplus of £315,963 in 2020.</p>																																																																						

		Compensation Fund	
		Contributions	388,553
		less Compensation Fund Costs	(96,590)
		Surplus/(Shortfall)	315,963

Note that the Compensation Fund Costs do not include grant provisions or intervention costs. Neither of these costs are predictable, and we have taken the view that we would want to generate sufficient surplus to cover likely cost based on recent past claims and our assessment of the base.

The CLC has since 2011 permitted the level of reserves in the Compensation Fund to increase above £2Million minimum reserve level¹ so that there is adequate provision for current claims and contingent liabilities. Tracking the level of grants out of the Compensation Fund over the last 2-3 years has enabled the CLC to anticipate with more confidence the likely level of grants in any one year so enabling the reserves to be retained for grants made in exceptional circumstances. Reserves for the Compensation Fund stood at £7.18 million in December 2018 and are budgeted at the end of 2019 to be £6.98 million, including the minimum level of reserves which is currently set at £2 million agreed by the CLC Council in 2015.

2016 Actual £m	2017 Actual £m	2018 Actual £m	Dec 2019 Forecast £m	Dec 2020 Estimate £m
6.22	7.24	7.18	6.98	7.30

¹ Provision for claims resulting from failure of CLC practices

The Compensation Fund includes aged balances and intervention funds (together totalling £1.6M as at June 2019) which are treated by the CLC as restricted reserves. The December estimate excludes intervention and grant provisions which cannot be accurately estimated.

The Compensation fund is expected to continue making surpluses (pre intervention and grant costs). The surplus is expected to be sufficient to cover any costs of intervention or grants that may arise. Should this not be the case we would consider amending the contribution rates in future years dependent on reserving levels.

The table below summarises the expected impact on reserve levels over the following 5 years. The Compensation Fund reserves are still expected to grow, albeit at a slower rate than in prior years.

IMPACT OF FEE RATE CUTS ON RESERVE LEVELS 60% cut to Compensation Fund	Compensation Fund	
	Surplus at current fee rate	Surplus after 60% fee rate cut
Nov 19 - Oct 20	728,961	315,963
Nov 20 - Oct 21	784,194	337,478
Nov 21 - Oct 22	842,465	360,192
Nov 22 - Oct 23	903,985	384,181
Nov 23 - Oct 24	968,446	409,340
Nov 24 - Oct 25	1,036,126	435,775
Cumulative surplus/(Deficit)	5,264,177	2,242,930
Existing excess reserves	(493,856)	(493,856)
Excess reserve in Oct 2025	4,770,321	1,749,074

