

A close-up, side-profile photograph of a woman with curly, light brown hair and glasses, wearing a dark blazer. She is sitting at a desk, holding a pen over an open document. The desk is cluttered with various items including a water bottle, sticky notes, and a smartphone. The background is blurred, showing office equipment like a laptop and a monitor.

# The Law Society Group

Annual report and consolidated  
financial statements for the  
year ended 31 October 2021



The Law  
Society



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# Foreword

This annual report sets out clearly and transparently the activities and achievements of both the Law Society and the Solicitors Regulation Authority as the Law Society Group.



I. Stephanie Boyce  
Law Society President



Anna Bradley  
SRA Board Chair

The Law Society Group, as the Law Society of England and Wales and the Solicitors Regulation Authority took steps to further separate in the Summer of 2021, with the transfer of the Solicitors Regulation Authority activities to a separate legal entity. This separation will allow us to better fulfil our different roles – the Law Society, as the professional body for solicitors in England and Wales, and the Solicitors Regulation Authority as the regulator.

We continue our shared commitment to supporting the rule of law, the administration of justice and a thriving legal sector, providing expert professional help. In turn, this supports the reputation of England and Wales as a global legal centre and destination of choice for legal business.

It will be some time before the implications of the Covid-19 pandemic are fully understood but the sector has adapted well to these challenges, serving the public and the business community in new ways. This report covers some of the steps both organisations have taken to support that flexibility, including our broader work on key areas such as diversity and anti-money laundering.

The Law Society and Solicitors Regulation Authority are fully committed to good governance, to transparency and to accountability, and we hope you find the contents of this report helpful.

**More information on our work is available on our websites and social media channels, and we are always open to hearing your views and your feedback.**





# Who We Are



## Principal Activities

**The Law Society:** The Law Society is the independent professional body for solicitors in England and Wales. Founded in 1825, and granted its Royal Charter in 1845, we exist to be the voice of solicitors, drive excellence in the profession, safeguard the rule of law, work to make sure no-one is above the law and protect everyone's right to have access to justice.

**Solicitors Regulation Authority/Solicitors Regulation Authority Ltd:** To regulate solicitors and law firms in the public interest, protecting members of the public, supporting the rule of law and the administration of justice. This is done by licensing individuals and firms to practise, setting the standards of the profession and regulating and enforcing compliance against these standards, and overseeing all of the education and training

requirements necessary to enter the profession and practise as a solicitor. On 1 June 2021 the activities of the Solicitors Regulation Authority transferred to a subsidiary company.

**Indemnity Operations:** The Fund provided indemnity in respect of the practices of solicitors, recognised bodies and registered foreign lawyers carried on wholly or in part in England and Wales, with up to £1 million of cover per claim (£1.5 million for recognised bodies) until 31 August 2000, when the Council of the Law Society decided to require firms to purchase indemnity insurance in the open market. The Fund therefore went into run-off from 1 September 2000. In 2004, the indemnity limit increased for new claims arising within existing practices to £2 million and to £3 million for recognised bodies.

# Business Review: The Law Society

## A Review of 2020/21

**Delivering for our members in another unprecedented year.**

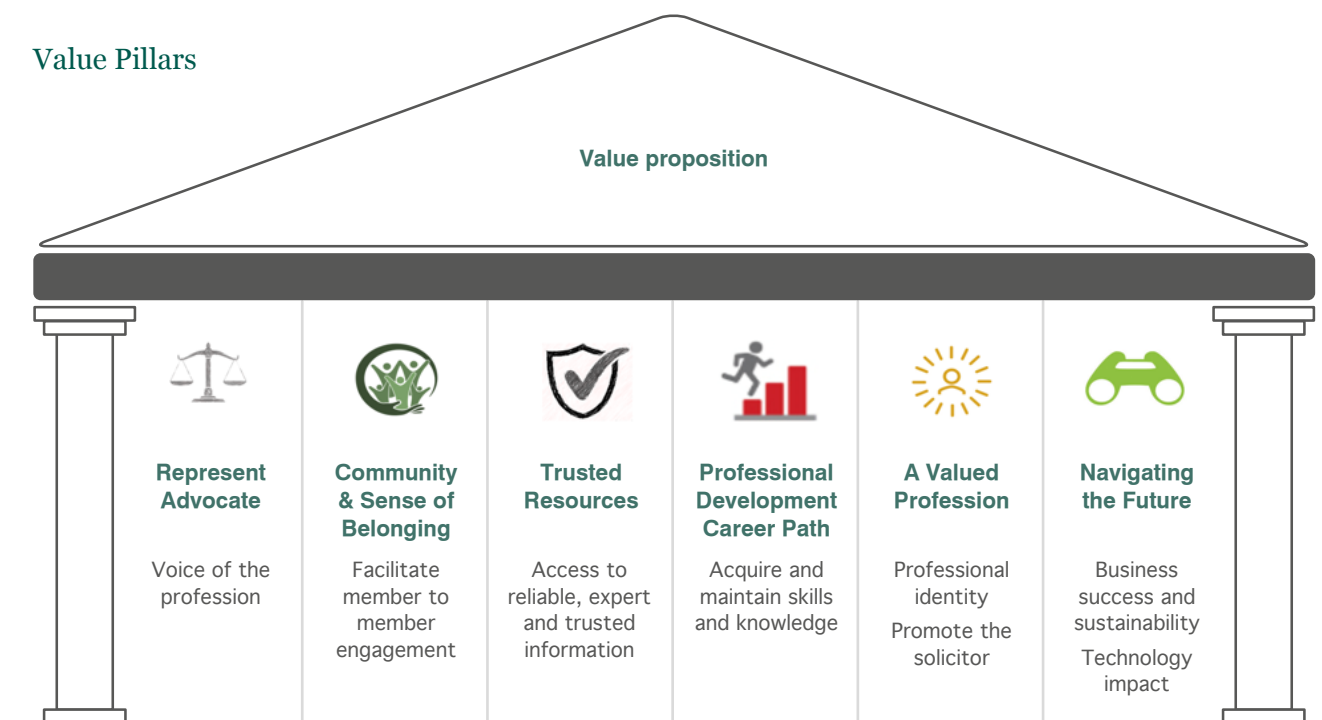
Unsurprisingly, the Covid-19 pandemic dominated every aspect of our work in 2020/21, just as it has for our members and the wider world. We continued to work hard, engaging with, listening to, and working alongside members to navigate a shifting business and economic environment.

Despite the challenges, there was significant progress in harnessing the changes and investments we have made to deliver more value for our members. By carefully controlling our costs and staying focused on commercial opportunities, we delivered a strong financial outcome.

## The Value of Law Society Membership

In May 2021, we agreed a new Membership Value Proposition which articulates the value of membership from our members' perspective. This was developed in consultation with members via a series of workshops and meetings. As part of this work, we developed and agreed six 'value pillars'. These are used to underpin all our member-focused work and ensure everything we do is in line with what our members have told us they want.

## Value Pillars



# Community and Engagement



## More members than ever before took part in the 2021 Practising Certificate fee consultation

We engaged with over 1,000 members throughout the process, including 927 survey respondents and 80 focus group participants across 17 sessions, all in the space of one month. This is over four times the number of members engaged in our previous highest response year (224 respondents in 2020). We collected a range of demographic data from the consultation and achieved excellent representation levels. We can be confident in understanding how opinions and needs vary according to different member segments. This has allowed us to engage in meaningful conversations with our members, especially with those whose voices we have heard less often in the past.

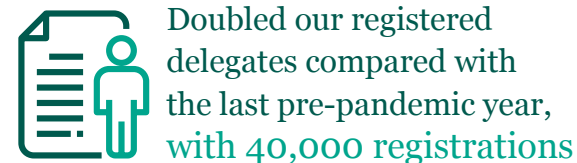


## A new online forum for small firm members grows fast and beats expectations

Over 1,000 members signed up to Law Society Connect, a new digital community for small firms where members exchange ideas, problems and inspiration, and support each other on issues as varied as the Practising Certificate (PC) fee renewal and starting a new business.

## Working with and through Local Law Societies

We made seven commitments to Local Law Societies to ensure we communicate regularly and engage with them across a range of issues. We initiated new 'town hall' style meetings hosted by the President and worked together on big projects such as the National Inclusion Conference.



## More members than ever before took part in our events

Following the launch of a new online events platform in January 2021, engagement with Law Society events significantly increased. We doubled our registered delegates compared with the last pre-pandemic year, with 40,000 registrations. We also increased the geographical reach of events so that more members outside London and the South East (69% compared to 57% pre-pandemic) are now taking part.

In addition, since January 2021 there have been 12,000 views of our events on-demand recordings: a capability we didn't have pre-pandemic.

Unsurprisingly, the number of face-to-face events were limited in 2020-21. However, once 113 Chancery Lane reopened, we held Admissions Ceremonies for those admitted to the Roll since March 2020 who had been unable to celebrate their achievement at the Law Society. Between September and October 2021, eight ceremonies took place with 462 new members being admitted.

## Trusted Resources and Learning

### New Law Society Learning platform launched

In November 2020 we launched Law Society Learning, a new platform that transformed how we offer education and training to our members. As well as having a fresh, clean and contemporary design that is fully responsive on mobiles and tablets, there are approximately 600 pages of new content, plus embedded interactive learning activities. Since its launch we have released 171 new learning items and our 'bite-sized' training more than doubled its revenue target.

In the spring and summer of 2021, we launched training for the Immigration & Asylum Accreditation and Re-Accreditation Scheme on Law Society Learning. Training for the accreditation was delivered via a suite of digital exams: the first time we have been able to offer exams online. Training for re-accreditation was comprised of a series of modules, and members can now review their knowledge and keep up to date about changes to this area of practice.

### A new resolution on climate change

Ahead of COP26, we responded to member concerns about climate change and published a resolution promoting a range of resources to support members in managing their own response to this critical issue.

## Support during the Pandemic

Supporting member firms and their economic contribution is a key area for us and this year saw us continue to help members through pandemic-related business changes. We influenced the extension of the Stamp Duty Land Tax holiday, kept our guidance on furlough up to date and advised members on how to return to the office safely. We also influenced how courts and police stations should adapt to keep members safe. We have influenced key legislation including the National Security Bill and the Leasehold Reform Bill and have representation on the MoJ electronic signature working group. We have engaged with the government's levelling up agenda highlighting the contribution our profession makes across England & Wales.

## We supported members on their risk and compliance challenges

We continued to provide members with guidance on risk and compliance, Anti-Money Laundering (AML) requirements and price transparency issues. We influenced the government's proposed approach to the Economic Crime Levy, which resulted in an exemption for small firms.





## Representing and Advocating for Members



We secured investment in the justice system from the government

The government heard our call and we secured much-needed investment in the justice system to address the courts backlog. They invested in a sustainable civil legal aid market and helped the justice system to recover from the Covid-19 pandemic.



We secured a consultation from the Solicitors Regulation Authority (SRA) on the future of the Solicitors’ Indemnity Fund (SIF)

We secured a consultation from the SRA on the future of SIF when the regulator agreed to extend the life of SIF for a further 12 months having heard our concerns and those of both the profession and consumers.



We influenced reviews of legislation on the rule of law

We influenced important legislation on the rule of law by keeping the pressure up on reviews including Administrative Law, the Human Rights Act and the reform of Mental Health and Capacity Law.



We secured improvements to the legal aid system

We secured improvements to the legal aid system with changes to the means test, to the fee to be paid for pre-charge work and to the system for assessing solicitors’ bills. This will help more people access justice and make sure our members are paid more fairly for their important work. The Justice Select Committee report on legal aid was supportive of many of our issues and positions. This included explicitly adopting our proposal as a recommendation in relation to exceptional case funding and the Autumn Statement demonstrated the impact of our calls for increased funding for the justice system through the spending review.



We supported members through Brexit and secured change in overseas jurisdictions

At the start of the year we supported members through briefings and insight as the Brexit transition period came to an end. We also secured favourable practising rights for members in some key European jurisdictions and continued our promotion of the UK as a global legal centre.



## A Valued Profession

Our Diversity & Inclusion work continued to support and also challenge our members

We have made good progress on our priority area to promote a modern, diverse and inclusive profession. We published our research report, Race for Inclusion, and new guidance on reasonable adjustments to support improved disability inclusion. The revised D&I charter pilot was completed, and it was agreed we would take a new approach to helping members, with supporting materials and creating a framework.

We continued to influence the SRA around access to the new Solicitors Qualifying Examination (SQE) and have stepped up our engagement across social mobility through membership of a new taskforce. We engaged widely with members and promoted our support and materials. This was alongside partnering with Leeds Law Society at the national inclusion conference for a second year, using a digital approach to reach as wide an audience as possible.

We put a lot of energy into influencing for more action on judicial diversity. We have persuaded stakeholders to sign up to a more ambitious action plan to drive greater action around the issue and developed digital resources, webinars and remote networking opportunities. However, we have also been critical of the pace of change from the Judicial Appointments Commission.

## Organisational Improvements

Delivering organisational change

We have continued to drive our transformation programme forward and make changes to how we work. These changes are focused on making our organisation as efficient and effective as possible so we can provide the best value possible for our members. The main achievements this year include completing the refurbishment of 113 Chancery Lane, upgrading our digital network and making excellent progress on a phased return to work by adopting a hybrid approach.

We enabled remote and hybrid working through the implementation of Microsoft Teams for meetings, telephony and collaboration. We also took control of all aspects of the HR and Finance functions, removing reliance on shared services staff across the Law Society and the SRA.

The foundation of the Member Experience transformation programme was completed with a new CRM, Law Society Learning platform and website launch to improve the quality, reach and performance of our member-facing products and services.

## Challenges Ahead

Listening to our members

The business year 2021/22 will complete the current 5-year strategic plan. Our transformation programme, Shaping our Future, will come to a close and the year will serve as a springboard to the next three year strategy, between 2022 and 2025, taking the Society to the historic milestone of its 200th anniversary.

Members are at the heart of everything we do, and their insight is critical to shaping the business plan. This year we have engaged more members than ever before to understand what they think are the most important issues to tackle and the most important ways of supporting them in their roles, careers and interests.

The message from members is clear - they want us to be more visible on their behalf, tackle the big issues in the justice system and champion the role of solicitors.

We have listened to members and aim to deliver an ambitious programme of work including new initiatives to meet our permitted purposes. Members told us they want us to focus more resources on promoting the profession, and this year we will make a step change in how we do that.

Another message we heard loud and clear from members was that we have to target them with a relevant member offer. We must be able to offer members value as individual professionals and as leaders or employees of firms or organisations.

As an organisation, we have come a long way since the start of the current 5-year strategy. We will complete a full evaluation of the current strategy and the final year will build on the achievements so far including a full modernisation of our IT and member facing digital infrastructure, the modernisation of our office environment and a fundamental rethink of how we deliver a high quality, joined up member experience for the profession.

# Business Review: Solicitors Regulation Authority

## Business review 2021: Solicitors Regulation Authority

We regulate more than 210,000 solicitors in England and Wales and around 9,800 legal businesses.

This year (November 2020 - October 2021) was the first year of the implementation of our 2020 to 2023 strategy, which focuses on three objectives:

- **High standards for the profession and ourselves.**
- **Supporting innovation and technology that can assist people to access legal help.**
- **Anticipating and responding to change.**

### Our business planning and governance

We consulted on our 2021 - 22 business plan. More than 8,000 people – and 50 organisations - had their say through virtual events, written submissions and online polls.

In December 2020, the Legal Services Board confirmed that we met all 27 of its performance outcomes, including on being well led.

We have worked with the Law Society to establish the SRA as a distinct legal entity within the Law Society Group. This change, which will not only be more effective but create more transparency for the profession and the public about our respective roles and responsibilities, came into effect in June 2021.

We confirmed that Anna Bradley has been reappointed as the Chair of our Board for a second three-year term. Our Board also welcomed four new members – Ann Harrison, Dermot Nolan, Vikas Shah MBE, and Elizabeth Smart.

### Regulatory reform: better information, more choice

We introduced our Transparency Rules at the end of 2018 to help consumers access legal services by improving the information law firms make available to the public. We focused on price, services and protections.

The results of the one-year review - the first step in the five-year evaluation programme of these changes - were encouraging. However, while most firms have declared they are following the new requirements, our work suggests some are not. We have continued to provide support to firms to help them comply, and in January 2021, we announced that we have sanctioned some firms for breaches of these rules.

In December 2020, the Competition and Markets Authority published a review of progress in legal services following its 2016 market study. It recognised that there are clear signs of progress to help consumers shop around. However, it said that more needed to be done in relation to information on quality.

In January 2021, we launched a pilot exercise with law firms and comparison websites to explore how these websites can help potential clients choose their legal service providers. Around 70 firms and nine comparison websites have been involved in the pilot, which has resulted in increased activity on comparison websites.

We have announced that we will be launching a pilot to study the benefits for clients and firms of unbundled services. We will do this work in collaboration with the Law Society and the Legal Services Consumer Panel, supported by the Bar Standards Board.

