

Equality impact assessment on the practising certificate fee and Compensation Fund contribution for 2024-2025

May 2024

Equality impact assessment

Introduction

This is an equality impact assessment of:

- our proposed regulatory element of the annual practising certificate (PC) fee for 2024-25
- the proposed Compensation Fund contribution for 2024-25.

The impact assessment has been informed by the data we collect from law firms which is published in our [law firm diversity data tool](#).

Practising fees

Practising fees are paid annually by individual practising solicitors and by law firms regulated by the SRA. Our current split for determining the practising fee is a 60/40 between firms and individual solicitors. Whilst the individual PC fee is a flat fee, the model for calculating the firm's practising fee is dependent on its turnover which we believe is a proportionate approach.

The fee is determined annually based on financial requirements for the SRA's running costs, certain Law Society activities, and levies to fund the work of:

- the Solicitors Disciplinary Tribunal
- the Legal Services Board
- the Financial Conduct Authority (Office for Professional Body Anti-Money Laundering Supervision)
- the Legal Ombudsman.

This impact assessment of the practising fee is based on the proposed element of the fee which covers the regulatory work of the SRA. The Law Society consults separately on its own budget requirements. We will work with the Society to review our impact assessment as part of the Law Society Group's process to determine and approve the overall PC fee, during summer 2024.

Further information about our considerations and approach to calculating practising fees is set out in our Business Plan and Budget for 2024-25, and in our [Fees Policy](#).

Compensation Fund contributions

The SRA Compensation Fund is financed entirely by annual contributions from solicitors and law firms. Each year we assess and set the required contributions. This includes analysing relevant claims that have been made against the Fund alongside anticipated future claims.

To determine the required contribution, we separate the total monetary value that is required by the Compensation Fund into two, with half due from individual solicitors who hold a PC and half due from law firms that hold client money.

In both cases the contribution is a flat fee and is not dependant on the firm or individual's income or turnover.

Our [principles for setting the fee](#) are:

- 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

Proposed practising fees and Compensation Fund contributions for 2024-25

Proposed practising fee

We are not proposing to increase the regulatory element of the practising fee this year. This will remain the same as last year at £162. However the overall practising fee for 2024-25 – calculated when the regulatory requirement is combined with the requirements for the Law Society’s purposes and levies referred to above - is expected to increase by a small amount from the overall PC fee for 2023-24.

We are unable to determine the scale of the increase until the other elements of the fee are determined.

The Law Society consults separately on its budget requirements. We will work with it to review our impact assessment as part of the Law Society Group’s process to determine and approve the overall PC fee, during summer 2024.

Proposed Compensation Fund contributions

We are proposing to increase the Compensation Fund contribution that is required from individuals to £90 for 2024-25. This represents a £60 increase from 2023-24.

We are proposing to increase the Compensation Fund contribution that is required from law firms that hold client money to £2,220 for 2024-25. This represents an increase of £1,560 from 2023-24.

The increase is required because increased levels of SRA intervention costs and Compensation Fund claims over the previous financial year have reduced the Fund’s reserves. We carried out 65 interventions during 2022-23 which is more than double the number in 2021-22. Two of these interventions in particular brought significant costs and payments to former clients of the firms.

Total amount payable per individual solicitor for the SRA’s work

With the regulatory element of the individual PC fee and the Compensation Fund contribution payable by each individual solicitor combined, the total amount payable by individuals in respect of the SRA’s work for 2024-25 would be £252. This represents an overall increase of £60, from £192 in 2023-24.

Impact of our proposals

It is challenging to separately evaluate the impact of these fees on individuals and law firms because many law firms cover the annual payments due from individual

solicitors they employ, as well as the firm element of these payments. This needs to be taken into account when we look at the impact on individual solicitors and law firms. It means that the impact of increased payments due from individual solicitors in those firms will not be felt directly by the solicitors working there, but will nevertheless be felt by the firms.