		<p>The key assumptions relevant to determining the impact of the reduction in the Compensation Fund contributions (which overlap with those made in relation to Practice Fee rates – see separate application) are:</p> <table border="1" data-bbox="920 331 1877 608"> <thead> <tr> <th data-bbox="920 331 996 405"></th> <th data-bbox="996 331 1431 405">Assumption</th> <th data-bbox="1431 331 1877 405">Value used</th> </tr> </thead> <tbody> <tr> <td data-bbox="920 405 996 486">1</td> <td data-bbox="996 405 1431 486">Existing practices annual turnover growth</td> <td data-bbox="1431 405 1877 486">6%</td> </tr> <tr> <td data-bbox="920 486 996 608">2</td> <td data-bbox="996 486 1431 608">Net new practices coming into CLC regulation (net of closing practices)</td> <td data-bbox="1431 486 1877 608"> <ul style="list-style-type: none"> • £30m in 2020 • £6m each year from 2021 to 2025 </td> </tr> </tbody> </table> <p>Paragraph 1 CLC Compensation Fund Operating Framework expressly reserves to the CLC the right to make a specific levy. It is envisaged that this will only be required when it is anticipated there is likely to be a substantial payment(s) out of the Compensation Fund. The last time the CLC directed the payment of such a levy in addition to the annual contribution was in the mid 1990s. For this purpose, the CLC reserves the right to transfer the balance (assuming sufficient funds were to be available) out of the Practice Fees or Licence Fees collected in the first instance before approaching the profession to recoup those monies at an appropriate stage. This approach reduces the costs associated with the collection of a special levy outside the normal cycle for collection of regulatory fees.</p>		Assumption	Value used	1	Existing practices annual turnover growth	6%	2	Net new practices coming into CLC regulation (net of closing practices)	<ul style="list-style-type: none"> • £30m in 2020 • £6m each year from 2021 to 2025
	Assumption	Value used									
1	Existing practices annual turnover growth	6%									
2	Net new practices coming into CLC regulation (net of closing practices)	<ul style="list-style-type: none"> • £30m in 2020 • £6m each year from 2021 to 2025 									
	iii. Explanation of why the applicant wishes to make the alteration in question	The CLC’s objective is to set Compensation Fund contributions at the minimum level required for anticipated expenditure. So far as possible, it wishes to ensure that the rate of contribution is predictable year on year and it will continue to track forecast expenditure (as explained at (ii) above) to minimise the risk of any unexpected increase in rates.									
11d	Statement in respect of each alteration explaining how and why the alteration will help to promote, be neutral towards or be	<p>Reducing the costs of regulation to CLC practices whilst ensuring sufficient reserves are maintained in the Compensation Fund:</p> <p>a. RO1 Protecting and promoting the public interest – promoted, the Fund may provide a means for enabling recovery when others are not available</p>									

	detrimental to each of the Regulatory Objectives.	<ul style="list-style-type: none"> b. RO2 Supporting the constitutional principles of the rule of law – neutral, although the Fund may provide a means for enabling recovery when others are not available c. RO3 Improving access to justice - neutral, although the Fund may provide a means for enabling recovery when others are not available d. RO4 Protecting and promoting the interest of consumers – promoted, the Fund may provide a means for enabling recovery when others are not available e. RO5 Promoting competition in the provision of services – <ul style="list-style-type: none"> i. the Fund enhances the reputation of the profession - it may provide a means for enabling recovery when other means are not available ii. contributions are maintained at the minimum level required so that the costs of regulation are as low as is reasonably required for the purpose for which the Fund is maintained f. RO6 Encouraging an independent, strong, diverse and effective legal profession – <ul style="list-style-type: none"> i. the Fund enhances the reputation of the profession - it may provide a means for enabling recovery when other means are not available ii. contributions are maintained at the minimum level required so that the costs of regulation are as low as is reasonably required for the purpose for which the Fund is maintained g. RO7 Increasing public understanding of the citizen’s legal rights and duties - neutral h. RO8 Promoting and maintaining adherence (by authorised persons) to the professional principles – not directly impacted, and therefore neutral
11e	Statement explaining how and why the Applicant feels that the alterations requested fulfil the applicant’s obligations to comply with its obligations under section 28 of the Act to have regard to the Better Regulation Principles	<p>The CLC believes that it has fulfilled the better regulation principles are set out at s.28 Legal Services Act 2007.</p> <ul style="list-style-type: none"> a. It is transparent in that it has consulted on the proposed changes², the Fees Framework will be published on the CLC’s website and the notices of payment will include an explanation in the form set out at Annex 3 about the contributions CLC practices will each be required to make to the Compensation Fund. b. It is accountable in that its Annual Financial Statements include a report on the Compensation Fund income, expenditure

² <https://www.clc-uk.org/wp-content/uploads/2019/05/CLC-Consultation-Paper-Practice-Fees-2019-FINAL-v2.pdf>

