Application to the Legal Services Board

Under s.51 Legal Services Act 2007

For Approval of

Individual Licence fees, Practice Fees, Compensation Fund contributions and other charges

for the period 2022-2023

September 2022

CONTENTS

Introduction

1) The government support of the property sector, through the stamp duty holiday, resulted in very high conveyancing transaction volumes and provided sufficient stimulus to ensure that no practice closures resulted directly from business conditions. Conveyancers are still trading at above pre pandemic levels which is a positive sign for the industry in a difficult economic climate.

2) The effect of the tax cuts announced on 23 September, specifically the SDLT amendments are unlikely to have a positive impact on the property industry due to the expected increases in mortgage rates following the wider tax cutting announcements highlighted in the mini budget. However, the increase in mortgage rates may have a much bigger effect in slowing the property market than the SDLT cuts will have in growing the property market.

3) Although the Property market has weathered the Covid storm and remains buoyant, the Council was mindful of the potential impact of rising cost and a likely slowdown of the housing market when considering the Practice Fee setting for 2023 and have been endeavoured to not increase the burden on Practices unnecessarily.

4) In 2021 significant changes to the CLC's Fee billing arrangements were approved by the LSB. The number of turnover bandings was increased from 4 to 9 bands, which improved the spread of practices and smoothed progression through the bands. More fundamentally, the CLC split the collection of the Legal Ombudsman charge from the Practice Fee. This has allowed us to ring fence our operational funding in the face of material increases in the Ombudsman cost recharges. The separate OLC levy recharge to practices through an availability and usage fee has also improved focus on complaint handling and the significant cost of the Ombudsman to the profession.

5) The CLC has been running a deficit budget for the past 4 years. This has been done intentionally to reduce the level of reserves held by the Practice Fund. We have now reached the point where excess reserves have been depleted as planned and the CLC will need to return to generating a nominal surplus in 2023.

6) The Council carefully considered the CLC's regulatory approach and funding requirements during the development of the Practice Fee proposals for 2023. We are conscious that any relief given to practices cannot result in a decrease in the standards of our regulatory approach, and we have ensured that we have adequate resources to maintain and expand our regulatory remit where required. Over the last 12 months we have developed and expanded our Licensing, monitoring and disciplinary capabilities and increased capacity in all 3 areas.

7) The annual Professional Indemnity Insurance (PII) renewal round was completed in June 2022. The market appears to have stabilised and premium increases were not as significant as many had expected. Two practices were forced to close as they were unable to secure terms.

8) The Turnover figures declared by practices to their insurers are used by the CLC to determine the Practice and Compensation Fund contributions to be made by practices for the 2022-2023 billing cycle. Some key observations of the changes over the period (12 months ended June 2022) include:

    a. 8 practice closures for any reasons including inability to secure PII cover, retirement and switching to other regulators.

    b. 6 practices came into CLC regulation adding an additional £10m of regulated turnover.

    c. Total turnover under CLC regulation grew by 23% over the 12-month period. This turnover growth is largely attributed to the additional instructions from the SDLT holiday.

9) The CLC Strategy is currently being reviewed and will be adopted in 2023. The current strategic objectives are:

    a. Empower consumers to make informed choices of conveyancing and probate lawyers

    b. Adapt regulation to the changing market

    c. Be the regulator of choice in our specialist areas

10) The approach to fee setting has not changed, and the principles used to set Practice Fee rates remain as follows:

    a. Fee setting in general is determined with the aim of generating no more than a nominal surplus each year.

    b. A managed deficit budget can be used to fund a decrease in fee rates when sufficient excess reserves are available.

    c. Fees are set at a level that recovers the cost of regulation of practices and individuals, except where the minimum reserve in either the Practice or Compensation Fund needs to be ‘topped up’.

    d. Fees charged are consistent year on year, with the expectation that fee rates will reduce as economies of scale are realised by the CLC and practice turnovers increase.

    e. Fee rates (Practice Fees and Compensation Contributions) are increased only in exceptional circumstances, such as a prolonged economic downturn where minimum reserves cannot effectively absorb a loss of income nor the increased regulatory costs that can arise in times of economic difficulty.

I. Summary and overview of the proposal

11) This application to the LSB sets out the CLC's proposed fee structure for the 2022-23 billing cycle commencing 1 November 2022.

12) The Council has shaped the development of this proposal through multiple engagements including:

    a. a workshop in March workshop to discuss the approach to fees

    b. a comprehensive review of the forecasts and estimates for 2023 and the resulting fee rate proposals was conducted at the July 2022 Council meeting

    c. Approval of the Practice Fee approach at the July 2022 Council meeting

13) The CLC's current funding arrangements can be summarised as follows:

    a. An **Individual Licence fee** (a fixed sum) payable by all Licensed Conveyancers regulated by the CLC,

    b. A **Practice Fee** as a percentage of turnover subject to a minimum fixed fee, and

    c. An **OLC Levy** payable by all CLC regulated practices. The levy is a recharge of the Legal Ombudsman costs allocated to the CLC. 70% of the cost is allocated proportionally based on turnover and 30% is allocated based on case numbers on which to the total cost is derived.

14) The proposals for the 2022-23 billing cycle are as follows:

    a. The **individual licence fee** will remain unchanged at £400 for a conveyancing or probate licence and £475 for both.

    b. The **OLC levy to practices** will remain unchanged in that 70% of the cost will be allocated proportionally to all practices and 30% of the cost will be allocated to practices based on case number.

    c. The **Practice Fee rates** (Appendix A) will remained unchanged from the rate set in 2021.

    d. The **turnover bandings** will remain unchanged.

    e. All **other charges** as summarised in Appendix A will remain unchanged.

