



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  
15 July 2016**

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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 2016/17. 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. A contribution level of £8.5m would result in an individual contribution of £32 and a firm contribution of £548 which is the same as last year.
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 revised processes and improved efficiency leading to more straightforward claims being processed quicker than in previous years.

The calculation uses the best view of predicted numbers and costs of interventions for 2016/17 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 £6.9m are included and this is based on a predicted level of 45 interventions. The total cost in the 2016 NFR is £10.9m of which £6.9 is intervention costs and the remaining £3.0m are staff related costs and a contribution for shared services.. This compares with a total budget of £ 6.8m for 2015 (£363k staff costs, £2.2m legal fees and £4.3m archiving costs).

3. The forecast sum for grants during 2016/17 of £10.7m (as shown in Annex A) can be split so the sum relating to uninsured firms is £0.4m and the sum for all other claims is £10.3m in 2016/17 and £11.4 m and £14.0m in subsequent years. The sum of £0.4m 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.
4. The first proposal of the Compensation Arrangements Review (CAR), the introduction of eligibility criteria for applicants to the Fund was implemented in 2014. This was to protect the Fund against lender and other corporate claims. The categories of claimant who will now be ineligible were rarely successful in their applications as they were usually unable to show hardship. However should there be, for instance, another sharp rise in claims from lenders due to mortgage fraud, then the new eligibility rules might have an impact.
5. 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***

6. 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).
7. 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.
8. 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.
9. 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 Audit 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**

10. The Finance Audit Committee, having gone through a detailed review, recommended that the funding requirement for 2016/17 should be £8.5m. The basis of this recommendation is included as Annex A which sets out the relevant financial analysis to support the £8.5m requirement. SRA Board considered this on 1 June 2016 and Management Board on 8 June 2016 and both approved the same. It was subsequently approved by the Law Society Council on 14 July 2016. The SRA, therefore, now seeks the approval by the LSB of the following determinations:

#### ***Annex B: Draft Determination of Compensation Fund contribution 2016***

- This prescribes the individual and firm Compensation Fund contribution.

#### ***Annex C: Draft Determination of Compensation Fund contributions for Licensed Bodies 2016***

- This prescribes the contribution payable by the Licensed Bodies.

### **D. Rationale for level of contribution**

11. 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.

12. Over the years there have been variations with sometimes significant increases, for example, during property recessions. The reserving policy referred to in the Annex A, 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**

13. 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 or not accounted for while in the hands of a regulated individual or entity. 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**

14. 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 PC fees and Compensation Fund contributions apportionment structure for two years, pending a wider review, it was only the amounts that changed. This year the amounts have stayed the same as they were last year.

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

15. 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 Audit Committee.

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

16. As there are no changes in the contribution amounts there should not be an impact on other approved regulators.

## **I. Implementation Timetable**

17. The SRA Board and the Law Society Council finalised the total funding requirements in July and seek LSB approval. During August final preparations for this year's renewal exercise will be made and on 1 October 2016 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 2016.

## **J. Stakeholder engagement**

18. As is standard practice, a comprehensive communications plan was drawn up to promote the determination of the 2016/17 practising fees, 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 2016-17 fees structure
  - The availability of the fees calculator to help them
  - The level of fees to be collected
19. The following elements of the communications plan for fees and compensation fund activities had been delivered or are scheduled for delivery:
  - Fee-payers are always invited to comment on the SRA's strategic priorities for 2016-17, having direct input into the planned activities and their associated costs through a dedicated email inbox
  - An outline of the fee structure for practising fees for this year and inviting comment on how fees are spent 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 in April 2016
  - Publication of the on-line calculator
  - The June SRA Update promoted the release of the calculator and the Law Society's consultation on fees
  - Updated fees pages on the SRA website (with caveat that LSB still needs to approve).
  - A media release to promote these developments
  - A media release on the SRA Board's decision on fee determinations 13 July
  - The decision will be promoted through SRA Update on 19 July 2016
  - 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 on a date to be determined to outline key points from the 2016-17 budget
  - Assuming the LSB approves the budget requirement of the Law Society Group, that decision will be publicised in a media release in mid-August

- As is the Communications Unit's practice, all news releases 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, LinkedIn and Facebook
- There should be reference to the online calculator going live in Professional update
- SRA staff will be informed of availability of online calculator and fee determinations (there are more than 100 solicitors working at the SRA)

Many of these communications will send visitors to the Fees 2016-17 page that outlines how fees are spent by the SRA and which offers the opportunity for feedback

### **SRA contact for matters relating to this application**

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### **Annex A - Basis of recommendation**

### **Annex B - Draft Determination of Compensation Fund contributions 2015**

### **Annex C - Draft Determination of Compensation Fund contributions for Licensed Bodies 2015**

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

# ANNEXES



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## Annex A – Basis of recommendation

### Compensation Fund Contribution for 2016/17

#### Purpose

- 1 This paper sets out the SRA's financial projections for the Compensation Fund (the Fund) for the next three years and the recommended Compensation Fund Contribution for 2016/17.
- 2 On 19 April 2016 the SRA's Finance & Audit Committee (F&AC) approved the approach for the calculation of contributions to the Fund in line with the method used in previous years.
- 3 At its meeting on 23 May 2016 the F&AC approved the recommendations in this paper and reviewed a paper on the "Legal Assessment of High Value Contentious cases" by David Middleton.
- 4 This paper seeks the Board's approval of the proposed Compensation Fund contribution for 2016/17.
- 5 Following the Board's decision, the matter will then be considered by Management Board on 8 June 2016 and Law Society Council on 13 July 2016.

