



Solicitors  
Regulation  
Authority

**Application made by the Solicitors Regulation Authority  
Board to the Legal Services Board under Part 3 of  
Schedule 4 of the Legal Services Act for the approval of  
changes to regulatory arrangements relating to  
Compensation Fund contributions  
14 July 2014**

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**Application made by the Solicitors Regulation Authority Board to the Legal Services Board under Part 3 of Schedule 4 of the Legal Services Act for the approval of changes to regulatory arrangements relating to Compensation Fund contributions.**

**A. Proposed Alterations**

***Compensation Fund Contributions***

1. The SRA needs to set the Compensation Fund contributions for the practising year 2014/15. The methodology used to allocate the cost of the Fund throughout the regulated community remains the same as last year. 50% of the funding requirement will be met by a fixed contribution from regulated individuals, and 50% by a fixed contribution from regulated firms. Initial indications were that a contribution level of £8.4m would result in an individual contribution of £32 and a firm contribution of £548. Last year the equivalent contributions were £56 and £836 respectively.
2. The proposed level of contribution has been calculated in line with the methodology used in previous years, which involves assessing expected payouts and levels of claims by looking at historic trends in relation to claim numbers, amounts and timings and refined to take account of relevant more specific information where available. As was the case last year, the value of open claims on the Fund has reduced significantly, mainly due to the closure of a significant number of mortgage related claims.
3. The calculation uses the best view of predicted numbers and costs of interventions for 2014/15 onwards, continuing trends for business as usual, the impact of the closure of the ARP and claims in relation to uninsured firms with consideration also being given to any high risk potential liabilities where known. Intervention costs of £7.93m are included and this is based on a predicted level of 52 interventions. The total cost is broken down into £368k staff costs, £3.04m legal fees (external agents costs) and £4.52m archiving costs. This compares with a total budget of £12.3m in 2013/14 (£425k staff costs, £5.9m legal fees and £6.0m archiving costs). We do expect the archiving costs to reduce significantly over the next year or so as we start destroying files, but this is dependent on the court applications. An update on the court applications and anticipated cost savings is provided at Annex D.
4. The forecasted sum for grants during 2014/15 of £12.2m (as shown in Annex A) can be split so the sum included for claims in relation to uninsured firms is £2.5m per year therefore the remainder is for all other claims on the Compensation Fund that do not relate to uninsured firms, so £9.7m in 2015 and £11.0m and £12.5m in subsequent years. The sum of £2.5m has been included for claims in relation to uninsured firms, which is based on the estimated potential pay out in relation to the current open claims.
5. The impact of the proposed policy changes that may result from the Compensation Arrangements Review (CAR) have been considered. The first of the proposals have recently been consulted on, namely the introduction of eligibility criteria for applicants to the Fund and a number of proposals in relation to Professional Indemnity Insurance, which include a reduction of the minimum level of insurance and reduced run-off cover. However it is not possible at this stage to quantify the potential impact on the Fund that may result from these changes.

6. The contributions are not Practising Fees under the Legal Services Act (LSA) 2007, and so approval is required under part 3 of Schedule 4 rather than under s 51 of the LSA 2007.

## **B. Details of the relevant Regulatory Arrangements**

### ***Nature and effect of the existing position***

7. The SRA is required by statute to provide a Compensation Fund to compensate consumers who lose money due to the dishonesty or failure to account of solicitors (REs and RFLs) or recognised bodies. The Law Society's application and subsequent approval to become a Licensing Authority extends the same Compensation Fund provisions to Licensed bodies. This required statutory amendments under s69 LSA 2007 which were made after the necessary consultation by the Legal Services Board (LSB).

8. The statutory powers permit the SRA to require the regulated community to contribute to the Compensation Fund. The Compensation Fund Rules require both regulated individuals and regulated firms to make an annual contribution, collected mainly during the annual renewal/data collection exercise. Payment is required by 31 October for the following practising year.

9. In the absence of any evidence to suggest that the current approach to the apportionment of Compensation Fund contributions is fundamentally flawed, and given that the review of compensation arrangements is ongoing, it is proposed that the arrangements for the collection of the Compensation Fund contributions remain the same as previous years. This proposal supports principles: 3 (predictable income) and 4 (stability) of the fees policy.