15) Should the application not be approved, the CLC would request permission to continue collecting the current monthly direct debit from practices as collecting the PCF over a shorter period could be detrimental to practices. Once new PCF arrangements are agreed,

the CLC will amend collections over the remaining period so that the approved fee is collected over the course of the billing cycle.

16) The CLC is prepared to work with the LSB to provide any explanation, analysis, or amendments to facilitate receiving a decision within the requisite timeframe.

17) The LSB highlighted several expectations for the 2022 application when it approved the 2021 PCF application. These expectations and the action taken are summarise in the table below.

Requirement for 2022-23 PCF application	Action taken
the CLC to include a greater explanation of how it plans to measure and evaluate its activities, including its ongoing regulatory work.	The CLC has implemented comprehensive MI reports which are reviewed by the Council quarterly. The CLC's CRM system is being replaced with a system that will make data more accessible and allow for more targeted tracking and monitoring of key performance metrics.
the CLC to ensure that its approach to consultation and engagement is improved in future years – this should ensure that more firms engage with the process, and it should ensure that its consultation documents provide sufficient information to enable respondents to effectively engage with any proposals.	The CLC has been actively promoting the consultation in its communications to the regulated community as well as referring the consultations to individual bodies for comment. We have also made use of surveys to drive further engagement which has worked well.

18) To the best of our knowledge no further issues have been raised during our informal engagements with the LSB that need to be addressed in this application.

II. Allocation of Practice Fee to permitted purposes

20) The CLC is a pure regulator and has no representative function. As such all costs are regulatory in nature and aligned with the permitted purposes.

21) The CLC has split its charge to practices into a Practice fee which is used to fund operations and an OLC levy which is used to fund the charge from the Legal Ombudsman.

22) The tables below summarise the allocation of the two Practice Fee elements to the various activities undertaken by the CLC.

ALLOCATION OF THE PRACTICE FEE TO PERMITTED PURPOSES				
Description of activity	**Permitted purpose**	**Rule**	**Cost allocated**	**% Of PCF**
Licensing	Accreditation	8a	234,576	(15%)
Education	Education and training	8a	38,345	(2%)
Monitoring	Regulation	8a	288,272	(18%)
Policy	Setting practice standards	8a i.	177,615	(11%)
Payment of levy's	Payment of levy imposed	8b	42,456	(3%)
Disciplinary	Regulation Setting practice standards	8a 8a i.	277,569	(17%)
Complaints	Regulation Setting practice standards	8a 8a i.	29,397	(2%)
Communications	Maintaining & raising standards Law reform & Leg process Promotion of relations Increasing public understanding	8a 8c 8f 8g	200,750	(12%)
Compensation	Regulation	8a	120,302	(7%)
Council and Committees	Maintaining & raising standards Law reform & Leg process Promotion of relations	8a 8c 8f	196,938	(12%)
Total Practice Fee			**£1,652,996**	

PRACTICE FEE – OLC Levy Recovery			
Description of activity	**Permitted purpose**	**Rule**	**Cost allocated and % of PCF**
Payment of levy's	Payment of levy imposed	8b	£847,251 (100%)
Total OLC Levy			**£847,251**

23) Staff costs account for 63% of the CLC operating expenditure and is thus a significant driver of the expenditure allocated to the various activities. Each employees time and cost

have been allocated to the various activities based on their role and the estimated time spent on the various functions. Other operating costs are allocated by nature or apportioned based on staff cost percentages.

24) The strategic objectives for the current strategy period agreed by the CLC Council are as follows:

   a. Empower consumers to make informed choices of conveyancing and probate lawyers

   b. Adapt regulation to the changing market

   c. Be the regulator of choice in our specialist areas

25) The CLC strategy is currently under review by the Council. We expect that the revised strategy will be largely aligned with the current strategic objectives and business planning for 2023 is well-advanced.

26) The link between the permitted purposes and strategic objectives are summarised in the table below.

The permitted purposes are	**These map to the CLC's strategic objectives as follows**
a. the regulation, accreditation, education and training of applicable persons and those wishing to become such persons, including –	b and c
i. the maintaining and raising of their professional standards; and	b and c
ii. the giving of practical support, and advice about practice management, in relation to practices carried on by such persons;	a, b and c
b. the payment of a levy imposed on the approved regulator under section 173 of the Act and/or the payment of a financial penalty imposed on the approved regulator under section 37 of the Act;	
c. the participation by the approved regulator in law reform and the legislative process;	b
d. the provision by applicable persons, and those wishing to become such persons, of legal services including reserved legal services, immigration advice or immigration services to the public free of charge;	b and c, though this does not generally arise in relation to the legal services regulated by the CLC
e. the promotion and protection by law of human rights and fundamental freedoms;	b
f. the promotion of relations between the approved regulator and relevant national or international bodies, governments or the legal professions of other jurisdictions;	a, b and c

g. increasing public understanding of the citizen's legal rights and duties; and	a
h. preventing any person, who is not a relevant authorised person and/or does not hold a current relevant practising certificate, purporting to be such a person or to hold such a certificate.	b and c

27) The CLC's published Business Plan for 2022 sets out the activities that underpin the achievement of the organisation's strategic objectives and are set out in relation to the strategic objective that they chiefly help to meet. As a regulator without a representative function, these all fall within the permitted purposes as defined above. The business plan is approved by the Council and progress against it is reviewed quarterly by the Council.

