

# **Draft equality impact assessment on the proposed regulatory portion of the practising certificate fee, and proposed compensation fund contribution for 2025-26**

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May 2025

# Introduction

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This is an equality impact assessment of:

- the proposed regulatory portion of the annual practising certificate (PC) fee for 2025-26
- the proposed compensation fund contribution for 2025-26.

It covers:

- our diversity data insights
- an overview of the proposed regulatory portion of the PC fee and the proposed compensation fund contribution
- our initial assessment of potential equality, diversity and inclusion (EDI) impacts
- our response and our next steps.

## Diversity data insights

Our draft equality impact assessment is informed by data that we collect from law firms, and which we publish in our [law firm diversity data tool](#).

We do not collect data about individual solicitor income. However, for this assessment we make overarching assumptions about the earning levels of solicitors, including that:

- solicitors working predominately or entirely in particular areas of law which are less profitable – such as criminal law – will be more likely to have lower personal income. This is compared to solicitors working predominately or entirely in areas of law that are more profitable – such as commercial law
- solicitors working in smaller law firms may be more likely to earn less than solicitors working in larger law firms
- solicitors working part-time or intermittently may be more likely to earn less than solicitors who are working consistently or on a full-time basis.

For this assessment, we are defining smaller firms as those operating with between one and five partners. Our law firm diversity data illustrates the profile of solicitors working in those firms, including that:

- Black and Asian solicitors are overrepresented in law firms with one partner, and Asian solicitors are overrepresented in law firms with two to five partners
- men are overrepresented in law firms with one partner, but not in law firms with two to five partners
- solicitors aged 45 and upwards are overrepresented in law firms with one to five partners

- disabled solicitors are slightly underrepresented in law firms with one partner but not in firms with two to five partners
- gay and lesbian solicitors are slightly underrepresented in law firms with one to five partners
- Hindu, Jewish, Muslim, and Sikh solicitors are overrepresented in law firms with one partner. And for law firms with two to five partners, Hindu and Muslims solicitors are overrepresented
- solicitors from lower or intermediate socio-economic backgrounds are overrepresented in law firms with one to five partners.

We have also used our data to consider different groups that are more or less likely to work in sectors that may be less profitable than others, such as criminal law. In firms which do a majority of their work in the criminal law sector, we can see that there is some overrepresentation of:

- men
- solicitors from Black, Asian and other minority ethnic groups
- solicitors aged 45 and upwards
- disabled solicitors
- Hindu, Muslim and Sikh solicitors
- solicitors from a lower or intermediate socio-economic background.

## Proposed regulatory portion of the PC fee and proposed compensation fund contribution for 2025-26

### **The regulatory portion of the PC fee**

Practising fees are determined annually and are paid by:

- individual practising solicitors and registered lawyers (flat fee)
- law firms (fee based on their turnover).

Practising fees cover the annual funding requirement, which includes the regulatory portion (meaning the SRA's operating costs), certain Law Society activities, and levies that 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.

Sixty per cent of the annual funding requirement is met by practising fees paid by law firms, determined firm-by-firm based on their turnover.

The remaining 40 per cent is met by the PC fee, paid by individuals.

Our draft Business Plan and budget 2025-26 proposes that the regulatory portion of the individual PC fee will be £190. This would represent an increase of £26 compared to the regulatory portion of the PC fee that was payable by individuals in 2024-25.

### **The proposed compensation fund contribution**

The compensation fund is financed entirely by annual contributions. These are paid by all practising solicitors (except those working for the Crown Prosecution Service), registered lawyers and by law firms that hold client money.

The proposed compensation fund contribution for 2025-26 is:

- £70 for individuals – which would be a reduction of £20 from the £90 that individuals paid in 2024-25
- £1,950 from law firms that hold client money – which would be a reduction of £270 from the £2,220 that law firms holding client money paid in 2024-25.

The contribution is a flat fee, rather than being dependant on the law firm or individual's income or turnover. Currently, 50 per cent of the required total amount for the compensation fund is met by individual contributions, and the remaining 50 per cent is met by law firm contributions.

Between November 2024 and February 2025, we consulted on proposals for delivering and paying for a sustainable compensation fund and alternative approaches for setting the contributions. It included proposing to move away from our existing '50/50' model and instead using a 70/30 model. This is where 70 per cent of the required total amount for the compensation fund is met by individuals, and the remaining 30 per cent is met by law firms that hold client money.

Having considered the responses to this consultation, we have decided that, for 2025-26, we will continue to use the '50/50' model while we continue to evaluate potential longer-term approaches. Further details are provided in the section on evaluating our approach to calculating the compensation fund contribution below. We have also published [a document summarising the consultation responses and the rationale for our position](#).

### **Combining the proposed regulatory portion of the PC fee and the proposed compensation fund contribution**

The total amount that we are proposing for individuals in 2025-26, once the two amounts are combined, is £260. This would represent an overall increase of £6 from the combined amount of £254 that individuals paid in 2024-25, in respect of the SRA's work.

There is no single total amount payable by all law firms, because the PC element for law firms is calculated based on each firm's turnover. Our [fee policy 2024-25](#) confirms the calculation that we make and provides examples of practising fees that are payable by firms with differing levels of turnover. For example, the practising fee in 2024-25 for a firm with a turnover of £200,000 is £1,059, compared to £3,639 for a firm with a turnover of £800,000.

In some cases, individual solicitors pay both the regulatory portion of the individual PC fee and the individual compensation fund contribution themselves, from their own earnings. In the majority of cases, firms pay the required individual fees on behalf of

the solicitors who are working for them as well as the firm fees due. Any changes to the PC fee or the compensation fund contribution fees may therefore impact firms that pay fees on behalf of their employees differently from firms that do not.