### Education and training: ensuring consistent high standards

In 2021, we changed the way solicitors qualify. The culmination of a decade's worth of consultation and development, the new Solicitors Qualifying Examination (SQE) came into effect in September 2021.

A new single, rigorous assessment, the SQE replaces the old system where there were multiple courses and examinations, providing greater assurance that qualifying solicitors have met the same, high standards.

We launched the [new SQE website](#), which enabled candidates to register and book for SQE assessments.

- **The first sittings of SQE1 took place in November 2021, with 1,090 candidates sitting the assessment across 100 test centres in 26 countries.**

The option to take the SQE in Welsh will be phased in over a four year period, starting in April 2022 with elements of SQE2. We ran a pilot in September 2021 to test delivering the SQE in Welsh.

We worked with stakeholders to develop our approach in areas such as publishing data, resources on qualifying work experience, and reasonable adjustments. We increased the range of assistive technology available ahead of the first SQE assessment, and also updated our equality impact assessment.

- **We ran a series of webinars, attracting around 24,000 views, as well as our fourth annual SQE conference, with content targeted at employers, training providers and aspiring solicitors. We also ran workshops in London, Leeds, and Cardiff.**

Our SQE Update bulletin makes sure stakeholders can access the latest SQE news and has more than 3,400 subscribers. Our Career in Law social media content, targeted at aspiring solicitors, has more than 4,000 followers.

Separately, following consultation, we have changed how the Higher Rights of Audience (HRA) assessments operate. Candidates are being assessed against revised standards, and only solicitors and registered European lawyers can take the criminal and civil HRA assessments.

### Working with the profession: managing risk, promoting high standards

We have continued to monitor the impact of the Covid-19 pandemic on the sector closely, so we can respond in an agile and pragmatic way where needed.

Our Risk Outlook for 2021/22 looked at how the legal market was emerging from the impacts of the pandemic.

- **Our analysis is that the legal sector has come through the challenges of Covid-19 relatively well.**

The flexibility that our Standards and Regulations provided has been helpful, while maintaining high professional standards.

We published a range of resources designed to help solicitors who practice in inquests in the Coroner's Court. These were developed in partnership with the Bar Standards Board and CILEx Regulation, with support from a range of other stakeholders.

Our 2021 Compliance Officers Conference ran as both a face-to-face and virtual event. Providing insight and support on compliance topics including our account rules and cybercrime, the Birmingham event attracted 600 attendees. The eleven virtual sessions have attracted more than 30,000 views. 100% of delegates said they would attend a similar event again.

### Working with the profession: anti-money laundering (AML)

Preventing money laundering is a priority risk for the legal sector.

We published guidance on acting as a tax adviser, and guidance on acting as a trust and company services provider to help firms understand their obligations and the risks in these areas.

We continued our programme of proactive AML supervision, including visits to firms, desk-based reviews and a series of visits to consider the role of the money laundering reporting officer (MLRO) and money laundering compliance officers (MLCO).

We completed 96 visits to review firms' AML approach. We found that firms were still struggling with putting in place AML controls (such as screening employees and undertaking an independent audit) and some parts of customer due diligence (such as ongoing monitoring and source of funds checks).

We ran a series of AML webinars, covering a range of practical topics from electronic due diligence to what tax



advisers need to know. Our AML webinars have been viewed more than 18,000 times.

Investigation into cases where there were serious or repeated breaches of the money laundering regulations continued: this year we concluded a range of cases including prosecuting cases at the Solicitors Disciplinary Tribunal (SDT) resulting in fines, a strike off and suspension.

### Building trust: protecting the public

Public trust in the profession is founded on solicitors working to high standards. The vast majority do. However, if solicitors fall short of what is expected, we step in. We take action to help keep the public safe: ranging from fines to referrals to the SDT. We brought 100 cases to the SDT this year.

- **We intervened into and closed down 26 law firms where we felt there was a significant and immediate risk to clients and the public.**

We can help members of the public and small businesses that have lost money in certain circumstances, for instance owing to a dishonest solicitor. This year we paid out £26.9m from the Compensation Fund.

Following consultation, we introduced changes to how the Fund will operate, so it can continue to protect the public while remaining affordable for the profession and their clients. We worked closely with members of the public to update the Compensation Fund part of our website, so we can make sure it effectively responds to their needs.

We work to warn both law firms and the public about issues - for instance, we published scam alerts that were viewed around 160,000 times.

Following consultation, we are introducing a new clause within the minimum terms and conditions for professional indemnity insurance to make it clear what cover will be provided for cyber losses.

In response to feedback, we decided to extend the provision of post six-year run-off cover by the Solicitors Indemnity Fund (SIF) for a further year in order to allow a consultation on the future of post six-year run-off cover and the Fund. We will make a decision on next steps in 2022.

### Building trust: working with the public

We are committed to policies that are evidence-based. Covid-19 restrictions limited face-to-face engagement with the public and consumer representatives, so we ran virtual workshops, focus groups, polls and user testing to understand people's views. Topics we engaged on included quality indicators in the legal market, views on our services, priorities and business plan.

We spoke to people who could be in positions of vulnerability or have different needs. We spoke directly to neurodivergent legal consumers, carers and those with learning disabilities, as well as groups representing the elderly, homeless, refugees, those with illnesses or conditions, and those who particularly struggle to get legal help.

We have increased the number of people we engage with online. We now have 136,000 followers across our social media networks – a 12 per cent annual increase, while we have maintained a steady engagement rate of around 2 per cent.

There has also been a significant increase in the number of visitors to our consumer-facing web pages. This has mainly been driven by visitors to our Solicitors Register, which attracts around 0.6m visitors a year.



Legal Choices is the public facing website and social media presence we manage on behalf of the legal regulators. Annual visits to the website exceeded one million, while there were also one million quality views of Legal Choices videos on Facebook and YouTube.

### Equality, diversity and inclusion (EDI): promoting diversity and wellbeing

We updated the questions we use to collect diversity data from the profession. We saw an increase in the collection of data from individual solicitors and a good response from firms to our biennial data collection this summer, with the results to be published early in 2022. For the second year, we provided data on the profile of the profession for the annual [report](#) on the diversity of the judiciary.

We use this diversity data to understand the equality impact of our work and to monitor the profile of individuals within our enforcement work. We reported our analysis for the periods between 2018–2020, which shows an overrepresentation for men and solicitors from a Black, Asian and minority ethnic background in reports made to us and in those taken forward for investigation.

In response, we are progressing our work to commission independent research into the factors that drive the reporting of concerns about Black, Asian and minority ethnic solicitors to us, as well as reviewing decision making at the point where we decide to take cases forward for investigation.

We have also announced the appointment of Exeter University to carry out major research to understand the attainment gap we know exists for Black, Asian and minority ethnic students in professional qualifications in the legal and other sectors. This will help inform our evaluation of the SQE.

We continued our work to promote EDI in the profession, completing our webinar series talking about race, and a joint event with the Law Society, the Social Mobility Commission and PRIME firms to share good practice in using data to drive social mobility.

We are supporting the work of the Social Mobility Taskforce to help deliver the legal sector consultation and roadmap for incentivising employer action. We have also provided new resources on social mobility for law firms.

We updated our resources on LGBTQ+ inclusion, including our guide on promoting a trans and non-binary inclusive workplace.

We have continued to collaborate with diversity groups to promote EDI. For example, InterLaw's research report on career progression, and the Black Solicitors Network's Diversity League Table report and their forthcoming UK Diversity Legal Awards.

### SRA Innovate: encouraging innovation and technology

We published the results of our major research project with the University of Oxford on innovation and the use of technology in the legal sector. It showed that law firm innovation was increasing, partly in response to the pandemic, but that funding and scalability issues were hindering further innovation.

We have been awarded a grant from the Regulators Pioneer Fund to help connect those using new legal technologies with those who need their services. Our project will involve partners at Swansea and West of England Universities, the Information Commissioner's Office and the West of England Combined Authority. Communities around Swansea and Bristol will be engaged to test new developments.

We ran a series of events and webinars to explore issues around technology and innovation. These have had almost 4,000 views. We also ran face-to-face events in Liverpool and Cardiff to explore practical innovation tips and insights with legal businesses.

We are leading a project called the Agile Nations Lawtech Innovation Network aimed at helping to create a global market for legal services.

We are involved in the LawTech UK Sandbox pilot by supporting their Regulatory Response Unit. It aims to fast-track transformative ideas, products and services that address the legal needs of businesses and society.

We continue to run our SRA Innovate programme, and have updated our web resources to explain the range of support we offer to those who want to provide legal services in innovative ways.



Our Regulatory Futures virtual event explored the latest thinking on regulation – both in the legal sector and beyond. It attracted 900 views.

#### Delivering services: improving what we do

We have made significant progress in improving our IT, completing the move over to a new content management system, and moving more of our forms online. We also ran the Practising Certificate renewal on our new IT system. The process went well overall, after some teething problems the previous year.

We will continue our work to make our systems more efficient, working closely with the profession, public and staff. This will include regular user testing and engagement.

Our balanced scorecard shows that we are generally meeting our service delivery targets, and where we are not we are improving. This includes improving our performance on closing down cases within 12 months. We are seeking further improvement next year.

#### Our fees: ensuring value for money

In 2021/2022, our level of income collected through the Practising Certificate fee is expected to be broadly in line with the amount collected in 2020/21. However, the continued rise in the number of practising solicitors resulted in:

- **a reduction in the individual fee for 2021/22 from £278 to £266.**

Contributions to the Compensation Fund have also fallen for the third year in a row. Fewer than expected claims in recent years have allowed contributions to come down.

Our agreed budget and funding will allow us to pursue the priorities laid down in our 2021/22 Business plan and our three-year Corporate Strategy. The consultation on the business plan included the budget and our element of the practising fee.





# How We Are Governed

## The Evolution of Law Society Governance

The last few years have seen significant evolution of Law Society governance, affecting both the internal oversight of our functions (e.g. the creation of the Board in 2017) and, more recently, the structure and composition of our Council. This report sets out the position as it applied in the year November 2020 to October 2021 following the most recent changes which were agreed in October 2020.

### Council

The Council is the Law Society’s ultimate governing body with responsibilities derived from statute (mainly, the Legal Services Act 2007) and our Charter. The Charter and our Bye-Laws reserve certain matters to the Annual General Meeting (AGM) of members, e.g. those dealing with membership of the Law Society and of our Council. Following the reforms agreed in October 2020, there are now 97 seats on Council.

Compared to previous arrangements, there has been a reduction from 61 to 46 seats representing constituencies defined geographically, and an increase from 39 to 51 seats for constituencies defined by practice area or demographic characteristic. There is also now a limit on the number of terms a Council member may serve (previously, there was no limit), so that no one can serve more than three four-year terms, i.e. a total of 12 years.

These changes were agreed by the AGM in October 2020 and subsequently confirmed by an all-member ballot. The new constituency definitions can be found in Appendix 1 to our Bye-Laws which are available on the Law Society website.

The majority of the 51 seats that were open for election in 2021 were subject to the new definitions (with a small number of exceptions where organisations with an existing right of nomination were allowed to exercise this for one further year). Existing members are being allowed to complete their terms, so the implementation will be a gradual process, concluding in 2024 (when the last Council members elected under the old rules in 2020 complete their terms).

**Council members who held office during the period are shown on pages 82–83.**

The Council maintains strategic oversight but has delegated a number of oversight, business planning, financial and governance matters to the Law Society Board. This is known simply as ‘the Board’ and references in this section to ‘the Board’ are to this body.

Regulatory matters continue to be delegated to the Solicitors Regulation Authority (SRA). Following extensive discussions between the Law Society and the SRA, it was agreed by Council resolution in March 2021 that the SRA should become an independent company limited by guarantee, as a subsidiary of the Law Society. This gives clear effect to our commitment to deliver the increasing level of regulatory independence required by the Legal Services Board (in the changes to its internal governance rules in 2019) and means that, while our Council will continue to receive a report from the SRA that assures us it is carrying out its duties as required by law, all organisational decision making is delegated to the SRA (or, as has been the case since 2007, its decisions on regulatory matters in relation to individual solicitors).

### Office holders

The Law Society has three elected office holders: the president, vice president and deputy vice president who each hold office for one year. Each year the Council elects the deputy vice president; in normal circumstances on an annual cycle, the previous year’s deputy vice president becomes the vice president and the vice president becomes president. The handover takes place at the AGM. The office holders are the Law Society’s main ambassadors and represent the organisation and the profession at home and abroad. The office of president is, effectively, a full-time appointment and the president is chair of the Council.

### Chief Executives

#### The Law Society

Paul Tennant was chief executive of the Law Society throughout the year.

#### The Solicitors Regulation Authority

Paul Philip was chief executive of the SRA throughout the year.

### Accountability

The chief executives are responsible for the development of strategies for, and the performance of, their business operations and for the management of their staff. Each is responsible for a budget approved by Council through the relevant governing board:

- The chief executive of the Law Society is responsible to the Law Society Board, and, through the Board, to the Council; and
- The chief executive of the SRA is responsible to the SRA Board

The Law Society Council			
Committees of the Council	The Law Society Board		
• Audit Committee	• Policy and Regulatory Affairs Committee (PRAC)  • Policy Advisory Committees	• Finance and Investment (F&I) Committee  • People and Remuneration (P&R) Committee	• Membership and Communications Committee (MCC)  • Community Committees
• Conduct Committee			
• Council Membership Committee			
• Equality, Diversity and Inclusion Committee			
• Scrutiny and Performance Review Committee			

### The Law Society Board (‘the Board’)

The Board acts under delegated authority from Council as the oversight body of the Society, responsible for managing the effective implementation of our strategy and annual business plan as approved by Council. The Board also recommends to Council the Law Society budget and business plan and oversees the work of our chief executive and their team. The Board also recommends to Council the amount to be collected through the Practising Certificate fee.

### Solicitors Regulation Authority Board

For part of the year, the SRA Board was in formal terms a Board of the Law Society’s Council on the following basis.

Anna Bradley has chaired the SRA Board since January 2019. In accordance with the requirements of the Legal Services Act 2007, the Council delegated its regulatory

functions to the SRA Board to ensure the independence of regulation from representation activities. The SRA Board determined the overall regulation strategy of the SRA and oversaw the work of the SRA’s chief executive and his team.

The General Regulations prescribed that the SRA Board must consist of between six and eight lay persons who are not Council members, and between five and seven non-council members who shall be solicitors. The number of lay persons should always be one more than the number of solicitor members. The Chair of the SRA Board is one of the lay members of the Board.

Following the agreement to incorporate the SRA as a subsidiary entity, the SRA Board is no longer a Board of Council, but the Law Society discharges its ongoing duty of assurance in relation to the SRA by receiving an annual report on its work.



### Finance and Investment Committee

To ensure that the Board was well placed to exercise its role in relation to oversight of the finances of the Law Society, it was agreed that it would be beneficial for a small subset of Board members (supported by appropriate external resource) to be available to look in more detail at financial matters before they come to the Board, to enable the Board to focus on major high-level questions rather than on detail. On this basis, the Council approved the creation of the Finance and Investment Committee as a sub-committee to the Board with the caveat that one Council member should be appointed as part of the composition. Bill Butler, Board and Audit Committee member, was formally appointed as Chair of the Committee at the Board meeting on 17 September 2020 and Michael Garson and the incoming Deputy Vice President were appointed as members at the same meeting. Charles Ilako and Council member Pavel Klimov were also appointed as members during the year.

### People and Remuneration Committee

The Council decided in June 2020, as part of the IGR compliance reforms to the General Regulations, to disestablish the former Remuneration Committee since, under the terms of the IGRs, there was no longer a remit for a Remuneration Committee to consider matters related to the Group. It was therefore agreed to create a People and Remuneration Committee as a sub-committee to the Board, to discharge relevant functions in relation to the Law Society. Judy Craske, Board member, was appointed as Chair of the Committee at the Board meeting on 17 September 2020 and Penelope Warne was appointed as a member at the same meeting. Devyani Vaishampayan and Council member Cordella Bart-Stewart were also appointed as members during the year.

### How Council, Board and Committee members are Remunerated

Payments are made to the office holders or their firms or employers. Under Bye-Law 98(3), the President may be remunerated a maximum payment equivalent to that paid to a district judge in England and Wales. The vice president may receive up to 50% of this while the deputy vice president may receive up to 25%. Details of remuneration in relation to Board and Committee Chairs and members are provided in note 9 to the consolidated financial statements.

### Group Structure

During this financial year our legal structure changed. Until 31 May 2021 the Solicitors Regulation Authority (SRA) operated as an independent arm of the Law Society Group, performing regulatory functions under delegated authority from the Society's Council. From 1 June 2021 the SRA commenced operating as Solicitors Regulation Authority Limited, a separate entity and wholly owned subsidiary of the Law Society.

The Consolidated (Law Society Group) financial statements include the results for all operation divisions and subsidiaries, the Law Society (legal entity) statements however only include the SRA for the seven months to 31 May 2021. The operating consolidated position in note 6.1 provides a detailed analysis of the consolidated position.





# Energy and Carbon Reporting

The Law Society Group has elected to voluntarily disclose its energy and greenhouse gas (GHG) emissions within its Annual Report.

