SDTAL RESERVES POLICY

1. Introduction/Context

1.1 The administration of the Solicitors Disciplinary Tribunal (SDT) is conducted through the SDT Administration Ltd. The organisation is funded by The Law Society of England and Wales. Funding arrangements are set out in a Memorandum of Understanding between The Law Society, the SDT/SDTAL and the Legal Services Board.

1.2 Under the Memorandum of Understanding, the SDT must submit an Annual Budget Application to the Law Society each year, which must be approved by the LSB.

1.3 The yearly budget is a statement of the amount of money which the SDT estimates that it will require to meet all of its expenditure in the next calendar year (having regard to any amounts received but not spent in previous years) in order to carry out its statutory functions.

1.4 There is a further provision in the Memorandum of Understanding which states that under the Solicitors Act 1974, the Law Society may pay the SDT such other amounts as the Law Society considers appropriate. If the SDT considers that additional funding is required, it will submit an Additional Funding Application to the Law Society.

1.5 However, it is accepted between the parties that an Additional Funding Application should only be required in exceptional circumstances and that, so far as possible, it is preferable for the SDT/SDTAL to be able to operate with a degree of financial stability and independence. This is to ensure that the Law Society can act with certainty in setting registration fees for members of the profession.

1.6 It is therefore important that the SDT/SDTAL has a reserve account which holds an appropriate amount of money to ensure that Additional Funding Applications are kept to a minimum. As with any organisation, the purpose of the financial reserve is to provide financial stability and certainty about the availability of operating and investment funds for unforeseen/unbudgeted events. The reserve fund is not intended to absorb large scale expansion or contraction/winding-up. It is assumed that these would be anticipated and factored into the normal budget planning process.

1.7 This policy sets out the principles upon which the SDT/SDTAL operates its reserves account.

2. Classification of SDTAL Reserves

2.1 The SDTAL allocates its reserve fund into four nominal categories . Funds may be moved between categories only by decision of the Board, recorded in the minutes and reported to the LSB in the next budget application. The four categories are:

- a general reserve;
- a sitting day (designated) reserve;
- a fixed asset/future depreciation reserve; and
- a fixed asset replacement reserve.

Each of these is explained below.

General Reserve

2.2 The general reserve is a fund which is not for specific purpose and which does not include tangible fixed assets, amounts designated for additional sitting days or amounts designated for fixed asset replacement.

2.3 The scope of any general reserve is deliberately broad to ensure financial flexibility to respond to both unexpected demands and planned opportunities. These may include operational, strategic, legal, or environmental changes that have a material financial impact on the organisation.

2.4 Any general reserve is typically held for use in the following situations:

Strategic opportunities such as (but not limited to):

- providing guaranteed up-front funding (including capital expenditure), enabling the SDT to invest in projects/contracts or take advantage of opportunities to deliver business improvements or savings, where the economic impact of expenditure is spread over more than one year;
- funding contractual commitments e.g. for commercial/financial advantage.

Risk management typically:

- those additional costs resulting from changes in the economic, social, legislative and political environment e.g. to implement changes to comply with new or amended legislation, or political changes to legal regulation, or to enable continued operations during periods of change.

Unexpected events or emergencies including (but not limited to):

- unanticipated building lease costs e.g. increase in service charge, rent etc;
- significant building/maintenance costs;
- increase in business rates beyond what has been budgeted;
- unexpected increase in recruitment activity due to unforeseen staff turnover;
- uninsured legal costs;
- significant increase in inflation;
- legislative changes – e.g. GDPR, further pension reform, NI reform etc;
- business continuity costs;
- uninsured losses or to provide cash flow funding pending insurance claims.

Sitting Day (Designated) Reserve

2.5 Historically, there have been years where the SDT has not sat for the anticipated number of sitting days, which has resulted in an underspend of budget. The SDTAL has therefore established a Sitting Day (Designated) Reserve which accounts for the amounts in any year of underspend. These monies form a designated reserve which can be utilised to fund excess sitting days in years when the sitting days exceed the budgeted allocation.

Fixed Asset/Future Depreciation Reserve

2.6 Following relocation to new premises in 2023, the SDTAL established a Fixed Asset/Future Depreciation Reserve. The purpose of this reserve is to represent the net book value of fixed assets, making clear that these are not funds available for spending. The balance of this reserve will be reduced annually by the corresponding depreciation charge over the assets' useful lives.

Fixed Asset Replacement Reserve

2.7 The Fixed Asset Replacement Reserve is a designated reserve established to support the future renewal or replacement of significant fixed assets and associated capital projects approved by the Board. It is distinct from the Fixed Asset/Future Depreciation Reserve, which is an accounting classification representing the net book value of fixed assets. The reserve may be funded through transfers from other reserve categories, annual underspends or other amounts approved by the Board. Use of the reserve requires prior Board approval and must be recorded in the minutes, including the purpose of the expenditure and the resulting impact on reserve levels.

3. General Reserve Level Justification

3.1 The SDTAL considers that it is prudent to maintain a reserve of 3-6 months' of operating expenditure to ensure that the organisation remains financially resilient in the face of both unanticipated operational disruptions and strategic investment requirements.

