



**Application made by the Solicitors Regulation Authority
Board to the Legal Services Board under Part 3 of
Schedule 4 to the Legal Services Act for the approval of
changes to regulatory arrangements relating to
Compensation Fund contributions
30 July 2021**

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Application made by the Solicitors Regulation Authority Board to the Legal Services Board under Part 3 of Schedule 4 to 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 2021/22. The methodology used to allocate the cost of the Fund throughout the regulated community remains the same as last year. Regulated individuals will contribute 50% of the funding requirement and regulated firms holding client money will contribute 50%.
2. A contribution level of £11.6m (2020: £14.5m) is required and will result in an individual contribution of £40 (2020: £50) and a firm contribution of £760 (2020: £950). This is a decrease for the third consecutive year but, based on the best information available, is set at a level to properly manage the Fund on a sound financial basis.
3. The proposed level of contribution has been calculated in line with our established methodology, which involves assessing expected pay outs 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.
4. The calculation of the contribution uses the best view of predicted numbers and costs of interventions for the remainder of 2020/21 onwards, continuing trends for business as usual and claims in relation to uninsured firms with consideration also being given to any high-risk potential liabilities where known. It also considers the changing landscape of the solicitor profession as a result of the continuing Covid-19 pandemic.
5. The contributions are not practising fees under the Legal Services Act 2007 (LSA), and so approval is needed under Part 3 of Schedule 4 rather than under section 51 of the LSA.

B. Details of the relevant regulatory arrangements

Nature and effect of the existing position

6. Under statute, we may maintain a Compensation Fund to compensate consumers who lose money due to the dishonesty or failure to account of solicitors (including RELs and RFLs) or firms. The Compensation Fund applies to all firms we authorise and regulate.
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 conducted in October each year. Payment is required by 31 October for the following practising year.
8. We propose keeping the same arrangement for collecting the Compensation Fund contributions as we have done in previous years (i.e. collecting 50% from solicitors and 50% from firms).

9. Each year, our Board reviews and sets how much individual solicitors and firms should contribute towards maintaining the Fund. The contributions must fund the cost of claims, reserves, and the cost of handling the claims. In coming to its decision the Board considered information on the nature of claims and any trends, the level of reserves and the budget for staff to handle the claims. The Board then makes the final decision on how the total funding requirement should be divided between individuals and firms and sets out the contribution by resolution (the Compensation Fund determination). The determinations are included at annexes B and C.

C. Nature and effect of the proposed change

10. The Board agreed that the funding requirement for 2021/22 should be £11.6m and that the contributions should be set at £40 for individuals and £760 for firms holding client money. The basis of this recommendation is included at annex A, which sets out the relevant financial analysis to support the need for £11.6m. This was considered and approved on 27 April 2021. We now seek approval of the following determinations from the LSB:

Annex B: Determination of Compensation Fund contributions 2021

- This details how much individual and firms must contribute to the Compensation Fund.

Annex C: Determination of Compensation Fund contributions for licensed bodies 2021

- This details the contributions licensed bodies must contribute towards the Compensation Fund.

D. Rationale for level of contribution

11. The funding requirement for the Fund will vary year on year, depending on the nature of claims and any trends. The proposed level of contribution has been calculated in line with the established methodology 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, the level of contribution has varied, with sometimes significant increases, for example, during property recessions. The Compensation Fund contribution level principles¹, which we consulted on in 2020, aim to avoid this in the future.
13. The consultation on the SRA 2020/21 Business Plan included the principles for setting the level of contributions to the Compensation Fund with a view that these principles would inform our fee setting in future years, providing greater clarity for fee payers in and helping to explain the rationale behind any changes to the fees over time.

¹ [SRA | Compensation Fund contribution level principles | Solicitors Regulation Authority](#)

14. The principles are summarised below and included in full in Annex D.

Principle one - The overriding principle will be to maintain the viability of the fund.

Principle two - We will ensure that the professional contributions to the fund are as manageable as possible for those we regulate.

Principle three - We will collect the contributions to the fund in a way that is manageable for those we regulate.

Principle four - We will be transparent about the fund monies and their management.

15. In considering the necessary and appropriate level of contributions for 2021/22 the primary objective is of course principle one, to maintain the viability of the fund while avoiding significant fluctuation and volatility in contribution levels.