The Law Society Group have assessed their GHG emissions in accordance with the UK Government's 'Environmental Reporting Guidelines: Including Streamlined Energy and Carbon Reporting Guidance'.

The GHG emissions have been assessed following the ISO 14064-1:2018 standard and have used the 2021 emission conversion factors published by the Department for Environment, Food and Rural Affairs (Defra) and the Department for Business, Energy & Industrial Strategy (BEIS). The assessment follows the location-based approach for assessing Scope 2 emissions from electricity

usage. The financial control approach has been used and covers the main London (Chancery Lane) and Birmingham (the Cube) sites. The Cardiff, Brussels & Martin Lane sites have been excluded from the boundary of this calculation as data is not available and these sites do not have a material impact on overall emissions.

The table below summarises the GHG emissions for reporting year 1 November 2020–31 October 2021. It reports the percentage change since the previous financial reporting period. Carbon emissions and energy consumption (kWh) have decreased by over 36% - this is due to the current travel restrictions and staff working from home.



Scope	Activity	2018/2019 Tonnes CO2e	2019/2020 Tonnes CO2e	2020/2021 Tonnes CO2e	% Change on previous year	% Change on baseline year
Scope 1	Site gas	237.6	187.27*	187.02	-0.1	-21.3
Scope 1 Sub Total						
Scope 2	Electricity generation	536.2	392.32	339.71	-13.4	-36.6
Scope 2 Sub Total						
Scope 3	Electricity transmission and distribution	46.1	33.74	29.21	-13.4	-36.6
	Employee-owned car travel (grey fleet)	76.6	69.6	16.99	-75.6	-77.8
Scope 3 Sub Total						
Total tonnes of CO2e		896.5	682.93	572.93	-16.1	-36.1
Tonnes of CO2e per employee		0.8	0.7*	0.5	-28.6	-37.5
Total Energy Consumption (kWh)		3,918,005	2,700,810	2,478,148	-8.2	-36.7

\*This figure has been updated since last year owing to discovery of an incorrect value used.

The Group is considering several energy efficiency measures for the future, including but not limited to:

- improving the thermal efficiency through installation of (void) insulation and secondary glazing;
- reducing dependence on fossil fuels by using renewable forms of energy where it is practical and economic to do so;
- installing smart meters at distribution boards rather than main supply to monitor consumption and identify trends and usage; and
- reducing floorspace via the Property Strategy with the associated reduction in carbon footprint of the organisation.





# Financial Review

### Our business model

The Law Society legal structure has changed in this Financial Year. On the 1 June 2021, all activities for SRA are now included in the incorporated entity, Solicitors Regulation Authority Ltd.

This means that the regulatory body is now a separate legal entity from the professional body.

On separation £13.3m of assets, liabilities and capital contribution were transferred to the Solicitors Regulation Authority Ltd; these are now shown as an investment in SRA within the balance sheet of the Law Society Professional Body.

The change in legal structure has resulted in a change to the primary statements and notes broken down in the table below:

The Consolidated Financial Statements (the Law Society Group)		
Statement	2020/21	2019/20
<ul style="list-style-type: none"><li>Consolidated Income Statement</li><li>Consolidated Statement for Comprehensive Income</li><li>Consolidated Statement of changes in Equity</li><li>Consolidated Balance Sheet</li></ul>	<p>Statements include:</p> <ul style="list-style-type: none"><li>The Law Society Professional Body</li><li>SRA as a division for 7 months to 31 May 2021</li><li>Solicitors Regulation Authority Ltd for 5 months to 31 October 2021</li><li>Indemnity Operations</li></ul>	<p>Statements include:</p> <ul style="list-style-type: none"><li>The Law Society Professional Body</li><li>SRA as a division for the full year to 31 October 2021</li><li>Indemnity Operations</li></ul>

The Law Society Individual Financial Statements		
Statement	2020/21	2019/20
<ul style="list-style-type: none"><li>The Law Society Income Statement</li><li>The Law Society Statement of Comprehensive Income</li></ul>	<p>Statements include:</p> <ul style="list-style-type: none"><li>The Law Society Professional Body</li><li>SRA as a division for 7 months to 31 May 2021</li></ul>	<p>Statements include:</p> <ul style="list-style-type: none"><li>The Law Society Professional Body</li><li>SRA as a division for the full year to 31 October 2021</li></ul>
<ul style="list-style-type: none"><li>The Law Society Balance Sheet</li></ul>	<ul style="list-style-type: none"><li>The Law Society Professional Body</li></ul>	<ul style="list-style-type: none"><li>The Law Society Professional Body</li><li>SRA as a division for the full year to 31 October 2021</li></ul>

### Practising Certificate (PC) fee income and Permitted Activities Business Model

The majority of the Law Society Group’s income is derived from the collection of PC fees from individual solicitors and from regulated entities.

PC fees are used to fund the activities of the SRA, those activities of the Law Society (The Law Society Professional Body) which are referred to as “permitted activities” under section 51 of the Legal Services Act 2007 and the collection of Compulsory Statutory Levies (reported within The Law Society Professional Body). The fees are calculated by reference to the operating and capital budget requirements of the Law Society excluding the “non-permitted” (essentially commercial) activities of the Law Society Professional Body which are required to be funded through the generation of commercial income.

There has been a small increase in PC fee income of £1.7m. The table below shows the level of PC fee income raised and its funding allocation, as discussed above.

PC fee Breakdown	2020/21	2019/20
Compulsory statutory levies	£17.9m	£17.0m
Section 51 activities of the SRA (up to 31 May, thereafter Solicitors Regulation Authority Ltd)	£57.2m	£54.4m
Section 51 activities of the Law Society Professional Body and the associated central support functions of those activities	£29.8m	£31.8m
Total	£104.9m	£103.2m

We generally expect to achieve a balanced budget on permitted activities with neither a net income nor expense on a year-by-year basis. To the extent that a net income or expense is generated in any year from permitted activities, an adjustment may be made in the following year to reduce or increase the Practising Certificate (PC) fees levied.

A net financial income or expense can occur as a result of specific events or decisions.

The PC fee collection process is managed by the SRA.

PC fees are invoiced from October to cover the following November to October period. Therefore, the PC fee income recognised in the 2021 and comparative 2020 financial years represents the 2020/21 and 2019/20 PC fee collections respectively.

The PC fee collection increased in 2020/21 from £103.2m to £104.9m. The PC fee collection was in line with the net funding requirement (NFR) for 2020/21.This increase did not result in a higher PC fee for regulated individuals, the

increase in income was owing to an increased number of members.

For 2021/22 the base PC fee for a regulated individual has been set at £266 (2020/21: £278). Fees for entities vary and are related to the turnover of each entity. The number of regulated firms has reduced while the number of regulated individuals has increased standing at 9,860 and 162,782 respectively at the end of October 2021 (2020 10,107 and 156,701). Following the UK’s exit from the EU, most exempt European lawyers (EELs) are no longer treated as legally qualified in England and Wales. All non-UK EELs are now registered foreign lawyers.

The 2021/22 PC fee collection window opened on 11 October 2021 and officially closed on 11 November 2021. At 31 October 2021 £41.2m of invoices had been raised and recognised as deferred PC fee income for the 2021/22 renewal year (October 2020: £37.3m).

The 2021/22 PC fee collection has been processed on the customer relationship management system. In the previous year the system was new and there were some initial delays in processing applications resulting in the renewal window being extended by three weeks. In 2021 the processing of applications and collection of fees returned to the usual cycle and accordingly there is an increase of £5.6m in PC fee debtors (2021:£14.6m, 2020: £9.0m) and an increase of £3.9m in deferred PC fee income (2021: £41.2m, 2020: £37.3m). At the end of December 2021 only £249k of the year end PC fee debtors remained outstanding.



## The Law Society Professional Body

The Year ended October 2021 resulted in an increase to reserves of £2.9m. Total investment returns gave rise to a £7.3m gain in year. The operating loss in year was largely owing to continued investment on the IT investment programme and an under recovery in levy expenditure.

Other Income includes the provision of events, learning and development, accreditation and section membership for our members, plus business sponsorship advertising income. As at year ended 31 Oct 2021 other income amounted to £11.1m (2020: £10.2m). Whilst we have not returned to pre-Covid levels of activity, we have seen an increase on prior year.

In July 2016 Council approved a major programme of investment in IT of £26.7m. Council has subsequently approved additional funds of £6m for property refurbishment and conditionally approved further investments in the Society's systems to improve the learning offer to members, eCommerce, CRM and finance systems bringing total expected expenditure to £41.2m.

This programme spend began in 2017 and is expected to complete by 2023. In order to smooth out the cost and not cause a spike in PC fees in any year Council agreed to funding part of this activity initially from historical reserves. Approved programme total spend incurred as at the year ended 31 Oct 2021, including capital expenditure, amounted to £33.7m (2020: £26.2m)

## Property

The Law Society Professional Body holds the freehold to three listed properties in London which are included in the financial statements at cost less accumulated depreciation. A desktop valuation was performed on these properties by independent surveyors as at 31 October 2016. The market value of the properties at that date was estimated to be £44.5m. Market valuations will be performed every 5 years unless an interim valuation is deemed necessary. A valuation has been delayed until a decision has been reached and work has been carried out on 114 Chancery Lane.

The desktop valuation is provided for information purposes only and is not incorporated within the financial statements. The Net Book Value of freehold land and buildings in the Consolidated Balance Sheet as at 31 October 2021 is £12.5m (2020: £12.9m).

Within the accounts is an insurance debtor balance of £1.9m of fixed assets lost in the fire at 114 Chancery Lane on 1 February 2020. The Council has now elected a committee of members to make decisions around the use and reinstatement of 114 Chancery Lane.

## Funding of external bodies (levies)

The Society is required to collect and pass on levies to fund four independent bodies; the Legal Services Board (LSB), the Office for Legal Complaints (OLC), The Solicitors Disciplinary Tribunal (SDT) and the Office for Professional Body Anti-Money Laundering (OPBAS).

The Legal Services Act provides for a levy to meet the expenditure incurred by the LSB, the OLC and the Lord Chancellor. The levy covers costs associated with the establishment of the LSB and OLC and the ongoing cost associated with the carrying on of their functions (for OLC, amounts are paid via the Legal Ombudsman scheme). The amounts payable by the Law Society as a leviable body are set by the LSB under statutory instrument.

The Solicitors Disciplinary Tribunal (SDT) is funded under a Memorandum of Understanding with the SDT and LSB and is paid from a levy on solicitors and other regulated persons. The amount specified in the SDT's budget must be agreed with the Law Society and approved by the LSB and is paid by the Law Society to the SDT under Section 46A of the Solicitors Act (inserted by the Legal Services Act 2007).

OPBAS is housed within the FCA and its operations are entirely funded by the professional body supervisors that it oversees. Under the Money Laundering Regulations, OPBAS may impose charges on professional bodies to enable OPBAS to meet any expenses reasonably incurred by them in carrying out their functions under the Regulations. The OPBAS levy is a flat fee of £5,000 if the professional body supervises up to 6,000 individuals and a variable fee for every supervised individual above the 6,000 threshold.

In 2021 levy amounts paid totalled £18.9m, which represented 14.7% of the Group's total operating cost (2020 £17.4m: 12.6%).

Further information on these payments can be found in note 5.1.

## Solicitors Regulation Authority (SRA and Solicitors Regulation Authority Limited)

During the seven months to the end of May the Solicitors Regulation Authority generated an increase in reserves of £3.4m. The surplus was largely owing to higher-than-expected levels of practising fee income through an increased number of solicitors, a reduction in legal provisions following the settlement of a potentially large ongoing case and underspends in staffing, owing to higher than anticipated vacancy levels, a later than anticipated return to the office owing to ongoing Covid-19 restrictions and a release of a significant legal fee provision following the settlement of an ongoing case.

During the five months from June to October, the Solicitors Regulation Authority Limited generated an increase in reserves of £1.9m. This was predominantly owing to the continuing high levels of practising fee income and the release of a significant provision in respect of the assigned risks pool.

## Legal and Intervention Costs (SRA and Solicitors Regulation Authority Limited)

The provision for intervention, disciplinary proceedings and litigation costs at 31 October 2021 has decreased by £1.5m from prior year to a closing provision of £2.3m. The decrease is owing to the finalisation of a significant legal case and progress on a large intervention that was outstanding at the end of 2020.

The provision represents the cost of legal fees to complete ongoing matters at the year end.

Costs incurred during the year in relation to interventions were recharged in full to the Compensation Fund.

Alongside the collection of practising fees, the SRA collects contributions to fund the SRA Compensation Fund (a non-consolidated entity). This is a fund which makes payments to persons who have suffered a loss as a result of the actions of defaulting practitioners. This is paid by all individual Practising Certificate holders, with the exception of those working for the Crown Prosecution Service, and by all firms holding client money.

## Assigned Risks Pool (SRA and Solicitors Regulation Authority Limited)

Until its closure the Assigned Risks Pool (ARP) provided professional indemnity insurance cover for firms who were unable to obtain cover from Qualifying Insurers. The ARP's final year of operation ended on 30 September 2013. An arrangement is in place for liabilities arising from claims made in relation to firms in the ARP in the final year of operation. For such firms which ceased to trade while in the final year of the ARP, for a period of six years any liability is to be met by the Law Society and Qualifying Insurers under agreed layers. No provision is considered necessary at 31 October 2021 as the likelihood of any payments is considered to be remote.

## Solicitors Indemnity Fund (SIF)

There has been a £46k increase in indemnity operations income.

SIF gave rise to a loss of £153k (2020: £1.0m loss). The result is driven by a £3.0m increase in claims incurred (£801k insurance premium payment and remainder predominately owing to the extension of the post six year run off cover). This has been offset by significant investment returns in the year (£2.2m unrealised gains and £1.3m realised gains).

The Law Society has provided an unconditional undertaking to reimburse the Solicitors Indemnity Fund Ltd (SIFL) with the amount of any net solvency shortfall (i.e. any deficit) in its capital arising from the extension of the Fund's liability for post six-year run off claims until 30 September 2022.

The likelihood of reimbursement is considered remote and as such no liability has been recognised in the individual accounts of the Law Society. Recognition of this guarantee is disclosed as a contingent liability in note 19.



# Group Risks

## Risk governance and management

High level risks are documented on the Law Society and Solicitors Regulation Authority (SRA) strategic risk registers.

The Law Society risk register is presented to the Executive Leadership Team (ELT) and the Law Society Audit Committee quarterly. Reports on Law Society risk are also provided to the Law Society Board.

Operationally, risk is monitored by each respective leadership team and risk moderation is benchmarked against a range of approved risk appetite levels set out in the Law Society and SRA risk management frameworks. To further support risk management activity, the Law Society has continued to enhance risk governance and management systems during this period.

The key risks featuring on each strategic risk register are detailed below along with key mitigating actions.

## TLS Key Risks

Risk	Mitigating Actions
The risk that our current IT infrastructure fails to support the organisation’s strategic and operational requirements, or the Law Society’s IT modernisation programmes fail to deliver the anticipated organisational and operational benefits within the planned time frame.	In the Law Society, the IT transformation programme has continued to deliver against agreed milestones, for example migration of core data into Microsoft 365 Teams, completion of preparatory groundwork to implement a new eCommerce and finance system in early 2021/22 and the enhancement of the digital environment to deliver services to members. There is a high-level governance process in place to ensure there is regular scrutiny at executive and board level with regular reporting to the Board in relation to budget management, programme delivery and risk moderation, including pandemic impact on IT services.
The risk that the Law Society is unable to deal with a major incident and this affects the delivery of core services.	Business continuity arrangements are subject to regular testing and scrutiny by the Law Society operational and executive leadership teams and are supported by independent internal control auditing. The ongoing development of the Law Society’s IT systems and cloud-based applications has had a significant positive impact on business continuity resilience. The enhanced functionality and mobile working facilities have enabled the Society to provide a flexible and innovative approach to deliver services to members during the ongoing Covid-19 pandemic.
The risk that legal action is taken against the Law Society or the Society’s reputation is damaged because of an individual’s or the organisation’s action or inaction.	The Law Society has an established timetable of independent internal audits to assess key areas where legal and/or control risks may exist. The independent internal audit programme has included a review of the Law Society’s business continuity, GDPR compliance, cyber security, office governance key controls. To further monitor compliance with key internal controls, the Society also operates a separate quarterly internal control and assurance programme (ICAP) which scrutinises the effectiveness of key controls contained within the corporate policy suite. Outcomes identified from both audit and internal control review procedures are reported on a quarterly basis to the Executive, Board and Audit Committee.