10. Each year the SRA Board reviews the funding requirement for the following practising year and sets the individual and firm contributions at a level which ensures that the funding requirement is met. The contributions are required to fund the cost of claims, reserves and the cost of handling the claims. The SRA Finance and Resources Committee reviews the claims experience, level of reserves and budget for staff to handle the claims before making a recommendation to the SRA Board. The SRA Board then makes a recommendation to the Law Society Council which is required, under the General Regulations, to approve the overall funding requirement. The SRA Board then makes the final decision on apportionment and sets out the contribution by resolution (the Compensation Fund determination).

## **C. Nature and effect of the proposed change**

11. The Finance and Resources Committee, having gone through a detailed review, recommended that the funding requirement for 2014/15 should be £8.4m. The basis of the recommendation approved by the Finance and Resources Committee is included as Annex A which sets out the relevant financial analysis to support the £8.4m requirement. Management Board considered this on 18 June 2014 and SRA Board approved the same on 2 July 2014 which was subsequently approved by the Law Society Council on 9 July 2014. The SRA therefore now seeks the approval by the LSB of the following determinations:

***Annex B: Compensation Fund determination***

This prescribes the individual and firm Compensation Fund contribution.

***Annex C: Licensed Body Compensation Fund contribution determination***

This prescribes the contribution payable by the Licensed Bodies.

**D. Rationale for change**

12. The funding requirement for the Compensation Fund will vary year on year depending on claims experience. The proposed level of contribution has been calculated in line with the methodology used in previous years and refined to take account of relevant, more specific information where available, with consideration being given to additional high risk potential liabilities.

13. Over the years there have been variations with sometimes significant increases, for example, during property recessions. The reserving policy referred to in the Annex 1, and forward forecasting seeks, as much as possible, to avoid large swings and has been refined to take account of relevant, more specific information where available, with consideration being given to additional high risk potential liabilities.

**E. Statement in respect of the Regulatory Objectives**

14. The existence and effective operation of a Compensation Fund primarily protects and promotes the interests of consumers, in ensuring that they receive compensation if their money is lost while in the hands of a solicitor or firm. However it also promotes the public interest and improves access to justice in giving the public the confidence to entrust funds to solicitors and so facilitate many legal transactions. That is why statute requires such funds to be provided by the legal profession. Given the existence of such funds it is also in consumers' interests to ensure that they are adequately funded and so able to meet claims without undue delay.

**F. Statement in respect of the Better Regulation Principles**

15. The way in which the Compensation Fund requirement is allocated among the profession was reviewed in 2010 particularly in order to improve transparency and accountability. Following the SRA Board's decision in February 2014 to maintain the apportionment structure for this year, it is only the amounts that have changed. Although the final requirement was not set by the Council until July the SRA's early communications with the profession made it clear that the contributions would reduce again this year compared to the level last year, and the on-line calculator, which has been available on the SRA website, included realistic indicators of the likely contributions. This too has been reported in the legal press.

**G. Statement in relation to desired outcomes**

16. The desired outcome in relation to the alteration is to achieve a properly funded Compensation Fund that is able to meet claims as they fall due without undue delay. The Fund is reviewed annually and is also subject to audit. Regular reports on claims experience are made to management and the financial status of the Fund is a key priority for the SRA Finance and Resources Committee.

## **H. Statement in relation to impact on other Approved Regulators**

17. The changes in the contribution amounts should not have an impact on other approved regulators.

## **I. Implementation Timetable**

18. The SRA Board and the Law Society Council finalised the total funding requirements on 2 July and 9 July and seek LSB approval. During August final preparations for this year's renewal exercise will be made and on 1 October firms and individuals will be contacted and asked to make the various renewal applications on line and submit the relevant Compensation Fund contributions and other fees by 31 October 2014.

## **J. Stakeholder engagement**

19. As is standard practice, a comprehensive communications plan was drawn up to support the decision by the SRA Board that there should be no changes to the 2014/15 practising fees structure, including the proportion of Compensation Fund contributions. The purpose of the communications plan was to ensure that the regulated community and relevant stakeholders were informed of:

- The 2014 fees structure
- The availability of the fees calculator to help them

Separate communication plans exist to support the Compensation Arrangements Review and Wider Fees Review. These cross-reference communications relating to the fees structure whenever appropriate.

