

SRA BOARD

9 July 2024

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*This paper will be published***2024/25 Practising Fees and Compensation Fund contributions**

Reason for paper	This paper outlines the proposed practising fees and Compensation Fund contributions for the 2024/25 practising year.
Decisions(s)	The Board is asked to: approve the fee determinations for 2024/25 in respect of individual practising certificate fees, entity turnover based fees and Compensation Fund contributions. Note and comment on the feedback on the Business Plan consultation.
Previous Board and committee consideration	The Board considered initial feedback on the Budget consultation at its meeting on 25 June 2024. It approved the SRA practising fee requirement which forms part of the overall Law Society group requirement.
Next steps	Subject to Board approval, an application will be made to the Legal Services Board to approve the practising fees and Compensation Fund contributions.

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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CLASSIFICATION – PUBLIC**2024/25 Practising Fees and Compensation Fund contributions****Background**

- 1 The Board discussed the draft business plan, budget and Compensation Fund contributions for 2024/25 in May 2024.
- 2 Consultation on the budget and Compensation Fund contributions took place between 28 May and 24 June with the consultation on the business plan between 28 May and 2 July.
- 3 The Board considered the feedback on the budget and Compensation Fund contributions on 25 June. Feedback on the business plan is included separately as annex 7.
- 4 The Board approved the budget to be collected from Practising Fees on 25 June and is now asked to make its final decision on Practising Fees and Compensation Fund contributions apportionment for 2024/25.
- 5 The Board agreed the SRA funding requirement for 2024/25 at its meeting on 25 June. The SRA requirement is £70.2m, an increase of £2.6m (3.8%) compared to 2023/24. The Law Society received this for inclusion in the overall Law Society group funding requirement. The Law Society Council considered this on 2 July and, with the addition of the requirement for TLS and external levies, approved an overall requirement of £131.8m.
- 6 This requirement represents an increase of £3.9m (2.9%) on the figure for 2023/24. The overall requirement is split between individuals and firms, 40% and 60% respectively. Individuals pay a flat fee and SRA authorised firms also pay an entity fee based on their UK turnover. The proportion of turnover charged declines as turnover decreases.
- 7 £52.7m will be collected from individuals. At the time of writing there are over 173,000 solicitors (and Registered foreign lawyers) on the roll and that figure is expected to increase to over 176,000 by the end of the practising year due to the annual peak of admissions in August and September. During the last decade, the number of solicitors holding practising certificates has consistently increased by more than 3,000 per year. Our best estimate of practising solicitors is that this increase will continue next year, however recognising that not everyone pays a full practising fee (discounts are available to some of those individuals, such as people on maternity leave, while others joining the profession part-way during the year pay a reduced rate), the equivalent of around 173,000 full practising fees can be expected in the year, equating to an individual fee of £307.

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- 8 The increasing number of practising certificate holders means that the individual practising certificate fee be unchanged in 2024/25 despite the overall increase required. £162 of this fee is attributable to the SRA, also unchanged from 2023/24. The total amount to be collected from firms through the entity fees will increase from £76.7m to £79.1m. The impact on individual firms will vary depending on how their turnover has changed over the two years.
- 9 As previously discussed with the Board, the Compensation Fund contribution is proposed to increase in 2024/25 to ensure the viability of the fund following significant payments from the Fund during 2022/23 and 2023/24. The contribution for individuals will increase from £30 to £90 and for firms holding client money will increase from £660 to £2,220. These figures were previously discussed with the Board in March and May 2024.

Discussion

- 10 The Board considered feedback from the consultation on 25 June. This is further discussed in annex 6. Additional feedback received on the business plan is discussed as annex 7. 18 responses were received in total with 15 responses through the online consultation form and three written responses, including from the Law Society (TLS) and the Association of Professional Injury Lawyers (APIL). The Sole Practitioners Group also fed back separately on their concerns with the specific increase to the Compensation Fund firm contribution.
- 11 There was no specific feedback that suggested that amendments should be made to the budget for 2024/25.
- 12 There were a small number of responses which specifically mentioned the increase in the Compensation Fund contributions, highlighting the greater impact on small firms and suggesting that the basis for splitting the contributions between firms and individuals should be reconsidered.
- 13 The basis of how contributions are collected is being considered as part of the ongoing consumer protection work and we expect to consult on possible changes as that work progresses.
- 14 The Law Society consultation response criticised the lack of data included within the consultation document and called for greater transparency in explaining how the contributions were arrived at. This will of course be included in our application to the Legal Services Board for approval of the contributions.
- 15 The Law Society also acknowledged that, while the structure of contributions needed to be updated, this should be done in a considered manner, considering the evidence basis for any change and the impact on various groups.