Risk	Mitigating Actions
The Law Society does not make best use of its data to achieve its strategic goals or has a significant data incident that is reportable to the Information Commissioner’s Office.	<p>The Shaping our Future programme includes workstreams to maximise the use of the Law Society’s data to benefit the membership, at the same time enhancing security and data compliance requirements by utilising secure cloud-based solutions and cleansing data prior to migration.</p> <p>Key advantages are now being taken as data is migrated into a new Microsoft 365 Teams environment which is enabling more effective links; for example, in respect of developing more enhanced membership profiles.</p>
The possibility that a legislative change is made to the 2007 Legal Services Act that significantly impacts on the Law Society’s existing governance, strategic and operational planning arrangements and/or Law Society internal financial forecasts fall significantly outside of expected targets.	The Law Society has an established programme of financial forecasting and reporting. Data is provided on a monthly basis to budget holders together with aggregated reports to the ELT which are also overseen by the Board. In terms of wider funding arrangements, a range of scenario-based options and outcomes have been developed in order to gain a better understanding of what potential impact(s) a legislative change may have upon the existing governance, strategic and operational plans. However, it should be noted that other key events continue to place significant demands upon parliamentary time. In view of this the probability of this risk occurring in the short term remains low, but monitoring continues. Periodic reviews of the internal governance structure, including the General Regulations and Committee terms of reference is undertaken by the Governance team and General Counsel.

## SRA Key Risks

High level risks are documented on the Solicitors Regulation Authority (SRA) strategic risk register. To support the transparency of a structured risk reporting cycle, the strategic risk register is presented to the Audit and Risk Committee and SRA Board on a regular basis.

Strategic risks, together with the next level Mid-tier risks, are monitored by the Senior Management Team (SMT). Risk moderation of the strategic risks is also benchmarked against a range of approved risk appetite levels set out in the SRA risk management framework. To further support risk management activity, the SRA has continued to enhance risk governance and management systems during this period.

The key risks featuring on the strategic risk register during 2020/21, which could impact on the Law Society Group accounts if they materialise, are detailed below, along with key mitigating actions.

Risk	Mitigating Actions
The SRA has insufficient resources (financial, technical, human) to respond with agility to new and unforeseen challenges which might emerge.	<p>A combination of financial strategy and longer-term financial projections supported through a rigorous budget process, effective financial reporting and strong financial management.</p> <p>Our published corporate strategy is supported by a business planning process covering work over the next three years.</p> <p>We have in place a people strategy including a focus on recruitment and retention along with an ICT strategy and effective governance of current and future IT projects.</p>



# Audit Committee Statement

The responsibilities of the Audit Committee under the Law Society General Regulations are to:

- review and advise Council on the financial statements, related information and accounting policies, provide assurance that the statements are true and fair and in conformity with applicable accounting standards, and advise the Board as to whether the accounts should be approved;
- advise the Board on the appointment of the Society's external auditors, oversee their work, ensure they remain independent, and ensure their services represent value for money;
- oversee any action taken in the light of the external auditor's management letter and to report to the Council to enable the Council to perform its residual assurance role, any concerns arising from or relating to the Society's financial control environment; and
- ensure the Society has robust systems in place for financial control, internal audit and risk management, and to receive reports from the Society's internal auditors and other review bodies as appropriate.

Responsibility for ensuring the operation of effective systems of financial control, risk management and internal audit is delegated by the Council to the SRA Board and to the Law Society Board, both of whom are required to submit a report annually to the Audit Committee on the operation of these systems. The Audit Committee considers these reports as part of its assessment.

The Audit Committee reports periodically to the Board, and annually to the Board and Council summarising how it has discharged its duties under the General Regulations.

During the financial period and up to the date of signing of the 2021 year-end financial statements the Audit Committee met 6 times. External auditors have attended each meeting and a private session between

the Auditors and the Committee is held at least annually and additionally as required. The auditors also have direct access to the Chair. The internal auditors have attended for parts of all meetings of the Committee, and a private session between the internal auditors and the Committee is held at least annually.

During the year, the Audit Committee has:

- reviewed the financial statements, having received a report from the external auditors on their review and audit;
- considered the management letter from the external auditors on their review of the effectiveness of internal controls;
- considered internal audit reports, monitored the progress of implementation of agreed internal audit actions and approved the internal audit plan for 2021/22;
- considered regular reports on the management of strategic and operational risk, and conducted a series of deep dives into areas of the register;
- agreed the fees and terms of appointment of the external auditors, including their quality and effectiveness;
- considered the annual assurance reports from the Board and the SRA Board; and
- reported regularly to the Board and prepared its annual report to Board and Council summarising how it has discharged its duties under the General Regulations.

## External audit

The Audit Committee annually reviews and considers the quality, effectiveness and independence of the external auditor.

This includes a review of safeguards in place in relation to all non-audit services, in addition to any additional matters that the Auditor may raise with the Committee. The Audit Committee also assess annually the level of non-audit services provided by the external auditors with all non-audit services over £50,000 requiring pre-approval from the Audit Committee Chair. In 2021 there were no non-audit services performed (2020: £7,000).

The Society's appointed external auditors are BDO LLP. Current policy is to tender the external audit every 5 years, with a formal review at year 3. To assess the effectiveness of the auditors the committee annually review:

- the external auditor's fulfilment of the agreed audit plan and variations from it;
- the auditor's report of major issues arising during the course of the audit; and
- the auditor's most recent transparency report and AQR report.

## Review of financial statements

Through discussion with management and the external auditor, the audit committee determined that the key judgements with risk of misstatement in our financial statements related to:

- provisions for SRA Legal, Disciplinary and intervention costs;
- claim provisions and expected claim recoveries within the Society's subsidiary the Solicitors Indemnity Fund (SIF);
- revenue recognition across the group;
- the separation of the balance sheet during the year as the SRA was formed into a new legal entity consolidated into the group position; and
- management override of controls.

These issues were discussed with management during the year and with the auditor when reviewing and agreeing the audit plan, and also at the conclusion of the audit of the financial statements.

The committee has:

- considered the provision for SRA case costs, assessed the sources of information available to management and considered the review processes performed by management and the external auditor;
- received audited accounts from SIF along with an overview of the case provision, associated insurance cover and high-level explanation for movements from the SIF management team. The committee also confirmed the basis of the calculation for the provision and the date of the most recent external actuarial valuation (2020) of the IBNR element including claims against projections in the intervening period;
- reviewed an analysis of PC fee and other income and received assurance regarding the movement in the PC fee debtor and deferred income;
- considered the basis for calculating other key estimates and judgements within the financial statements that could be susceptible to management bias. This has included the recharge of costs to the Compensation Fund where the Committee has been assured there has been no change to the recharge methodology, and has reviewed a high-level analysis explaining the year-on-year movement in the total level of the recharge prepared by management;
- considered an interim review of the balance sheet of the group and also the separated Solicitors Regulation Authority Ltd balance sheet implemented with effect from 1 June 2021; and
- reviewed and scrutinised the disclosures proposed to be included in the financial statements to reflect the ongoing impact of the Covid-19 pandemic.



After reviewing the presentations and reports from management and consulting with the auditors, the audit committee is satisfied that the financial statements appropriately address the critical judgements and key estimates, both for the amounts reported and the disclosures.

The committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust.

The committee has also considered:

#### Going Concern assumption

The Audit Committee receives a paper from management each year supporting the conclusion that the Society is a going concern for accounting purposes. This paper sets out monthly cashflow projections for at least 12 months from the date of signing the accounts, along with a range of sensitivity scenarios reflecting the potential impact of reduced revenues. The Audit Committee has reviewed and challenged these projections in the context of the principal and emerging risks of the organisation and in the context of the ongoing impacts of the Covid-19 pandemic and the inflationary environment and has concluded that the going concern basis of accounting remains appropriate. The committee has also confirmed that the Board considers going concern prior to approving the financial statements each year.

#### Accuracy and Consistency of non-financial reporting

Along with the financial elements of the consolidated financial statements the Committee has reviewed and challenged the narrative reporting to ensure these reports are fair and balanced. This review includes consideration of the governance and approval of these reports and a review for consistency of the reporting with the financial results, annual assurance reports and other information reviewed by the Committee in the course of the year.

#### Underlying financial reporting environment

The Audit Committee has received annual assurance reports from the Board and the SRA Board confirming the adequacy and satisfactory operation of the systems of financial control, risk management and internal audit.

The Audit Committee has reviewed the one year and three-year internal audit plans to ensure appropriate coverage and has also reviewed the annual internal audit report summary, to evaluate the impact of any weaknesses identified on the integrity of the financial statements. The Internal Auditor has attended each of the Audit Committee's meetings during the year, and the Committee has reviewed and discussed internal audit reports and their recommendations and reviewed the progress of implementation of previous recommendations.

#### Conclusion

As a result of its work during the year, the committee has concluded that it has acted in accordance with its terms of reference and has ensured (as far as it can) the independence of the external auditors.





# Statement of Responsibilities

## Council

The Council is responsible for governance of the Law Society. Under delegated authority from the Council, the Board is responsible for the preparation of financial statements which give a true and fair view of the position of the Law Society at the end of the financial year and of any surplus or deficit for that period and for the requirements detailed below when preparing the financial statements.



## The Law Society Board

The Board is responsible for preparing the consolidated financial statements in accordance with UK accounting standards, comprising FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”. The Board must not approve the consolidated financial statements unless it is satisfied that they give a true and fair view of the state of affairs of the Group and of the surplus of the Group for that year.

In preparing these consolidated financial statements, the Board is required to:

- select suitable accounting policies and then apply them consistently.
- make judgments and accounting estimates that are reasonable and prudent.
- state whether applicable United Kingdom Accounting Standards, comprising FRS102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the consolidated financial statements on the going concern basis unless it is inappropriate to assume that the Law Society will continue in business.

The Board is responsible for keeping adequate accounting records that are sufficient to show and explain the Law Society’s transactions and disclose with reasonable accuracy at any time the financial position of the Law Society. It is also responsible for safeguarding the assets of the Law Society and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board is primarily responsible for reviewing both the system of internal controls and risk management, with the SRA Board sharing responsibility.

The Board is responsible for the maintenance and integrity of the Law Society’s website. The SRA Board is responsible for the maintenance and integrity of the SRA’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Board considers that the Annual Report and consolidated financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for members to assess the Law Society’s performance and strategy.

Each member of the Board confirms that, so far as they are aware, there is no relevant audit information of which the Law Society’s auditors are unaware and that they have taken all the steps that they ought to have taken as a Board member with delegated authority in order to make themselves aware of any relevant audit information and to establish that the Law Society’s auditors are aware of that information.

## Going concern and long-term viability

The Board considers (on behalf of Council) that the Law Society will have sufficient resources to meet its liabilities as they fall due for the foreseeable future, at least over the next 12 months from the date of signing the financial statements. As a result, the Board has satisfied itself that the Law Society is a Going Concern.

The Law Society oversees a healthy and growing profession and there are currently no suggestions that this will change. In making its assessment of viability the Board has relied upon the Law Society’s right, by statute, to levy the profession in order to fund permitted activities as required.

I. Stephanie Boyce | **Law Society President** 29/07/22

Robert Bourns | **Law Society Board Chair** 29/07/22





# Independent Auditors' Report to the Council of the Law Society



## Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Society's affairs as at 31 October 2021 and of the Group's profit for the year then ended; and
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

We have audited the financial statements of the Law Society (the 'Society') and its subsidiaries (the 'Group') for the year ended 31 October 2021 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, the Law Society Income Statement, Law Society Statement of Comprehensive Income, Law Society Statement of Changes in Equity, Consolidated Balance Sheet, Law Society Balance Sheet, Consolidated Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Independence

We are independent of the Group and the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

## Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Boards use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Society's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Board with respect to going concern are described in the relevant sections of this report.

## Other information

The Board are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Responsibilities of the Board

As explained more fully in the Boards' Statement of responsibilities the Board are responsible for the

preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board are responsible for assessing the Group's and the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We made enquiries of management, and the Audit Committee. This included the following:

- how they have identified, evaluated and complied with laws and regulations and whether they were aware of any instances of non-compliance;
- their process for detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
- which internal controls have been established to mitigate risks related to fraud or non-compliance with laws and regulations.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Society. These include, but are not limited to, compliance with, UK GAAP and tax legislation.

In addition, the Society is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation.

We identified the following areas as those most likely to have such an effect: employment law and data protection. Auditing standards limit the required audit procedures to enquiry of the Those Charged with Governance and other management and inspection of regulatory and legal correspondence if any.

We considered management’s incentives and opportunities for fraudulent manipulation of the financial statements (including revenue recognition and the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial results and management bias in accounting estimates.

Audit response to risks identified

- We reviewed the financial statement disclosures and sample tested to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- We made enquiries of the Audit Committee and management;
- We read minutes of meetings of those charged with governance;
- In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; considered completeness of related party transactions; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business; and

- We challenged assumptions made by management in their significant accounting estimates in particular in relation to the assumptions related to provisions.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council’s website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor’s report.

Use of our report

This report is made solely to the Council of the Law Society, as a body, in accordance with the terms of our engagement letter dated 10 January 2022. Our audit work has been undertaken so that we might state to the Council of the Law Society those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Law Society and the Council of the Law Society as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:  
*Kyla Bellingall*  
A11A16013DD84AC...  
Kyla Bellingall (Senior Statutory Auditor)  
For and on behalf of BDO LLP,  
Statutory Auditor, Birmingham

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

04 August 2022





## Consolidated Income Statement for the year ended 31 October 2021

	Note	2021	2020
		The Law Society Group	The Law Society Group
		£'000	£'000
<b>Income:</b>			
Practising fee income	2	104,945	103,165
Other income		21,365	22,845
Indemnity operations	3	139	93
<b>Total income</b>		<b>126,449</b>	<b>126,103</b>
<b>Operating cost:</b>			
The Law Society Group excluding funding of external bodies (levies)	4.1	(106,250)	(123,542)
Funding of external bodies	5.1	(18,946)	(17,364)
Indemnity operations	3	(3,870)	(2,658)
Other operating (cost)/income	6.1	(162)	5,778
<b>Total operating cost</b>	<b>6.1</b>	<b>(129,228)</b>	<b>(137,786)</b>
<b>Operating result</b>		<b>(2,779)</b>	<b>(11,683)</b>
Income and realised gains from investments and claims recoveries	7.1	5,515	395
<b>Result before taxation</b>		<b>2,736</b>	<b>(11,288)</b>
Tax refund	8.1	48	420
<b>Net result after taxation</b>		<b>2,784</b>	<b>(10,868)</b>

The notes on pages 47 to 81 form part of these financial statements.

## Consolidated Statement of Comprehensive Income for the year ended 31 October 2021

	Note	2021	2020
		The Law Society Group	The Law Society Group
		£'000	£'000
<b>Net result after taxation</b>		<b>2,784</b>	<b>(10,868)</b>
Other comprehensive income:			
Unrealised gain on current asset investment		5,670	3,150
Deferred tax on unrealised gains	8.1	(419)	(618)
<b>Comprehensive income/(expense) for the year</b>		<b>8,035</b>	<b>(8,336)</b>

## Consolidated Statement of Changes in Equity for the year ended 31 October 2021

	The Law Society Group
	£'000
<b>Balance at 1 November 2019</b>	<b>85,356</b>
Net result after taxation	(10,868)
Net other comprehensive income	2,532
<b>Total comprehensive expense for the year</b>	<b>(8,336)</b>
<b>Balance as at 31 October 2020</b>	<b>77,020</b>

	The Law Society Group
	£'000
<b>Balance at 1 November 2020</b>	<b>77,020</b>
Net result after taxation	2,784
Net other comprehensive income	5,251
<b>Total comprehensive income for the year</b>	<b>8,035</b>
<b>Balance as at 31 October 2021</b>	<b>85,055</b>

The Law Society Income Statement for the year ended 31 October 2021

	Note	2021			2020
		Law Society Professional Body	Solicitors Regulation Authority	The Law Society	The Law Society
			7 months to May 21		
		£'000	£'000	£'000	£'000
Income:					
Practising fee income	2	47,680	33,140	80,820	103,165
Other income		11,119	5,338	16,457	22,845
Total income		58,799	38,478	97,277	126,010
Operating cost:					
The Law Society excluding funding of external bodies (levies)	4.2	(45,993)	(32,820)	(78,813)	(123,542)
Funding of external bodies	5.2	(18,930)	(7)	(18,937)	(17,364)
Other operating (cost)/income	6.2	(162)	-	(162)	5,778
Total operating cost	4.2	(65,085)	(32,827)	(97,912)	(135,128)
Operating result		(6,286)	5,651	(635)	(9,118)
Income and realised gains from investments	7.2	4,167	-	4,167	353
Result before taxation		(2,119)	5,651	3,532	(8,765)
Tax refund	8.2	(2)	-	(2)	188
Net result after taxation		(2,121)	5,651	3,530	(8,577)
Recharge		2,244	(2,244)	-	-
Surplus/(Deficit) for the year		123	3,407	3,530	(8,577)

The notes on pages 47 to 81 form part of these financial statements.