#### Recommendation

- 6 The Board is asked to recommend that Council approve the contributions to the Fund for 2016/17 in line with the recommendation of the F&AC. On the basis proposed, the total contribution for 2016/17 would total £8.5m with individual and firm contributions remaining the same as last year:
  - Individual contribution - £32
  - Firm contribution - £548

**If you have any questions about this paper please contact: Kate Shaw, Director of Client Protection, 0121 329 6233, [Kate.Shaw@sra.org.uk](mailto:Kate.Shaw@sra.org.uk)**

*This paper is marked official because it contains sensitive financial and operational information*

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## **Compensation Fund Contribution for 2016/17**

### **Background and Approach**

- 7 The Fund pays discretionary grants to people who have lost money as a result of dishonesty or failure to account by solicitors or law firms. In 2014/15, the Fund paid £17.9m in grants. It also has a fairly new jurisdiction to pay discretionary grants to people who cannot recover damages from a solicitor or law firm because of a failure to obtain indemnity insurance. That was put in place following the abolition of the Assigned Risks Pool which provided similar cover. Very little has been paid out under the new jurisdiction. It is referred to as “uninsured loss” in this paper.
- 8 Each year, the Board decides how much to raise from law firms and individuals to finance the Fund.
- 9 We propose that the contribution this year remains the same as last year:
  - Individual contribution - £32
  - Firm contribution - £548
- 10 It is the long standing approach of the Fund, agreed by the Finances and Resources Committee and the Board, to maintain a minimum reserve fund as a contingency against unexpected numbers of claims or unexpectedly large claims. In addition, our approach in recent years has been to look beyond the practising year in question to try to forecast contribution requirements over a three year cycle to avoid the position (which has occurred in the past) of the contribution spiking and then dropping significantly in consecutive years.
- 11 It would have been possible to have no contribution in the current practising year and still to have maintained a level of reserve well above the identified minimum. However, a nil contribution in any year would mean that the level of contribution required in the following two practising years would then be significantly higher. Such peaks and troughs in the contribution make planning difficult for law firms.
- 12 In addition, a nil contribution model would not include any potential additional liability for the uninsured loss jurisdiction (above the sum provided for) and the contentious cases identified in the paper. As a result, the Fund’s reserve would reduce significantly creating a risk in the event of these, or other unforeseen liabilities, arising.
- 13 The F&AC did debate the reserve position for some time and concluded that the proposal to smooth the release of the reserves was the correct approach.
- 14 The proposed contribution would mean the requirement in 2017/18 and 2018/19 would be £9.4m and £11.5m respectively to maintain the minimum reserve, leading to a slight increase in contributions over the following two years. The individual and firm fees in 2017/18 would be c.£35 and c.£605 respectively and in 2018/19 would be c.£43 and c.£742 respectively.

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- 15 This year the variance from the minimum reserve will still be £9.1m, but this variance will gradually reduce over the following two years to £4.4m in 2017/18 and £0.4m in 2018/19. See Annex 4.

#### **Position as at 31 March 2016**

- 16 Total grant payments for the practice year 2014/15 were £17.9m.
- 17 Forecast grant payments for this practice year are £10.7m as discussed further below.
- 18 The gross value of open claims<sup>1</sup> received as at 31 March 2016 was £39.4m. We forecast that in the year 2015/16 we will pay grants of £10.7m. See paragraph 36 below for a full breakdown. It is normal for the gross value of claims to be much higher than what is eventually paid. The value of open claims can be seen from Annex 1.
- 19 The introduction of eligibility criteria has protected the Fund against lender and other corporate claims. In recent years, there have been few such claims and so the financial impact at present is low. The categories of claimant who are now ineligible were rarely successful with their applications as they were usually unable to show hardship. However, should there be, for instance, another sharp rise in claims from lenders due to mortgage fraud, then the eligibility rules would have an impact.

#### Claims for uninsured loss

- 20 These are applications to the Compensation Fund (following closure of the ARP at the end of September 2013) for losses suffered as a result of the civil liability of a firm which did not have insurance against which claims could be made. Capita deals with these claims on our behalf because of their close relationship to formal negligence claims which they also dealt with as manager of the ARP.
- 21 At the end of March 2016 there have been 68 claims, of which 20 are currently under investigation with a total claim value of £6.2m. Eight payments have been made totalling £19.9k. Capita's estimate at the end of March 2016 was that we will pay out £330k in relation to these claims.
- 22 Last year £2.0m was included for expected payments for 2015/16 to cover possible payments for the open cases and associated defence costs. For 2016/17 £1.0m has been included.