16. Our analysis, based on the best available information, shows that an overall contribution level of £11.6m ensures the viability of the Fund while allowing for a reduction in the individual and firms' contributions. This will be the third consecutive year that the contribution has reduced and brings the individual contribution back to the same level as it was in 2017/18.

17. In making our assessment we consider, the level of reserves in the fund, our best estimates of claims activity in the current and future years as well as other exceptional cases or situations, for example the potential impact of the ongoing Covid-19 pandemic.

18. The level of contribution for 2021/22 has decreased due to the high level of reserves in the fund but with consideration of all the factors discussed above.

E. Statement in respect of the Regulatory Objectives

19. The existence and effective operation of the Compensation Fund primarily protects and promotes the interests of consumers. It makes sure consumers 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, as it gives the public the confidence to entrust funds to and therefore use solicitors' and firms' legal services. It is also in consumers' interests to make sure the Compensation Fund is properly maintained, to meet claims without delay.

F. Statement in respect of the Better Regulation Principles

20. The way in which the Compensation Fund requirement is allocated among the profession was reviewed in 2010. This was, among other things, to improve transparency and accountability.

21. Our recent work in relation to the setting of the compensation fund contribution principles and the new compensation fund rules has been based on the better regulation principles. In particular, these changes have sought to ensure that greater transparency and consistency is applied to the contribution levels and the purpose of the fund.

G. Statement in relation to desired outcomes

22. In decreasing the contributions towards the Fund, our aim is to make sure it is properly funded and maintained and able to meet claims without delay, in line with the contribution level principles. The Fund is reviewed annually and is also subject to audit. Regular reports on the nature of claims and any trends are made to our senior management team, and the Fund's financial status is a key priority for our Board.

H. Statement in relation to impact on other approved regulators

23. There is no impact on other approved regulators. The decrease in contribution only applies to individuals and/or firms we regulate.

I. Implementation timetable

24. The timetable is as follows:

- our Board finalised the Compensation Fund contributions in April and confirmed the determinations at its meeting on 20 July before seeking LSB approval
- during August, final preparations for this year's renewal exercise will be made, and, on 1 October 2021, firms and individuals will be contacted and asked to make the various renewal applications online
- firms and individuals must submit the relevant Compensation Fund contributions and other fees by 31 October 2021.

J. Stakeholder engagement

25. As is standard practice, a comprehensive communications plan was drawn up to promote the determination of the 2021/22 practising fees, including the proportion of Compensation Fund contributions. The purpose of the communications plan was to make sure that the regulated community and relevant stakeholders were informed of:

- what their fees pay for
- the proposed level of fees to be collected.

26. To give the profession and the public the best possible information on our forward work, our proposed budget, our element of the Practising Certificate Fee and the Compensation Fund Contributions, while minimising the burden imposed by multiple consultations, we consulted as a whole on these areas. Our consultation was launched on 6 May and ran until 25 June. This is a longer period of consultation (at 7 weeks) than previous years.

27. We took a multi-channel approach to engagement using traditional media, digital channels, such as webinars, social media and e-newsletters and direct engagement with a wide range of stakeholders through workshops and focus groups.

28. Our aim was to raise awareness of the consultation, encourage formal written responses, while also gathering feedback through direct engagement and on specific points through social media.

29. We promoted the consultation through:

- featuring it as the lead story in our monthly e-newsletter - SRA Update - which goes out to around 200,000 solicitors, and the dedicated Compliance News, which goes to Compliance Officers at all law firms
- gaining coverage for the consultation in a range of legal media, including the Law Gazette, Legal Futures, Solicitors Journal and The Times. Our press release has been viewed almost 500 times
- promoting on Twitter and LinkedIn - including through polls - which have resulted in around 7,700 engagements, while our Youtube content, including an interactive webinar, has resulted in around 400 views
- promoting at a range of external virtual events.

30. This means in total we engaged with around 8,300 people through our engagement programme.

31. We spoke directly to a diverse range of solicitors in representative groups including:

- Sole Practitioners Group
- Devon and Somerset Law Society
- City of London Law Society
- Women in the Law
- Association of Asian Women Lawyers
- Hindu Lawyers Association
- InterLaw Diversity Forum
- Lesbian and Gay Lawyers Association
- Lawyers with Disabilities Division
- Association of Disabled Lawyers

32. We have also engaged with charities and consumer representative bodies, such as Age UK, Diverse Cymru, Refugee Action, Support through Court and the East European Resources Centre.