The Law Society Statement of Comprehensive Income for the year ended 31 October 2021


	Note	2021			2020
		Law Society Professional Body	Solicitors Regulation Authority	The Law Society	The Law Society
			7 months to May 21		
		£'000	£'000	£'000	£'000
Net result after taxation		123	3,407	3,530	(8,577)
Other comprehensive income:					
Unrealised gain on current asset investment		3,177	-	3,177	1,908
Deferred tax on unrealised gains	8.2	(419)	-	(419)	(618)
Comprehensive income/(expense) for the year		2,881	3,407	6,288	(7,287)




Consolidated Balance Sheet as at 31 October 2021

	Note	2021	2020
		The Law Society Group	The Law Society Group
		£'000	£'000
Non-current assets:			
Tangible Fixed assets	11.1	14,019	14,741
Total non-current assets		14,019	14,741
Current assets:			
Stocks - goods for resale		184	188
Debtors	14.1	26,031	19,697
Current asset investments	12.1	88,282	89,534
Cash at bank and in hand		42,976	32,830
Total current assets		157,473	142,249
Current liabilities:			
Creditors amounts falling due within one year	15.1	(69,706)	(63,278)
Total current liabilities		(69,706)	(63,278)
Net current assets		87,767	78,971
Total assets less current liabilities		101,786	93,712
Provisions:			
Gross indemnity claims provision	13	(11,424)	(10,087)
Society provisions	16.1	(5,307)	(6,605)
Total provisions		(16,731)	(16,692)
Total net assets		85,055	77,020
Represented by:			
Accumulated funds at the start of the year		77,020	85,356
Total comprehensive income/(expense)		8,035	(8,336)
Accumulated funds		85,055	77,020

The notes on pages 47 to 81 form part of these financial statements. The financial statements were approved by the Board of the Law Society and signed on behalf of the Council of the Law Society.


  
I. Stephanie Boyce | President 29/07/22


  
Robert Bourns | Law Society Board Chair 29/07/22

The Law Society Balance Sheet as at 31 October 2021

	Note	2021	2020
		The Law Society	The Law Society
		£'000	£'000
Non-current assets:			
Tangible Fixed assets	11.2	13,367	14,740
Investment in subsidiary	10	13,338	-
Total non-current assets		26,705	14,740
Current assets:			
Stocks - goods for resale		184	188
Debtors	14.2	16,650	17,926
Current asset investments	12.2	46,863	58,726
Cash at bank and in hand		7,569	32,429
Total current assets		71,266	109,269
Current liabilities:			
Creditors amounts falling due within one year	15.2	(35,402)	(62,867)
Total current liabilities		(35,402)	(62,867)
Net current assets		35,864	46,401
Total assets less current liabilities		62,569	61,142
Provisions:			
Society provisions	16.2	(1,744)	(6,605)
Total provisions		(1,744)	(6,605)
Total net assets		60,825	54,537
Represented by:			
Accumulated funds at the start of the year		54,537	61,824
Total comprehensive income/(expense)		6,288	(7,287)
Accumulated funds		60,825	54,537

The notes on pages 47 to 81 form part of these financial statements. The financial statements were approved by the Board of the Law Society and signed on behalf of the Council of the Law Society.

  
I. Stephanie Boyce | President 29/07/22

  
Robert Bourns | Law Society Board Chair 29/07/22

## Consolidated Cash Flow Statement for the year ended 31 October 2021

	Note	2021	2020
		<b>The Law Society Group</b>	<b>The Law Society Group</b>
		<b>£'000</b>	<b>£'000</b>
Net cash inflow from operating activities		2,784	(10,868)
Adjustments for:			
Depreciation of tangible fixed assets	11.1	1,763	1,659
Income from investments and claims recoveries	7.1	(5,515)	(395)
Taxation		(48)	(420)
Loss on disposal of fixed assets	11.1	811	87
Impairment of assets	11.1	59	1,916
Decrease in stock		4	8
(Increase)/decrease in debtors	14.1	(6,603)	21,919
Increase/(decrease) in creditors < 1 year	15.1	6,424	(78,412)
Increase in gross indemnity claims provisions		1,337	474
(Decrease)/increase in provisions	16.1	(1,719)	1,441
<b>Cash (used in) operations</b>		<b>(703)</b>	<b>(62,591)</b>
Income from investments and claims recoveries		5,826	505
Taxation refund/(paid)		12	65
<b>Net cash generated from/(used in) operating activities</b>		<b>5,135</b>	<b>(62,021)</b>
Cash flow from investing activities			
Purchase of tangible assets	11.1	(1,911)	(5,046)
Sale of non-cash investments		6,922	2,170
<b>Net cash from/(used in) investing activities</b>		<b>5,011</b>	<b>(2,876)</b>

Net increase/(decrease) in cash and cash equivalents		10,146	(64,897)
Cash and cash equivalents at the beginning of the year		32,830	97,727
Cash and cash equivalents at the end of the year		42,976	32,830
		<b>2021</b>	<b>2020</b>
		<b>£'000</b>	<b>£'000</b>
Cash at bank and in hand		42,976	32,830
<b>Cash and cash equivalents</b>		<b>42,976</b>	<b>32,830</b>

# Notes to the Consolidated Financial Statements for the year ended 31 October 2021

## 1. Accounting policies

### Statement of compliance

The financial statements have been prepared in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102). As the Law Society is a body incorporated by Royal Charter it is not required to comply with the Companies Act 2006. However, the Law Society has complied with those elements of the Companies Act relevant to the financial statements that the Board believes are necessary to enable the financial statements to give a true and fair view.

### Basis of preparation

The financial statements are prepared on a going concern basis, under the historical cost convention with the exception of the valuation of investments. The most significant accounting policies adopted by the Law Society are described below and these have been applied consistently to all the years presented, unless otherwise stated.

### Going Concern

The financial statements have been prepared on a going concern basis.

In the current business climate, the Board acknowledges the ongoing Covid-19 pandemic. The Executive and the Board continue to closely monitor all aspects of the Group's activities and financial performance. Sensitivity analysis relating to potential reductions in commercial income, the PC fee and investment values has been carried out. The liquidity of investments has also been considered to ensure that funds are sufficiently accessible should they be called upon.

Given the strength of the balance sheet and availability and liquidity of investments, the members of the Board believe that, while uncertainty exists, this does not pose a material uncertainty that would cast doubt on the Society's ability to continue as a going concern. The Board, therefore, consider it appropriate for the accounts to be prepared on a going concern basis.

### Basis of consolidation

Consolidated financial statements have been prepared which comprise the results of the Law Society and its principal subsidiary undertakings; these undertakings

are disclosed in note 10. These statements represent the activities of the Law Society Group.

The Solicitors Regulation Authority separated on 1 June 2021 with its regulatory functions and assets and liabilities being transferred to the Solicitors Regulation Authority Ltd. In line with section 9.5 of FRS 102 the Society as sole member of the Solicitors Regulation Authority Ltd is presumed to have control over the entity and as such the Solicitors Regulation Authority Ltd has been consolidated as a subsidiary entity of the Society. For independence purposes restrictions have been placed on the Society's input into the day-to-day operations of the regulator. This is not considered to constitute "exceptional circumstances" noted within FRS102 section 9.5 as the Society still retains its statutory rights as a member which fulfils the presumption of control.

The consolidated Law Society Group results therefore include the Solicitors Regulation Authority results for the full twelve months in both the current and prior year as it remained part of the group post separation by virtue of its meeting the definition of a subsidiary as defined by FRS 102.

Individual financial statements have also been prepared for the Law Society only.

Inclusion this year of the Law Society statements provides greater disclosure of the financial position and performance of the Law Society itself. It also provides clarity on the financial separation of the Solicitors Regulation Authority following the group restructure. As such, in the current year, the Law Society individual financial statements include the results of the Solicitors Regulation Authority for the seven months up to the 31 May 2021 and preceding the date of separation, 1 June 2021. In the prior year, a full twelve months is included. The Law Society Balance Sheet includes an amount for investment in subsidiary in the current year. More information on how the separation was transacted is given in note 10.

In the Law Society individual accounts investments in subsidiaries are recognised from the date of acquisition and accounted for at cost less impairment.



# Notes to the Consolidated Financial Statements for the year ended 31 October 2021 (continued)

## 1. Accounting policies (continued)

### Non-consolidated entities

In the opinion of the Board the following entities should not be consolidated into the financial statements as these entities are not considered to be subsidiaries, associates or joint ventures as defined by FRS 102:

- SRA Compensation Fund
- Statutory Trust Accounts
- The Law Society Educational Trust
- The Law Society Trustees Limited
- The Law Society Charity
- Queen's Counsel Appointments Limited

The results of the SRA Compensation Fund (the Fund) which is maintained and administered by the SRA under requirements set out in statute, are not included within these Law Society financial statements as the Fund is considered to be held on 'Trust' purely for the specific purpose for which the Fund is created and the Society does not have the right to access any of the Fund's assets for its own purposes and would not be liable to meet any liabilities created by the Fund if the Fund were unable to meet them. As the Society does not have control or significant influence and does not derive anything other than inconsequential indirect benefit the financial results and assets and liabilities of the Fund are not included in the financial statements of the Law Society. The financial statements of the Compensation Fund are available from SRA Information Compliance, The Cube, 199 Wharfside Street, Birmingham, B1 1RN.

The other entities noted above act independently from the Law Society. The Society cannot exert control over the activities of these entities so as to obtain economic benefit. Further, the Society would not be liable to meet any liabilities of these entities if the entity itself were unable to meet them.

### Significant judgements and key sources of estimation

To be able to prepare the financial statements in accordance with United Kingdom accounting standards, management and the Board must make estimates and assumptions that affect the recorded assets and liabilities.

These estimates are based on historical experience and various other assumptions that management and Board believe are reasonable. The result of these form the basis for making judgements about the carrying value of assets and liabilities that may not be readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions however they are based on the Board's best estimate and all available information and after consideration of the sensitivity of key assumptions. All key accounting estimates have been included and explained in the relevant accounting policies which follow.

#### i. SRA Compensation Fund recharge

The SRA manages and administers the activity of the Fund on behalf of the Fund. The cost of this activity is recovered from the Fund. This income is recognised when actually calculated and notified to the Fund by the SRA on a monthly basis. The costs to be charged to the Fund are agreed annually by the SRA Audit and Risk Committee. The amount recharged represents the work done directly on behalf of the fund as well as an agreed proportion of overhead costs allocated to the Fund. The Compensation Fund is associated to the Law Society through management of the Fund by the SRA but is not included in the consolidated financial statements as the Society has no significant control over the assets and liabilities of the Fund.

#### ii. Law Society recoveries

The Law Society as Approved Regulator will incur costs in protecting the public. These costs may be recoverable from solicitors in due course and any potential recovery will be recognised at the point there is reasonable expectation of recovery and provision is made for the likelihood of recovery. The Law Society does not make provision for other potential future recoveries owing to the uncertainty of whether any amounts can be recovered. Recoveries due to SIF are recognised on the same basis.

#### iii. Claims costs

Claims costs comprise claims handling costs including the costs of panel solicitors, damages paid out, and other costs net of recoveries. Claims costs are accounted for based on estimates of expected costs where actual costs net against provisions as incurred. Recoveries are recognised at the point they can be reliably measured and there is a reasonable expectation of recovery.

#### iv. Interest on claims recoveries

The Solicitors Indemnity Fund is entitled to interest on certain claim recoveries. Where the legal right to interest exists, and the interest can be accurately calculated and there is reasonable expectation of recovery, the interest receivable has been recognised within these financial statements as a receivable item within debtors. Further details are provided in note 14.1.

#### v. Claims provisions

Estimation techniques are used to determine the Gross Claims Provision which represents the estimated outstanding liabilities relating to all indemnity years.

Ultimate claim settlements are estimated by the use of statistical projections of historical data, together with case-by-case reviews of notified losses and are based on information available at the time the estimates are made. This is done at regular intervals during the year. There is uncertainty as to the quantum of the ultimate settlement of the liabilities which is inherent in the process of estimating such that, in the normal course of events, unforeseen or unexpected future developments could cause the ultimate cost of settling the outstanding liabilities to differ from that currently estimated. Any differences between provisions and subsequent settlements are dealt with in later accounting periods as actual costs and recoveries are known. Claims provisions include the estimated future costs of panel solicitors and claims handling costs, including a proportion of overheads. Claims provisions are not discounted.

#### vi. Insurance provisions

Certain insurance policies are held to provide cover for the risk associated with uncertainties of claims settlements and costs. Claims are made against policies to the extent that criteria have been met. Amounts are recognised to the extent that management believe they are recoverable with provision made for any doubtful debts.

#### vii. Law Society Provisions

Provisions are recognised in respect of present obligations as a result of past events where it is probable that an outflow of resources will be required to settle the obligations and they can be reliably estimated. All provisions are made based on management's best estimate given past experience and available information.

The Law Society recognises provisions for the following items on the basis outlined below:

- Interventions, disciplinary proceedings and litigation - the Law Society recognises provisions for the unavoidable costs of completing proceedings in these areas based on earlier activity.
- Dilapidations - the Law Society recognises provisions for the unavoidable costs of restoring leased property to the same state as when the property lease was taken on by the Law Society.
- Ex-gratia payments - the Law Society has a small number of ex-employees who are contractually entitled to payments. The Law Society recognises all costs expected to be payable under the contract.
- Assigned Risks Pool costs – the Law Society has recognised, based on predicted claim values for the current economic environment, probable liabilities for the firms who have applied and been provided with a professional indemnity insurance policy from the Assigned Risks Pool for a specific indemnity year under a contractual arrangement with this related entity. A provision is no longer considered necessary as the likelihood of further calls on the SRA for payment of costs or claims is considered so remote as to not require further provision and the provision has been fully released this year.
- Restructuring - a restructuring provision is recognised when the Society has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditure arising from the restructuring.
- Other - provision is made for any other items where a liability is considered to be probable.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events. No reference is disclosed in the financial statements if they are remote or immaterial.

# Notes to the Consolidated Financial Statements for the year ended 31 October 2021 (continued)

## 1. Accounting policies (continued)

### Income

#### Practising fees collected to fund operating activities

Revenue in relation to practising fees is recognised on an accruals basis, apportioned over the period to which the Practising Certificate relates (1 November to 31 October, except where people join during the year). Income invoiced but not yet received prior to year-end is included in debtors and in deferred income to match the period to which it relates. Practising fees collected by the Law Society are only used to fund permitted activities under section 51 of the LSA.

### Other income

There are a number of other income streams. For each, income is recognised on an accruals basis ensuring that revenue is recognised as the goods or services are delivered. The date of delivery is typically the day of despatch for goods, the day of a particular event or course or, for non-practising certificate regulatory fees, the day payment is received and the applicant becomes entitled to the services applied for, subject to final checks being undertaken. There are three significant exceptions to this as follows:

#### i. Recognised body fees

Revenue in relation to recognised body fees is apportioned over the period to which the entitlement relates, which runs from 1 November to 31 October, except where recognised body status is granted to new entities during the year.

#### ii. Legal practice course income

The granting of legal practice course (LPC) status to a training company entitles that company to provide legal practice course training. Revenue in relation to legal practice course income is apportioned over the period to which the LPC status relates, which runs from 1 September to 31 August, except where LPC status is granted to a new training provider during the year.

#### iii. Accreditations

The Law Society accreditation schemes represent a recognition by the Law Society of the expertise of scheme members in a given area of law. Members pay an annual

fee to the Law Society and subject to checks being undertaken, the accreditation is granted on application. Revenue in relation to accreditations is apportioned over a 12-month period.

#### iv. The Solicitors Qualifying Examination (SQE)

The SQE is the assessment for all aspiring solicitors in England and Wales. The first examinations took place in November 2021. Income from SQE entries is recognised on an accruals basis ensuring revenue is recognised as services are delivered.

### Funding of external bodies

The Law Society is required to fund four independent organisations, the Legal Services Board, the Legal Ombudsman, the Solicitors Disciplinary Tribunal and the Office for Professional Body Anti-Money Laundering Supervision (OPBAS) with ongoing commitment to fund their operating costs or a proportion thereof.

The amounts levied by each entity each year are based on budgeted costs of those bodies and notified in advance. The Legal Ombudsman, the Legal Services Board and OPBAS have a year-end of 31 March with the Solicitors Disciplinary Tribunal having a year end of 31 December. The Law Society is formally notified of variations to budget by the Legal Ombudsman, the Legal Services Board and OPBAS on an annual basis and by the Solicitors Disciplinary Tribunal on a quarterly basis. These levy costs are accounted for in the period to which the Law Society is advised those costs relate. Any variations to budget are accounted for upon notification.

### Pension costs - defined contribution scheme

The Law Society makes contributions towards the defined contribution scheme up to maximum of 12.25% of basic salary. The amount charged to the Income and Expenditure account in respect of pension costs and other post-retirement benefits is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

## 1. Accounting policies (continued)

### Pension Costs - Defined benefit pension (unfunded)

The unfunded scheme (also referred to as ex-gratia or top-up scheme) was implemented by the Law Society in the 1980s. Under the scheme, the Law Society contracted with a small number of ex-employees to top-up / increase pensioners' payments. The amounts payable are reviewed regularly by the scheme administrators and valued periodically by a qualified actuary. Any change in value of the scheme is charged to the income statement.

### Foreign currency

Monetary assets and liabilities in foreign currencies are translated into Sterling at rates of exchange ruling at the end of the balance sheet date. Transactions in foreign currencies are translated into Sterling at the rate of exchange ruling at the date of transaction. All foreign exchange differences have been taken to the income and expenditure account during the year.