The following elements of the communications plan for fees and compensation fund activities have been delivered:

- The decision of the SRA Board to maintain the fee structure for practising fees for this and the forthcoming year was announced in the SRA's newsletter to the profession, SRA Update, which is sent to 200,000 recipients, including all those with a MySRA account. This announcement was sent out on 19 March and again on 29 April.
- In April a verification process was undertaken for the turnover figures submitted online by firms as part of the 2014/15 renewals process.
- In advance of the meeting of Council scheduled to review the budgets and NFR, the Law Society's Treasurer wrote to all Local Law Societies, Recognised Groups and Practitioner Associations drawing their attention to the NFR proposals and inviting comment or questions.
- Following the Law Society Council's approval of the indicative budget and the SRA Board approval of the fee determinations, press releases were issued by both the Law Society and the SRA
- As is the Communications Unit's practice, all news releases on the subject of fees are circulated to groups such as the Sole Practitioners' Group, the Association of Women Solicitors, and the Association of Black Lawyers, for publication in their in-house newsletters and website.

- Further standard practice for the Communications Unit is to publicise all news releases through social media channels, namely Twitter and LinkedIn.
- Publication of the on-line calculator
- Updating the fees pages on the SRA website (with caveat that LSB still needs approval).
- Promotion of the on-line calculator through inclusion in Compliance News, a dedicated e-newsletter for compliance officers, on 1 July, and will be followed up in SRA Update on 15 July
- SRA staff were informed of availability of online calculator

Planned communication activity comprises:

- Following a well-received addition to last year's fees-setting process, the Chair of the SRA Board will write to the senior partner of all SRA-regulated firms in July to outline key points from the 2014-15 budget
- Assuming the LSB approves the Practising Fees for 2014/15, that decision will be publicised in a one-off SRA Update on 19 August

20. There is no policy change therefore the information provided last year through this application, and the on-line calculator, has given all those who have to pay the practising fees the following information:

- the level of the fees, and through the turnover table and on-line calculator the means to work out the firm fee
- information on how the level of the fee has been set
- an indication of how the income will be spent including a breakdown of the amount spent on regulatory functions, non-regulatory functions and shared services.

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**Annex A – Basis of recommendation**

**Annex B - Draft Determination of Compensation Fund contributions 2014**

**Annex C - Draft Determination of Compensation Fund contributions for Licensed Bodies 2014**

**Annex D - Update on File Destruction Court Applications**

# **ANNEXES**



## Annex A – Basis of recommendation

### Compensation Fund Contribution for 2014/15

#### Background and Status of the Fund as at February 2014<sup>1</sup>

##### Basis of the Current Calculation of the Compensation Fund Contribution

1. The Compensation Fund contribution has been calculated in line with previous years, by forecasting future cash outflows and inflows (with the exception of the Compensation Fund contribution) and calculating the minimum reserve using the formula shown in 3.2. These three elements of the total cash movement of the Fund, together with the opening balance, identify the required Compensation Fund contribution as a balancing figure as shown in the table at Annex 1.
2. All claims in progress have been evaluated using the same methodology as in previous years. The expected future payout and the timing of such a payout are based on historical pay out rates in relation to claim size and complexity of the claim respectively.

##### Calculation of the minimum reserve

3. The formula by which a minimum reserve of the Fund is calculated as follows:

$$\text{Minimum reserve} = (1.5 \text{ times weighted average grants paid in previous 7 years}) + (3 \text{ months' recharges}).$$

##### Compensation Fund Contribution 2013/14 and the following 2 years

4. When the methodology above was introduced the majority of claims and grants paid from the Fund were considered to be 'business as usual' and the methodology applied. However, we amended this in recent years to take account of the mortgage fraud claims, but as these are nearly concluded we are including the remaining mortgage fraud matters as business as usual again this year. Although the mortgage fraud claims were high value, only a few payments have been made so that is why the remaining claims have now been included within the model as business as usual.

##### Business As Usual Claims (Non Mortgage Fraud)

5. Apart from a spike in the original claim values of claims received in January, no significant change in the level or nature of business as usual claims has been identified during the last 12 months.

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<sup>1</sup> A detailed review of all the cost elements took place at the end of May 2014 resulting in changes to the expected costs, particularly in relation to intervention related costs. The results of that review are reflected in this paper.

### Mortgage Fraud Claims

6. Significant work has now been carried out on all mortgage fraud claims over the last 2 years with the majority of these claims having been adjudicated and closed in 2013. Only 23 matters remain open, the majority of which will be concluded before the end of June 2014. For the purpose of this report these are included as business as usual claims.

