

SRA BOARD
13 September 2022

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This paper will be published

SRA Budget 2022-23

Reason for paper	<p>This paper provides the Board with an update on the proposed budget for 2022/23.</p> <p>It updates on some changes since the budget was previously discussed by the Board and also provides detail to the Board of work currently being undertaken on overhead allocation and activity based costing.</p>
Decisions(s)	<p>The Board is asked to:</p> <ul style="list-style-type: none"> a) approve the proposed budget for 2022/23 b) note the work done on activity based costing.
Previous Board and committee consideration	<p>The Board considered the draft Business Plan and budget at its meeting on 25 April 2022. It approved the overall budget at its meeting on 28 June 2022 and delegated authority to the Chair to sign off the final budget. However, given the content of this report and the changing economic landscape, further Board consideration was deemed appropriate.</p>
Next steps	<p>The Business Plan (including a summary budget) will be published in advance of the new financial year.</p> <p>The Budget will be confirmed to the Law Society Council at its October meeting.</p>

If you have any questions about this paper please contact: Liz Rosser, Executive Director of Resources liz.rosser@sra.org.uk

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SRA Budget 2022/23

Purpose

- 1 This paper provides the Board with an update on the proposed budget for 2022/23.

Background

- 2 As part of our internal governance arrangements, the SRA is required to confirm its budget to the Law Society Council in October each year.
- 3 The Board discussed the draft 2022/23 budget earlier in the year as part of agreeing the practising fee requirement. The draft budget was consulted on alongside the 2022/23 business plan.
- 4 The budget provided for an increase in the amount of practising fee income from £56.8m to £60.5m, an increase of around £6 in the SRA proportion of the individual practising certificate fee. This was approved by the Board at its meeting in June.
- 5 The significant factors in the increase were, staff cost pressures, increased costs of 'cloud' services/license costs and inflationary pressure on budgets across the organisation. Additionally the Board agreed to increase resource in the areas of Investigation and Supervision, thematic work, non-compliance with transparency requirements, legal and enforcement and anti-money laundering.
- 6 Reducing the impact of these increase were reductions in property costs following the release of part of our Birmingham office space and relocation to a new office in London, a reduction in project costs and the continued realisation of benefits from the modernising IT programme (MIT) and the ongoing continuous improvement programme.
- 7 The draft budget also made provision for a surplus which would increase reserves, recognising that they are currently below the minimum level identified within the recently approved reserves policy.

Proposed 2022/23 budget

- 8 There have been a number of changes since the budget was discussed in June, in part driven by the economic situation. The proposed budget is now a balanced budget for 2022/23. Previously we had anticipated we would add £700K to our reserves. There are several factors driving this change:

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Changes from 2022/23 draft budget to 2022/23 budget	Impact on Budget (£k)
Increased income (Keeping of the Roll)	443
Increased interest received	355
Increased energy costs	(600)
Additional compliance conference	(255)
Cyber Security Operations Centre service	(120)
Reduction in Course Provider annual fees	(80)
Depreciation	(71)
Increased bank charges	(53)
Audit fees	(40)
Inflationary cost increases more than draft budget	(279)
Total	(700)

- 9 We are likely to realise a surplus in 2021/22 and therefore the reserves position at the end of 2022/23 is actually likely to be higher than envisaged when the draft budget was prepared. It is though not now expected that we will add to reserves further in 2022/23, the largest factor in the change being increased energy costs.
- 10 We saw an increase of around 65% in energy costs in 2021/22 and we have included an increase of 200% in the budget for 2022/23. In the current climate there is a risk that this is insufficient. The majority of our energy costs are charged through the service charge on the Cube and will not increase until January 2023. Once we have greater certainty over the cost for 2023 we will, if needed, consider how best to mitigate any increase over that budgeted.
- 11 The additional income from the Keeping of the Roll exercise is an estimate and may change depending on the number of people remaining on the roll. It is net of additional costs associated with the exercise. Further one off costs of implementation are included in the projects budget. The income from this exercise is simply an administration fee to recover the costs of carrying out the exercise including the upfront and ongoing technology costs.
- 12 We are expecting interest income to increase significantly in the coming financial year as a result of rising interest rates and a more proactive approach towards managing our working capital. October 2022 will represent the first practising fee collection since the approval of the investment policy. We will begin to actively manage our working capital as it is collected to maximise the