33. We held a roundtable with diversity groups in the profession, led by our Chair. This involved 15 organisations with attendees including the Black Solicitors Network, Society of Asian Lawyers, Association of Disabled Lawyers, LGBTQ+ lawyers and Association of Women Solicitors.

34. And we have spoken to members of the public about our priorities - and their experiences of legal services - through four focus groups. This has included sessions with people from different backgrounds, including people who are neurodiverse, have a learning disability or are carers, as well as people from different parts of England and Wales.

35. We also sought the views of non-commercial bodies. Specifically, we:

- sent a targeted email to solicitors working in non-commercial bodies about the consultation and highlighting the proposed practising certificate fee
- met with non-commercial bodies including law centres such as North Kensington, Wiltshire and Cardiff Speakeasy
- ran workshops on our proposals for Lawyers in Local Government, and in-house solicitors, which included both solicitors working in commercial and non-commercial bodies.

36. The reduction in the fee was welcomed by those respondees that referred to it.

37. We developed and consulted on an initial Equality Impact Assessment using the LSB template. To do this we drew on an historic analysis of our data for firms and the contributions they pay and how these relate to the protected characteristics. We have not identified adverse impacts, linked to the level of the Compensation Fund contributions. Further information on this assessment is included as Annex E.

38. As part of our consultation on the SRA business plan and budget we asked for responses to help build our understanding on the impacts on different groups of solicitors. As part of this feedback we received nothing to suggest that our analysis was incorrect or to suggest that the contributions would have disproportionate impacts on those with protected characteristics.

Contact for matters relating to this application

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Annexes

Annex A - Basis of recommendation

Annex B - Determination of Compensation Fund contributions 2021

Annex C - Determination of Compensation Fund contributions for Licensed Bodies 2021

Annex D – Compensation Fund Contribution level principles

Annex E – Equality Impact Assessment

Annex A – Basis of recommendation

Compensation Fund Contribution for 2020/21

Recommendation

1 The SRA Board approved the contribution to the Compensation Fund (“the Fund”) for 2021/22 at £11.6m resulting in:

- Individual contribution £40 (2020/21 - £50)
- Firm contribution £760 (2020/21 - £950)

Background

2 The purpose of the fund was set out fully in the 2020 consultation on the fund rules:

“The SRA Compensation Fund protects consumers of legal services by helping those who have lost money due to fundamental ethical failures by those we regulate. This can be, for example, where the loss was caused by dishonesty or lack integrity of a solicitor. The fund therefore helps to uphold trust in the integrity of the legal profession...”

3 There is no legal right to a grant from the fund. These are discretionary and are limited to certain types of loss, namely where:

- those for whom services are provided have lost money as a result of their solicitor or firm's dishonesty
- the solicitor or firm has misappropriated or otherwise failed to account for their money, or
- they have a claim which should have been covered by the firm's mandatory indemnity insurance, but where the firm has failed to take out a policy of insurance as required to under our rules.

4 It is also important to remember that it is financed by the profession with costs ultimately reflected in the price of services.

5 Every year the Board carefully considers and sets the contribution from the profession to the Compensation Fund. The contributions fund the costs of claims, reserves and the costs of handling the claims themselves, including interventions into firms where client monies and files are at risk.

6 When setting the Compensation fund contribution level for 2020/21, we developed and consulted on a set of principles. These principles are the core considerations for the Board when setting the contribution levels for the fund.

How the contribution levels are calculated

7 The contribution levels need to be set annually in line with the principles. Given the overriding principle is to maintain the viability of the fund, it is essential that the level of contributions results in sufficient balances being held in the fund.

- 8 When considering the recommended contribution level, we use a financial model to support our decision-making process, augmented by our knowledge of potentially significant ongoing and upcoming claims.
- 9 The model uses assumptions on volumes of interventions and extrapolates historical data to forecast future receipts of claims and subsequent grant payments. Based on those forecasts we are able to determine a recommended minimum level of reserves that should be maintained within the fund to ensure that there is no risk to its viability (in line with the first overriding principle).