### Claims relating to uninsured firms

7. The Assigned Risks Pool (ARP) closed on 30 September 2013. Any negligence claims arising against uninsured firms (including firms who were ineligible to join the ARP during the final period) from October 2012 to September 2013 may potentially be paid out of the Fund.
8. In each of the last two years, an additional £0.5m for expected payments was incorporated into the Compensation Fund contribution to cover the expected impact.
9. To date, only one grant for £750 has been paid in respect of negligence claims against uninsured firms. However, the number and value of these claims is increasing and it is therefore proposed that the sum of £2.5m is included for expected payments for 2014/15. This figure has been agreed between Client Protection and Capita based on expected payments for the open cases and associated defence costs.

### Contentious matters

10. There are a number of cases in which there is ongoing dispute about whether the indemnity insurers are liable to clients. If not, then these claims fall on the Fund. The largest case is in the public domain in which over £30m of claims are possible if insurers establish that they can rely on the aggregation clause in the minimum terms and conditions. The trial of the issue is listed for November 2014 although even if the insurers succeed (or the matter settles before then), applications are likely to take some time to deal with because investigation of claims to the Fund is likely to have to consider the conduct of the applicants (who are mostly lenders) and whether that contributed to the loss.
11. There are other cases with similar issues over insurers' liabilities but they are not sufficiently advanced to represent serious risk to the Fund for 2014/15.
12. We have therefore not included specific provision within the model for these cases as it is considered that the sum held above the minimum reserve would be sufficient to cover any potential claims. There is an element of risk in this approach since whether or not applicants pursue their claims is outside of our control and this is the basis for the recommended contributions.

### Other payments from the Fund

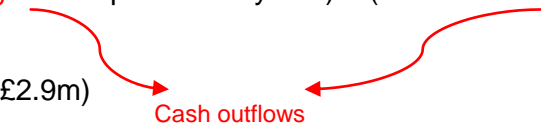
13. The SRA Board agreed that the cost of interventions incurred in 2013 in excess of the SRA budget could be paid from the Fund, as is expressly provided for in the Solicitors Act 1974 (as extended by the Legal Services Act 2007).
14. This has increased the amount of costs paid out of the Compensation Fund which has an impact on the calculation of the minimum reserve for the Fund. The costs have also increased because of the fees of Capita in processing the negligence claims (arising from closure of the ARP and uninsured firms). We have included the costs that we are paying Capita to deal with this work and their estimated costs for the rest of this Practising Certificate year.

### **Calculation of Recommended Contribution for 2014/15 based on the Current Methodology**

#### Minimum reserve

15. Using the previously established calculation, the minimum reserve at the end of the 2014/15 practising year would be:

$$\begin{aligned} & (1.5 \times \text{weighted average grants in previous 7 years}) + (3 \text{ months' costs} \\ & \text{paid from the Fund}) \\ = & (1.5 \times \text{£}15.7\text{m}) + (\text{£}2.9\text{m}) \\ = & \text{£}26.5\text{m} \end{aligned}$$

Cash outflows

See Annex 3 for detailed calculation of the minimum reserves for forthcoming years.

#### Cash outflows

16. The significant outflows from the Fund are the payment of grants and the payment of SRA and Law Society costs.
17. Grants paid totalled £15.8m in the 2012/13 practising year. Grants are forecast to be £15.1m in the current practising year, £12.2m in 2014/15 and £13.5m in 2015/16. This indicates that following the significant work to reduce the number of mortgage fraud claims, the grants paid are expected to remain at a relatively stable level in future years.

## Open Claims and Future Grants Paid

18. The main factors in forecasting grants are the current open claims and the expected number of future claims which in turn is determined by the expected number of interventions.
19. Current indications in June 2014 are that the number of interventions is set to rise slightly from 2013 total of 47 to 52, due to the current economic climate and financial difficulties firms face. For the purpose of this calculation, we have assumed that there will be 52 interventions in this and subsequent practising years<sup>2</sup>. There were 30 interventions between 1 November 2013 and 31 May 2014.
20. Supervision and Client Protection liaise in relation to potential interventions to help forecast more accurately the scale of future intervention costs as well as to manage the position operationally.
21. The intervened firms in 2013 were not typical i.e. active sole practices or firms with a small number of partners. It is notable that several were firms which had closed in the sense of no longer having live client files but they nonetheless still held client money and/or archived client files (in some cases numbering far more than we have normally seen) which the firm was unable to deal with.
22. Whilst interventions to the end of May 2014 appear to be more usual in scale and type, based on what has happened historically, it may only be a matter of time before another large intervention takes place, with the associated costs and possible claims which could impact on both the recharge and level / value of claims.