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- 16 The equality impact assessment (EIA) that accompanied the consultation highlighted that there is a potential financial impact on individuals who are responsible for paying their own Compensation Fund contribution, including some solicitors working in-house and solicitors working in sectors where their earnings may be lower. These will typically be smaller firms. Firms in less profitable sectors are also more likely to feel the impact of the proposed increase.
- 17 In sectors which may be more affected by this increased financial burden, typically smaller firms as mentioned above, there is an overrepresentation of men, solicitors aged 45 and over, disabled solicitors, Black, Asian and minority ethnic solicitors, those from Hindu, Jewish, Muslim and Sikh faith groups and those from a lower or intermediate socio-economic background. It could also include women and disabled solicitors who may be more likely to be working part time or intermittently within the practising year.
- 18 The EIA made clear that we had considered these factors when making the initial proposals and that given our overarching aim to maintain the protections in place for the public and our requirement to maintain the Compensation Fund, we believe the increase is necessary and proportionate. There was nothing within the consultation responses to suggest that the conclusions we drew in the EIA regarding the impact on different groups was incorrect.
- 19 Due to the low level of responses received to the consultation and the fact that we are considering contributions as part of the consumer protection work leads us to conclude that it remains appropriate to approve the contributions as proposed.
- 20 Any alternative approach to distributing contributions would inevitably create winners and losers and the impact on all groups would need to be fully considered. We would also expect to consult on any proposed changes.
- 21 When considering all these factors it seems appropriate that any changes are considered, as planned, through the consumer protection review.

Recommendations: the Board is asked to make the following determinations:

- a) **the Practising Certificate Fee Determination [2024] in annex 1**
- b) **the Recognised Body and Recognised Sole Practice Fee Determination [2024] in annex 2**
- c) **the Licensed Body Fee Determination [2024] in annex 3**
- d) **the Determination of Compensation Fund contributions for individuals and firms [2024] in annex 4**

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e) the Determination of Compensation Fund contributions for Licensed Bodies [2024] in annex 5.

Next steps

- 22 The Practising Fees and Compensation Fund contributions are subject to final approval by the Legal Services Board and we will make the appropriate application following Board approval of the recommendations in this paper.
- 23 The Business Plan will be finalised following the Board feedback and presented to the Board for approval prior to the beginning of the next financial year.

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Supporting information

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

- 24 Approval of the fees to allow collection of the overall group funding requirement is essential to the delivery of all strategic objectives.

How the issues support the regulatory objectives and best regulatory practice

- 25 The draft SRA Budget for 2024/25 which underpins the SRA proportion of this funding requirement has been set in order to allow us to deliver against our strategic objectives, supporting our regulatory objectives.

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

- 26 The proposed budget for the SRA was included in the recent consultation on the 2024/25 business plan. The responses to this consultation were considered by the Board on 25 June 2024.

What equality and diversity considerations relate to this issue

- 27 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. An initial Equality Impact Assessment has been carried out this year as in previous years, the impacts of which are discussed in paragraphs 16-18.

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Annexes

- Annex 1** Draft Practising Certificate Fee Determination [2024]
Annex 2 Draft Recognised Body and Recognised Sole Practice Fee Determination [2024]
Annex 3 Draft Licensed Body Fee Determination [2024]
Annex 4 Draft Determination of Compensation Fund contributions [2024]
Annex 5 Draft Determination of Compensation Fund contributions for Licensed Bodies [2024]
Annex 6 Compensation Fund contribution consultation responses
Annex 7 Business Plan consultation feedback

NB: final versions of annexes 6 and 7 will be published in due course