2021/22 contribution levels

Principle one - The overriding principle will be to maintain the viability of the fund

- 10 The proposed contribution level will ensure, based on our financial modelling, that the viability of the fund is maintained with the level of reserves being in excess of the 'minimum reserve'.

Principle two - We will ensure that the professional contributions to the fund are as manageable as possible for those we regulate

- 11 We are proposing a reduction in the level which will support firms but also ensure that we continue to avoid the risk of significant volatility in future years.

Principle three - We will collect the contributions to the fund in a way that is manageable for those we regulate

- 12 We will continue to collect the contributions annually, alongside the practising certificate fees and across all the regulated community.

Principle four - We will be transparent about the fund monies and their management

- 13 The fund's financial statements will be published annually.
- 14 We invited comment on the contribution level within the budget/business plan consultation and undertook an equality impact assessment.

Background to forecasting Compensation Fund grant payments

- 15 While we use all available information, and our collective experience and knowledge to make forecasts on future activity, they can only ever be forecasts and include an inherent element of judgement and uncertainty.
- 16 We rely on historical data and extrapolation to predict future trends in claims activity and payments and history is not always a strong indicator of future activity.
- 17 Monitoring of trends and predicting the fund's payment levels is extremely challenging. Interventions differ in their context, size and nature of the solicitor's conduct, all of which will influence the work required to close down the firm and the ultimate loss to clients that may fall to the Fund to reimburse.
- 18 The 'type' of interventions undertaken is a key factor. If we intervene into more firms which have closed or have low levels of live files, these types of interventions do not generate a high level of claims on the fund.
- 19 Having seen exceptionally low grants in 2018/2019 (£7.5m), last year saw an increase to £10.4m (still below the 7-year average of £14.7m).
- 20 The volatility of the payment levels is clearly demonstrated by the current year where the level of payments as at the end of June 2021 was £18.7m but we are forecasting that the year-end grants could be as high as £41m due to the culmination of several high value exceptional cases.
- 21 Excluding the high value claims, the grants in the year are expected to total £12.8m which is in line with 'usual' levels of grants.
- 22 For modelling purposes, we have assumed that all of the expected payments on these are made during the current financial year, allowing us to assess the viability of the fund more appropriately. It is, however, possible that some of these claims will run into the next financial year before they are paid or may conclude in lower grants being paid.

Contribution level

- 23 Reducing the contribution levels to £40 per individual and £760 per firm for the year 2021/22, a reduction of £10 per person and £190 per firm, will generate total contributions of c.£11.6m based on the current number of practising certificate holders and firms holding client money and is forecast to result in reserves of c.£40m at the end of 2021/22.

Principle one - The overriding principle will be to maintain the viability of the fund

- 24 The proposed levels are forecasted to produce a balance of c.£40m at the end of 2021/22. Importantly, in terms of the viability of the fund, this remains in excess of the required minimum reserve (£11m above minimum reserve of £29m).
- 25 Consideration also needs to be given to the impact of Covid-19 on the legal sector and potentially the level of interventions and subsequent grant payments. To date there has been little evidence of a substantial impact. However, we have entered periods of recession and there remains a significant risk that the impact could be felt once the government's furlough scheme and additional grants/funding ceases.

- 26 The impact of the recession and Covid-19 may take some time to be realised in terms of the Compensation Fund. It is worth noting that in 2010 (following the recessionary period in 2008-2009) we saw interventions peak at 74 which is in stark contrast to the average of 41 we have seen over the past 7 years.
- 27 There are therefore grounds for ensuring that we take a cautious approach in seeking to reduce the level of balances held above the minimum reserve. The proposed contributions are already forecasted to result in a deficit for the fund.