28) The CLC's business plan for 2023 is currently under development through collaboration by senior management and the Council. It is well-advanced and it is clear that the key areas of work will include:

a. Adapting regulation and preparing the regulated community for the implementation of new technical solutions for the delivery of legal services

b. Continued focus on consumer choice and complaints handling

c. Application of the AML and Sanctions provisions

d. Assessment and mitigation of evolving risks to consumers through continued close monitoring of:

i. regulatory compliance
ii. the impact of the economy on the regulated community
iii. the advent of new approaches and technical solutions for the delivery of the legal services regulated by the CLC

III – Financial information

29) The CLC has over the last 4 year operated with a managed deficit budget. This has reduced the regulatory burden on practices and reduced excess cash reserves held by the CLC. The table below summarises the annual deficits recorded:

Practice Fund Deficit	£
2019	(323,142)
2020	(886,713)
2021	(539,622)
2022 (forecast)	(530,116)

30) In total the CLC has reduced reserves by £2.3m over the last 4 years and fully depleted the excess reserve levels. Going forward, the CLC will need to operate a cash surplus budget and increase reserve levels to fund the cashflow requirements of the Legal Ombudsman charge and expected increases in operating costs.

31) One of the impacts of the implementation of the OLC Levy is that the CLC needs to pay the Ombudsman's invoice in advance and then recover the monies from practices over the following 12 Months (we are notified of the final Ombudsman cost in March and we bill practices in April allowing them to spread the payment over 12 months). This arrangement requires us to have sufficient surplus reserve to cater for any increases in cost of the Ombudsman's invoice (this year's estimate is £160,739 (23%) higher than the previous invoice). In setting up the levy we opted to collect the actual Ombudsman charge in arrears rather than collect the estimated charge in advance. This arrangement has the benefit of being easier to calculate and fairer on practices.

32) Given the faster than expected depletion of reserves and increasing burden of the Legal Ombudsman charge, Council has resolved to run a surplus budget from 2023 with the aim of accumulating additional reserves.

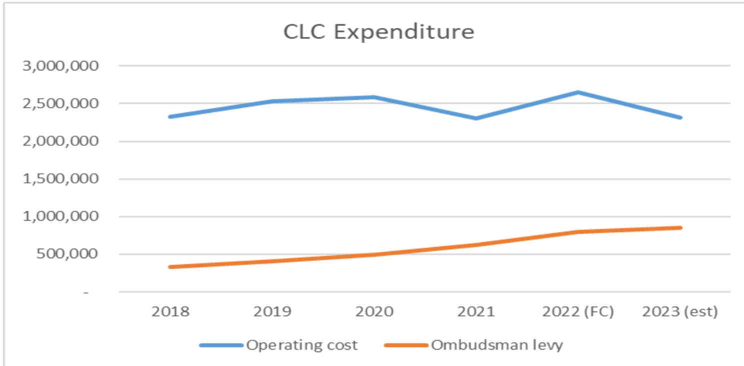
33) The Council is however conscious of the additional burdens being placed on regulated practices and individuals and has resolved to not amend any of the regulatory fees for the upcoming licensing year. Against the background of inflation, this is a significant real terms cut in fees and fee rates. However, turnover growth in the regulated community means that frozen fee rates will nevertheless deliver increased payments to the CLC. Keeping the financial burden of regulation to a proportionate level is a key element of the CLC's commitment to supporting a thriving conveyancing and probate sector.

34) The CLC's achievements in reducing the regulatory burden on practices it regulates is highlighted in the table below. The gains achieved through our fee reduction have however been partially offset by increases in the Legal Ombudsman cost. These costs are now equivalent to 32% of the total CLC operating Budget.

Change in CLC practice charges	2015-16 charge	2022-23 charge	OLC Levy (no of case fee)	Change in charge since 2015	% Reduction / (Increase)
Practice Fee					
Turnover of £500,000	7,100	2,100	1,041	(3,959)	56%
Turnover of £1,000,000	13,100	3,600	1,970	(7,530)	57%
Compensation Fund contribution					
Turnover of £500,000	2,100	1,143	-	(957)	46%
Turnover of £100,000	3,600	1,753	-	(1,847)	51%
Individual License Charge	400	400	-	-	0%
Total OLC cost charged to CLC	202,982	847,251	-	644,269	-317%

35) Not increasing fees in this billing cycle will place pressure on the management team to achieve its ambitious business plan, but it is the right thing to do in the economic and market circumstances to support the stability of the legal services sector. The management team has carefully reviewed the planned budget for 2023 and has managed to curtail or restrict cost to ensure we are able to meet our business plan and deliver our regulatory objectives without any dilution or reduction of our current regulatory approach.

36) The Chart below shows the operating costs of the CLC over a 6 year period. The CLC has carefully managed cost and have been able to maintain the operating costs at a consistent level over the period. Over the same period, the Ombudsman costs have increased by 156%. This cost increase was a contributing factor in separating the Practice fee and the OLC levy and is still a major concern for cashflow forecasting and an increasing burden on regulated practices.



37) The table below compares the 2022 financial forecast to the 2022 budget. The forecast includes 8 months of actual figures and 4 months of estimated costs.

38) The Legal Ombudsman recharge and OLC levy are show separately below the operating surplus line. This is because the full cost is passed on to practices through the OLC levy which was implemented in 2021.

