

# **Equality impact assessment on the practising certificate fee and Compensation Fund contribution for 2023/2024**

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May 2023

# Equality impact assessment

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1. This is an equality impact assessment of:
  - the regulatory element of the proposed annual practising certificate (PC) fee
  - the proposed annual Compensation Fund contribution.
2. Fees are paid annually by individual practising solicitors, and by law firms regulated by the SRA. They are collected by the SRA and the PC fee covers our running costs, alongside certain Law Society activities and levies for the Solicitors Disciplinary Tribunal, the Legal Services Board, the Financial Conduct Authority (for anti-money laundering activity), and the Legal Ombudsman. Our fees are determined annually, based on combined financial requirements of these organisations. The Compensation Fund contribution is also determined annually based on its likely future exposure to claims.
3. This assessment focuses on the level of the regulatory element of the proposed individual PC fee and the contribution, rather than the basis upon which we have calculated them. We explain below how we calculate both elements of these fees and how we split this between law firms and individuals.
4. The Compensation Fund contribution is based on a forecast of what we may need to meet claims in 2023/24. The regulatory element of the PC fee is based on funds we need to carry out our regulatory work, including activities described in our proposed Business Plan 2023/24. Our draft budget indicates how this work will be funded.
5. Our consultation paper confirms how we have considered equality, diversity and inclusion in planning our work, and provides context for our proposal to increase the PC fee this year. We report [annually](#) on the work we do to promote a diverse profession, including the strategic projects set out within our Business Plans as well as our wider EDI work programme.

## Proposed fee and contribution

6. We are proposing to increase the regulatory element of the individual PC fee in 2023/24 to £162 – rising from £151 in 2022/23. This is a relatively small increase of £11 for individuals.
7. We are proposing to maintain the Compensation Fund contribution that is required from individuals at £30 for 2023/24. This is the same amount as the individual contribution for 2022/23.
8. This means an overall increase of £11 for individuals for the SRA's work, from £181 in 2022/23 to £192 in 2023/24.
9. The overall PC fee for 2023/24 (when our requirement is combined with the requirements for the other organisations referred to above) will increase from the 2022/23 PC fee. The Law Society consults separately on its budget requirements, and we will work with it to determine the overall PC fee and to review our impact assessment at that time.

10. 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 paid by law firms

11. The annual practising fee is made up of a firm contribution based on turnover and a fixed fee for each practising solicitor in the firm. We know that in many cases law firms pay the individual PC fee to us on behalf of their practising solicitors. We publish information about [our fee model](#) alongside [frequently asked questions](#).
12. This approach means that firms with higher numbers of PC holders and with higher turnovers pay more than others. The population of SRA-regulated firms includes sole practices operated by a single solicitor and with modest turnover, firms with offices in multiple regions of England and Wales, and very large firms operating as part of a global brand - employing hundreds of solicitors and with very high turnover. This means there are significant differences between the levels of practising fees that are paid by individual law firms.
13. Some solicitors working in law firms and in other positions instead pay their own PC 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 helps to ensure the PC fee for individual solicitors is kept as low as possible.
14. Our [firm diversity data](#) shows differences in the diversity profile of the largest law firms (defined as having 50+ partners) compared to the smallest single-partner firms. The data tells us that:
  - women are underrepresented at partner level in law firms of all sizes, but to a greater extent in the largest firms
  - the largest law firms employ smaller proportions of disabled lawyers
  - people aged between 35 and 54 are overrepresented at partnership level in the largest firms, and people aged 55 and over are overrepresented in the smallest firms
  - the proportion of partners from Black, Asian and minority ethnic groups is more than four times greater in one-partner firms compared to the largest firms
  - the largest law firms have the greatest proportion of solicitors from professional socio-economic backgrounds, and from people who attended independent / fee-paying schools.
15. When we assess our proposed fees we see that the largest law firms will pay more, and our data shows overrepresentation at partner level in those firms of White solicitors, male solicitors, people aged between 35 and 54, and people from higher socio-economic backgrounds. There is equally some variation in the diversity profile of law firms for other diversity characteristics, but the smaller numbers in our data makes it more difficult to make reliable comparison.