		<p>c. It is consistent in that contributions to the Compensation Fund are determined in accordance with the rates set out in the CLC's Fees Framework</p> <p>d. It is targeted in that the Compensation Fund contributions will be reduced for all practices, except those with turnover of less than £100,000. Whilst those practices will benefit from the reduction in the Practice Fee, the CLC has decided to maintain the minimum contribution to the Compensation Fund at £500. This is on the basis that as a class smaller practices give rise to a disproportionate level of grants after they have closed when compared with contributions they have made.</p> <p>Significance, Impact and Risk of proposed alterations The changes proposed seek to set rates of contribution at the level appropriate for payments out of the Compensations Fund</p> <p>Significance</p> <ol style="list-style-type: none"> 1. The changes would not have required approval under the previous Ministry of Justice/Legal Services Consultative Panel system 2. The way in which the changes proposed impact on the Regulatory Objectives are set out at 9d above 3. The extent to which the change is consistent with the Better Regulation Principles is set out above 4. The change will not require a Statutory Instrument or Parliamentary time in order to be completed 5. The outcome of the consultation and consideration by the CLC's Council is that rates of contribution should be reduced and by reference to a review of the payments out of the Fund as summarised above 6. The requirement is for the CLC to set the contributions at the appropriate level. In the CLC's view the alteration will not impact on the Justice system <p>Impact</p> <ol style="list-style-type: none"> 7. CLC practices will be impacted directly in that the costs of regulation will be reduced. Clients of CLC practices will be beneficially impacted to the extent that a reduction in the costs of regulation may result in a reduction in costs charged by CLC practices or increased resources available for CLC practices to improve the service provided to clients. There will be an impact on applicants for grants out of the Compensation Fund to the extent that there are insufficient funds available to pay grants. The purpose of the
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		<p>modelling has been to manage that risk. As set out at 9(ii)(c) above the CLC can at that stage collect a special levy.</p> <ol style="list-style-type: none"> 8. The proposal has a positive impact on the ability of the profession to make a profit since the proposal is to reduce the costs of regulation. 9. The proposal will have a positive impact on the ability of prospective practices it enter and/or operate effectively within the regulated community in that it reduces the cost of regulation. 10. There is crossover with other legal regulators which have Compensation Fund arrangements in place, though no specific conflict. The CLC's Compensation Fund arrangements derive from s.21 Administration of Justice Act 1985. 11. Essentially, there is only one alteration – the rate of contribution to the Compensation Fund, though this results in amendments to rates for different fee bands 12. The change is neutral to consumer protection and competition impacts. This is a neutral amendment to existing regulation in that the requirement for CLC practices to continue to make contributions to the Compensation Fund will remain in place after the change has been made. <p>Risk</p> <ol style="list-style-type: none"> 13. The CLC has since 2016 been reducing incrementally the Practice Fees (20% reduction in 2016, 10% reduction in 2018 and reduction of 30% proposed in 2019). Whilst this is the first time since 2011 by the CLC to reduce contributions to the Compensation Fund, the CLC will take the same approach as it has in managing reductions in the Practice Fee to review the effect of changes on an annual basis. 14. The CLC has consulted on the changes and modelled the effect of the amendments proposed over a five year period (see above) 15. The approach and evidence supporting this application are set out at paragraph 9(ii)(c) above 16. There will be an immediate impact on CLC practices with a turnover in excess of £100,000. 17. If the change is not approved, CLC practices will continue to pay more in regulatory costs that the CLC has concluded they should be required to pay. 18. The impact of the change will be assessed in mid 2020 when the CLC reviews expenditure against budget for the first six months of 2020 and makes an expenditure forecast for the second six months of 2020 prior to determining the funding requirement for 2021 and
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		<p>therefore the Practice Fee and Compensation Fund contributions which need to be generated.</p> <p>19. There has been no other activity in relation to Compensation Fund contributions since 2011. As set out above the changes made to Practice Fee rates since 2016 have generated the income generated and therefore to date there have been no detrimental outcomes. Other ARs vary their fees periodically.</p> <p>20. The changes introduce no new regulation.</p>
11f	A statement explaining the desired outcome of the alteration and how the applicant intends to assess whether the desired outcome has been achieved.	The annual contributions the CLC receives are sufficient to fund the payment of grants and associated expenses out of its Compensation Fund. The CLC tracks expenditure against budget throughout the year and at the half year carries a full review to forecast expenditure for the full year and determine funding requirement, and therefore the level of contributions required, for the following year.
11g	A statement explaining whether the proposed alteration is one that affects areas regulated by other Approved Regulators. If this is the case, the Applicant should provide evidence of consultation with, and responses from, these other Approved Regulators. This consultation should deal with the possibility of any regulatory conflicts and also the possibility of harmonising the Regulatory Arrangements of Approved Regulators regulating the same Reserved Legal Activities. The purpose of this requirement is to ensure that sections 52 to 54 of the Act are complied with and that	In the CLC's view, contribution rates to the CLC's Compensation Fund are not an issue likely to give rise to regulatory conflict or one where there is a reasonable prospect in the short terms to achieve harmony with the Regulatory Arrangements of Approved Regulators.