Budget Overview Practice Fund	2022 Budget	2022 Forecast	Var to Actual	% Var to Actual
Income				
Individual Licences	636,040	634,226	(1,814)	(0%)
Practice Fees	1,329,720	1,394,176	64,456	5%
Other Income	31,472	93,783	62,311	66%
Total Revenue	**1,997,232**	**2,122,185**	**124,953**	**6%**
Staff Costs	1,637,264	1,647,482	(10,218)	(1%)
Monitoring and Inspections	49,500	43,167	6,333	15%
Communication	138,128	129,090	9,037	7%
Recharges (DPB/FCA, OpBas)	52,783	54,708	(1,925)	(4%)
Building Costs	224,583	227,351	(2,768)	(1%)
Office Costs	17,352	11,595	5,757	50%
Insurance	57,877	57,797	80	0%
IT Expenses	40,988	46,134	(5,147)	(11%)
Travel & Subsistence	28,950	14,890	14,060	94%
Professional Fees	282,060	293,697	(11,637)	(4%)
Subscriptions & Consultancy	69,998	87,439	(17,441)	(20%)
Tax & Finance Charges	7,365	34,411	(27,046)	(79%)
Depreciation	2,634	4,540	(1,905)	(42%)
Total Expenses	**2,609,481**	**2,652,301**	**(42,820)**	**(2%)**
Operating surplus/(deficit)	(612,249)	(530,116)	82,133	8%
OLC Revenue	763,743	**799,226**	**35,482**	4%
OLC costs	763,743	799,226	(35,482)	(4%)
Net Surplus / (Deficit)	**(612,249)**	**(530,116)**	**82,133**	**16%**

39) The key variances to the budget are outlined in the table below:

Budget Line item	**2022 Budget variance description**
Practice Fee income	The positive variance is driven by new practice coming into CLC regulation and higher Practice Fee collections from November 2022 due to growth in declared turnovers.
Other Income	Other income is better than budget due to better than budgeted administration fees collections in relation to first licences and new practice applications. The line now also includes an unbudgeted receipts of applicant credit check costs which is offset by the cost which is included in the tax & Finance charge expenditure.
Staff Costs	£63k of staff cost have been recharged to the Compensation Fund to account for the staff efforts in managing the Fund. Without this recharge staff costs would have been £53k (3%) higher than

	budget. This increase in cost is attributed to recruitment benchmarking adjustment and cost of living increases.
Monitoring & inspections	The number and cost of inspections has been lower than the budget projection. Additionally, some inspections have been performed remotely and by internal regulatory supervision managers which further reduces the cost.
Communications	The positive variance is driven by an underspend in digital print media.
Recharges	The costs of recharges have been higher than the budget estimates.
Office cost	Remote working has reduced the cost of office provisions.
IT Expenses	The negative variance is driven by supplier increases and a change to office 365 licensing.
Travel & Subsistence	Travel to practices has not increase to the extent expected in the first half of the year.
Professional fees	The higher than budgeted professional fees are as a result of cost associated with disciplinary cases. The cost is higher due to complexity and volume of cases.
Tax & Finance charges	This line now includes the cost of license applicant credit checks. This was previously paid by the applicant directly, however a switch of suppliers means that the applicant now pays us and we pay the supplier. The revenue is reflected under other income.
Depreciation	Depreciation costs are below budget due to the timing of asset purchases.

40) The table below summarises the sources of funding for the 2022 expenditure forecast as well as the allocation of expenditure by activity. All expenditure was incurred for permitted purposes.

PCF allocation to expenditure	%	2022 Forecast
Total expenditure		**(2,719,460)**
PCF collected	**100%**	**2,028,402**
Licensing	17%	370,015
Education	3%	59,744
Monitoring	19%	409,466
Policy	8%	187,373
Levy collection	2%	51,377
Disciplinary	20%	437,724
Complaints	2%	41,618
Communications	11%	252,475
Compensation	7%	153,608
Council	11%	244,903
Cost not recovered from PCF		**(691,058)**
Deficit funded by:		
Other income		90,578
Interest		3,205
CF Recharge		63,299
Reserve utilisation		533,976
Unaccounted expenditure		-
Total PCF fees collected		**2,028,402**
Practice Fees		1,394,176
Individual Licences		634,226

41) The table below compares the estimated budget for 2023 with the 2022 forecast. The 2023 budget revenue is based on existing practices and turnovers declared in June 2022.As such the revenue forecast for 2023 has a high degree of probability. The budget for 2023 will be finalised in December 2022 and approved by the Council in January 2023.

Budget Overview Practice Fund	2022 Forecast	2023 Estimate	Var to Forecast	% Var to Budget
Income				
Individual Licences	634,226	692,200	57,974	8%
Practice Fees	1,394,176	1,652,997	258,820	16%
Other Income	93,783	95,294	1,511	2%
Total Revenue	**2,122,185**	**2,440,490**	**318,306**	**13%**
Staff Costs	1,647,482	1,469,703	177,779	12%
Monitoring and Inspections	43,167	38,000	5,167	14%
Communication	129,090	137,200	(8,110)	(6%)
Recharges (DPB/FCA, OpBas)	54,708	55,321	(614)	(1%)
Building Costs	227,351	177,181	50,170	28%
Office Costs	11,595	11,024	571	5%
Insurance	57,797	59,324	(1,527)	(3%)
IT Expenses	49,994	33,966	16,029	47%
Travel & Subsistence	14,890	16,000	(1,110)	(7%)
Professional Fees	293,697	202,058	91,639	45%
Subscriptions & Consultancy	87,439	72,159	15,281	21%
Tax & Finance Charges	34,411	42,867	(8,456)	(20%)
Depreciation	4,540	4,531	9	0%
Total Expenses	**2,656,161**	**2,319,333**	**336,828**	**15%**
Operating surplus/(deficit)	(533,976)	121,157	655,133	-1%
OLC Revenue	**799,226**	**847,251**	**48,025**	6%
OLC costs	799,226	847,251	(48,025)	(6%)
Net Surplus / (Deficit)	**(533,976)**	**121,157**	**655,133**	**10%**