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- returns. It is now more than 12 months since we began operating as Solicitors Regulation Authority Limited and we have a greater understanding of our cashflow requirements, allowing us to reduce the balances held in lower paying accounts day to day.
- 13 Rising inflation has increased the interest rates available on working capital. We now expect to receive more than double the original budget in the year and rates may increase the longer inflation remains high. This is helping to mitigate a large proportion of the cost increases.
 - 14 Due to the timing of the 2023 Compliance Conference, there will be two conferences within the 2022/23 financial year (November 2022 and October 2023). We were unable to secure our preferred venue in November 2023 and therefore bought forward the conference to October. We expect to return to a November date in 2024 and therefore there will be no conference in the 2023/24 financial year.
 - 15 In the coming weeks we intend to implement a Cyber Security Operations Centre service which will, amongst other benefits, ensure that we have effective out of hours monitoring for cyber incidents. This was not anticipated in the draft budget, but the Executive took a decision in recent months that this was appropriate.
 - 16 The Course Provider Annual fee is paid by course providers based on the number of students that they have undertaking the Legal Practice Course (LPC). We have started to see a reduction in these numbers as students choose to take the Solicitors Qualification Exam as their preferred route to qualification. We understood that this would reduce as the SQE became established and have taken a prudent view on the income expected next year.
 - 17 We have seen increases in bank charges over the last 12 months and a significant increase in audit costs for the current year, both of which have now been reflected fully in the budget. We have also aligned the budget for depreciation with the expected capitalisation of works associated to the refurbishment of the Cube.
 - 18 Additionally, as discussed in more detail below, we have factored in inflationary increases in costs across a range of budget lines, in total this is more than we had considered necessary when setting the draft budget.

Inflation

- 19 The draft budget referred to the high level of inflation at the time which has continued to increase. The Consumer Prices Index (CPI) rose by 10.1% in the 12 months to July 2022, up from 9.4% in June.
- 20 In preparation of the budget we have reconsidered the assumptions that we included within the draft budget looking specifically at large items of expenditure and significant contracts. Inflationary increases have been

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included in each budget line as is considered appropriate with the majority being between 5% and 10% with the exception of energy costs discussed above.

- 21 In many cases these are estimates rather than contractual obligations or definite costs, but it would seem prudent to do so in the current economic climate. As part of our usual approach to procurement and contract renewal we will consider the level of service required to identify opportunities to reduce the impact of any increases.

Staff costs and pay review

- 22 While inflation is beginning to impact on our costs, it is also impacting on our staff and the ongoing cost of living crisis will inevitably impact on staff retention. We are mindful of the impact of the ongoing high inflationary environment and are looking for ways to support our staff while being mindful of the need to manage our resources appropriately.
- 23 The draft budget included provision for an increase in staff costs and this has been maintained in the current proposal.

Allocation of overhead costs

- 24 The Board has expressed a preference to understand the costs of the organisation with regards to the main activities that we undertake. To support this we have considered our main activities and the appropriate allocation of other costs to these activities.
- 25 We have considered the main activities of the organisation which appropriately reflect the work that we do. These are Investigation and Enforcement, Authorisation, Education and Training, Client Protection and Anti Money Laundering. All costs will be directly or indirectly allocated to these activities from the 2022/23 financial year.
- 26 Over the remainder of the financial year we will document the treatment of all costs and the allocation to each activity ensuring that we have an appropriate basis of allocation in all cases. This will ensure that we can more accurately measure our resources expended on each activity providing greater transparency on where practicing fees are used. More detail is included in annex 2.