	best practice is shared in common areas of regulation.	
11h	Details of when the Applicant hopes to implement the alteration;	The CLC hopes that the alteration can take effect on 1 November 2019, though it will wish to start sending notices to practices of the payments due from mid-September 2019.
11i	Full details of all consultation processes undertaken and responses received by the Applicant in relation to the alteration, which should include consultations of Approved Regulators and other appropriate regulators when applicable;	<p>a. The CLC published its Fees Consultation³ (which included consulting on the rates for contributions to the CLC’s Compensation Fund) in the first week in May and signposted to the consultation in its Manager newsletters sent on 9 and 13 May, and 6 and 10 June, and the general newsletters sent on 23 and 28 May. The consultation ended on 21 June 2019 (six week consultation period). Five responses⁴ to the Consultation were received (nil responses to 2018 fees consultation).</p> <p>b. The respondents agreed the objectives for determining fee rates. With some caution, the turnover growth assumption of 3% pa for practices under CLC regulation was considered reasonable. The CLC analysis indicates that the 3% was unnecessarily conservative and opted for a higher rate in the final model.</p> <p>c. One respondent suggested that the CLC should review the fee bandings for the different rates of charge. The CLC keeps the range and number of fee bandings under regular review. Any proposed change to the fee banding will be subject to consultation.</p> <p>d. Another suggested that consideration should be given to benefiting firms which have not made a claim on the CLC’s Compensation Fund, so that firms with a better claims record make a reduced contribution. The CLC is reducing the Compensation Fund contributions for all practices, except those with turnover of less than £100,000. Whilst those practices will benefit from the reduction in the Practice Fee, the CLC has decided to maintain the minimum contribution to the Compensation Fund at £500. This is on the basis that as a class these smaller practices give rise to a disproportionate level of grants out of the Compensation Fund after they have closed.</p>

³ <https://www.clc-uk.org/wp-content/uploads/2019/05/CLC-Consultation-Paper-Practice-Fees-2019-FINAL-v2.pdf>

⁴ [to be inserted]

		<p>e. The Society of Licensed Conveyancers suggested that the CLC should prepare a financial summary of the cost of regulation. All legal regulators publish details of their regulatory fees. It is not the CLC's role to make comparisons about the cost of regulation. Practices have different drivers (cost being a subsidiary factor) in determining by which legal regulator they choose to be regulated.</p> <p>f. In setting these rates the CLC has not consulted specifically with non-commercial bodies including local government on the basis that the changes in arrangements have a neutral effect on their regulatory costs. Further, the CLC does not regulate any non-commercial body which undertakes either conveyancing or probate services.</p>
11j	Such other explanatory material as the Applicant considers is likely to be needed for the purposes of Part 3 of Schedule 4 to the Act.	<p>An explanation of the structure of charges and details of the budget which has determined the income required will be published to the profession. A draft of the information to be published to the profession is at Annex 3.</p> <p>The CLC tracks expenditure against budget throughout the year and at the half year carries a full review to forecast expenditure for the full year and determine funding requirement, and therefore the level of contributions required, for the following year.</p>

Annex 1



The CLC Fees Framework ~~2018~~ 2019

Made ~~10 September 2018~~ [date] 2019 by the Council for Licensed Conveyancers with the approval of the Legal Services Board in accordance with s.14, 32 and 38 Administration of Justice Act 1985 and s.51 Legal Services Act 2007.