42) The total operating expenditure is expected to be 15% lower than the 2022 forecast. This decrease is attributed to:

a. Lower staff costs due to a recharge of £127k to the Compensation Fund and lower recruitment costs.

b. Reduced building costs as we further reduce our office space and continue to work remotely.

c. Reduced professional charges as the current disciplinary backlog of disciplinary cases is finalised.

43) The key variances to the budget are outlined in the table below:

Budget Line item	2023 Budget variance description
Practice Fee	Practice Fee income is expected to increase due to additional practices coming into CLC regulation during 2022 and organic growth in turnover of currently regulated practices which has resulted in additional fee income without amendment to the current fee rates.
Individual licences	The growth in revenue is attributed to the good pipeline of new students applying for a first licence.
Other income	A marginal increase in revenue is expected due higher interest received on cash held.
Staff costs	Staff costs are expected to be lower due to a recharge of cost to the Compensation Fund as well as lower recruitment fees and contractor costs.
Monitoring & inspections	We are planning fewer full inspections with an increased focus on new practices and thematic reviews.
Communications	We are anticipating inflationary increases and additional spend on digital production costs.
Building costs	We are planning to reduce or office space footprint by 50% in July 2023.
Office cost	We anticipate that office expenditure will remain at similar levels to 2022.
IT costs	The expenditure on IT is expected to decrease due to the termination of a service provider contract.
Travel & Subsistence	A marginal increase in travel cost is expected for 2023.
Professional fees	The cost of professional fees is expected to reduce as the current disciplinary cases work through the system. We have also developed in house skills and will wherever possible leverage these skills.
Tax & Finance charges	The increase is driven by additional credit check costs for individual license applications which were only incurred for part of the 2022 year.
OLC Revenue and Costs	The costs are based on the estimates provided by the legal Ombudsman. The CLC has no control over the cost allocated. The full cost is recharged by the CLC to practices.

44) The table below summarises the sources of funding for the 2023 expenditure estimate as well as the allocation of expenditure by activity. All expenditure was incurred for permitted purposes.

PCF allocation to expenditure	%	2023 Estimate
Total expenditure		**(2,446,543)**
PCF collected	**100%**	**2,345,197**
Licensing	15%	322,505
Education	2%	52,718
Monitoring	18%	396,330
Policy	11%	244,193
Levy collection	3%	58,370
Disciplinary	17%	381,614
Complaints	2%	40,416
Communications	12%	276,001
Compensation	7%	165,396
Council	12%	270,760
Cost not recovered from PCF		**(101,346)**
Other income		92,089
Interest		3,205
CF Recharge		127,210
Addition to reserves		**121,157**
Total PCF fees collected		**2,345,197**
Practice Fees		1,652,997
Individual Licences		692,200

45) 2022 was a phasing in year for the OLC levy. 7 months of the OLC cost were collected through the practice fee and 5 months (for the period from November 2021) were levied on practices through the OLC levy.

46) We do not yet have the Legal Ombudsman charge for 2023, however based on the estimate provided to us in May 2022 the cost allocation to practices will be as follows:

OLC Estimate of cost to be allocated to the CLC		£ 847,251
30% of the cost payable by practices as a usage fee		£ 254,175
3 year average case numbers (per OLC)		327.33
Cost per case		£ 776.50
Usage Fee allocation	Cases	Total cost allocation
Cases allocated to closed practices	47.33	£ 36,754
Cases allocated to currently regulated practice	280.00	£ 217,421
total	327.33	£ 254,175
70% of the cost allocated to availability charge		£ 593,076
Add usage cost from closed practices		£ 36,754
Adjusted availability charge (allocated as a % of turnover)		£ 629,830
Average availability cost per £1000 turnover		£ 1.80

47) The CLC remains concerned by the continued increase in the OLC levy and the perceived lack of value from the service. We, and the practices are still not clear of the value derived from this Ombudsman cost, specifically in light of the reducing case numbers as highlighted in the table below.

Annual case numbers accepted for investigation				
2018	2019	2020	2021	2022 (June)
304	322	375	189	43

48) The significant reduction in case numbers means that we will need to reassess the user fee allocation model in 2023 and adjust how we charge the Ombudsman charge to Practices.

49) Although the case numbers have fallen dramatically, it is likely that this is due to changes in the Ombudsman case handling policies rather than the implementation of the OLC levy. Given the very low number of cases in 2021 and 2022, it is now unlikely that we will be able to definitively conclude on the success or lack thereof of the objective of reducing case numbers.

50) The implementation of the OLC levy has been successful in that it has focused the CLC and practices on effective complaint handling. This has let to additional focus on those

practices with higher than average case numbers and where justified disciplinary action and enhanced monitoring has been started.

51) Legal Ombudsman case metrics have been added to our quarterly external indicators report which is reviewed and approved by the Council prior to publication.