## Future Grants Paid 2013/14

23. The grants to be paid in 2013/14, based on the original value of open claims at the end of March 2014 of £62.7m is estimated to be in the region of £15.1m, broken down as follows:
  - £ 9.4m actual grants paid to date (Nov 2013 to March 2014)
  - £ 4.1m forecast grants on open claims
  - £ 1.3m forecast for grants relating to future claims
  - £ 0.3m forecast for claims re uninsured firms
  - £15.1m
24. Open claims in progress have been evaluated using the same methodology as in previous years. The expected future pay out and the timing of such a pay out is based on historical pay out rates in relation to claim size and complexity of the claim respectively. As the mortgage fraud claims are nearly concluded they have been included as business as usual claims.
25. The final element of grants paid relates to the changes to the ARP. £0.3m has been included as future grants for the remainder of 2013/14 relating to negligence claims from uninsured firms.

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<sup>2</sup> 2008/09 - 89 interventions, 2009/10 - 74 interventions, 2010/11 - 56 interventions, 2011/12 - 41 interventions and 2012/13 – 50 interventions.

### Future Grants Paid 2014/15 onwards

26. On the basis that the majority of open mortgage fraud claims were closed in 2013, all future estimated claims have been evaluated using the same methodology as in previous years. In addition, £2.5m has been included as future grants paid from 2014/15 onwards in respect of negligence claims against uninsured firms.

### Costs paid from the Compensation Fund

27. The amount forecast to be paid from the Fund for 2013/14 is £10.9m including the revised forecast of intervention costs<sup>3</sup>. For 2014/15 the predicted recharge is £11.7m. This is made up of £7.6m intervention costs and the remainder are staff costs and associated shared service costs. By way of comparison the costs in 2012/13 were £6.8m.

### Cash inflows

28. The main cash inflows to the Fund, excluding contributions, are transfers from Statutory Trust accounts (STAs) through rights of subrogation<sup>4</sup> and the transfer of residual balances<sup>5</sup>.
29. Based on evidence of previously closed STAs and the ongoing work on live accounts, residual funds are expected to total £1.1m in this year and £1.0m in 2014/15.

## **Assumptions and Risks**

### Assumptions

30. The following assumptions have been made in preparing this paper:
- 52 interventions in the 2013/14 practising year and each year thereafter.
  - The costs payable from the Fund during 2013/14 will be £10.9m of which £7.1m are intervention costs.
  - Rates of recovery from existing and future statutory trust accounts will not differ significantly from previous accounts.

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<sup>3</sup> The revised forecast was based on actual intervention costs to the end of May

<sup>4</sup> Recovery of grants paid where funds are found to be held by the Society in STAs

<sup>5</sup> Remaining funds in STAs once all reasonable efforts have been made to trace beneficiaries

## Risks and mitigation

31. There is a risk that any departure from the assumptions above may result in lower than expected inflows to the Fund or higher than expected outflows, both of which would result in lower than expected reserves.
32. These assumptions are based on all available information at the time of writing the paper. The underlying assumptions surrounding the forecast are regularly reviewed to ensure that there have been no significant changes that will affect the Fund in the future. Overall, the risk to the Fund of increased outflows or reduced inflows is mitigated by maintaining a robust reserve.