Principle two - We will ensure that the professional contributions to the fund are as manageable as possible for those we regulate

- 28 Given the balance is expected to remain above the minimum reserve, it is considered appropriate to reduce the contributions this year. This recognises the potential impact of Covid-19 on the profession and our need to acknowledge that the contribution is an additional regulatory cost which may inevitably be passed on to the consumers.
- 29 Importantly, this principle requires us to not only ensure contributions are manageable but also “strive to avoid significant fluctuation and volatility in the contribution levels”.
- 30 Against the backdrop of significant current high claims and unprecedented economic times the proposed level of reduction is considered prudent. It should ensure the fund is sufficient to withstand any impact of the ongoing Covid-19 pandemic without the need for any additional collections in-year. It should also allow us to consider a further reduction next year to continue to support the profession.
- 31 As demonstrated below, we have previously seen the contribution levels increase significantly to cover anticipated risk (from £40 in 2017/18 to £90 in 2018/19) and we are keen to avoid a repeat of this. A gradual reduction in the fund, is far more likely to allow us to provide a sustained lowering of the fee to support firms. This will avoid the risk of seeing substantial volatility year on year, which is likely to cause firms greater budgeting issues and potentially fluctuations in the cost of legal services to clients.
- 32 The proposed contributions see us revert to a level more in line with historical levels

Year	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Individual Fee (£)	32	32	40	90	60	50	40
Firm Fee (£)	548	548	778	1,680	1,150	950	760

Principle three - We will collect the contributions to the fund in a way that is manageable for those we regulate

- 33 We will collect the contributions annually, alongside the practising certificate fees and across all the regulated community.
- 34 As already stated, it clearly remains to be seen what impact the ongoing Covid-19 pandemic may have on firms of solicitors, but the approach we are taking should

ensure that we have retained sufficient and appropriate balances so that there is no need for any additional collections in-year.

Principle four - We will be transparent about the fund monies and their management

- 35 The fund's financial statements will be published annually.
- 36 We invited comment on the contribution level within the budget/business plan consultation and undertook an equality impact assessment.

Changes to the Compensation Fund Rules

- 37 The new rules were approved by the LSB in June 2021.
- 38 These new rules have not been considered in setting the proposed contribution levels, however in future years we will take into account how they should factor into our forecasting. The impact of the new rules in terms of calculating the contributions will very much depend on the nature of the interventions undertaken and therefore the anticipated grant levels.
- 39 The current financial modelling is predominantly based on historical information. The new rules, in particular the increased capping capabilities and the removal of payment of fees, should provide greater certainty on the maximum extent of any grants for high value claims. The new rules will therefore not have an immediate impact on the minimum reserve levels but may influence our approach to any balances in excess of that amount.

Annex B - Determination of Compensation Fund contributions 2021

This determination is made by the Solicitors Regulation Authority Board under rule 1.2 of the SRA Compensation Fund Rules 2021, 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 2021, 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 2021, shall pay with the fee payable in respect of that application, a contribution of £40 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) during the period 1 November 2020 to 31 October 2021, shall pay with the annual periodical fee, a contribution of £760 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 2021 to 31 October 2022; and
 - (b) intends to hold or receive client money (as defined in the SRA Accounts Rules) at any time during the period 1 November 2021 to 31 October 2022.shall pay with the fee payable in respect of that application, a contribution to the Fund as follows:
 - i. £760 on applying for initial recognition to commence in the period 1 November 2021 to 31 December 2021;
 - ii. £570 on applying for initial recognition to commence in the period 1 January 2022 to 31 March 2022;
 - iii. £380 on applying for initial recognition to commence in the period 1 April 2022 to 30 June 2022;
 - iv. £190 on applying for initial recognition to commence in the period 1 July 2022 to 31 October 2022.
- (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 1.1 of the SRA Compensation Fund Rules 2021;

All other terms are to be interpreted in accordance with the Practising Certificate Fee Determination 2021.

(6) This determination shall come into force on 1 November 2021.

Annex C -Determination of Compensation Fund contributions for Licensed Bodies 2021

This determination is made by the Solicitors Regulation Authority Board under rule 1.2 of the SRA Compensation Fund Rules 2021, 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) at any time during the period 1 November 2020 to 31 October 2021, shall pay, with the annual periodical fee, a contribution of £760 to the Fund.
- (2) Every licensed body that intends to hold or receive client money (as defined in the SRA Accounts Rules) at any time from the date on which the body is authorised to 31 October 2022, shall pay, with the initial periodical fee, a contribution to the Fund as follows:
 - i. £760 on applying for initial recognition to commence in the period 1 November 2021 to 31 December 2021;
 - ii. £570 on applying for initial recognition to commence in the period 1 January 2022 to 31 March 2022;
 - iii. £380 on applying for initial recognition to commence in the period 1 April 2022 to 30 June 2022;
 - iv. £190 on applying for initial recognition to commence in the period 1 July 2022 to 31 October 2022.
- (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 1.1 of the SRA Compensation Fund Rules 2021;

All other terms are to be interpreted in accordance with the Licensed Body Fee Determination 2021.
- (5) This determination shall come into force on 1 November 2021.