CITATION, COMMENCEMENT AND REVOCATION

1. This Framework may be cited as the CLC Fees Framework 2019 and shall come into force on 1 November ~~2018~~ 2019 on which date the Council for Licensed Conveyancers' Fees Rules 2018 shall cease to have effect.
2. "CLC Body" is a Recognised Body or a Licensed Body regulated by the CLC.

LICENSED CONVEYANCERS

3. The fees payable as provided by the CLC Lawyer – Licensing Framework shall be as follows: -
 - (1) under paragraph 1(a)(ii) for the issue of a licence:

for the first time, or where such a licence is not in force at the time of the application (and has not been in force for at least 12 months prior to that date): £150;
to provide Conveyancing Services or Probate Services: £400
to provide Conveyancing and Probate Services: £475;
 - (2) under paragraph 16 and 18 for an amendment to a licence: £75;
 - (3) under paragraph 26 for a duplicate licence, where chargeable: £50.
4. The additional fee of £100 is payable for failure to submit an Accountant's Report within the time limited (see paragraph 16.2 of the Accounts Code and Guidance).

CLC BODIES

Practice Fee

5. The fee payable by a CLC Body as provided by
 - (1) paragraph 5(a)(ii) of the CLC Recognised Bodies – Recognition Framework; and
 - (2) paragraph 7.10 of the CLC Licensed Body (ABS) Licensing Frameworkshall be the turnover declared by the CLC Body for the purpose of determining the applicable annual premium payable in accordance with 10.1 of the CLC Professional Indemnity Insurance Code & Guidance as follows:

Turnover Banding	Practice Fee payable	
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From	To	Minimum Fee in Band				
0 and	100,000	539,770	or	1.1% 0.77%	Of Turnover	Whichever is the greater
		Minimum Fee in Band			On Turnover in excess of	
100,001	500,000	770,110	plus	1.0% 0.70%	100,000	
500,001	3,000,000	3,570,510	plus	0.9% 0.63%	500,000	
Over	3,000,000	19,320,27,600	plus	0.8% 0.56%	3,000,000	

Compensation Fund Contribution

6. The Compensation Fund contribution payable by a CLC Body as provided by

- (1) paragraph 5(a)(iv) of the CLC Recognised Bodies – Recognition Framework; and
- (2) paragraph 7.11 of the CLC Licensed Body (ABS) Licensing Framework

shall be the turnover declared by the CLC Body for the purpose of determining the applicable annual premium payable in accordance with paragraph 10.1 of the CLC Professional Indemnity Insurance Code & Guidance as follows:

Turnover Banding		Compensation Fund contribution			
From	To	Minimum Fee in Band			
0	£100,000	£500			
		Minimum Fee in Band			On Turnover in excess of
£100,001	£500,000	£500	plus	0.4% 0.16%	£312,500
£500,001	£3,000,000	£1,140 £2,100	plus	0.3% 0.12%	£500,000
Over	£3,000,000	£4,140 £9,600	plus	0.2% 0.08%	£3,000,000

WAIVER

7. The CLC may in writing waive or vary any of the provisions of this Framework and may revoke any waiver in any particular case.