#### Contentious Matters

- 23 Because the Fund is a fund of last resort, it will not pay if the defaulting firm's indemnity insurer should pay. There is a very high value dispute between the Fund and insurers in the Willmetts case. There are a number of other cases in which there is an ongoing dispute about whether the indemnity insurers are liable to clients.

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<sup>1</sup> Sometimes referred to as Original Claims Value (OCV) which after analysis is usually reduced to Revised Claims Value (RCV) which represents a more realistic estimate of the correct value of the claim. Claimants often seek much more "compensation" than is actually payable from the Fund.

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- 24 If not, then these claims may fall on the Fund. Willmetts is the largest case and is in the public domain. Insurers could have liability in tens of millions. The issue is whether insurers can rely on the aggregation clause in the minimum terms and conditions. The case is adjourned whilst a similar case is resolved but the risk of substantial claims being payable by the Fund is mitigated by its discretionary nature.
- 25 There are other ongoing contentious cases but none are sufficiently advanced to represent a serious risk to the Fund for 2016/17. We have therefore not included specific provision for these as we think that the sum held in and above the minimum reserve would be sufficient to cover any potentially payable claims in 2016/17. 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 contribution.
- 26 In relation to contentious cases, the Fund has received claims of £99.9m which it has revised down to £23.3m.

#### Other Payments from the Fund

- 27 It has previously been agreed by the Board that the costs of interventions could be paid from the Fund.<sup>2</sup> That was in fact the case for many decades so far as the legislation allowed.
- 28 This has increased the total amount paid out of the Fund in recent years which has a consequent impact on the minimum reserve calculation. Increased costs are also being incurred for Capita in dealing with claims for uninsured firms (see para 19).

#### **Calculation of Recommended Contribution for 2016/17**

- 29 As in previous years, the recommended contribution has been calculated by taking the opening balance of money held in the Fund and then taking account of:
- calculation of the minimum reserve required (see paragraph 30)
  - forecast cash outflows (i.e. grants and costs – see paragraph 31)
  - forecast cash inflows (excluding the contribution – see paragraph 44)
- 30 This leads to the required contribution being identified as a balancing figure which is explained in Annex 2 and then as shown in the tables at Annexes 3 and 4. Annex 4 shows the deliberate policy to reduce the balance held above the minimum reserve over the next few years to £4.4m by 2017/18 and £0.4m by 2018/19. Annex 5 shows how the amount required has been made up from contributions and reserves from 2014/15 and forecast to 2019/20. Each of the above categories is considered in detail below.

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<sup>2</sup> As expressly provided for in the Solicitors Act 1974 (as extended by the Legal Services Act 2007).

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### Minimum Reserve

31 The calculation used in recent years for the minimum reserve produces the following figure for 2016/17:

- (1.5 x weighted average grants in previous 7 years) + (3 months' costs)
- = (1.5 x £15.2m) + (£2.6m)
- = **£25.5m**

See Annex 6 for detailed calculation of the minimum reserves for forthcoming years.

### Cash Outflows

32 The Fund's main outflows are the payment of grants and of SRA and Law Society costs allowed by the legislation. The grants paid in the practising year 2014/15 were £17.9m as shown in Annex 7. The amount we expect to pay in grants for the practising year 2015/16 is forecast at £10.7m.

Future grants are forecast as follows:

2016/17 - £11.4m

2017/18 - £14.0m

The value of claims and of grants paid is shown in Annex 8. The trend in claims paid by calendar year is shown in Annex 9.

### Future Claims and Costs

- 33 The main factors in forecasting grants are the numbers of current claims and expected future claims. The latter is determined by the expected number of interventions.
- 34 For the purpose of this calculation, we have assumed that there will be 45 interventions in this and subsequent practising years. This is a conservative estimate based on the number of interventions year to date and the expected activity for the rest of the year.
- 35 Interventions also account for the bulk of the costs paid by the Fund. We liaise closely with Supervision on potential interventions to help forecast future intervention costs more accurately (as well as to prepare operationally). Forecasting intervention numbers beyond that is very difficult.
- 36 We are continuing to see more interventions into firms which are closed in the sense of no longer having live client files but still hold client money and/or archived client files – often in very large numbers. An intervention into a “closed” firm with a large and disorganised archive can cost as much as an intervention into a live firm and in some cases more.

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#### Future Grants likely to be paid in 2015/16

- 37 We estimate that for 2015/16, we will pay grants of c£10.7m against the total original value of open claims at the end of March 2016 of £39.4m. When looking at the revised claim value of open claims, the total as at the end of March 2016 was £12.7m (these figures include the claims for uninsured losses). The £10.7m is broken down as follows:

Actual grants paid to date (Nov'15 to Mar 16)	£4.5m
Forecast grants on open claims (WIP)	£3.6m
Forecast for grants relating to future claims	£2.2m
Forecast for claims re uninsured firms (WIP)	<u>£0.4m</u>
Total	£10.7m

- 38 Open claims have been evaluated to consider the likelihood of the claim being paid and when the payment is likely to be made. A possible future payout has been predicted based on historical payout rates, considering both the claim size and complexity.
- 39 The final element of grants likely to be paid is £0.4m for uninsured losses (see para 19).