Risks and opportunities

- 27 As in every year, the budget includes a number of opportunities and risks that we will look to realise and mitigate respectively during the year. There are inevitably uncertainties when drafting a budget and different levels of certainty over certain items.
- 28 While we are expecting a significant increase in interest income in the coming year, this is of course dependent on the rates available in the market. The

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- economic outlook would suggest that interest rates will continue to rise in the near future. While having other impacts across the economy, this will provide us with an opportunity to increase the return on our investments. We will actively manage this and report back to Board regularly with updates.
- 29 Our Continuous Improvement Programme continues to progress. We are currently on track to deliver the benefits outlined in the presentations provided to the Board previously, however there may be further opportunities that come from this work over and above those already expected. The Board will receive regular updates on the progress of the programme.
- 30 As discussed at length previously, the impact of the high levels of inflation currently being experienced is difficult to predict accurately. In previous years, while inflation remained both low and stable, we were able to predict the impact on costs without significant material risk to the budget. While we have considered all significant costs in detail in preparation of this budget there are areas of spend where we have little control or choice over suppliers. This is particularly true in respect of some ICT services such as cloud storage and licencing for our key systems. For example, Microsoft increased some licence costs by as much as 25% in March this year. The risk around uncertainty in energy cost increases is discussed in detail in paragraph 10. Given the significant uncertainty at the time of writing there may be an opportunity for savings if energy prices stabilise.
- 31 Project costs in the budget are included at £4.6M as reported in June. This is despite a likely underspend in 2021/22 where some projects will continue across the year end. We are not seeking to carry forward the underspend at this time, as we recognise capacity to deliver projects (supplier and internal resource) is a limiting factor. If we are subsequently able to deliver more in the year, we will come back to the Board for approval at that time.
- 32 We are relatively comfortable that the overall expenditure budget can be managed within the levels proposed in this paper but there may be consequences for future years' funding if we do experience greater cost pressures.
- 33 2023 will be the first year the Keeping of the Roll exercise has been undertaken since 2014. The budget includes what we believe is a prudent estimate of the income we may receive in the coming year, however as a greater number of solicitors remain on the roll than we have anticipated this figure may be greater. As previously discussed with the Board, the administration fee associated with Keeping of the Roll is simply, in the long term, reflective of the costs of preparing for and carrying out the exercise. Any increase in income should be seen as a shortening of the payback period of the initial upfront costs rather than more income as such.
- 34 The budget reflects our business as usual activities and the activities consulted on within our 2022/23 business plan. Should these plans change during the year then we would have to reprioritise or request additional funding during the

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year if necessary. Having our own reserves allows us to manage unexpected fluctuations in income and expenditure in a way we would not have been able to prior to becoming Solicitors Regulation Authority Ltd.

Business Plan

- 35 In line with the delegation approved by the Board on 28 June, the final Business Plan 22/23 was approved by the Chair and will be published in advance of the new financial year.

Next Steps

- 36 The budget will be confirmed to the Law Society Council at its meeting in October 2022.
- 37 The Board will receive regular updates on performance against the 2022/23 budget through the quarterly performance reporting including the costs allocated to each activity.

Recommendation: the Board is asked to:

- a) approve the proposed budget for 2022/23**
- b) note the work done on activity based costing.**

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Supporting information

Links to the Corporate Strategy and/or Business Plan and impact on strategic and mid-tier risks

- 38 Our budget underpins all our strategic objective and is a costed version of our business plan. Effective budgeting mitigates strategic and mid-tier risks around resourcing.

How the issues support the regulatory objectives and best regulatory practice

- 39 Our Corporate Strategy supports the regulatory objectives and the budget underpins the Strategy. Publication of the Corporate Strategy supports the better regulation principles of accountability and transparency.

Public/Consumer impact

- 40 The Corporate Strategy and Business plan which the budget supports, includes a number of priority activities which are designed to specifically address our public/consumer obligations.

What engagement approach has been used to inform the work and what further communication and engagement is needed

- 41 The Corporate Strategy which the budget supports was subject to a full public consultation, as was the draft budget itself and the business plan for 2022/23.

What equality and diversity considerations relate to this issue

- 42 Our commitment to Equality, Diversity and Inclusion is threaded throughout our Corporate Strategy and Business Plan and therefore throughout the budget provision for them.

How the work will be evaluated

- 43 The components of our Corporate Strategy and Business Plan which the budget supports are evaluated in different ways, as appropriate. Performance against the Business Plan is published quarterly through performance reports to the Board.

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Annexes

Annex 1 Summary of budget

Annex 2 Activity based cost allocations

NB: Annex 2 of this paper will not be published because it contains information which is commercially sensitive

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