Annex 2

Examples of the Practice Fee and
Compensation Fund contributions payable

Comparing the Compensation Fund contribution payable in 2018 with 2019 proposal

Turnover	Comp Fund Contribution 2018	Comp Fund Contribution 2019	Variance with 2018-2019	% variance with 2018-2019
30,000	500	500	0	0
50,000	500	500	0	0
150,000	700	580	(120)	-17
550,000	2,250	1,200	(1,050)	-47
1,500,000	5,100	2,340	(2,760)	-54
3,500,000	10,600	4,540	(6,060)	-57
15,000,000	33,600	13,740	(19,860)	-59

2018-2019

Turnover	Practice Fee	Comp Fund Contribution	Total
30,000	770	500	1,270
50,000	770	500	1,270
150,000	1,600	700	2,300
550,000	5,550	2,250	7,800
1,500,000	14,100	5,100	19,200
3,500,000	31,600	10,600	42,200
15,000,000	123,600	33,600	157,200

2019-2020

Turnover	Practice Fee	Comp Fund Contribution	Total	Variance with 2018-2019	% variance with 2018-2019
30,000	539	500	1,039	(231)	-22%
50,000	539	500	1,039	(231)	-22%
150,000	1,120	580	1,700	(600)	-35%
550,000	3,885	1,200	5,085	(2,715)	-53%
1,500,000	9,870	2,340	12,210	(6,990)	-57%
3,500,000	22,120	4,540	26,660	(15,540)	-58%
15,000,000	86,520	13,740	100,260	(56,940)	-57%

Annex 3
Information to the profession
CLC regulatory charges
2019-2020

1. This notification sets out the CLC's determination about:
 - The licence and practice fee structure and the way in which Compensation Fund contributions payable by licence holders will be applied; and
 - the licence and practice fees and the contribution the CLC has determined are payable for the licence year starting on 1 November 2019.

The CLC's licence and practice fee structure, and contributions to the CLC Compensation Fund

2. The CLC's current fee structure (first introduced in February 2010) following consultation with the profession can be summarised as follows:
 - 1) Licence fee (a fixed sum);
 - 2) Practice fee (as a percentage of turnover subject to a minimum fixed fee);
and
 - 3) Contributions to the Compensation Fund (as a percentage of turnover subject to a minimum fixed fee) to be applied solely for purposes relating specifically to the CLC's Compensation Fund.
3. The CLC published a consultation on the current fee structure which ended on 21 June 2019⁵. The consultation was promoted in newsletters to the profession, on the website and in direct emails. The CLC received five responses to the Consultation (see Summary of Responses⁶).

Licence and Practice Fee and Compensation Fund contributions payable for year starting 1 November 2019

4. Examples of the effect the Practice Fee rates and Compensation Fund contributions will have on practices are set out at Annex [NUMBER⁷].
6. The CLC has published its Strategy for 2018-2022⁸ which set out its strategic objectives:
 - Empower consumers to make informed choices of conveyancing and probate lawyers
 - Adapt regulation to the changing market
 - Be the regulator of choice in our specialist areas

The 2019 Business Plan⁹ is aligned with those objectives.
7. The CLC's Council reviews the fee rates for Practice fees and Compensation Fund contributions annually. The Practice fee rate was reduced by 20% in 2016, left unchanged in 2017 and was reduced by a further 10% in 2018. The Compensation Fund Contribution rate has not been amended since 2011.

⁵ <https://www.clc-uk.org/wp-content/uploads/2018/05/20180517-CLC-Consultation-Paper-Practice-Fees-2018.pdf>

⁶ [to be inserted]

⁷ Annex 2 CLC Exempt Direction application

⁸ <https://www.clc-uk.org/wp-content/uploads/2018/01/CLC-A4-Strategy-Singles-AW-HiRes-1.pdf>

⁹ <https://www.clc-uk.org/wp-content/uploads/2017/12/CLC-Business-Plan-2018-for-publication.pdf>