#### Future Grants for 2016/17 onwards

- 40 All future estimated claims have been evaluated using the same methodology as in previous years. In addition, £1.0m has been included as future grants paid from 2016/17 onwards claims under Rule 5 relating to uninsured firms.

#### Costs paid from the Compensation Fund

- 41 The amount forecast to be paid from the Fund for 2015/16 is £10.6m based on the intervention costs included in the SRA budget.
- 42 For 2016/17 the predicted recharge is £10.9m. This is made up of £6.9m intervention costs and the remainder is staff related costs and shared service contribution.
- 43 The table at Annex 10 shows the costs recharged to the Fund.

#### Cash Inflows

- 44 The main cash inflows to the Fund (excluding contributions) are transfers from Statutory Trust Accounts (STAs) through rights of subrogation and the transfer of residual balances.
- 45 Based on evidence of previously closed STAs and the ongoing work on live accounts, subrogated and residual funds are expected to total £9.3m in this year and £5.2m next year.

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- 46 Cash is also recovered from intervened solicitors or from Insurance claims. At present the costs of recovering these debts is funded by the SRA and not recharged to the fund. As part of the NFR (Net Funding Request) a revised cost allocation has been approved by the F&AC ensuring cost recovery costs are charged pro-rata to both the SRA and the Fund.
- 47 Recoveries were £1m in 2014/15 and are forecast at £1.2m in 2015/16, increasing to £1.4m from 2016/17 onwards.

### **Assumptions and Risks**

- 48 The following assumptions have been made in preparing this paper:
- 45 interventions in this practising year and each year thereafter
  - The costs payable from the Fund will be £10.9m of which £6.9m are intervention costs and the balance are staff related costs.
  - Rates of recovery from existing and future statutory trust accounts will not differ significantly from previous years

### Risks and Mitigation

- 49 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.
- 50 These assumptions are based on information available at the time of writing. 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.

### **Draft recommended 2016/17 contribution**

- 51 The required contribution is £8.5m, which is the same as last year (£8.589m in 2015/16).
- 52 For the purposes of calculating an individual and firm contribution it has been assumed that there will be the equivalent of 133,000 individuals paying a fee and approximately 7,750 firms paying a contribution.
- 53 Based on these figures, a collection of £8.5m would result in an individual contribution of £32 and a firm contribution of £548, assuming that the current mechanism for collecting fees is retained (same as last year). See Annex11.

**Recommendation: to recommend that Council approve the Fund's contributions for 2016/17 totalling £8.5m, in line with the recommendation of the SRA's F&AC. On this basis proposed, the contributions for 2016/17 would remain the same as last year:**

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- Individual contribution - £32
- Firm contribution - £548

**Links to the Strategic Plan and / or Business Plan**

54 This paper relates to our strategic objective to “improve our operational performance and make fair and justifiable decisions promptly, effectively and efficiently” in the context of ensuring client protection through an effective and efficient Compensation Fund.

**How the issues support the principles of better regulation**

55 A properly run Compensation Fund provides transparency and accountability.

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

56 The paper has been prepared in collaboration with SRA Finance and Shared Services.

**What equality and diversity considerations relate to this issue**

57 There are no equality and diversity considerations relevant to this paper.

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**Date** 24 May 2016



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**Annexes**

- Annex 1 Original claim value (OCV) of WIP, receipts and closures February 2014 - March 2016
- Annex 2 Compensation Fund contribution shown as a balancing figure
- Annex 3 Compensation Fund forecast 2015/16
- Annex 4 Compensation Fund forecast: 2016/19
- Annex 5 Illustration of how reserves fund the contribution
- Annex 6 Minimum reserve calculations
- Annex 7 Compensation Fund year end balances and grants paid
- Annex 8 Original claim values and claims paid 2006-2016 (Calendar Year)
- Annex 9 Compensation Fund claim payments year on year
- Annex 10 Cost forecast recharged to the Fund
- Annex 11 Compensation Fund funding requirements and indicative contributions