3.2 This is generally in line with standard practice and reflects a range of scenarios identified in our risk register, including failure of core systems, premises-related risks and external funding expectations, as well as the ability to act flexibly when opportunities for business improvement arise.

3.3 While these scenarios vary in likelihood, they all have the potential for significant financial impact. It is not anticipated that these risks or opportunities would occur simultaneously; however, the reserve is intended to provide sufficient cover should more than one materialise within a short timeframe.

3.4 Examples of scenarios considered in the general reserve modelling include:

- Contingency for the failure and subsequent redevelopment of the case management system and/or website to ensure continuity of core services and public communication;

- Provision for the relocation and basic fit-out of alternative courtroom facilities, in the event that our existing premises become inaccessible;

- Provision for securing additional premises for larger or more high-profile cases where existing facilities may be insufficient;

- Inclusion of a contingency for an additional funding request, in line with the Law Society's recommendation and as set out in the Memorandum of Understanding renewed in 2025;

- Support for strategic investments that deliver business improvement or financial efficiency, such as multi-year contractual commitments or capital projects.

3.5 The general reserve is intended to support the organisation's ability to respond effectively to both risk and opportunity. Any use of general reserves requires formal Board approval and is documented in minutes, including justification and impact on future reserve levels.

4. **Sitting Days (Designated) Reserve Level Justification**

4.1 The SDTAL considers that it is prudent to hold funds to represent approximately [70-80] additional sitting days at the budgeted variable cost per sitting day. This reflects the fact that cases are becoming more complex and may last longer than originally anticipated, and that the volume and timing of SRA referrals are outside the Tribunal's control.

5. **Reserve levels**[1]

Based on the justification and rationale set out in clauses 3 and 4 above:

5.1 The general reserve should be maintained at not less than three months, and not more than six months, of budgeted operating expenditure (currently c. £785,000 for three months);

5.2 The Sitting Day (designated) Reserve should hold funds equivalent to approximately [70-80] sitting days at the budgeted variable cost per sitting day;

[1] These levels are recalculated each year from the budget application, using the principles in clauses 3 and 4. The Fixed Asset/Future Depreciation Reserve reduces as assets are depreciated. The Fixed Asset Replacement Reserve exists so that, when significant assets need replacing, the cost can be met wholly or partly from that reserve rather than through a separate funding request.

5.3 The Fixed Asset/Future Depreciation Reserve, which represents the net book value of fixed assets, will reduce annually by the depreciation charge until it reaches zero at the end of the assets' useful lives.

5.4 The Fixed Asset Replacement Reserve should initially hold £170,000. Its target level, adequacy and any future additions should be reviewed at least annually against the asset register and replacement schedule maintained by the Financial Controller. Any transfer into or use of this reserve requires Board approval.

6. **Surplus Reserves**

6.1 If the cash-backed reserves (the general reserve, the Sitting Day (designated) Reserve and the Fixed Asset Replacement Reserve, but not the Fixed Asset/Future Depreciation Reserve, which is not cash) exceed the overall levels set out in this policy, surplus funds will be returned to The Law Society by way of a reduction in the amount requested in the budget application, in the financial year following the approval of the Statutory Accounts i.e. 2 years in arrears or in a manner to be agreed by the parties (TLS and SDTAL).

6.2 This policy will be reviewed annually to assess whether the reserve levels remain appropriate, and approved by the Board before the annual budget application is submitted.

6.3 Capital expenditure is funded, through the budget or from the Fixed Asset Replacement Reserve, in the year in which it is incurred. In the statutory accounts it is then depreciated over the asset's useful life. Depreciation is a non-cash charge and is not included in the budget application, so the profession does not fund the same asset twice.

6.4 Approved by the SDTAL Board on 9 October 2026.

Next review: August 2027

APPENDIX

Reserve amounts

At 31 December 2025, SDTAL's audited reserves totalled £1,890,181.

The proposed designation, effective upon Board approval of the reallocation, for reserve levels as at 31 December 2026 is as follows:

Reserve category	**Allocation**
General (Free) Reserve	£789,221
Sitting Days Designated Reserve	£270,000
Fixed Asset/Future Depreciation Reserve	£660,960
Fixed Asset Replacement Reserve	£170,000
Total reserves	£1,890,181

The reallocation transfers £116,118 from the Sitting Days Designated Reserve to the General Reserve and £170,000 to the Fixed Asset Replacement Reserve. These are transfers between reserve headings only and do not change total reserves, cash or the reported surplus or deficit.
In practice the amounts above will change in order to fund activities in 2026.

At current forecast:
The Tribunal is expected to sit for an additional 23 days over the forecasted budget:

Total: £56k – to be funded from the sitting day reserve.[2]
Cancelled days: on current forecast to year end this will amount to approx. £117k. This will be funded from the general free reserve.[3]

SDT/SDTAL
October 2026

[2] In practice this will bring the sitting day reserve down to the new proposed level of between 70-80 days.
[3] This figure is currently based on a forecast of 21 cancelled days being paid between now and year end. It is expected that this number will reduce dramatically based on the delay in cases being referred and heard due to the Carter-Ruck review being undertaken by the SRA.