## **Required 2014/15 contribution**

33. With regards to the level of the Compensation Fund contribution for 2014/15, based on the assumptions and approach outlined above, with no contribution from the profession, the level of the reserve would be £37.9m; £11.4m above the calculated minimum level of reserve of £26.5m.
34. However, any potential additional liability for the uninsured loss cases over and above £2.5m provided for, and the contentious cases, are not included in the model and from these matters there is risk of potential liabilities. This would mean that the balance of the Fund and the minimum reserve would reduce significantly at a time when there are potentially other liabilities for the Fund.
35. It is also important to note that, assuming nil contribution in 2014/15, the level of contribution required to meet the minimum reserve in 2015/16 and 2016/17 would be £5.2m and £20.0m respectively.
36. If we average the required contribution for the three years, a contribution of £8.4m would be required in 2014/15, and potentially for the following two years, to smooth the impact of the contribution on the profession. By taking this approach, the balance for 2014/15 would exceed the required minimum reserve by £19.9m which supports the cautious approach adopted over recent years to allow a level of contingency in respect of the potential liabilities arising from uninsured firms and contentious matters.
37. By using an average contribution, the trend of the net balance over the next three years is downward - £55.9m in 2014, £46.4m in 2015, £35.4m in 2016 and £24.6m in 2017, see Annex 2 for further detail. This also fits with a strategy to reduce the risks arising from the holding of client money, providing prudent but reducing cover which could lead to lower or nil contributions if that strategy is effective, and firms stop holding or much reduce the amount of client money they hold. It will take time for that change to take effect.

### Impact on those we regulate

38. A required contribution of nil represents a reduction of £13.4m on the amount collected in 2013/14 practising year.
39. However, assuming nil contribution in 2014/15, there would be a sharp increase in the level of contribution required in 2015/16 and 2016/17 (£5.2m and £20.0m respectively) as the reserves above the minimum required level are utilised.
40. By adopting the three year average there would be a required contribution of **£8.4m**, which represents a reduction of £5.0m on the amount collected for the 2013/14 practising year.
41. The most recently available figures indicate that there are c.132,000 regulated individuals who would be expected to pay a Compensation Fund contribution and c.7,500 law practices which hold client money<sup>6</sup>.
42. A collection of £8.4m would result in an individual contribution of £32 and a firm contribution of £548 per firm, assuming that the current mechanism for collecting fees is retained<sup>7</sup>. See Annex 4 for further information.

### **Annexes**

- Annex 1 Compensation Fund contribution shown as a balancing figure
- Annex 2 Compensation Fund forecast 2013-2017
- Annex 3 Minimum reserve calculations
- Annex 4 Compensation Fund funding requirements and indicative fees
- Annex 5 Compensation Fund year end balances and grants paid

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<sup>6</sup> In calculating the 2013/14 fee, the numbers used were 125,000 regulated individuals and 8,100 firms holding client money

<sup>7</sup> 50% collected from individuals and 50% from firms on a flat fee basis.

## Annex 1 - Compensation Fund contribution shown as a balancing figure

	<b>Basis of calculation</b>
<b>Opening balance</b>	<b>As per accounts</b>
<b>Less Cash Outflows:</b>	
Compensation Fund grants paid	Forecast based on work in progress, historical payout rates, expected future claims based on historical claim numbers and expected number of interventions.
Fees, taxes and other charges	Expected tax and audit costs
SRA support costs recharged	SRA budget / forecast figures
<b>Add Cash Inflows:</b>	
Subrogated claims	Expected receipts from existing Statutory Trust Accounts (STAs) based on historical distributions as well as forecast receipts from STAs in relation to future interventions.
Compensation Fund recoveries	Assumed to be broadly in line with previous years.
Residual funds	Expected receipts from existing Statutory Trust Accounts (STAs) based on historical distributions as well as forecast receipts from STAs in relation to future interventions.
Bank & investment income	Expected balances in the Fund and rates of return on investments
<b>Compensation Fund Contribution</b>	<b>Balancing figure</b>
<b>Closing balance = Minimum Reserve</b>	<b>Calculation based on formula</b>