### Taxation

The Law Society is liable for taxation on its commercial activities, investment income and investment gains. No tax is charged on income generated from membership fees and no tax relief obtained on overhead expenditure. Commercial activities of the Law Society are liable for corporation tax on their profits for the year at the standard rate of United Kingdom Corporation tax.

The activities of the SRA are considered by its Directors to be non-trading activities and therefore any surplus not subject to Corporation Tax. Tax is payable on interest received and capital gains on investments once realised.

SIF is liable for Income Tax on its taxable surplus for the year at a rate agreed with HMRC of 20%.

### Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted. All liabilities are recognised.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

### Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost net of accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Leasehold property improvements are capitalised where there is future economic benefit arising from the improvements.

### Fixed assets and depreciation

Depreciation is provided on a straight-line basis to write off the cost less estimated residual value over the useful economic life of the assets as follows:

#### i. In respect of freehold buildings, each building has been split into various categories. Each category is being depreciated over its estimated useful economic life as follows:

<b>Building structure</b>	<b>50 years</b>
<b>External works</b>	<b>35 years</b>
<b>Services and fittings</b>	<b>15-25 years</b>
<b>Internal finishes</b>	<b>15 years</b>

No depreciation is charged on freehold land; cost of repairs and maintenance are charged to the Income and Expenditure account in the year incurred.



# Notes to the Consolidated Financial Statements for the year ended 31 October 2021 (continued)

1. Accounting policies (continued)
- ii. In respect of short leasehold property and improvements:

Premiums paid

over the period to the next open market rent review

Improvements

over the period of the lease
- iii. In respect of furniture and equipment: 5-10 years
- iv. In respect of computers and hardware: 3 years

Assets under construction are not depreciated until the asset is completed.

### Leased Assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership. All other leases are classified as operating leases.

Assets held under finance leases and hire purchase contracts are recognised initially at the lower of the fair value of the asset or the present value of the minimum payments at the inception of the contract. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Assets held under finance leases and hire purchase agreements are included in tangible fixed assets and depreciated and assessed for impairment losses in the same way as owned assets.

Rentals paid under operating leases are charged to the income and expenditure account on a straight-line basis over the lease term.

The benefits of lease incentives are recognised as a reduction to the rental expense over the lease term on a straight-line basis.

### Heritage assets

The Law Society has a number of heritage assets which are held and maintained for their contribution to knowledge and culture. These include antique furnishings, works of art, and books and manuscripts. These items were acquired historically and have no value attributed to them in these financial statements as the Society has no practical method of reliably establishing the cost of each item. For insurance

purposes an estimate is made of the market value which is not a material amount to these financial statements. There is no intention to acquire or dispose of any further heritage assets.

### Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents are defined as cash at bank and in hand, and short-term cash deposits defined as those maturing within 3 months of acquisition. The managed investment portfolios are not included in the definition of cash and cash equivalents as, while they can be liquidated without penalty with 24 hours notice, there is a risk of change in the value.

### Valuation of Investments

Current asset investments comprise of managed investment funds. Investments are measured at fair value. Changes in fair value are recognised in other comprehensive income as a separate component in equity. The fair value of investments are obtained at the balance sheet date based on net asset value readily available from an exchange, investment manager or pricing service. Profits and losses on sales of investments are measured by reference to the carrying value.

Other investments are measured at fair value. Changes in fair value are recognised in other comprehensive income. The fair value of investments are obtained at the balance sheet date based on net asset value readily available from an exchange, investment manager or pricing service.

### Financial Instruments

The Group has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial instruments are recognised when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

### Impairment of financial assets

Financial assets, other than those held at fair value through profit or loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset’s original effective interest rate. The impairment loss is recognised in the Income Statement.

### Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when it transfers the financial asset and substantially all the risks and rewards of the ownership to another entity.

### Financial liabilities

Basic financial liabilities, including trade and other payables, are initially recognised at transaction price unless the arrangement constitutes a financing transaction. Where this occurs and carries a material impact the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

### Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the company’s contractual obligations are discharged, cancelled, or they expire.

### Financial instruments summary

The groups financial instruments may be analysed as follows:

	2021	2020
	Consolidated	Consolidated
	£'000	£'000
Financial assets measured at fair value through profit or loss	88,282	89,534
Cash and cash equivalents	42,976	32,830
Financial assets that are debt instruments measured at amortised cost	26,031	19,697
<b>Financial assets</b>	<b>157,289</b>	<b>142,061</b>
Financial Liabilities that are debt instruments measured at amortised cost	84,923	78,428
<b>Financial liabilities</b>	<b>84,923</b>	<b>78,428</b>

### Prior Period Adjustment – SRA Compensation Fund

The prior year results have been re-stated to correct the classification of costs incurred and recovered by the SRA in the management and administration of the SRA Compensation Fund. The recovery of costs had been recognised as a reduction in those costs and disclosed as such in the 2020 financial statements. FRS102 does not permit the offset of income and expenses. The prior period has been re-stated to recognise the recovery of these costs as income. As such the prior year consolidated and Law Society only income statements and associated notes include an increase in ‘Other income’ and a corresponding increase in ‘Operating cost’ of £9,841k.

# Notes to the Consolidated Financial Statements for the year ended 31 October 2021 (continued)

## 2. Practising fee income

### Consolidated

The process for the collection of the 2021/22 practising fees commenced in October 2021, therefore the income received during October 2021 that relates to the 2021/22 period has been deferred for release in the year ended 31 October 2022. The amount of deferred income within creditors at the year-end is £41.2m (2020: £37.3m).

Practising fees invoiced but not yet received at the year-end and disclosed within debtors is £14.6m (2020: £9.0m).

Practising fees collected by the Law Society Group are predominantly collected from UK-based members with those coming from international solicitors being insignificant.

### The Law Society

The amount of deferred income within creditors at the year-end for the Law Society is £18.7m (2020: £37.3m).

Practising fees invoiced but not yet received at the year-end and disclosed within debtors is £nil (2020: £9.0m).

	2021	2020
	£'000	£'000
SIF gross claims paid - recoveries	134	93
Insurance recoveries	1	-
Contributions receivable	4	-
Income statement - income from indemnity operations	139	93
SIF gross claims paid - payment	(1,111)	(1,408)
Increase in net provision for claims	(1,558)	(421)
Other	(1,201)	(829)
Income statement - operating costs from indemnity operations	(3,870)	(2,658)

The reduction in the Law Society current year-end balances for Practising fee income is due to the separation of the Solicitors Regulation Authority (SRA). As SRA is the invoicing entity, debtor balances for Practising fees are recognised within Solicitors Regulation Authority Ltd and appear as such on consolidation at group level. Amounts due to the Law Society relating to Practising fee income at the year-end are recognised within debtors as part of the intercompany balance with Solicitors Regulation Authority Ltd.

## 3. Indemnity Operations

SIF, SIFL and LIOL form the Indemnity Operations as presented in the consolidated financial statements. As the business activities of the indemnity Operations are different to those of the rest of the Law Society group, additional information has been included below to provide more detail on the income and expenditure amounts consolidated into these financial statements.

The following shows an overview of amounts recognised in the consolidated financial statements relating to all three indemnity operations entities:

## 4.1 Consolidated Operating divisions

The Law Society is not required to provide a breakdown of its group operations. However, information is included below to show how the Law Society group results relate to the different operating divisions. The operating divisions have been determined by business structure and reflect the way in which management manage the business.

Current year results for the Solicitors Regulation Authority have been split between the period before, and after, separation from the Law Society parent entity on the 1 June 2021.

2021	Law Society Professional Body	Solicitors Regulation Authority	Solicitors Regulation Authority Ltd	Indemnity operations	The Law Society Group
		7 months to May 21	5 months to Oct 21		
Consolidated Income Statement	£'000	£'000	£'000	£'000	£'000
Total income	58,799	38,478	29,033	139	126,449
Operating cost	(45,993)	(32,820)	(27,437)	-	(106,250)
Funding of external bodies (levies)	(18,930)	(7)	(9)	-	(18,946)
Indemnity Operations	-	-	-	(3,870)	(3,870)
Other operating income	(162)	-	-	-	(162)
Operating result	(6,286)	5,651	1,587	(3,731)	(2,779)
Income from investments and claims recoveries	4,167	-	17	1,331	5,515
Result before taxation	(2,119)	5,651	1,604	(2,400)	2,736
Taxation	(2)	-	(4)	54	48
Result after taxation	(2,121)	5,651	1,600	(2,346)	2,784
Recharge	2,244	(2,244)	-	-	-
Surplus / (deficit) for the year	123	3,407	1,600	(2,346)	2,784
Unrealised gain on fixed asset investment	3,177	-	300	2,193	5,670
Deferred tax on unrealised gain	(419)	-	-	-	(419)
Comprehensive income/ (expense) for the year	2,881	3,407	1,900	(153)	8,035



# Notes to the Consolidated Financial Statements for the year ended 31 October 2021 (continued)

## 4.1 Consolidated Operating divisions (continued)

2020	Law Society Professional Body	Solicitors Regulation Authority		Indemnity operations	The Law Society Group
Consolidated Income Statement	£'000	£'000		£'000	£'000
Total income	58,934	67,076		93	126,103
Operating cost	(56,322)	(67,220)		-	(123,542)
Funding of external bodies (levies)	(17,327)	(37)		-	(17,364)
Indemnity Operations	-	-		(2,658)	(2,658)
Other operating income	5,778	-		-	5,778
<b>Operating result</b>	<b>(8,937)</b>	<b>(181)</b>		<b>(2,565)</b>	<b>(11,683)</b>
Income from investments and claims recoveries	353	-		42	395
<b>Result before taxation</b>	<b>(8,584)</b>	<b>(181)</b>		<b>(2,523)</b>	<b>(11,288)</b>
Taxation	188	-		232	420
<b>Result after taxation</b>	<b>(8,396)</b>	<b>(181)</b>		<b>(2,291)</b>	<b>(10,868)</b>
Recharge	3,529	(3,529)		-	-
<b>(Deficit) for the year</b>	<b>(4,867)</b>	<b>(3,710)</b>		<b>(2,291)</b>	<b>(10,868)</b>
Unrealised gain on fixed asset investment	1,907	-		1,243	3,150
Deferred tax on unrealised gain	(618)	-		-	(618)
<b>Comprehensive (expense) for the year</b>	<b>(3,578)</b>	<b>(3,710)</b>		<b>(1,048)</b>	<b>(8,336)</b>

## 4.1 Consolidated Operating divisions (continued)

Total income is all externally generated. PC fee has been allocated to the Law Society Professional Body and the SRA based on the proportion requested in the net funding requirement.

### Geographical analysis

The majority of the Group's operations are undertaken in the UK and all income is derived from the UK aside from an immaterial element.

### Consolidated Net assets

The Law Society Group net assets comprise the combined entity assets and liabilities of the Law Society Professional Body (the Law Society), the Solicitors Regulation Authority Ltd and Indemnity Operations.

The Solicitors Regulation Authority separated from the Law Society on the 1 June 2021. Its regulatory business, assets and liabilities at this date and a capital contribution were transferred to the Solicitors Regulation Authority Ltd. For the current year its net assets are separated on this basis. For the prior year the Solicitors Regulation Authority net assets were held as part of the Law Society together with the net assets of the Law Society Professional Body.

	The Law Society	Solicitors Regulation Authority Ltd	Indemnity operations	The Law Society Group
	£'000	£'000	£'000	£'000
Net assets as at 31.10.21	47,487	15,238	22,330	85,055
Net assets as at 31.10.20	54,537	-	22,483	77,020

Of the £85,055k (2020: £77,020k) above only £62,725k (2020: £54,537k) is available for use by the Law Society Group as £22,330k (2020: £22,483k) relates to Indemnity Operations and those reserves are to be used solely in the management of the Solicitors Indemnity Fund. The Society can only access the funds once they have been released which requires formal approval from the SIFL Board.

# Notes to the Consolidated Financial Statements for the year ended 31 October 2021 (continued)

## 4.2 The Law Society Operating Divisions

	2021			2020
	Law Society Professional Body	Solicitors Regulation Authority	The Law Society	The Law Society
		7 months to May 21		
The Law Society Income Statement	£'000	£'000	£'000	£'000
Total income	58,799	38,478	97,277	126,010
Operating cost	(45,993)	(32,820)	(78,813)	(123,542)
Funding of external bodies (levies)	(18,930)	(7)	(18,937)	(17,364)
Other operating (cost)/income	(162)	-	(162)	5,778
Operating result	(6,286)	5,651	(635)	(9,118)
Income from investments and claims recoveries	4,167	-	4,167	353
Result before taxation	(2,119)	5,651	3,532	(8,765)
Taxation	(2)	-	(2)	188
Result after taxation	(2,121)	5,651	3,530	(8,577)
Recharge	2,244	(2,244)	-	-
Surplus / (deficit) for the year	123	3,407	3,530	(8,577)
Unrealised gain on fixed asset investment	3,177	-	3,177	1,908
Deferred tax on unrealised gain	(419)	-	(419)	(618)
Comprehensive income/(expense) for the year	2,881	3,407	6,288	(7,287)

## 5.1 Consolidated - Funding of External Bodies

As disclosed in note 1, the Law Society was required to fund the set-up costs and a portion of the ongoing operating costs of the Legal Ombudsman, the Legal Services Board,

the Office for Professional Body Anti-Money Laundering Supervision and the Solicitors Disciplinary Tribunal.

These costs can be analysed as:

	2021	2020
	The Law Society Group	The Law Society Group
	£'000	£'000
Legal Ombudsman operating cost	9,906	10,508
Legal Services Board operating cost	5,132	3,158
Solicitors Disciplinary Tribunal operating cost	3,148	3,108
Office for Professional Body Anti-Money Laundering Supervision operating costs	760	590
	18,946	17,364

## 5.2 The Law Society - Funding of external bodies

	2021	2020
	The Law Society	The Law Society
	£'000	£'000
Legal Ombudsman operating cost	9,906	10,508
Legal Services Board operating cost	5,132	3,158
Solicitors Disciplinary Tribunal operating cost	3,148	3,108
Office for Professional Body Anti-Money Laundering Supervision operating costs	751	590
	18,937	17,364



# Notes to the Consolidated Financial Statements for the year ended 31 October 2021 (continued)

## 6.1 Consolidated Operating result

The operating result is stated after charging/(crediting)

		2021					2020
		Law Society Professional Body	Solicitors Regulation Authority	Solicitors Regulation Authority Ltd	Indemnity operations	The Law Society Group	The Law Society Group
			7 months to May 21	5 months to Oct 21			
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Employment costs	9	25,274	20,285	14,484	-	60,043	59,400
IT Transformation & other programme spend		5,706	-	-	-	5,706	7,219
Depreciation / Amortisation	11.1	1,041	466	256	-	1,763	1,659
Impairment of fixed assets	11.1	-	-	59	-	59	1,916
Loss on disposal of fixed assets	11.1	789	-	22	-	811	87
Amounts payable under operating leases - land & buildings		488	-	678	-	1,166	1,980
Funding of external bodies	5	18,930	7	9	-	18,946	17,364
Indemnity operations	3	-	-	-	3,870	3,870	2,658
Insurance proceeds		162	-	-	-	162	(5,778)
Other operating costs		12,695	12,069	11,938	-	36,702	51,281
<b>Total operating costs</b>		<b>65,085</b>	<b>32,827</b>	<b>27,446</b>	<b>3,870</b>	<b>129,228</b>	<b>137,786</b>

## 6.1 Consolidated Operating result (continued)

The operating result is stated after charging/(crediting)

Insurance proceeds stem from a fire which caused significant damage to an insured building on 01 February 2020. Restoration of this building is ongoing, and the Society is continuing to receive insurance proceeds to cover business interruption, IT and property reinstatement costs. In the year, fire related costs of £0.3m were incurred and recognised in 'other operating costs'. As of 31 October 2021, in year insurance receipts of £0.7m

have been recognised as 'insurance proceeds' offsetting a prior year provision for fire related costs not yet reimbursed of £0.9m. A £1.9m provision for replacement of assets destroyed in the fire continues to be recognised as a receivable in 'other debtors', future reimbursement is expected when the restoration project moves to the construction phase (see Note 14).