We know that some solicitors working in law firms and in other positions pay their individual PC fee and Compensation Fund contribution from their own earnings. This is why we aim to make sure the majority of the practising fee payable each year for regulatory purposes is met by law firms, based on their turnover. And also why we keep the Compensation Fund contributions as low as possible.

In addition to this, we mitigate potential impacts of the practising fees for individual solicitors who are absent from work for maternity, paternity, shared parental and adoption leave through our policy for reduced fees.

Impact of the regulatory element of the practising fee

Because we are not proposing to increase the regulatory element of the practising fee this year, there will be no additional cost to or burden on solicitors or law firms in relation to this element of the annual payment due.

Impact of the proposed increase in the Compensation Fund contribution

As set out above we are proposing to increase contributions to the Compensation Fund by £60 for individuals (from £30 to £90) and by £1,560 for law firms (from £660 to £2,220).

Impact on individual solicitors

We aim to always keep the required contributions as manageable as possible. The trajectory of the contribution level for individuals over recent years shows that we have reduced the contribution when possible.

Practising year	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Individual contribution	£90	£60	£50	£40	£30	£30	£90

However, our overriding principle is to maintain the viability of the Fund. The exceptional circumstances referred to above have meant we have not been able to avoid the sharp increase in the forthcoming year.

For 2024/25 we recognise individuals who pay their own Compensation Fund contribution will be impacted by this increase, and this will be felt by those who earn less. We do not have data on the income of solicitors we regulate, so for the purposes of this impact assessment we have made a number of overarching assumptions about the earnings of solicitors working in certain sectors. This includes that:

- solicitors working in smaller law firms, may be more likely to earn less than solicitors working in larger firms
- solicitors working in certain areas (such as criminal law) will earn less than in more profitable areas of law (such as commercial law)

- solicitors working in-house may be less likely to have their Compensation Fund contribution paid by their employer
- solicitors working part-time or intermittently through the year may be more likely to earn less than those working consistently and full time.

The diversity profile of solicitors working in law firms with 1-5 partners shows that:

- men are overrepresented in firms with 1 partner, but not in firms with 2-5 partners
- Black and Asian solicitors are overrepresented in firms with 1 partner and Asian solicitors are also overrepresented in firms with 2-5 partners
- solicitors aged 45 and upwards are overrepresented in firms with 1-5 partners
- disabled solicitors are slightly underrepresented in firms with 1 partner but not in firms with 2-5 partners
- Gay and Lesbian solicitors are slightly underrepresented in firms with 1-5 partners
- Hindu, Jewish, Muslim, and Sikh solicitors are overrepresented in firms with 1 partner and for firms with 2-5 partners, Hindu and Muslims solicitors are overrepresented
- solicitors from a lower or intermediate socio-economic background are overrepresented in firms with 1-5 partners.

The diversity profile of solicitors working in criminal law (taken as an example of the sectors which are likely to be less profitable) shows that:

- men are overrepresented in firms which do a majority of criminal work
- solicitors from Black, Asian and Other ethnic groups are overrepresented in firms which do a majority of criminal work
- solicitors aged 45 and upwards are overrepresented in firms which do a majority of criminal work
- disabled solicitors are slightly overrepresented in firms which do a majority of criminal work
- Gay and Lesbian solicitors are underrepresented in firms which do a majority of criminal work
- Hindu, Muslim and Sikh solicitors are overrepresented in firms which do a majority of criminal work
- solicitors from a lower or intermediate socio-economic background are overrepresented in firms which do a majority of criminal work.

We do not collect data about solicitors working part time or intermittently over the practising year but these groups may include a greater proportion of women (who may be more likely than men to take career breaks for childcare purposes) and disabled solicitors (who may be more likely to take career breaks for health reasons).

