

## **Equality impact assessment**

### **Practising certificate fee and Compensation Fund contribution 2022/2023**

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6 May 2022

## **Practising certificate fee and Compensation Fund contribution 2022/23 - equality impact assessment**

1. This is an equality impact assessment of the annual practising certificate (PC) fee that we are proposing to fund the SRA's work, and the contribution proposed for the Compensation Fund in 2022/23. It is focused on the level of the fees, rather than the basis upon which the fee is calculated.
2. We are proposing a relatively small increase of £6 for the regulatory element of the PC fee in 2022/23 and a decrease in the Compensation Fund contribution of £10. So overall, there will be a decrease of £4 for individuals. Last year, the practising certificate fee was £306. This was made up of a regulatory fee of £266 and a Compensation Fund fee of £40.
3. The annual PC fee paid by practising solicitors and law firms regulated by the SRA is collected by the SRA. The fee covers the running costs of the SRA, certain Law Society activities and levies for the Solicitors Disciplinary Tribunal, the Legal Services Board, the Financial Conduct Authority (for money laundering activity), and the Legal Ombudsman. These fees are determined annually, based on the combined requirements of the various organisations involved.
4. The overall PC fee is likely to increase slightly this year – we will not know the total figure until a final decision has been made on the Law Society's share and the levies paid to the relevant organisations. This impact assessment is based on the proposed £6 increase to the SRA's share. The Law Society is [consulting on its corporate strategy and proposed share of the PC fee](#) until 27 May 2022. We will work with the Law Society to review this impact assessment once we are in a position to calculate the overall PC fee.
5. The Compensation Fund is a discretionary fund of last resort to protect the users of legal services. It provides financial redress to people who have incurred financial losses which are not covered by professional indemnity insurance, for example if a solicitor has been dishonest. The Fund is managed by the SRA and financed by annual contributions from solicitors and law firms that we regulate.
6. We have used the diversity data we collect from law firms to inform this impact assessment. Our last firm diversity data collection took place in 2021 and the data and key findings are [published on our website](#).

### **Practising fees - law firms**

7. The annual practising certificate fee is made up of a firm contribution based on turnover and a fixed fee for each practising solicitor in the firm. Details of [our fee model](#) are available on our website. Our understanding is that, in most cases, a law firm will pay the fee on behalf of its practising solicitors as well as the element of the fee that is based on turnover.
8. This means that firms with a higher number of PC holders and a higher turnover will pay more. The profile of SRA regulated firms ranges from sole practices with one solicitor and a low turnover, to very large firms with hundreds

of solicitors and a very high turnover. There is therefore a significant difference in the practicing fees paid by firms in the profession.

9. There are solicitors working in law firms and in other positions who pay their own practising certificate fee. For this reason, when determining the level of the fee each year, we make sure that the majority of fee income (60 percent) is generated from the firm fee, with the remaining 40 percent coming from the individual fee. This allows us to keep the PC fee to a minimum.
10. We are not proposing any change in our approach to the calculation of the firm contribution based on turnover this year. However, we are proposing to increase the individual PC fee by £6. For firms, this means a firm with 1,000 practising solicitors would see their fee increase by £6,000.
11. We know from our [firm diversity data](#) analysis, that there are differences in the diversity profile of the largest law firms (with 50+ partners), compared to the smallest (with one partner). In summary:
  - people aged between 35 and 54 are overrepresented at partnership level in the largest firms and those who are 55 and over are overrepresented in the smallest firms
  - women are underrepresented at partner level in firms of all sizes, but to a greater extent in the largest law firms
  - the proportion of partners from a Black, Asian and minority ethnic group is more than four times greater in one-partner firms than in the largest firms
  - the largest law firms have a smaller proportion of disabled lawyers
  - the largest firms have the greatest proportion of lawyers from a professional socio-economic background, and those who went to independent/fee-paying schools.
12. Based on this, the largest law firms will pay more and in these firms, there is overrepresentation at partner level of White solicitors, male solicitors, those aged between 35 and 54, and those from a higher socio-economic background. There are variations in the profile of law firms for some of the other characteristics, but the numbers are smaller which makes it more difficult to draw reliable conclusions.
13. As mentioned above, there is a huge difference in the size and turnover of law firms that we regulate. And we recognise there are real financial challenges faced by some law firms - in particular the smaller firms and firms which provide less profitable legal services. We have therefore looked specifically at the diversity breakdown of these firms to understand if there is any potential adverse impact on solicitors working in those firms.
  - For firms which have 1 to 5 partners, our firm diversity data shows overrepresentation for Black and for Asian solicitors, for solicitors aged 55 and above and for men.
  - For firms which mainly undertake criminal work, there is overrepresentation of men, both Black and Asian solicitors and solicitors aged 45 and over.