	2021	2020
	£'000	£'000
<b>Audit fees:</b>		
Current year	372	269
<b>Audit fees relating to the Law Society only are as follows:</b>		
Current year	190	218
<b>Non-Audit fees:</b>		
Current year	-	7
<b>Non-Audit fees relating to the Law Society only are as follows:</b>		
Current year	-	7

## Notes to the Consolidated Financial Statements for the year ended 31 October 2021 (continued)

### 6.2 The Law Society Operating result

The operating result is stated after charging/(crediting)

		2021			2020
		Law Society Professional Body	Solicitors Regulation Authority	The Law Society	The Law Society
			7 months to May 21		
	Note	£'000	£'000	£'000	£'000
Employment costs	9	25,274	20,285	45,559	59,400
IT Transformation & other programme spend		5,706	-	5,706	7,219
Depreciation / Amortisation	11.2	1,041	466	1,507	1,659
Impairment of fixed assets		-	-	-	1,916
Loss on disposal of fixed assets	11.2	789	-	789	87
Amounts payable under operating leases - land & buildings		488	-	488	1,980
Funding of external bodies	5	18,930	7	18,937	17,364
Insurance proceeds		162	-	162	(5,778)
Other operating costs		12,695	12,069	24,764	51,281
<b>Total operating costs</b>		<b>65,085</b>	<b>32,827</b>	<b>97,912</b>	<b>135,128</b>

### 7.1 Consolidated Income and realised gains/(losses) from investments and claims recoveries

	2021	2020
	The Law Society Group	The Law Society Group
	£'000	£'000
Bank deposit interest	1	228
Managed investment funds income	2,245	1,349
Realised gains/(loss) on investments	3,569	(1,270)
Interest on claims recoveries	(300)	88
	<b>5,515</b>	<b>395</b>

### 7.2 The Law Society Income and realised gains/(losses) from investments

	2021	2020
	The Law Society	The Law Society
	£'000	£'000
Bank deposit interest	1	228
Managed investment funds income	597	958
Realised gains/(loss) on investments	3,569	(833)
	<b>4,167</b>	<b>353</b>



## Notes to the Consolidated Financial Statements for the year ended 31 October 2021 (continued)

### 8.1 Consolidated Taxation

	2021	2020
	The Law Society Group	The Law Society Group
	£'000	£'000
UK Tax at 19% (2020: 19%) based on profit for the year	(39)	(244)
Adjustment in respect of prior years	(11)	14
<b>Current tax (refund)</b>	<b>(50)</b>	<b>(230)</b>
Deferred tax: timing differences, origination and reversal		
Deferred tax charged within the Income statement	2	(190)
<b>Total tax (refund) in the income statement</b>	<b>(48)</b>	<b>(420)</b>
Deferred tax charge within other comprehensive income	419	618
<b>Total tax charge</b>	<b>371</b>	<b>198</b>
Reconciliation of tax charges		
Result before tax	2,736	(11,288)
Tax at 19% (2020: 19%)	520	(2,145)
Adjustments to tax:		
Amend tax on SIF result to 20% (2020: 20%)	23	(25)
Expenses not deductible for tax purposes	107	410
Exempt activities	(2,046)	605
Movement in unrecognised deferred tax	518	911
Capital Allowances	(9)	-
Capital gains	850	-
Adjustments in respect of prior periods	(11)	(176)
<b>Current tax (refund)</b>	<b>(48)</b>	<b>(420)</b>

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2021 (on 24 May 2021) which received Royal Assent on 10 June 2021 to become Finance Act 2021. The corporation tax rate applicable from 1 April 2022 remains at 19%. For the year beginning

1 April 2023 the main rate of corporation tax is set at 25%. Deferred taxes at the balance sheet date have been measured using these enacted tax rates based on the expected date of the reversal of timing differences.

### 8.2 The Law Society Taxation

	2021	2020
	The Law Society	The Law Society
	£'000	£'000
UK Tax at 19% (2020: 19%) based on profit for the year	-	-
Adjustment in respect of prior years	-	(188)
<b>Current tax (refund)</b>	<b>-</b>	<b>(188)</b>
Deferred tax: timing differences, origination and reversal		
Deferred tax charged within the Income statement	2	-
<b>Total tax charge/(refund) in the income statement</b>	<b>2</b>	<b>(188)</b>
Deferred tax charge within other comprehensive income	419	618
<b>Total tax charge</b>	<b>421</b>	<b>430</b>
Reconciliation of tax charges		
Result before tax	3,532	(8,765)
Tax at 19% (2020: 19%)	671	(1,665)
Adjustments to tax:		
Expenses / (income) not deductible for tax purposes	92	398
Exempt activities	(1,744)	605
Movement in unrecognised deferred tax	133	662
Capital gains	850	-
Adjustments in respect of prior periods	-	(188)
<b>Current tax charge/(refund)</b>	<b>2</b>	<b>(188)</b>

# Notes to the Consolidated Financial Statements for the year ended 31 October 2021 (continued)

## 9. Compensation, remuneration and staff numbers

### Council, Board, Committees and Key Management

As the Law Society has no statutory directors, this note discloses the total remuneration of those considered to be in similar key management roles including Council, Board and Audit Committee members and the two Chief Executive Officers and their executive leadership teams.

Council members are paid an annual expense allowance of £4,513 (2020: £4,446) when they Chair a Board or Committee, unless the Board they sit on has stipulated a different payment as disclosed below. Council members who do not Chair a Board or Committee are paid an annual expense allowance of £1,505 (2020: £1,483). Council members who sit on multiple Boards or Committees may only claim one such allowance. Other Committee members are paid an annual expense allowance of £751 (2020: £740).

The three elected office holders of the Law Society, the president, vice president and deputy vice president received emoluments of £183,292 (2020: £192,787) and expense allowance payments of £61,277 (2020: £61,819). With respect to the expense allowance payments and in consideration of the Covid-19 pandemic the office holders agreed a repayment plan to reimburse the Law Society related amounts totalling £53,151 which will be largely collected in the 2021-22 financial year.

	2021			2020		
	Law Society Professional Body	Solicitors Regulation Authority	The Law Society Group	Law Society Professional Body	Solicitors Regulation Authority	The Law Society Group
	£'000	£'000	£'000	£'000	£'000	£'000
Total for executive team	776	1,427	2,203	842	1,356	2,198
Highest paid member:						
Salary and benefits	327	335	662	290	331	621
Pension contributions	-	-	-	29	31	60
Total emoluments	327	335	662	319	362	681

The Chair of the Law Society Board received emoluments of £42,700 (2020: £42,800). Three non-executive members of the Board received emoluments in respect of their roles of £15,750 (2020: £nil).

The Chair of the Audit Committee received emoluments of £9,300 (2020: £7,200). Two non-executive members of the Audit Committee received emoluments in respect of their roles of £7,500 (2020: £nil).

Members of the SRA Board receive £12,500 (2020: £12,500) per annum in respect of their role on the Board, with some members receiving additional fees if they chair any other committees or hold position as a Senior Independent Director of £5,000. The exception to this is the Chair whose emoluments are disclosed below.

The Chair of the SRA board received emoluments of £90,000 over the financial year ending 31 October 2021 (2020: £90,000).

The table below discloses the total remuneration of the two Chief Executive Officers and their executive leadership teams. During 2021, two members of the Law Society executive team were members of the Law Society stakeholder pension scheme, a defined contribution pension scheme. During 2021, four members of the SRA executive team were members of the Law Society stakeholder pension scheme.

## 9. Compensation, remuneration and staff numbers (continued)

### Employment costs

The amount paid to employees during the year, including those amounts paid to the Chief Executives and Executive teams of the Law Society and the SRA, as well as the office holders and representing the employment cost of the group is:

	2021			2020
Consolidated	Law Society Professional Body	Solicitors Regulation Authority	The Law Society Group	The Law Society Group
	£'000	£'000	£'000	£'000
Wages & Salaries	20,676	28,224	48,900	47,883
Social security costs	2,441	3,318	5,759	5,651
Other pension costs	1,559	2,418	3,977	3,871
Other costs	598	809	1,407	1,995
	25,274	34,769	60,043	59,400

The amount paid to employees during the year, including those amounts paid to the Chief Executives and Executive teams of the Law Society and the SRA before its separation from the Law Society, as well as the office holders and representing the employment cost of the Law Society is:

	2021			2020
The Law Society	Law Society Professional Body	Solicitors Regulation Authority	The Law Society	The Law Society
		7 months to May 21		
	£'000	£'000	£'000	£'000
Wages & Salaries	20,676	16,581	37,257	47,883
Social security costs	2,441	1,889	4,330	5,651
Other pension costs	1,559	1,398	2,957	3,871
Other costs	598	417	1,015	1,995
	25,274	20,285	45,559	59,400



# Notes to the Consolidated Financial Statements for the year ended 31 October 2021 (continued)

## 9. Compensation, remuneration and staff numbers (continued)

### Staff numbers

The average number of full-time equivalent staff was 1,070 (2020: 1,027).

	2021	2020
Law Society Professional Body	404	401
Solicitors Regulation Authority	666	626
<b>Total</b>	<b>1,070</b>	<b>1,027</b>



## 10. Subsidiaries - The Law Society

	2020	Acquisitions	2021
	£'000	£'000	£'000
Investment in Subsidiaries at cost	-	13,338	13,338
	-	<b>13,338</b>	<b>13,338</b>

The Solicitors Regulation Authority (SRA) separated from the Law Society on the 1 June 2021, continuing its operations as the Solicitors Regulation Authority Ltd, a subsidiary of the Law Society incorporated on 18 May 2020 . Its regulatory business, assets and liabilities were transferred on 1 June 2021. The consideration for this transfer comprised the book value of assets and liabilities of the SRA at 31 May 2021 and a capital contribution which represents the SRA share of group reserves.

This amounted to a total consideration of £13,338k. In the individual accounts of the Law Society and reflected in the Law Society balance sheet this transaction is recognised as an investment in subsidiary of £13,338k in line with the accounting policy of recognising investments in subsidiaries at cost less impairment.

The Law Society had the following principal subsidiary undertakings as at 31 October 2021. They are all incorporated in the United Kingdom and operate in England and Wales and are consolidated in the group results of these financial statements:

Undertaking (nature of trade)	Issued share capital	% Ownership
Solicitors Regulation Authority (SRA) Ltd	Limited by guarantee	100%
(The) Law Society Services Limited (dormant)	£1	100%
Legal Indemnity Operations Limited (professional indemnity claims handling), (dormant)	£1	100%
†Solicitors’ Indemnity Fund (professional indemnity for solicitors)	Fund	100%
†Solicitors’ Indemnity Fund Limited (acting as agent for the Solicitors’ Indemnity Fund)	Limited by guarantee	100%

†SIF is considered to be a subsidiary under the terms of FRS 102 by virtue of control through the Law Society’s entitlement to any surpluses of SIF upon approval by the SIFL Board. A summary of SIF’s income and expenditure is included within these financial statements, see note 3.

## Notes to the Consolidated Financial Statements for the year ended 31 October 2021 (continued)

### 11.1 Consolidated Tangible fixed assets

	Leasehold	Freehold	Furniture & equipment	IT Hardware	Total
	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>					
As at 31.10.20	2,793	19,870	3,504	5,719	<b>31,886</b>
Additions	-	1,162	267	482	<b>1,911</b>
Disposals	-	(1,098)	(27)	-	<b>(1,125)</b>
Transfers	-	(31)	25	6	-
<b>As at 31.10.21</b>	<b>2,793</b>	<b>19,903</b>	<b>3,769</b>	<b>6,207</b>	<b>32,672</b>
<b>Accumulated depreciation</b>					
As at 31.10.20	(2,265)	(6,929)	(2,923)	(5,028)	<b>(17,145)</b>
Charge for the year	(422)	(747)	(209)	(385)	<b>(1,763)</b>
Release on disposal	-	309	5	-	<b>314</b>
Impairment	(59)	-	-	-	<b>(59)</b>
<b>As at 31.10.21</b>	<b>(2,746)</b>	<b>(7,367)</b>	<b>(3,127)</b>	<b>(5,413)</b>	<b>(18,653)</b>
<b>Net book value</b>					
<b>As at 31.10.21</b>	<b>47</b>	<b>12,536</b>	<b>642</b>	<b>794</b>	<b>14,019</b>
As at 01.11.20	528	12,941	581	691	<b>14,741</b>

Included within tangible fixed assets are assets held on finance leases. The net book value of assets held on finance leases is £245k.

### 11.2 The Law Society Tangible fixed assets

	Leasehold	Freehold	Furniture & equipment	IT Hardware	Total
	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>					
As at 01.11.20	2,793	19,870	3,504	5,719	<b>31,886</b>
Additions	-	1,162	267	197	<b>1,626</b>
Disposals	-	(1,098)	-	-	<b>(1,098)</b>
Transfers	-	(31)	25	6	-
Transfer out on separation 01.06.21 (Solicitors Regulation Authority Ltd)	(2,793)	-	(937)	(1,671)	<b>(5,401)</b>
<b>As at 31.10.21</b>	<b>-</b>	<b>19,903</b>	<b>2,859</b>	<b>4,251</b>	<b>27,013</b>
<b>Accumulated depreciation</b>					
As at 01.11.20	(2,264)	(6,929)	(2,926)	(5,027)	<b>(17,146)</b>
Charge for the year	(295)	(747)	(195)	(270)	<b>(1,507)</b>
Release on disposal	-	309	-	-	<b>309</b>
Transfer out on separation 01.06.21 (Solicitors Regulation Authority Ltd)	2,559	-	871	1,268	<b>4,698</b>
<b>As at 31.10.21</b>	<b>-</b>	<b>(7,367)</b>	<b>(2,250)</b>	<b>(4,029)</b>	<b>(13,646)</b>
<b>Net book value</b>					
<b>As at 31.10.21</b>	<b>-</b>	<b>12,536</b>	<b>609</b>	<b>222</b>	<b>13,367</b>
As at 01.11.20	529	12,941	578	692	<b>14,740</b>

The Solicitors Regulation Authority separated from the Law Society on the 1 June 2021 transferring its trade and assets to the Solicitors Regulation Authority Ltd. The Solicitors Regulation Authority Ltd remained part of the Law Society Group after separation. The transfer out on separation represents the element of the transfer of trade and assets of the Solicitors Regulation Authority relating to fixed assets.



# Notes to the Consolidated Financial Statements for the year ended 31 October 2021 (continued)

## 12.1 Consolidated Investments

	2021	2020
	The Law Society Group	The Law Society Group
Current asset investments	£’000	£’000
Managed investment fund	88,282	89,534
Total investments - short-term	88,282	89,534

## 12.2 The Law Society Investments

	2021	2020
	The Law Society	The Law Society
Current asset investments	£’000	£’000
Managed investment fund	46,863	58,726
Total investments - short-term	46,863	58,726

Investments in short term deposits have an original maturity date of 3 months or less and as such have been treated as cash and cash equivalents in the cashflow statement.

Managed investments funds are invested for long term gain but can be liquidated with 24 hours notice. The funds comprise of equities, investment grade bonds and other securities.

The Solicitors Regulation Authority (SRA) separated from the Law Society on the 1 June 2021. Included within the consideration transferred to the Solicitors Regulation Authority Ltd on separation was £9,000k of investments held within the managed investment fund.

## 13. Consolidated gross indemnity claims provision

### Claims Reserves

The claims provisions are made in accordance with the accounting policies and carry a significant level of judgement and rely on estimation techniques based on experience and available information. There are three main aspects to the provision as follows:

	2021	2020
	£’000	£’000
	The Law Society Group	The Law Society Group
Gross claims reserves	6,378	6,345
IBNR	3,302	2,422
Claims handling costs	1,744	1,320
	11,424	10,087

These provisions are for all known cases and are notified on a “claims made” basis and fall within an indemnity year. Reserve estimates are made by specialist claims experts and panel solicitors of the likely damages and potential costs involved in settling the claim, as well as any expected recoveries to be made. These reserves are revised on a regular basis based on updated information as the claims progress. These provisions are sensitive to changes in the complexity of the case and the potential outcome and therefore cost of damages changing. Therefore, there is a risk that known claims may have been inadequately provided for or there may be a deterioration in the claim leading to adverse development.

Claims reserves are made up of all outstanding claims relating to the pre-1 September 2000 operational period and include claims made against practices that had ceased

without successor since 1 September 2000 but only in respect of those firms that had ceased prior on or before 31 August 2000. The claims reserves also include for all the claims arising from the post six-year run off protection provided by the Fund. This protection relates to claims made against firms that had ceased without successor on or after 1 September 2000 and after a lapse of the six-year run-off cover provided by the prior market participating insurer. The development of the pre-1 September 2000 claims are almost complete and there remain only a few cases left to resolve. The majority of claims reserves in value and volume relate to the post six-year run off protection provided.

The table below sets out the split of claims reserves by pre-2000 claims and post six-year run off claims:

	2021	2020	Movement
	£’000	£’000	£’000
	The Law Society Group	The Law Society Group	The Law Society Group
Pre 2000 claims	828	827	1
Post six-year run off claims	5,550	5,518	32
	6,378	6,345	33

The movement of claims reserves are a Key Performance Indicator and are reviewed by the SIFL Board periodically. Furthermore, the SIFL Board are provided with significantly more information relating to large and sensitive claims being any claim with a reserve in excess of £50,000.

## Notes to the Consolidated Financial Statements for the year ended 31 October 2021 (continued)

### 13. Consolidated gross indemnity claims provision (continued)

#### Incurred but not reported (IBNR)

This provision relates to claims incurred but not reported (IBNR). These claims arise where the event that triggers a claim has already happened i.e. an act of negligence has occurred at some time in the past but is presently unknown to the Fund because it has not been reported. When disclosed to the Fund it would still be subject to any statutory limitation provisions applying. An actuarial projection is made of this provision. The principal assumptions underlying the actuarially calculated liability estimates is that the future claims development will follow a similar pattern to past claims development experience. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example, one-off occurrence, changes in market factors such as public attitude to claiming, recession, cessation of firms and other market conditions. Judgement is further used to assess the extent to which external factors such as judicial decision and government legislation affects the estimates. Conveyancing claims make up the majority of claims by value and volume within the IBNR provision and are the single largest risk type by category.