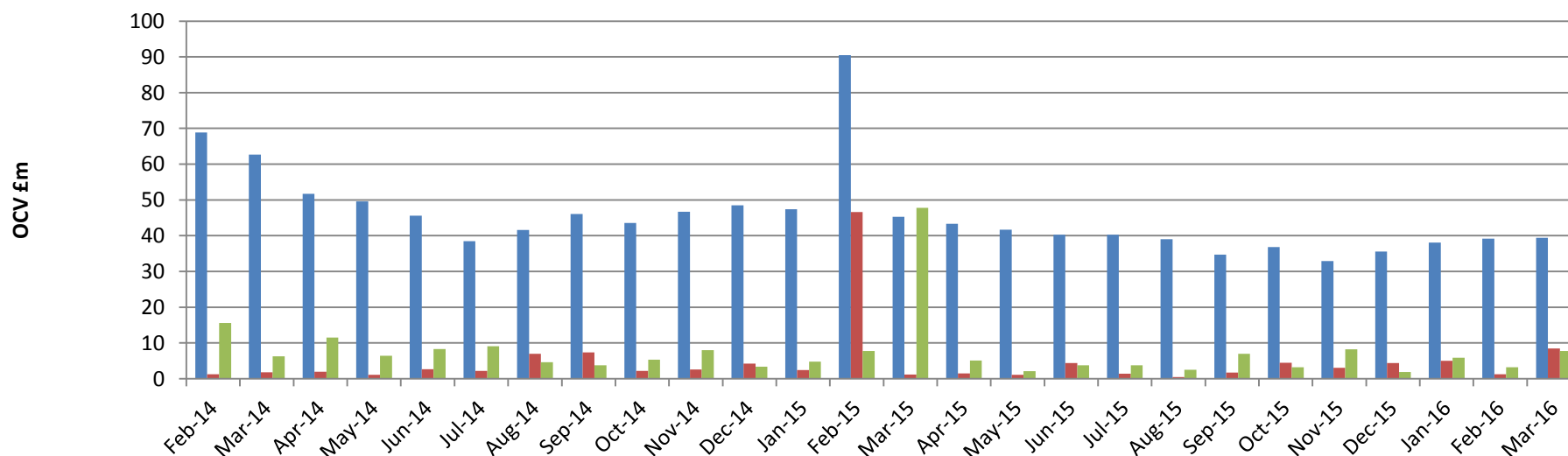
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Annex 1

Original claim value (OCV) of WIP, receipts and closures February 2014 - March 2016



	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16
OCV of WIP	68.9	62.7	51.7	49.6	45.6	38.5	41.6	46.1	43.6	46.7	48.5	47.4	90.5	45.3	43.3	41.7	40.3	40.3	39	34.7	36.8	32.9	35.6	38.1	39.2	39.4
OCV of Receipts	1.3	1.8	2	1.1	2.7	2.2	7	7.4	2.2	2.6	4.2	2.4	46.6	1.2	1.5	1.1	4.4	1.4	0.5	1.7	4.5	3.1	4.4	5	1.3	8.5
OCV of Closures	15.6	6.3	11.5	6.4	8.3	9.1	4.6	3.8	5.3	8	3.4	4.8	7.8	47.8	5.1	2.1	3.8	3.8	2.5	7	3.2	8.2	1.9	5.9	3.2	7.8

A spike in claims in February 2015 was due to 3 claims with original claim values totalling £45.2m. These claims have been closed at the moment as they are low risk.

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Annex 2

Compensation Fund contribution shown as a balancing figure

	Basis of calculation
Opening balance	As per accounts
<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>
Closing balance = Minimum Reserve	Calculation based on formula

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Annex 3

Compensation Fund forecast 2015-2016

2015 Actual YTD	2016 Full Year Budget	Compensation Fund forecast 2014-2018 £000's	PY 15-16		
			Actual November - March	Forecast April - October	Full year forecast
£56,011	£43,384	<b>Opening balance as at 1st November</b>	£44,475	£48,172	<b>£48,172</b>
		<b>Adjust Current Year Advance Fee</b>	<b>-£6,485</b>		<b>-£6,485</b>
		<b>Cash Outflows</b>			
£17,901	£12,811	Compensation Fund Grants	£,4,469	£6,198	<b>£10,668</b>
£23	£38	Fees, tax and other costs	<b>-£229</b>	£16	<b>-£213</b>
£10,492	£10,556	SRA support costs recharged	£2,951	£7,605	<b>£10,556</b>
<b>£28,416</b>	<b>£23,405</b>	<b>Total cash outflow in period</b>	<b>£7,191</b>	<b>£13,820</b>	<b>£21,010</b>
		<b>Cash inflows</b>			
£5,492	£13,454	Subrogated claims	£7,643	£1,638	<b>£9,281</b>
£1,070	£269	Compensation Fund recoveries	£429	£798	<b>£1,227</b>
£622	£2,523	Residual balances from STA's	£452	£326	<b>£778</b>
£108	£248	Bank & investment income	£259	£131	<b>£391</b>
£7,752	£16,494	<b>Total cash inflow before contributions</b>	£8,784	£2,892	<b>£11,676</b>
<b>-£20,663</b>	<b>-£6,911</b>	<b>Net cash inflow / outflow before contributions</b>	£1,593	<b>-£10,927</b>	<b>-£9,334</b>
£35,348	£36,473	<b>Balance before contributions</b>	£46,068	£37,245	<b>£38,838</b>
£9,127	£8,359	<b>Compensation Fund contributions</b>	£8,589	£0	<b>£8,589</b>
<b>-£11,536</b>	<b>-£1,448</b>	<b>Net cash inflow after contributions</b>	£10,183	<b>-£10,927</b>	<b>-£745</b>
£44,475	£44,832	<b>NET BALANCE AFTER CONTRIBUTIONS</b>	£48,172	£37,245	<b>£40,942</b>