## Our assessment of potential equality, diversity and inclusion impacts

### **Potential impact of the proposed regulatory portion of the PC fee**

Looking firstly at the proposed increase of £26 to the individual regulatory portion of the PC, we think that any increased financial requirement is likely to be felt the most keenly by those earning less. Based on the assumptions set out above this includes individual solicitors who pay for their own PC and work in smaller firms and/or less profitable areas of legal services or who work part time or intermittently. It will also include law firms who pay the PC fee on behalf of solicitors who they employ, in particular those which are smaller and / or operate predominately in less profitable areas of legal service.

Our data insights above, highlight the diversity groups which are overrepresented in these cohorts and may therefore, be more likely to be adversely impacted by the increased financial burden.

### **Potential impact of the proposed compensation fund contribution**

For 2025-26 we are proposing to reduce the required contribution levels for firms and individuals. However, we recognise that the proposed contribution for 2025/26 remains higher than in previous years, following a significant increase in 2024/25. So despite the reduction in the contributions this year, the potential impacts on firms and individuals remains similar to that identified in the 2024/25 impact assessment.

Our data insights above, highlight the diversity groups which are overrepresented in these cohorts and may therefore, be more likely to be adversely impacted by the increased financial burden.

### **Potential impact of the combined proposed PC fee and proposed compensation fund contribution**

The overall increase for individuals (and firms which pay the individual fees on behalf of the solicitors they employ) is £6 per person.

Most solicitors have their individual PC fee and contribution paid for by their employer. However, our assessment suggests that there may continue to be adverse impact for solicitors meet the costs themselves.

Based on the data insights above, the groups affected would include older solicitors, disabled solicitors, men, Black, Asian and minority ethnic solicitors, those from Hindu, Jewish, Muslim and Sikh faith groups, and people from lower or intermediate socio-economic backgrounds.

We do not think that the overall proposed fee increase of £6 in 2025-26 (compared to 2024/25), by itself would create significant additional or heightened adverse impact for firms who pay the individual fees, or for solicitors from the groups identified above. We continue to mitigate the financial burden of PC fees for those who take time away for work as a result of parental leave (by offering a fee reduction) and by

reducing the level of any fee payable for those who start practising part-way through the practising year.

## Next steps

We will consider any feedback we receive about this equality impact assessment during our consultation. And use it to finalise and publish the assessment, alongside our finalised Business Plan and budget document in autumn 2025.

In the finalised impact assessment, we will confirm any specific steps that we intend to take, in response to potential adverse impact that we may identify.

We recognise that although we are proposing to reduce the compensation fund fees this year, they would remain higher than they have been in previous years. We understand that this would carry a potential financial burden on individuals and the cash flow of law firms.

In light of our recent consultation about the compensation fund, we are continuing to explore the options

## Apportioning the PC fee requirement between individuals and law firms

Our approach to calculating the PC fee is to maintain as much stability as we can for individuals who are required to pay their own fee. Although the individual PC fee is flat, we keep it as low as we can, and the greater burden of the total financial requirement is met by law firms. They pay 60 per cent of the overall cost in accordance with their turnover.

## Evaluating our approach to calculating the compensation fund contribution

We last set our approach to the apportionment of compensation fund contributions some 15 years ago. In the time since, the number of solicitors has increased significantly, while the number of law firms has decreased.

In 2024 we increased the compensation fund contribution for individuals by £60, and for law firms by £1,560. And in our [application to the Legal Services Board](#) (LSB), we confirmed that we would review our current approach to setting the contributions and consider possible alternatives to the 50/50 apportionment model.

In its [Decision Notice](#), the LSB noted the impact of the current arrangements on lower income firms and individuals. It set out its expectations that we would:

- consider the structure of the contribution
- consider the efficacy of a turnover-based approach
- assess impacts on the profession, consumers, and public interest.

As set out above, in our recent consultation we proposed a 70 per cent (individual solicitor) to 30 per cent (law firms) apportionment model for compensation fund contributions. We considered whether to adopt this proposal in 2025/26. Our analysis indicated that using a 70/30 split:

- the individual contribution would have risen from £90 in 2024/25 to £100 in 2025/26
- the firm contribution would have dropped from £2,220 to £1,170.

We recognise that this may have had a beneficial impact on small law firms, and an adverse impact on some larger firms and individual solicitors who pay their own contribution. By maintaining the status quo for 2025/26, we will see winners and losers compared to moving to a 70/30 split. Changing the apportionment alone would not have addressed the potential impacts identified by having a flat fee. In the consultation we also consulted on other alternative models for setting compensation fund contributions for firms. These included risk-based approaches such as:

- offering discounted contributions to firms subject to meeting certain criteria
- varying contributions to the fund based on each firm's level of risk, turnover or amount of client money held.

These more fundamental changes would likely have a more significant equalities impact on different groups than changing to a 70/30 split.

Some respondents to our consultation considered that we should not move from a 50/50 apportionment for contributions before considering the broader questions around differential contributions. There were suggestions that we look at the potential advantages, disadvantages and impacts of differential contribution models before making changes to the apportionment of contributions to the fund.

We are still progressing our evaluation of consultation responses and consideration of potential alternative models and future approaches. We will carefully assess the potential EDI impacts within each one. This is both in relation to different groups of solicitor and potential inadvertent adverse impact for consumers if, for example, firms might reduce quality or raise fees in response to increased regulatory costs.

As we continue to explore options for the future, we think it prudent to avoid making changes to contribution arrangements at this time. This is especially when we have not been able to identify appropriate changes for this year that would totally mitigate disproportionate impacts on the groups referred to above.