52) The tables below reflect the cases included in the Legal Ombudsman current estimate of costs for 2022-23. Of the 945 cases closed by the Ombudsman over the 3 year period only 305 (32%) of the cases resulted in a formal Ombudsman decision. The fee charged to practices where their service was below the level expected is higher at 53% of the cases. Off the back of this the CLC intends to perform more targeted reviews on complaint handling in 2023.

Analysis of cases used in LeO cost allocation	**Case Numbers**	**Fee Charged**	**Fee waived**
In Progress	38		
concluded	945	504	441
Ombudsman decision	305	121	184
Informal decision	497	350	147
closed	143	33	110
Total cases	**983**	**504**	**441**
Percentage (Concluded cases)	96%	53%	47%

Analysis of Ombudsman awards	**Closed**	**Informal resolution**	**Ombudsman decision**	**Total cases**	**% of total**
£0	143	86	185	414	43.8%
£1 - 299		148	48	196	20.7%
£300 - £749		180	46	226	23.9%
£750 - £999		24	8	32	3.4%
£1,000 - £4,999		45	7	52	5.5%
£5,000 - £9,999		6	6	12	1.3%
£10,000 - £14,999		4		4	0.4%
£15,000 - £19,999		2	2	4	0.4%
£20,000 - £24,999			3	3	0.3%
£25,000 - £29,999		1		1	0.1%
£35,000 - £39,999		1		1	0.1%
	143	**497**	**305**	**945**	

IV. Reserves – Practice Fund

53) The CLC has over the last 4 years operated a managed deficit budget. This policy has been successful in reducing the excess reserve level of the Practice Fund.

54) The policy of reducing reserves, and the changes in Practice Fee arrangements in 2021 has resulted in all remaining excess reserve being utilised. Going forward the Practice Fund will need to run a net Surplus budget to increase reserve levels to act as a buffer for the OLC Levy funding (The Ombudsman invoice is paid in advance and collected over the next 12 months) or any other increases in operating expenditure or market uncertainty.

55) The Council reviewed the reserving policy in July 2022 and has resolved that the following reserves are held:

Practice Fund Reserves 2023	**Reserve value**
Minimum reserve (3 months operating expenditure)	651,870
OLC Levy fund (cashflow fund to pay LeO)	847,250
Market uncertainly reserve	200,000
TOTAL RESERVES REQUIRED	**1,699,120**

56) The purpose of the OLC levy is to ring fence funds to fund the Ombudsman invoice. On payment in April of each year it will reset to zero and accumulate as the CLC receives payments from Practices.

57) The Market uncertainty reserve will be part funded, however the intention of the surplus budget is to accumulate funds over 2-3 years to fully fund this reserve.

58) The cash flow forecast based on the estimated budget for 2022 is summarised as follows:

Estimated reserve levels for 2023	**£**
Cash reserves at 31 December 2022	**1,513,082**
Net reserve utilisation to fund operations	245,184
Payment to OLC in April 2022	(847,251)
Practice receipts from OLC levy	286,819
Cash reserves at 30 June 2023	**707,466**
Net Cash receipts from operations	436,521
Practice receipts from OLC levy	423,625
Cash reserves at 31 December 2023	**1,567,612**

V. Consultation & Engagement

60) The annual CLC Fee consultation was launched on 5 August and ran for 6 Weeks, closing on 21 September 2022. It consulted on all the CLC's regulatory fees, some of which are a fixed value, some of which are fee rates based on the turnover of the regulated practice that pays the fee.

61) The consultation was promoted in newsletters to practices and managers and individually sent to key stakeholders. Two surveys were also circulated to make responding to the consultation easier.

62) We received a detailed response from one representative body, who was supportive of our proposal but questioned the high cost of the Legal Ombudsman charge. Our Professional Reference Group also reviewed the proposal and were supportive of the proposal because of our intention not to increase the regulatory burden on practices.

63) We suspect that the low level of formal responses was due to the fact that we do not propose increasing fees or fee rates or implementing a new approach to collection of funds. To increase the level of response we compiled two survey's, one a simple poll and the other a more detailed survey, replicating the consultation questions and covering all the elements of our proposed practice fee arrangement.

64) The results of the survey are summarised in the table below:

Survey results	Proposal to not change fee bandings	Proposal to not change Practice fee rates	Proposal to not change Comp fee rates	Proposal to not change OLC Levy allocation	Proposal to not change fixed fees and admin charges
Survey - agree	26	24	24	25	26
Survey - disagree	1	3	3	2	1
Quick poll - agree	5	5	5	5	5
PRG - agree	1	1	1	1	1
Rep body - agree	1	1	1	0	1
	34	34	34	33	34
Total - agree	33	31	31	31	33
Total - disagree	1	3	3	2	1

65) The reasons given for disagreement with the proposal were that:

   a. Start-ups on the lower turnover bands should pay less (1 respondent)
   b. That the fees overall were high (1 Respondent)
   c. That larger practices should pay more (one respondent)

66) Three respondents commented that they thought the user pays element of the OLC Levy should be higher and one respondent commented that the user fee should only be charged on complaints that were upheld by the ombudsman.

67) Those that agreed with the proposals generally said that that in times of increasing costs and uncertain times that no increase would be beneficial to practices.

VI. Impact Assessments

68) The CLC has considered whether not changing its Practice Fee arrangements would have any unintended impact on any groups with the regulated community, particularly those with protected characteristics.