14. Based on the assumption that solicitors in smaller firms and those working in certain work types (for example, criminal law) earn less than those in larger firms and those working in more profitable areas of law, the groups overrepresented in these sectors are likely to be impacted by an increase in the PC fee.

### **Practising fees – individual practising certificate**

15. The individual element of the practising fee is a fixed fee applicable to every practising solicitor and therefore is not intrinsically linked to an individual's means. This is why our approach is to keep the level of this fee as low as we can. The PC fee (without the Compensation Fund element) in 2016 was £290, which was reduced to £278 in 2017 and maintained at that level until 2021 when it was reduced further to £266.
16. It is likely that solicitors who are responsible for paying their own PC fee and those earning the least are likely to be impacted the most by an increase in the PC fee. We do not hold information about solicitors' earnings and cannot identify with certainty, what proportion of solicitors pay for their own PC. It is difficult therefore to identify with any certainty the profile of solicitors who might be impacted by having to pay the proposed increase. However, if we assume that solicitors in smaller firms and those working in less profitable areas are likely to be earning less, any impact is likely to fall on the groups referred to above.
17. Any potential impact on solicitors who are absent from work as a result of maternity, paternity, shared parental and adoption leave, is mitigated by our reduced fee policy.

### **Compensation Fund contribution**

18. The annual Compensation Fund contribution is set using careful analysis of the claims made against the Fund and its likely future exposure. We follow key [principles in setting the fee](#) each year, which were settled following consultation in 2020. These include collecting the contributions in a manageable way and being transparent about the costs involved.
19. The contribution is based on splitting the total monetary value required by the Compensation Fund into two. Half of the total is collected from law firms which hold client money, and the other half is collected from solicitors holding a practising certificate. The firm and individual fees are flat fees (ie they do not depend on income or turnover) and we are proposing to reduce both fees this year:
  - The firm fee will be reduced from £760 to £690
  - The individual fee will be reduced from £40 to £30
20. As with the individual practising certificate fee, our understanding is that most firms will pay the Compensation Fund fees due from the solicitors working for them. This means that the fees due from each firm will vary by size.
21. There will be a positive impact on the profession given the proposed reduction and this will help to mitigate the impact of the small rise proposed for the practising certificate. The reduction will not have an adverse impact on the

public who could benefit from the Compensation Fund because the level of fee is calculated to fund the claims we estimate will be paid over the year.

### **Summary of the impacts**

22. We have set out the work we are planning to take forward in our draft Business Plan for 2022/23, and our draft budget indicates how this work will be funded. This provides context for our proposal to increase the PC fee. Having regard to our public sector equality duties, we have also set out a summary of the work we are doing to advance equality, diversity and inclusion which is a key theme in our [corporate strategy](#).
23. We have identified a small potential impact of the proposed fee increase on solicitors who are overrepresented in small firms and firms who in less profitable legal services such as criminal law. This includes men, solicitors from a Black, Asian and minority ethnic background and older solicitors. We have not identified any adverse impact based on sexual orientation, religion, gender identity, or pregnancy and maternity.
24. Our fee model is designed to fund the majority of the practising fee based on firm turnover, which is a fair way to apportion the burden. The increase in the individual PC fee that we are proposing for the SRA's work in 2022/23 has been kept to a minimum at just £6 per PC for the year so the impact is likely to be small.
25. The impact of the PC fee continues to be mitigated by our [policy on reduced fees](#) for those on maternity, paternity, shared parental or adoption leave and for those applying for a PC part way through the year. In addition, the increase will be offset by the proposed reduction in the firm and individual element of the Compensation Fund contribution proposed this year.
26. We are seeking views from the profession as part of this consultation which will be taken into account in the revised impact assessment, we will submit in support of our fee application to the Legal Services Board.