Impact on law firms

We aim to always keep the required contributions as manageable as possible. We recognise that there will be an impact on law firms that hold client money and that are therefore required to contribute to the Compensation Fund, as a result of the proposed increase. Although we also recognise that law firms impacted by the increase in Compensation Fund contributions may pass those increases on to their clients in terms of increased fees. The impact will be greater for those firms which also pay the individual Compensation Fund contributions on behalf of the solicitors that work for them.

We have made a similar assumption about law firms as we have about individual solicitors - namely that smaller firms (1-5 partners) and firms operating in less profitable areas of work (for example those doing a majority of their work in criminal law) will be most affected.

The data referred to above sets out the groups which are overrepresented in these firms which could potentially be impacted more than others.

Provisional conclusions in relation to the potential impacts identified

The potential impact on individual solicitors who pay their own Compensation Fund contributions is mitigated to some extent by our approach to apportioning half of the total required to cover the Fund to law firms holding client money. We will be considering alternative approaches to the current 50/50 split approach for determining the Fund contribution as part of our consumer protection review.

We have been able to maintain the regulatory element of practising fees at the same level as 2023-24, which will to some extent mitigate the impact that will be felt by the proposed increase in the Compensation Fund Contribution.

We recognise that the cost to firms may be passed on to consumers through increased costs of providing legal services, which is something we will be exploring further in the consultation period.

Conclusions and next steps

Based on our assumptions this initial impact assessment has identified there is a potential financial impact on individuals who are responsible for paying their own Compensation Fund contribution, including some solicitors working in-house and solicitors working in sectors where their earnings may be lower. They will be required to pay an additional £60 for the Compensation Fund for the forthcoming year (with the total proposed fee of £90).

Firms in less profitable sectors are also more likely to feel the impact of the proposed increase. They will be required to pay an additional £1,560 for the Compensation Fund (with the total proposed fee of £2,220) and potentially will also fund the contributions due from the individual solicitors they employ.

In sectors which may be more affected by this increased financial burden, as set out above, there is an overrepresentation of men, solicitors aged 45 and over, disabled solicitors, Black, Asian and minority ethnic solicitors, those from Hindu, Jewish, Muslim and Sikh faith groups and those from a lower or intermediate socio-economic background. It could also include women and disabled solicitors who may be more likely to be working part time or intermittently within the practising year.

Given these potential impacts, we have considered whether these increases are justifiable.

The viability of the Compensation Fund is important in order to maintain confidence and trust in legal services and to secure the [Legal Services Act's Regulatory Objectives](#). So there is a balance to be struck to do this in a way that also takes account of the impact on particular groups within the profession.

Although we try to maintain stability in the Compensation Fund contributions over time, this is not always possible and will depend on factors impacting law firms that are not always in our control. We have managed to bring the individual contribution down in recent years and maintained a stable level of contribution. However, the exceptional circumstances we have seen in recent times means the increase for the next practising year takes us to the same position as it was in 2018/19.

Overall, given our overarching aim to maintain the protections in place for the public and our requirement to maintain the Compensation Fund, we believe the increase is necessary and proportionate. In our consultation paper we explain the circumstances that have prompted the increase.

However, we recognise the potential financial impact this will have on the groups identified above, and the potential impact this may have on the cost of legal services. In response to the circumstances leading to this additional call on the Compensation Fund over the past year, we have launched a review of our approach to client protection - our [Consumer Protection Review](#). This process will include a review of the Compensation Fund. We will be publishing more information about our proposals for the Compensation Fund, and as part of that will be carrying out a full equality impact assessment.

We will take into account the potential impacts identified in this assessment and consider if there are ways that we can mitigate these potential impacts going forward.

We are seeking views from our stakeholders on this assessment, and more generally about our fee proposals, through our consultation process on our Business Plan and Budget 2024-25. We will consider all feedback received and we will submit that feedback as part of our fees application (with the Law Society Group) to the Legal Services Board.

We will then finalise this impact assessment and publish it alongside the final version of our Business Plan and Budget for 2024-25.