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Annex 4

Compensation Fund forecast 2016-19

	PY 15-16	PY 16-17	PY 17-18	PY 18-19
<b>Compensation Fund forecast 2014-2018 £000's</b>	<b>Full year forecast</b>	<b>Full year forecast</b>	<b>Full year forecast</b>	<b>Full year forecast</b>
Opening balance as at 1st November	£48,172	£40,942	£34,685	£29,196
Adjust Current Year Advance Fee	-£6,485			
<b>Cash Outflows</b>				
Compensation Fund Grants	£10,668	£11,361	£14,008	£15,471
Fees, tax and other costs	-£213	£27	£27	£27
SRA support costs recharged	£10,556	£10,952	£10,952	£10,952
<b>Total cash outflow in period</b>	<b>£21,010</b>	<b>£22,340</b>	<b>£24,987</b>	<b>£26,450</b>
<b>Cash inflows</b>				
Subrogated claims	£9,281	£5,220	£7,250	£7,828
Compensation Fund recoveries	£1,227	£1,367	£1,367	£1,367
Residual balances from STA's	£778	£807	£1,345	£1,472
Bank & investment income	£391	£188	£160	£141
<b>Total cash inflow before contributions</b>	<b>£11,676</b>	<b>£7,583</b>	<b>£10,123</b>	<b>£10,808</b>
<b>Net cash inflow / outflow before contributions</b>	<b>-£9,334</b>	<b>-£14,757</b>	<b>-£14,864</b>	<b>-£15,643</b>
<b>Balance before contributions</b>	<b>£38,838</b>	<b>£26,185</b>	<b>£19,821</b>	<b>£13,553</b>
<b>Compensation Fund contributions</b>	<b>£8,589</b>	<b>£8,500</b>	<b>£9,375</b>	<b>£11,500</b>
<b>Net cash inflow after contributions</b>	<b>-£745</b>	<b>-£6,257</b>	<b>-£5,489</b>	<b>-£4,143</b>
<b>NET BALANCE AFTER CONTRIBUTIONS</b>	<b>£40,942</b>	<b>£34,685</b>	<b>£29,196</b>	<b>£25,053</b>
Variance from minimum reserve after contributions	£12,763	£9,162	£4,428	£359
<b>Calculated minimum reserve:</b>	<b>£28,179</b>	<b>£25,523</b>	<b>£24,768</b>	<b>£24,694</b>



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Annex 5

Illustration of how reserves fund the contribution

		2015-16	2016-17	20 17-18	2018-19
Funded from Contribution		£8,589,218	£8,500,000	£9,375,000	£11,500,000
Funded from Reserves		£744,858	£6,257,365	£5,489,176	£4,142,753
<b>Net cash inflow / outflow before contributions</b>		<b>£9,334,076</b>	<b>£14,757,365</b>	<b>£14,864,176</b>	<b>£15,642,753</b>
Firms:	Contribution	£548	£548	£605	£742
	Reserves	£44	£404	£354	£267
<b>Total Required</b>		<b>£592</b>	<b>£952</b>	<b>£959</b>	<b>£1,009</b>
Individuals	Contribution	£32	£32	£35	£43
	Reserves	£3	£24	£21	£16
<b>Total Required</b>		<b>£35</b>	<b>£46</b>	<b>£46</b>	<b>£46</b>

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Annex 6

Minimum Reserve Calculations

<i>Minimum reserve calculation: grants paid last 7 years</i>	Contribution Year			
	2015/16	2016/17	2017/18	2018/19
Practising year				
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	£23.8 m	£23.8 m	£23.8 m	£23.8 m
2014/15	£17.9 m	£17.9 m	£17.9 m	£17.9 m
2015/16 (forecast)	£10.7 m	£10.7 m	£10.7 m	£10.7 m
2016/17 (forecast)	N/a	£11.4 m	£11.4 m	£11.4 m
2017/18 (forecast)	N/a	N/a	£14.0 m	£14.0 m
2018/19 (forecast)	N/a	N/a	N/a	£15.6 m
2019/20 (forecast)	N/a	N/a	N/a	N/a
Weighted average	£17. m	£15.2 m	£14.7 m	£14.6 m
Average * 1.5	£25.4 m	£22.8 m	£22. m	£22. m
3 months recharge	£2.7 m	£2.7 m	£2.7 m	£2.7 m
Minimum reserve	£28.2 m	£25.5 m	£24.8 m	£24.7 m

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Annex 7

Compensation Fund year end balances and grants paid

Year	Grants paid	Year end balance
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
2013-14	£23.8m	£56.0m
2014-15	£17.9m	£44.5m
2015-16 (Forecast)	£10.7m	£40.9m
2016-17 (Forecast)	£11.4m	£34.7m
2017-18 (Forecast)	£14.1m	£29.2m
2018-19 (Forecast)	£15.6m	£25.1m