69) The individual licence fees have remained unchanged since 2010. Although the fee hasn't reduced, inflation has resulted in the real cost of the licence decreasing as there have been no inflationary increases over the period. We have no evidence to suggest that the individual licence cost is a barrier to entry into the profession nor that the Practice Fee for regulated entities is a barrier to market entry or ongoing participation.

70) Because the Practice Fee is derived from turnover, those practice that grow their turnover will pay more, and those that see a reduction in turnover would see a corresponding reduction in their fee. Additionally, practices are able to pay their practice fee in 12 interest free instalments which helps smooth the cashflow burden on practices.

71) The minimum practice fee is £580 and applies to practices with a turnover of less than £100k. There are currently 17 (2021:22) practices with a turnover below £100k. The smaller the practice fee is, the greater the percentage of turnover is for these practices. There is a cost to being regulated which has to be enough to make regulation effective without being disproportionate to the effort of regulating that type of business. We are of the view that this cost in not disproportionate to the regulatory effort involved. The minimum cost is also 46% lower than the minimum set in 2013.

72) The OLC cost is significant and increasing annually at above the inflation rate. We think the allocation method is fair as 70% is allocated proportionately based on turnover to all practices and only 30% is allocated to practices based on their number of cases. There are currently only 90 practices that have cases, and 53 of those have only 1 or 2 cases. A practice with 1 case will pay £258.83 as a usage fee.

73) Overall, when setting the Practice Fee rates and levies we have tried to allocate the cost to practices fairly. In most cases the practices are multi manager practices and the factors outline above do not target any specific group or protected characteristic. We are however cognisant that the smallest practices may have a different profile. We have assessed this in the table below.

74) The CLC last profiled the protected characteristics of the regulated community in 2019. The results of that survey are published on the CLC's website. While we have a good picture of the make-up of the regulated community as a whole but it is not possible to single out individual regulated entities because of the impact that would have on the confidentiality of personal data given the small size of many of the firms concerned.

<table>
<tr><th>Protected characteristic</th><th>Potential Impact</th></tr>
<tr><td>age</td><td>We were particularly concerned that we could be unintentionally discriminating against age particularly in the lower turnover bands where we suspected there would be a concentration of older sole practitioners. The 19 practices in this band included 27 managers. The age range of this group is summarised as follows:

<table>
<tr><th>Age</th><th>% of total</th></tr>
<tr><td>20 – 29</td><td>4%</td></tr>
<tr><td>40 – 49</td><td>22%</td></tr>
<tr><td>50 – 59</td><td>30%</td></tr>
<tr><td>60 – 69</td><td>33%</td></tr>
<tr><td>70 +</td><td>11%</td></tr>
</table>

Our conclusion based on the above summary is that the distribution is as we would expect of conveyancing business owners and that there is no disproportionate impact on any specific age group. Nor would individual licence fees impact differently on different age groups, especially as these tend to be paid by employers.</td></tr>
<tr><td>gender reassignment</td><td>The CLC has no reason to believe that any of the PCF proposals would impact this group more or less than any other.</td></tr>
<tr><td>being married or in a civil partnership</td><td>The CLC does not have sufficient data to determine whether the proposed PCF application would impact this group specifically. The CLC has no reason to believe that any of the PCF proposals would impact this group more or less than any other.</td></tr>
<tr><td>being pregnant or on maternity leave</td><td>The Practice Fee amendments are not expected to disproportionately impact individuals that are pregnant or on maternity leave. The unchanged individual licence fee that is payable by licenced conveyancers is the primary consideration.
The CLC does however have a policy that allows individuals to suspend their licence for up to two years without needing to do anything other than prove that the required CPD requirements have been met.
This provision is currently used during pregnancy and maternity and enables an individual to re-enter the profession without any significant regulatory barriers or cost. A pro rata fee is paid if a licence is taken out during the year.</td></tr>
</table>

Protected characteristic	Potential Impact
disability	The CLC does not have sufficient data to determine whether the proposed PCF application would impact this group specifically. Only 4% of respondents to the 2019 survey reported having a mental or physical disability. The CLC has no reason to believe that any of the PCF proposals would impact this group more or less than any other.
race including colour, nationality, ethnic or national origin	The CLC has no reason to believe that any of the PCF proposals would impact this group more or less than any other.
religion or belief	The CLC has no reason to believe that any of the PCF proposals would impact this group more or less than any other.
sex	It should be noted that women make up around three-quarters of individual licence holders. The CLC has no reason to believe that any of the PCF proposals would impact this group more or less than any other.
sexual orientation	The CLC has no reason to believe that any of the PCF proposals would impact this group more or less than any other.

Monitoring the impact over time

75) The CLC made proposals to monitor the impact of the change over time, these proposals are included in the table below together with progress against the monitoring objectives.

Monitoring plan proposed in 2021	Progress against monitoring plan
Track numbers of first tier complaints dealt with and the number of complaints referred to CLC by firm, with a particular focus on the 41 firms with the highest financial impact from these proposals. In this way we will be able to assess whether any complaints are being dealt with improperly to avoid referral to OLC. This will become part of our business-as-usual monitoring of regulated entities.	The CLC has developed OLC metrics which are published and reported to Council quarterly. These metrics show total case referrals and target the practices with the most Ombudsman referrals. We have noted that the OLC case numbers have started decreasing significantly in 2021 with case numbers in 2022 being 80% lower than the previous trends, this appears to be due to policy changes at the Ombudsman. This is

Monitoring plan proposed in 2021	Progress against monitoring plan
	likely to require a change to our user pay model in 2023, however this will be assessed when we have further data. The CLC is reviewing all first tier complaint referrals received from the Ombudsman and addressing these with the practices concerned. One practice with an exceptional high number of referrals has been referred for disciplinary with the hearing scheduled for late November.
Survey all firms on the financial impact on their business (if any) of these changes. This will include the collection of diversity data to track any differential impact on protected groups. It will take place in early 2022 to inform the setting of regulatory fees for the year 2022-23.	We have not yet surveyed practices on the financial impact. This is because the OLC levy was only implemented for part of the financial year and the impact has not yet been felt by practices. We will only be able to properly assess the impact after the next billing cycle which starts in April 2023 and will look to survey practices during that cycle. The diversity survey was conducted later than expected and is still in the process of being finalised.