Annex D – Compensation Fund Contribution level principles

Background

The Compensation Fund contribution level principles should be read alongside the [Compensation Fund Rules](#)² which set out how the fund operates. The fund requires both regulated individuals and regulated firms to make an annual contribution, collected during the practising renewals period.

There is no legal right to a grant from the fund. These are discretionary and are limited to certain types of loss, namely where:

- a. those for whom services are provided have lost money as a result of their solicitor or firm's dishonesty
- b. the solicitor or firm has misappropriated or otherwise failed to account for their money, or
- c. they have a claim which should have been covered by the firm's mandatory indemnity insurance, but where the firm has failed to take out a policy of insurance as required to under our rules.

We want to make sure that we are managing the fund in as effective a way as possible in light of its statutory purpose, our regulatory objectives and best regulatory practice. And, as its costs are ultimately reflected in the price of services, it is important that our policy and rules in this area make sure that:

- a. funds are prioritised and are focused where they are most needed
- b. the fund has a clear purpose and priorities, and
- c. the fund is operated in a transparent way with decisions being made consistently and against clear, objective criteria.

Every year, our Board carefully considers and sets the contribution from the profession to the Compensation Fund. The contributions fund the costs of claims, reserves and the costs of handling the claims themselves, including interventions into firms where client monies and files are at risk.

The annual contribution level is informed by reviewing past claim levels, significant prospective claims and any trends, making assumptions on volumes and extrapolating historical data to forecast future receipts and payments. This includes looking at data relating to interventions, although it is difficult to estimate future claims against, or amounts recovered from, interventions in progress.

In order to support the transparency of our decision making, we are setting out the four general principles that the Board considers when setting the annual contributions to the Compensation Fund.

Overall, these principles taken together are designed to make sure we balance the need to maintain the viability of the fund with the need for contributions from the profession - the costs of which are ultimately passed onto consumers - to be proportionate.

² [SRA | Compensation Fund Rules 2021 | Solicitors Regulation Authority](#)

Principle one - The overriding principle will be to maintain the viability of the fund.

The Compensation Fund is a key consumer protection for people accessing regulated legal services, so it must be financially sustainable. This means that the fund must be, first, sufficient to meet anticipated future demand and to manage a level of unanticipated claims. Second, it must be maintained at a level that does not place unnecessary financial burdens on the profession which funds it, the cost of which is ultimately passed onto consumers.

Principle two - We will ensure that the professional contributions to the fund are as manageable as possible for those we regulate.

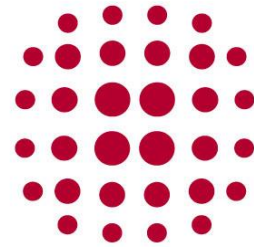
In order to help firms and solicitors plan ahead, we will strive to avoid significant fluctuation and volatility in the contribution levels. This means that we must, as set out in principle one, ensure provision is sufficient to cover a level of unanticipated claims as well as anticipated future demand. We will do this by maintaining a reserve that at least covers future demand and takes account of any exceptional cases (such as high value multiple claims), while minimising year-on-year fluctuations. This will protect the firms (and the fund and therefore the public) from the inevitable uncertainties in predicting claims arising in any one year.

Principle three - We will collect the contributions to the fund in a way that is manageable for those we regulate.

We will continue as a matter of general practice to collect the contributions annually, alongside the practising certificate fees, to minimise the burden of administration on firms. In line with the role of the fund in supporting public confidence in regulated firms and the reputation of the profession, we will continue to levy contributions from across all the regulated community. We will aim through the measure set out above to avoid the need to make additional collections in-year.

Principle four - We will be transparent about the fund monies and their management.

In order to make it clear how fund contributions are used, we will publish the Compensation Fund financial statements annually. We will ensure that the profession has the opportunity to comment on future contribution levels by including the proposed level in our consultations on, for example, our business plan or practising fee setting. We will also provide accessible information for the public, including the vulnerable, about the Compensation Fund, how it operates and how to access the fund without using potentially costly professional support.