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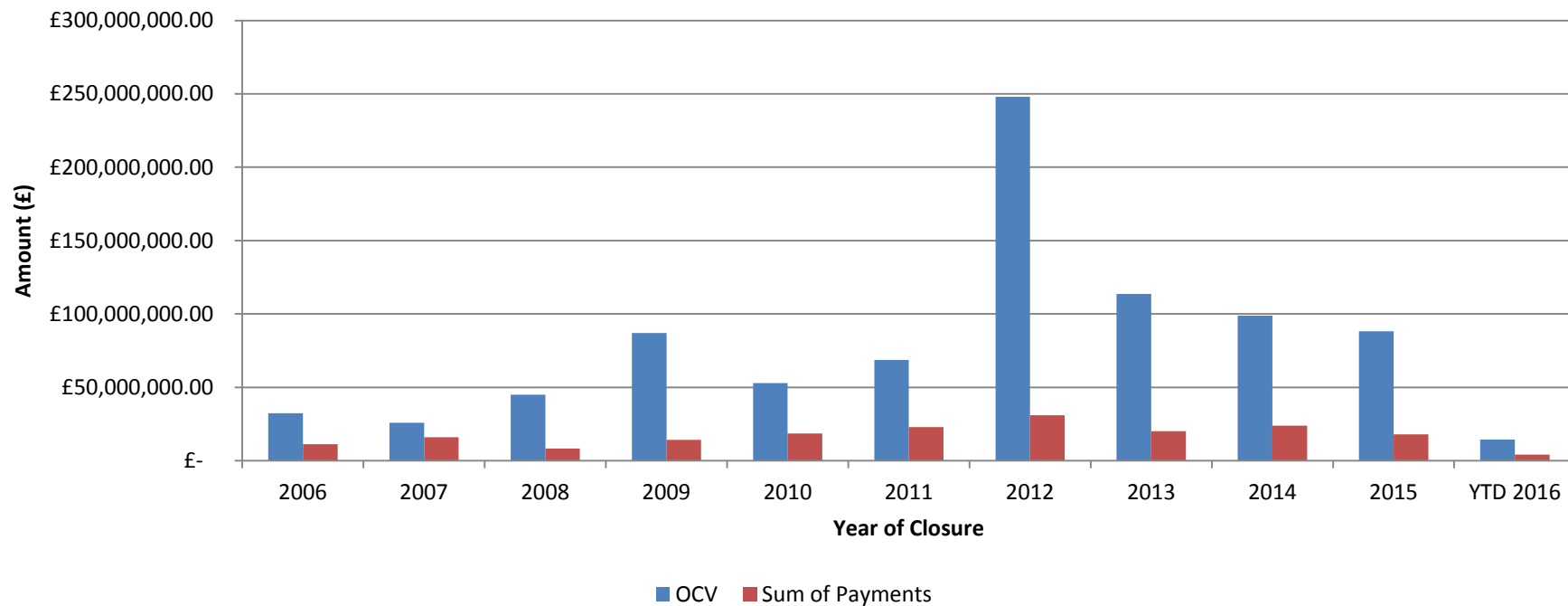
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Annex 8

Original claim values and claims paid 2006-2016 (Calendar Year)