VII. Transparency of PCF information to relevant authorised persons

76) The following information will be provided in an information sheet when we notify practices of their Practice Fees for 2023:
    a. The components of their Practice Fee (Practice Fee, Compensation Fund Contribution and OLC Levy)
    b. A breakdown of the CLC's estimated expenditure by cost category and allocation by function for the next financial year
    c. The payment schedule for the above Fees
    d. A statement that we have not changed any of the fee rates or billing arrangements
    e. Details of how the OLC Levy will work. This will include the process for determining the levy, the timing and when they will receive the final figures for the charge for 2022-23
    f. An estimate of their OLC charge based on the OLC estimate and the case numbers provided by the OLC
    g. The Practice Fee tables and schedule of other costs
    h. A link to the PCF application & LSB approval
    i. A link to the consultation document and consultation responses

VIII - Monitoring and responding to the impact

77) The Individual license fee is collected on renewal of the license whereas the practice fee is generally collected in 12 instalments via direct debit. Direct debit collections are monitored and any collection failures are assessed to determine if affordability was as factor. Direct debit failure is rare, however if the frequency were to increase it could be an indicator that practice fees are not affordable.

78) The OLC levy is also collected via direct debit and any collection failures would also be assessed for affordability.

79) Trends in OLC case numbers (as available) are monitored and inform the response taken against individual practices, any response would be proportionate to the number of cases and any referrals by the Ombudsman for review and investigation.

80) The OLC has in 2021 changed its criteria for accepting cases. This has resulted in a marked decrease in case numbers as reflected in the table below:

Annual case numbers accepted for investigation				
2018	2019	2020	2021	2022 (June)
304	322	375	189	43

81) This reduction in the case numbers will require a reassessment of the user pays model. This will be reassessed in 2023 as the impact of the Ombudsman policy change starts impacting case numbers.

82) Although case numbers are declining, the CLC will continue to:

a. Monitor trends
b. Report metrics to the Council and publish them
c. Investigate referrals from the Ombudsman
d. Identify and address practices with relatively high case numbers or poor outcome trends

83) The reduction in case numbers because of the change in approach by the OLC means that we cannot currently use case numbers to assess the impact of the implementation of the OLC levy by the CLC.

84) We will however continue to review case outcomes and take additional steps where it is determined that a practices complaint handling is below the expected standard.

IX. Checklist - Enclosures

Income and expenditure forecasts, including practising fee income, for 3 years from and including the year for which the practicing fee is being levied.	**Enclosed**
Financial information for the previous year, including a comparison of actual and budgeted income and expenditure.	**Enclosed**
Copy of the information that will be provided to fee paying members (if description is not provided in section VII).	**Enclosed**

X. Compliance Statement

We certify that the information provided in this application is accurate and complete to the best of our knowledge and we have taken reasonable steps to ensure that the application complies with the rules

Date:

Sheila Kumar – Chief Executive and Accounting Officer

Stephen Ward – Director of Strategy & Communications

Jason Hinrichsen – Director of Finance & Operations

All queries relating to this application should be directed to Jason Hinrichsen and Stephen Ward.
Email: jasonh@clc-uk.org
stephenw@clc-uk.org

ANNEXURES

ANNEX A

Other Charges

		Fee
1	Individual licence for Conveyancing or probate	£400
2	Individual licence for Conveyancing and probate	£475
3	Issue of a duplicate licence	£50
4	Amendment to a licence	£75
5	New practice application – (Alterative Business Structure)	£1,200
6	New practice application – (Recognised body)	£150
7	Application Fee – Head of Legal Practice (HoLP)	£240
8	Application Fee – Head of Finance and Administration (HoFA)	£240
9	Application Fee – CLC Manager	£150
10	Application fee - First qualifying licence application	£150
11	Failure to submit and an accountant's report on time	£100

ANNEX B

Practice Fee rate table

PRACTICE FUND (2021-22)				
Turnover Banding	**Practice Fee payable**			
£0 – £100,000	£580			
£100,001 – £250,000	£580	plus	0.554%	of turnover in excess of £100,000
£250,001 – £500,000	£1,411	plus	0.530%	of turnover in excess of £250,000
£500,001 – £1,000,000	£2,736	plus	0.490%	of turnover in excess of £500,000
£1,000,001 – £2,000,000	£5,186	plus	0.481%	of turnover in excess of £1,000,000
£2,000,001 – £4,000,000	£9,996	plus	0.474%	of turnover in excess of £2,000,000
£4,000,001 – £8,000,000	£19,476	plus	0.425%	of turnover in excess of £4,000,000
£8,000,001 – £16,000,000	£36,476	plus	0.421%	of turnover in excess of £8,000,000
£16,000,001 and over	£70,156	plus	0.418%	of turnover in excess of £16,000,000