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Annex E – Equality Impact Assessment

Equality Impact Assessment Compensation Fund 2021/2022

4 May 2021

Initial Equality Impact Assessment - 2021/2022 Compensation Fund contribution

1. The Compensation Fund provides financial redress to eligible claimants in certain circumstances where the loss is not covered by Professional Indemnity Insurance. The Fund is financed by annual contributions from solicitors and law firms that we regulate.
2. The annual contribution is set using careful analysis of the claims made against the Fund and its likely future exposure. In 2020, we [consulted](#) on the principles that the Board uses in deciding what the contributions should be. In that we made it clear that we would provide information on the level of the Compensation Fund contribution. in our annual consultation on our forward business plan and budget.
3. Our business plan and budget consultation includes events, meetings with interest groups and those with protected characteristics, and social media outreach, as well as the opportunity to provide written responses. We are inviting comments on this equality impact assessment, which supports our work to set the annual Compensation Fund contribution.
4. The Compensation Fund contribution application is made to the oversight regulator, the Legal Services Board and they have provided the template we have populated below on pages 3 and 4.
5. The contributions from firms are based on splitting the total monetary value required by the Compensation Fund into two. Half of the total to be paid is divided between firms who hold client money and the other half is split between the individuals who hold a Practising Certificate. Since the fee charged to both firm and the individual are flat fees, the total fee charged to a firm depends on the size of the firm. This means that fees will vary from £50 for a sole practitioner who does not handle client money to over £65,000 for the largest firms, employing over a thousand solicitors.
6. To develop this Equality Impact Assessment, we have analysed historic data for firms and the fees they pay. The outcomes are captured in the LSB summary table below, which includes the full range of protected characteristics.
7. Our data relies on solicitors completing the relevant sections in their MySRA account. Diversity data declaration is not mandatory and this means our data is limited for some characteristics We plan to improve the data collection so that we report more effectively and undertake intersectional analysis, for example on the diversity profile of those in our operational processes.

Protected characteristic group	Is there a potential for positive or negative impact?	Please explain and give examples of any evidence/consultation/data used	Action to address negative impact (e.g. adjustment to the policy)
Disability	No	Our analysis indicates that there are very few firms where significant numbers of PC holders declare that they have a disability. We have analysed our data from 2014 to 2019 and we have not identified any adverse impacts on this group.	Not applicable More broadly, there may be under-recording of disability in the sector and we will work to encourage people to declare a disability if appropriate
Gender reassignment	Unknown	Data for this group is very limited so we cannot draw any meaningful conclusions.	Not applicable
Marriage or civil partnership	Unknown	Data for this group is very limited so we cannot draw any meaningful conclusions.	Not applicable
Pregnancy and maternity	Unknown	Data for this group is limited so we cannot draw any meaningful conclusions.	Not applicable
Race	No	Our data shows that both Black and Asian lawyers are underrepresented in larger firms and overrepresented in small firms. For example, the largest firms (50 plus partners) have the lowest proportion of Black, Asian and Minority Ethnic partners at 8%. This contrasts with one partner firms, where 36% of partners are from a Black, Asian and Minority Ethnic background. Large firms, as set out above at paragraph 5, pay much more than small firms, so there is no indication of a disproportionate impact on this group.	Not applicable. However, we will continue to raise awareness of the race profile across firm size as part of wider work towards a diverse profession.

Sensitivity: General

Religion or belief	No	There is limited information about the religion of people employed in law firms, albeit there are some indications that Muslim solicitors are overrepresented in small firms. As set out above, the fund contribution by firm size indicates that there is no disproportionate impact on this group.	Not applicable, however we continue to work to increase declaration rates.
Sexual orientation	Unknown	Data for this group is very limited so we cannot draw any meaningful conclusions.	Not applicable
Sex (gender)	No	The profession is evenly split across men and women, albeit with proportionately fewer senior women in larger firms. Our data does not show any indication that gender in a firm affects the firm's Compensation Fund contribution.	Not applicable
Age	No	Solicitors' age is broadly evenly spread across all firms, but there is some evidence that smaller firms have older solicitor age profiles and pay lower Compensation Fund fees.	Not applicable