### Closure Analysis: Original Claim Value (OCV) versus Sum of Payments



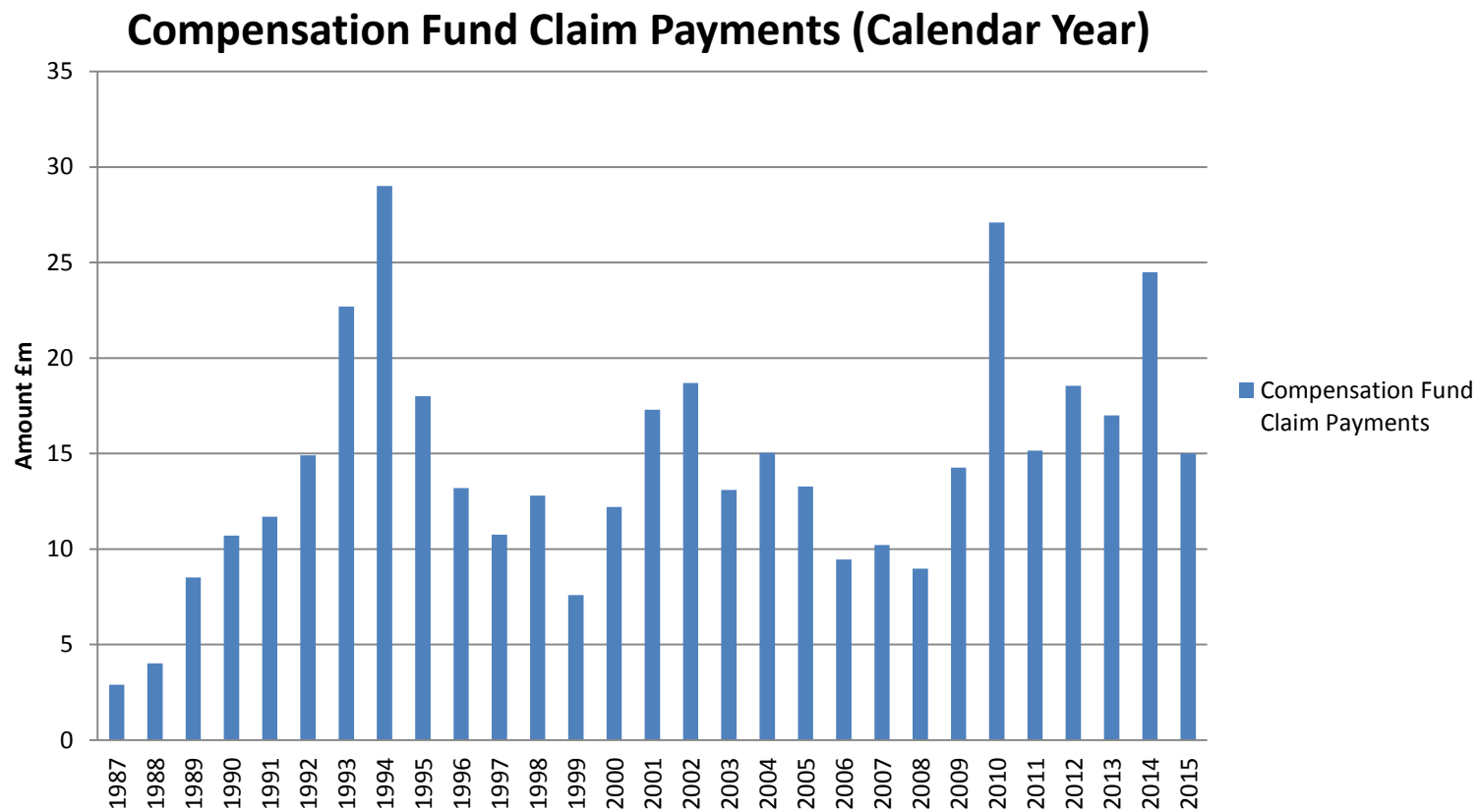


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Annex 9

Compensation Fund claim payments year on year





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**Annex 10**

**Cost Forecast Recharged to the Fund**

	2016-17	2017-18	2018-19
Intervention Costs:			
Agents & Capita	£6,610	£6,610	£6,610
SRA Salary Costs			
Client Protection	£1,876	£1,876	£1,876
Cost Recovery	£192	£192	£192
Other	£225	£225	£225
Contribution to premises costs and other central overheads:			
Central costs contribution	£2,049	£2,049	£2,049
Total	<u>£10,952</u>	<u>£10,952</u>	<u>£10,952</u>

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**Annex 11**

**Compensation Fund funding requirements and indicative contributions**

	<b>Actual 2014-15</b>	<b>Actual 2015-16</b>	<b>2016-17 forecast</b>	<b>2017-18 forecast</b>
Total contribution	£8,741,760	£8,589,218*	£8,500,000	£9,375,000
Indicative individual Fee	£32	£32	£32	£35
Indicative firm Fee	£548	£548	£548	£605
Firm / Individual split	50/50	50/50	50/50	50/50

\*Please note that the Actual 2015-16 contribution figure is correct as at the end of March 2016. It is expected that further contributions will be received throughout the year.

## Annex B - Draft Determination of Compensation Fund contributions 2016

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 2016, 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 2016, shall pay with the fee payable in respect of that application, a contribution of £32 to the Fund.
- (2) Every recognised body or recognised sole practice that has held or received client money (as defined in the SRA Accounts Rules 2011) during the period 1 November 2015 to 31 October 2016, shall pay with the annual periodical fee, a contribution of £548 to the Fund.
- (3) Every person that:
  - (a) applies for initial recognition as a recognised body or initial recognition as a recognised sole practice to commence during the period 1 November 2016 to 31 October 2017; 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 2016 to 31 October 2017

shall 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 2016 to 31 December 2017;
  - ii. £411 on applying for initial recognition to commence in the period 1 January 2017 to 31 March 2017;
  - iii. £274 on applying for initial recognition to commence in the period 1 April 2017 to 30 June 2017;
  - iv. £137 on applying for initial recognition to commence in the period 1 July 2017 to 31 October 2017.
- (4) The SRA may waive the contribution payable under paragraph (3) 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 authorised body and the predecessor body or practitioner has already paid a contribution to the Fund.

- (5) In this determination:

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

All other terms are to be interpreted in accordance with the Practising Certificate Fee Determination 2015.

- (7) This determination shall come into force on 1 November 2016.

## **Annex C - Draft Determination of Compensation Fund contributions for Licensed Bodies 2016**

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 2015 to 31 October 2016, 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 2017, shall pay, with the initial periodical fee, a contribution to the Fund as follows:
  - i. £548 on being authorised in the period 1 November 2016 to 31 December 2016;
  - ii. £411 on being authorised in the period 1 January 2017 to 31 March 2017;
  - iii. £274 on being authorised in the period 1 April 2017 to 30 June 2017;
  - iv. £137 on being authorised in the period 1 July 2017 to 31 October 2017.
- (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 2016.
- (5) This determination shall come into force on 1 November 2016.