## Annex 2 - Compensation Fund forecast 2013-2017

£000's	PY 13-14	PY 14-15	PY 15-16	PY 16-17
<b>Compensation Fund forecast 2013-2016</b>	Full year	Full year forecast	Full year forecast	Full year forecast
<b>Opening balance as at 1st November</b>	<b>72,037</b>	<b>55,897</b>	<b>46,402</b>	<b>35,397</b>
<b>Cash Outflows</b>				
Compensation Fund Grants	15,080	12,172	13,541	15,001
Fees, tax and other costs	94	122	122	122
SRA support costs recharged	10,938	11,740	11,740	11,740
<b>Total cash outflow in period</b>	<b>26,113</b>	<b>24,034</b>	<b>25,403</b>	<b>26,863</b>
<b>Cash inflows</b>				
Subrogated claims	5,061	4,696	4,487	5,824
Compensation Fund recoveries	61	142	142	142
Residual balances from STA's	1,056	1,013	1,081	1,428
Bank & investment income	245	293	293	293
<b>Total cash inflow before contributions</b>	<b>6,422</b>	<b>6,144</b>	<b>6,003</b>	<b>7,686</b>
<b>Net cash inflow / outflow before contributions</b>	<b>(19,690)</b>	<b>(17,890)</b>	<b>(19,400)</b>	<b>(19,177)</b>
<b>Balance before contributions</b>	<b>52,347</b>	<b>38,007</b>	<b>27,002</b>	<b>16,219</b>
<b>Compensation Fund contributions</b>	<b>3,551</b>	<b>8,395</b>	<b>8,395</b>	<b>8,395</b>
<b>Net cash inflow after contributions</b>	<b>(16,140)</b>	<b>(9,495)</b>	<b>(11,005)</b>	<b>(10,782)</b>
<b>NET BALANCE AFTER CONTRIBUTIONS</b>	<b>55,897</b>	<b>46,402</b>	<b>35,397</b>	<b>24,614</b>
variance from minimum reserve after contributions	27,841	19,897	10,109	(0)
<b>Calculated minimum reserve:</b>	<b>28,056</b>	<b>26,505</b>	<b>25,288</b>	<b>24,614</b>

Note: The total Contributions for 13/14 were £13.4m. The £3.5m shown above relates to the cash received in 2013/14 with £10m being received in 2012/13 (due to cash accounting policy for the Compensation Fund).

### Annex 3 - Minimum Reserve Calculations

<i>Minimum reserve calculation: grants paid last 7 years</i>	Contribution Year			
	2013/14	2014/15	2015/16	2016/17
Practising year ↓				
2007/08	£8.8 m			
2008/09	£13.5 m	£13.5 m		
2009/10	£28.3 m	£28.3 m	£28.3 m	
2010/11	£15.4 m	£15.4 m	£15.4 m	£15.4 m
2011/12	£17.3 m	£17.3 m	£17.3 m	£17.3 m
2012/13	£15.8 m	£15.8 m	£15.8 m	£15.8 m
2013/14 (forecast)	£15.1 m	£15.1 m	£15.1 m	£15.1 m
2014/15 (forecast)	N/a	£12.2 m	£12.2 m	£12.2 m
2015/16 (forecast)	N/a	N/a	£13.5 m	£13.5 m
2016/17 (forecast)	N/a	N/a	N/a	£15. m

Weighted average	£16.7 m	£15.7 m	£14.9 m	£14.5 m
Average * 1.5	£25.1 m	£23.6 m	£22.4 m	£21.7 m
3 months recharge	£2.9 m	£2.9 m	£2.9 m	£2.9 m
Minimum reserve	£28.1 m	£26.5 m	£25.3 m	£24.6 m

### Annex 4 - Compensation Fund funding requirements and indicative contributions

	Actual 2013-14	2014-15 forecast	2015-16 forecast	2016-17 forecast
Total contribution	13,445,450	8,395,200	8,395,200	8,395,200
Indicative individual Fee	£56	£32	£32	£32
Indicative firm Fee	£836	£548	£548	£548
Firm / Individual split	50/50	50/50	50/50	50/50

### Annex 5 - Compensation Fund year end balances and grants paid

Year	Grants paid	Year end balance
2008-09	£13.5 m	£51.1m
2009-10	£28.3 m	£56.2m
2010-11	£15.4 m	£44.9m
2011-12	£17.3 m	£47.7m
2012-13	£15.8m	£72.0m

## **Annex B - Draft Determination of Compensation Fund contributions 2014**

This determination is made by the Solicitors Regulation Authority Board under rule 2.3 of the SRA Compensation Fund Rules 2011, with the approval of the Legal Services Board under paragraph 19 of Schedule 4 to the Legal Services Act 2007.