16. We understand that some firms face significant financial challenges, including rising operational costs. This may be particularly the case for smaller law firms that operate in less profitable areas of legal services. For these reasons we have considered the diversity profile of these firms, to assess the extent to which our PC fee requirement may potentially create adverse impacts for solicitors that work for them. Our data shows:
- overrepresentation of Black and Asian solicitors, of solicitors aged 55 and over, and of men, in law firms which have 1-5 partners
  - overrepresentation of men, Black and Asian solicitors, and solicitors aged 45 and over, in law firms that predominately provide criminal law services
17. We consider it fair to assume that that solicitors in smaller law firms, and solicitors working in certain areas of the sector – such as criminal law - may have lower earnings compared to solicitors in larger firms or working in more profitable areas of law. This suggests that groups and communities who may be overrepresented in those firms and areas of the market are likely to be impacted by any increase to the individual PC fee.

## Individual PC fee

18. The PC fee must be paid by, or on behalf of, every practising solicitor in England and Wales, and it is not intrinsically linked to each individual's means. For this reason we aim to keep the fee as low as possible.
19. It is likely that solicitors who pay their own PC fee, and solicitors earning the least, are likely to be most impacted by any increase to that fee. We do not collect information about individual solicitors' income and earnings, and we do not know with certainty the proportion of solicitors who do pay their own PC fee. It is difficult therefore to build understanding of the profile of solicitors who might be impacted by having themselves to pay the proposed increase. However, we can continue the consideration above, that solicitors in smaller firms and those working in certain areas of the market are likely to earn less – and conclude that any impact is likely to fall on these groups.
20. We mitigate potential impacts for solicitors who are absent from their work for maternity, paternity, shared parental and adoption leave through our policy for reduced fees.

## Compensation Fund contribution

21. The SRA manages the Compensation Fund, which is financed by annual contributions from solicitors and law firms. We set the required contributions by analysing claims made against the Fund, and its likely exposure to future claims. This process is guided by our [principles for setting the fee](#), including our commitment to collect contributions in manageable ways and to be transparent about costs involved.
22. To determine the contribution we separate the total monetary value required by the Compensation Fund into two. We then collect half from law firms that hold client money, and half from solicitors holding a PC. In both cases the contribution is a flat fee and is not dependent on income or turnover. For 2023/34 we are proposing to:

- reduce the contribution required from law firms, from £690 required in 2022/23, to £660
  - maintain the contribution required from individuals at £30
23. Similarly to the individual PC fee, we understand that many law firms pay the Compensation Fund contributions on behalf of the solicitors that work for them. This means that the total amounts paid by those firms is variable, and depends on their size and structure.
24. Our proposed reduction in the contribution required from law firms, and maintaining the current contribution requirement for individuals, will help to reduce financial impacts of the proposed rise in the PC fee. There will not be any adverse impacts for members of the public who benefit from the Compensation Fund's protections, because we calculate the contribution rates to fund claims we estimate will need to be paid during the year.

## Summary of impacts

25. Through this assessment process we identified potential impact from an increased PC fee for solicitors who are overrepresented in small firms, and in firms operating in less-profitable legal services areas. This includes men, solicitors from a Black, Asian and minority ethnic background and older solicitors. We have not identified adverse impacts based on sexual orientation, religion, gender identity, or pregnancy and maternity.
26. We take steps to mitigate these impacts through our fee model, which secures the majority of income from regulatory fees that are paid by firms, based on their turnover. We believe this is a fair way to apportion the financial burden. It means we have been able to keep the proposed increase of £11 for fees to a minimum, minimising the impact on individuals.
27. We work to further mitigate the PC fee's impacts through our [policy on reduced fees](#) for people on maternity, paternity, shared parental or adoption leave, and for people applying for a PC part-way through a practising year.
28. We are seeking views from our stakeholders through our consultation. We will take feedback into account in our revised impact assessment, which we will submit as part of our fee application to the Legal Services Board.