8. The 2016 and 2018 Practice Fee reductions were made to reduce revenue to match planned expenditure and reduce the accumulation of reserves. The Compensation Fund contribution rates have not been amended in the past as the CLC has intentionally been increasing reserve levels.
9. In the Consultation Paper it published in May 2019, the CLC confirmed that it was considering reducing Practice Fee rates paid by CLC-regulated firms further, by up to 20%, and contributions to the Compensation Fund by up to 60%. It proposed that the individual licence fee charged to CLC lawyers providing conveyancing and/or probate services will remain unchanged at £400.
10. The Council has resolved that with effect from 1 November 2019 and subject to the approval of the Legal Services Board it should reduce the Practice rates by 30%¹⁰ (building on the 20% reduction made in 2016 and 10% reduction in 2018) as part of its longer-term plan to:
 - a. manage a reduction in the level of reserves in the practice fund
 - b. reduce the regulatory cost burden on CLC practices.
11. Over the following three years the deficit will reduce with the fund breaking even in year 5 (a fee rate reduction of 20%, as proposed in the Fee Consultation would result in a surplus in year 3). The projections were based on the following key assumptions agreed by the CLC Council:

	Assumption	Value used
1	Existing practices annual turnover growth	6%
2	Net new practices coming into CLC regulation (net of closing practices)	<ul style="list-style-type: none"> • £30m in 2020 • £6m each year from 2021 to 2025
3	Individual license holders	Net growth of 100 per annum and with no change to the annual license fee (£400)
4	Inflation rate	2%
5	Salary inflation	2.5%
6	Headcount	20 heads (maintain current levels)
7	Operating expenditure	Remaining broadly in line with current spending levels

12. The Council considered whether it should reduce the Practice Fee rates by more than 30% and concluded that it was not prudent at this point taking account of the factors identified at paragraph 11 above. Further, it would increase unnecessarily the risk to the financial wellbeing of the CLC and the likelihood that it may need in subsequent years to reverse any reductions made, leading to uncertainty in the level of regulatory fees.
13. The Council will review the regulatory fee rates in 2020 to consider whether a further reduction is achievable taking account in particular of market conditions at that time.

¹⁰ See CLC Fees Framework 2019 at [\[LINK\]](#)

Conversely, if assumptions are not being met, remedial actions will be assessed and implemented.

14. Annex [NUMBER¹¹] compares actual expenditure for 2017 and 2018, the expenditure forecast outturn for 2019 and the expenditure projection for 2020. The changes shown in percentage and monetary terms compare the 2019 expenditure forecast with the expenditure projection for 2020 with brief explanations of the significant variances.
15. The projected total funding requirement for 2020 is £2,936,026 (compared to £2,839,888 forecast outturn for 2019 and £2,657,355 for 2018). It is estimated that setting the Practice Fee at the rates proposed will generate an income of £1,737,905 based on the turnover of those practices currently regulated by the CLC. Taken with the Licence Fee and Other Income there will be a Total Projected Income for 2020 of £2,344,069, leading to a projected shortfall of income against expenditure of £591,957.

	2019		2020	
Income				
Practice Fee	2,000,927		1,737,905	
Licence Fee	571,166		572,000	
Other Income	48,192		34,164	
Reserves	219,603		591,957	
		2,839,888		2,936,026
Expenditure				
Permitted Purposes				
Regulatory Costs	(2,402,173)		(2,476,425)	
Levy	(437,715)		(459,601)	
Total Expenditure		(2,839,888)		(2,936,026)
Surplus/Deficit		0		0

16. The Compensation Fund is projected to make a surplus of £315,963 in 2020.

Compensation Fund	
Contributions	388,553
less Compensation Fund Costs	(96,590)
Surplus/(Shortfall)	315,963

17. The other Fees chargeable are as follows (these are unchanged from 2018-2019):

¹¹ Annex 1 CLC Regulatory Fees Application

		Fee	Paragraph	Regulatory Arrangements
1.	Probate Licence	£75	1(a)(ii)	CLC Lawyer – Licensing Framework
2.	First Manager Licence Application	£150		
3.	Duplicate licence	£50	16 & 18	CLC Lawyer – Licensing Framework
4.	Amendment to licence	£75	26	CLC Lawyer – Licensing Framework
5.	Failure to submit Accountant's Report in time	£100	16.2	Accounts Code and Guidance