- (1) Every person who applies for a practising certificate to commence on or after 1 November 2014, or who applies for initial registration or renewal of registration as a registered European lawyer or registered foreign lawyer to commence on or after 1 November 2014, shall pay with the fee payable in respect of that application, a contribution of £32 to the Fund.
- (2) Every recognised sole practitioner that:
  - (a) applies for renewal of authorisation as a recognised sole practitioner to commence on or after 1 November 2014; and
  - (b) has held or received client money (as defined in the SRA Accounts Rules 2011) during the period 1 November 2013 to 31 October 2014 shall pay with the fee payable in respect of that application, a contribution of £548 to the Fund.
- (3) Every recognised body that has held or received client money (as defined in the SRA Accounts Rules 2011) during the period 1 November 2013 to 31 October 2014, shall pay with the annual periodical fee, a contribution of £548 to the Fund.
- (4) Every person that:
  - (a) applies for initial authorisation as a recognised sole practitioner or initial recognition as a recognised body to commence during the period 1 November 2014 to 31 October 2015; and
  - (b) intends to hold or receive client money (as defined in the SRA Accounts Rules 2011) at any time during the period 1 November 2014 to 31 October 2015shall pay with the fee payable in respect of that application, a contribution to the Fund as follows:
  - i. £548 on applying for initial recognition to commence in the period 1 November 2014 to 31 December 2014;
  - ii. £411 on applying for initial recognition to commence in the period 1 January 2015 to 31 March 2015;
  - iii. £274 on applying for initial recognition to commence in the period 1 April 2015 to 30 June 2015;
  - iv. £137 on applying for initial recognition to commence in the period 1 July 2015 to 31 October 2015.

(5) The SRA may waive the contribution payable under paragraph (4) above in circumstances where the initial application is made by a body which is changing its legal status or is succeeding to the practice of another recognised body or recognised sole practitioner and the predecessor body or practitioner has already paid a contribution to the Fund.

(6) In this determination:

**Fund** means the Solicitors' Compensation Fund established and maintained under rule 2.1 of the SRA Compensation Fund Rules 2011; and

All other terms are to be interpreted in accordance with the Practising Certificate Fee Determination 2014.

(7) This determination shall come into force on 1 November 2014.

## **Annex C - Draft Determination of Compensation Fund contributions for Licensed Bodies 2014**

This determination is made by the Solicitors Regulation Authority Board under rule 2.3 of the SRA Compensation Fund Rules 2011, with the approval of the Legal Services Board under paragraph 19 of Schedule 4 to the Legal Services Act 2007.

- (1) Every licensed body that held or received client money (as defined in the SRA Accounts Rules 2011) at any time during the period 1 November 2013 to 31 October 2014, shall pay, with the annual periodical fee, a contribution of £548 to the Fund.
- (2) Every licensed body that intends to hold or receive client money (as defined in the SRA Accounts Rules 2011) at any time from the date on which the body is authorised to 31 October 2015, shall pay, with the initial periodical fee, a contribution to the Fund as follows:
  - i. £548 on being authorised in the period to 31 December 2014;
  - ii. £411 on being authorised in the period 1 January 2015 to 31 March 2015;
  - iii. £274 on being authorised in the period 1 April 2015 to 30 June 2015;
  - iv. £137 on being authorised in the period 1 July 2015 to 31 October 2015.
- (3) The SRA may waive the contribution payable under paragraph (2) above in circumstances where the initial application is made by a body which is changing its legal status or is succeeding to the practice of a recognised body or recognised sole practitioner and the predecessor body or practitioner has already paid a contribution to the Fund.
- (4) In this determination:

**Fund** means the Solicitors' Compensation Fund established and maintained under rule 2.1 of the SRA Compensation Fund Rules 2011; and

All other terms are to be interpreted in accordance with the Licensed Body Fee Determination 2014.
- (5) This determination shall come into force on 1 November 2014.

## **Annex D - Update on File Destruction Court Applications**

### **Court Application 1**

This application is for permission to destroy files circa 1.5m files which have been through the process for examination and retention previously approved by the Court and are now ready for destruction. Given that the Court has approved an identical application in relation to other files, we are confident that approval for destruction will be given. The anticipated hearing date for this application is October 2014. It is anticipated that the SRA will be able to realise savings within 1 year of commencing destruction of files, following which savings will be made of c.£340k each year.

### **Court Application 2**

This is a second application seeking the Court's approval for a destruction policy based on much reduced retention periods. There two key elements are:

1. a reduced list of original documents to be retained
2. reduced retention periods which run from the date of file closure rather than the date of intervention

It is the second element which would produce the greatest cost savings.

The proposed policy has been part of a public consultation earlier this year.

We are currently in discussions with our legal advisors on a number of aspects. We hope to be able to make the application in the Autumn with a hearing around March of next year.

If the application is approved, the anticipated cost savings once all the files have been revisited over an 18 month period is c.£5.8m.