Actuarial reviews are carried out on a tri-annual basis or earlier if deemed necessary. The latest actuarial review was undertaken during the last financial year. The SIFL Board take a prudent approach when selecting the level of reserving from the range identified by the actuarial review. The SIFL Board review the development of claims against the expected actuarial projection and where necessary adjust the provision accordingly. The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Fund, where more information about the claim event is generally available.

#### Claims Handling Costs

Provision is made for all future costs that will be incurred in the direct management and administration of claims. There are a number of steps that need to be followed before settlement of any claim. Claims made are assessed for their validity, negotiated and then settled. These procedures carry administrative and operational costs for the Fund and is a key element in the claims management development process. Estimates are made of all future costs of the Fund and an analysis is carried out to assess the extent to which these costs are directly attributable to claims handling. The provision for direct claims handling costs relating to gross claims reserves are £1,169k (2020: £885k) and IBNR of £575k (2020: £435k).

#### Sensitivity analysis

There is a wide range of possible outcomes in assessing claim provisions due to the uncertainty associated in estimating ultimate claims liabilities.

For known claim reserves and recoveries estimates, a range of outcomes are identified, and a best estimate of the claims settlement or recovery value is used to raise a claim reserve or expected claim recovery.

For all actuarial projections, the final outcome will depend on the actual development of claims which in turn relies on the appropriateness of the historical data to predict the likely development of claims by type. Unforeseen changes may affect the suitability of that data and would be expected to have an impact on the accuracy of the results and increased uncertainty in the projections. Such changes could include unexpected claims inflation, shocks to the global economy, deep recession or a house market crash, changes in legislation or the emergence of new types of claim.

An estimate is made of future claims handling costs for both type of reserves. Estimates are made annually of all future costs of the Fund and an annual analysis is carried out to assess the extent to which these costs are directly attributable to claims handling and the proportion relevant to known claims and IBNR.

Sensitivity analysis is provided by the actuarial forecast ranging between the 50th percentile and 99.5th percentile forecast which provides differing outcomes of the IBNR provision for post six year run off claims. The SIFL Board have taken a prudent approach when selecting the level of reserving for these financial statements.

The securing of the Insurance Agreement (IA) limits the Fund's exposure to IBNR risk on the post six-year run off book of business to 30 September 2020 in as much as any deterioration in that book of business above what is estimated and provided for is covered by the IA up to an additional £11.6 million. Therefore, the IA covers the Fund beyond the 99.5th percentile for claims to 30 September 2020. The Fund is exposed to any further deterioration above £20 million which is considered remote.

During January 2021 the Fund entered into a supplementary IA to insure the Fund's claim liabilities for the one-year extension to post six-year run off claims to 30 September 2021. The supplemental IA provides protection in excess of £1.7 million and up to a maximum of £4.3 million which is beyond the 99.5th percentile. The Fund is exposed to any further deterioration above £4.3 million which is considered remote.

The Law Society has provided an unconditional financial undertaking to reimburse to the Fund the amount of any net solvency shortfall (i.e. any deficit) in its capital arising from the extension of the Fund's liability for post six-year run off claims until 30 September 2022, limited to a maximum liability of £4.0 million. The Law Society shall be released from this undertaking upon receipt by the Fund of adequate alternative comfort on the affordability of the extension, whether from an actuarial review or otherwise. As a consequence of this undertaking and the potential costs the Fund has taken the decision not to put an insurance agreement in place to insure the Fund's claims liabilities for the further one-year extension to 30 September 2022.





## Notes to the Consolidated Financial Statements for the year ended 31 October 2021 (continued)

### 14.1 Consolidated Debtors

	2021	2020
	The Law Society Group	The Law Society Group
	£'000	£'000
Trade debtors	2,851	2,070
PC fee debtors	14,551	8,969
Other debtors	1,995	2,861
Prepayments and accrued income	5,488	3,959
Vat	-	160
Deferred tax	14	14
Indemnity operations claims recoveries	589	810
Interest on claims recoveries receivable	543	854
	<b>26,031</b>	<b>19,697</b>

Trade debtors includes £0.9m (2020: £0.8m) of debtors on payment plans which fall due in more than one year. Indemnity operations claim recoveries includes £0.5m (2020: £0.8m) falling due after more than one year. Interest on claim recoveries receivable includes £0.5m (2020: £0.8m) falling due after more than one year. All other amounts are considered due within one year.

Other debtors includes £1.9m (2020: £2.8m) of expected insurance reimbursements following fire damage suffered to an insured building.

### 14.2 The Law Society Debtors

	2021	2020
	The Law Society	The Law Society
	£'000	£'000
Trade debtors	1,250	2,071
PC fee debtors	-	8,969
Other debtors	1,918	2,803
Prepayments and accrued income	1,982	3,959
Vat	-	124
Intercompany - Solicitors Regulation Authority Ltd	11,500	-
	<b>16,650</b>	<b>17,926</b>

### 15.1 Consolidated Creditors: amounts falling due within one year

	2021	2020
	The Law Society Group	The Law Society Group
	£'000	£'000
Trade creditors	1,820	1,101
PC fee deferred income	41,161	37,284
Amounts due to the Legal Ombudsman	6,881	6,175
Amounts due to the Legal Services Board	1,925	1,907
Amounts due to other Law Society affiliated entities	1,724	2,675
Other creditors	1,494	1,168
Accruals and deferred income	13,187	11,426
Taxation PAYE & NI	1,418	1,374
Vat	96	-
Taxation Corporation tax	-	168
	<b>69,706</b>	<b>63,278</b>

Amounts due to other Law Society affiliated entities are non-interest bearing and repayable on demand.

### 15.2 The Law Society Creditors amounts falling due within one year

	2021	2020
	The Law Society	The Law Society
	£'000	£'000
Trade creditors	757	1,101
PC fee deferred income	18,681	37,282
Amounts due to the Legal Ombudsman	6,881	6,175
Amounts due to the Legal Services Board	1,925	1,907
Amounts due to other Law Society affiliated entities	-	2,675
Other creditors	8	1,105
Accruals and deferred income	6,421	11,256
Taxation PAYE & NI	617	1,366
Vat	112	-
	<b>35,402</b>	<b>62,867</b>

# Notes to the Consolidated Financial Statements for the year ended 31 October 2021 (continued)

## 16.1 Consolidated Provisions

	2020	Utilised	Added	Released	2021
	£'000	£'000	£'000	£'000	£'000
Interventions, disciplinary proceedings and litigation	3,737	(5,332)	5,061	(1,186)	2,280
Dilapidations	993	-	446	-	1,439
Ex-gratia pensions for ex-employees	284	(33)	-	-	251
ARP	675	-	1	(676)	-
Deferred tax	916	-	421	-	1,337
	6,605	(5,365)	5,929	(1,862)	5,307

The provision for interventions, disciplinary proceedings and litigation includes the costs of legal fees to complete ongoing matters at the year end. Costs in relation to interventions are recharged in full to the Compensation Fund when incurred. These provisions are likely to be utilised within the next 12 months.

The dilapidations provision represents the unavoidable costs of restoring leased property to the same state as when the property lease was taken on by the Law Society. Costs are calculated based on third party estimates of restoration costs per square foot for each property. The first call upon this provision is expected to be March 2022.

The ex-gratia pension payments for ex-employees provision provides for the capital cost of ex-gratia pensions. This provision covers ex-gratia pensions paid by the Scheme administrator and those paid by Legal & General. Calls upon this provision are expected to be spread over more than 10 years. The scheme was last reviewed by a qualified actuary in September 2013 with no significant changes to the principal actuarial assumptions used in this valuation since this date, as such no external valuation has been performed in the period.

The Assigned Risks Pool (ARP) provided professional indemnity insurance cover for firms who were unable to obtain cover from Qualifying Insurers. The ARP's last year of operation was 2013. An arrangement is in place for liabilities under claims made by applied firms in the final year of the ARP to be met by the Group and Qualifying Insurers under agreed layers. The provision was based on estimates of claims arising from this final year and includes provision for the six-year run off period which ended in 2019. A provision is no longer considered necessary as the likelihood of further calls on the SRA for payment of costs or claims is considered so remote as to not require further provision.

The deferred tax provision relates to timing differences that have originated but not reversed at the balance sheet date. The provision primarily relates to deferred tax on unrealised investment gains. Deferred tax is calculated at 25% (see note 8).

## 16.2 The Law Society Provisions

	2020	Utilised	Added	Released	Transferred out on separation 31.05.21 (Solicitors Regulation Authority Ltd)	2021
	£'000	£'000	£'000	£'000	£'000	£'000
Interventions, disciplinary proceedings and litigation	3,737	(3,647)	2,832	(1,125)	(1,797)	-
Dilapidations	993	-	23	-	(860)	156
Ex-gratia pensions for ex-employees	284	(33)	-	-	-	251
ARP	675	-	1	-	(676)	-
Deferred tax	916	-	421	-	-	1,337
	6,605	(3,680)	3,277	(1,125)	(3,333)	1,744

The Solicitors Regulation Authority separated from the Law Society on the 1 June 2021 transferring its trade and assets to the Solicitors Regulation Authority Ltd. The Solicitors Regulation Authority Ltd remained part of the Law Society Group after separation. The transfer out on separation represents the element of the transfer of trade and assets of the Solicitors Regulation Authority relating to provisions.





# Notes to the Consolidated Financial Statements for the year ended 31 October 2021 (continued)

## 17. Related party transactions

### SRA Compensation Fund

The Law Society is related to the Compensation Fund as the Society has a responsibility through rules established under statute to maintain and administer a Compensation Fund. During the year the Law Society collected contributions on behalf of the Compensation Fund totalling £13,877k (2020: £7,948k) and the Law Society recovered costs from the Compensation Fund totalling £7,278k (2020: £9,842k). At the year end the amount owed by the Law Society to the Compensation Fund totalled £1,724k (2020: £2,675k).

### Council, Board and Committee members

Transactions that the Law Society has with members of Council, Board, SRA Board and Audit Committee, either individually or through an entity that the member has significant influence over are considered related parties. Direct remuneration paid to members is covered in detail in note 9. Members may also claim reimbursement for any expenses directly incurred on behalf of the society, in line with the Council and Committee expense policy. The total value of expenses reimbursed to Council, Board and Committee members during 2021 was £4k (2020: £115k).

Solicitor members are required to pay an annual Practising Certificate fee, which are charged on the same bases as all other members of the Society. Due to the nature of the Society’s activities, such transactions with individual members, or their firms, have not been disclosed.

The Society also transacts with members, their firms or related entities in the normal course of business for legal, consultancy and recruitment services. The 2021 operating results include an aggregate cost of these related party transactions of £54k (2020: £203k) paid to and £46k (2020: £71k) received from entities that the member holds a significant influence over.

Also included in the operating result are amounts totalling £11k (2020: £23k) paid to and £3k (2020: £1k) received directly from members for services rendered to the Law Society or its related entities.

### Other related entities

Income for the year includes £27k (2020: £25k) of management fees charged to Queen’s Counsel Appointments Limited, and other sales made totalling £4K (2020: £2k). At the year-end there was £nil outstanding from Queen’s Counsel Appointments Limited (2020: £nil).

## 18. Litigation

Legal matters will arise as a matter of course within the business due to the nature of operations, as solicitors will legally challenge decisions on action taken against them or their firms. The Law Society has a robust process of reviewing and managing high profile litigation matters. Provisions and accruals are made in the financial statements to reflect litigation costs as appropriate.

The Board does not consider there to be any litigation legal claims that require provision or disclosure.

## 19. Contingent gains and losses

There are a number of assets over which the Law Society has some title / claim which may lead to potential future recoveries. These potential assets are not recognised as part of the provisions for recoveries as, in the opinion of the Board, they are so uncertain that they cannot be practically measured and hence no estimate is included here.

The Law Society has provided an unconditional undertaking to reimburse to the Solicitors Indemnity Fund Ltd (SIFL) the amount of any net solvency shortfall (i.e. any deficit) in its capital arising from the extension of the Fund’s liability for post six-year run off claims until 30 September 2022, limited to a maximum liability of £4.0 million. The Law Society shall be released from this undertaking upon receipt by the Fund of adequate alternative comfort on the affordability of the extension, whether from an actuarial review or otherwise.

## 20.1 Consolidated operating lease commitments

As at 31 October 2021, the Law Society Group had future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2021	2020
	The Law Society Group	The Law Society Group
	£’000	£’000
Land & building:		
Leases expiring within one year	1,138	2,271
Leases expiring between two and five years	5,103	960
Leases expiring after five years	7,864	-
	14,105	3,231

The main commitment within operating leases is as a result of acquiring a ten-year lease for The Cube offices in Birmingham with a break clause in April 2022. The lease costs shown above include a contractual in-built increase based upon a forecast RPI index realigned each year to actual RPI increases.

## 20.2 The Law Society operating lease commitments

As at 31 October 2021, the Law Society had future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2021	2020
	The Law Society	The Law Society
	£’000	£’000
Land & building:		
Leases expiring within one year	122	2,271
Leases expiring between two and five years	28	960
	150	3,231

## 21. Capital commitments

As at 31 October 2021 the Law Society Group had capital commitments of £1,562k (2020: £nil) being amounts committed by the Solicitors Regulation Authority Ltd for contracts for future capital expenditure related to leasehold improvements and not provided in the financial statements.

# Council, Board and Committee Membership

## Council

Council membership for 2020-21 comprised:

Sushila Abraham	Sara Chandler left Oct-21	Beth Forrester
Richard Adams	Salome Coker	Michael Frape
Mark Anderson from Oct-21	Ed Crosse	Michael Garson
Jonathan Andrews from Oct-21	Beverley Cullen left Oct-21	Melinda Giles
Richard Atkinson	Paul Cummins from Oct-21	Holly Goacher left May-22
Sarah Austin	Guy Davies left Jun-22	Jonathan Goldsmith
Paul Barnes left Oct-21	Paul Davies left Oct-21	David Greene vice president 2019-20; president from 14 Oct 2020; resigned Mar-21; left Council Oct-21
Richard Barr	Simon Davis	Shama Gupta
David Barraclough	Allan Devine	Nick Gurney-Champion left Oct-21
Cordella Bart-Stewart	Brett Dixon	Simon Harker left Oct-21
Pat Beeching	Clive Dobbin left Oct-21	Mark Harvey left Oct-21
Paul Bennett	Josephine Duchenne from Oct-21	Russell Hewitson from Oct-21
Sundeep Bhatia left Oct-21	Adrienne Edgerley Harris from Oct-21	Saima Hirji
Suki Binjal from Oct-21	Joe Egan left Oct-21	Steven Hudson
Kyle Blackburn from Oct-21	Nick Emmerson deputy vice president from Oct-21	Mary Kaye
Christina Blacklaws left Oct-21	Mark Evans	Muntech Kaur from Oct-21
Cobi Bonani from Oct-21	Nichola Evans	Ian Kelcey left Oct-21
Scott Bowen	Nina Ferris	Nawaz Khan
I. Stephanie Boyce vice president from Oct-20; president from Mar-21	Tony Fisher	Amandeep Khasriya from Oct-21
Mark Brown from Oct-21	Daniel Fitzpatrick	Kathryn King
Roger Buston left Oct-21	Nick Fluck	Carolyn Kirby
Peter Causton left Nov-21	Jeffrey Forrest left Oct-21	

James Kitching left Mar-21	Andrew Nyamayaro left Oct-21	David Taylor
Pavel Klimov	Evelyn Ofori-Koree left Oct-21	Donna Taylor from Oct-21
Steven Kuncewicz	Placida Ojinnaka - mat cover for Yasmin Sheikh from Jun-20; member in own right from Oct-21	Shannett Thompson from Oct-21
Sarah Lapsley left Oct-21	Emily O'Neill from Oct-21	Laura Uberoi
Linda Lee	Smita Oza left Oct-21	Christopher Vigrass
Denise Lester	David Patient from Oct 21	Bill Waddington
Jeff Lewis	Peter Rodd	Sarah Watkins
Ngaryan Li from Oct-21	Nicola Rubbert	Peter Watson-Lee
Lizzy Lim from Oct-21	Asma Ruksar	Jonathan Wheeler from Oct-21
Alastair Logan	Lucy Scott-Moncrieff	Fraser Whitehead left Oct-21
Claire Logan	Razi Shah	Ariel White-Tsimikalis from Oct-21
Jawaid Luqmani from Oct-21	Koser Shaheen left Oct-21	Michael Williams left Oct-21
Nicola Mackintosh left Oct-21	Paul Sharma from Oct-21	Eleri Wones from Oct-21
Salma Maqsood from Oct-21	Eunice Shang-Simpson	Peter Wright left Oct-21
Oliver Maxwell-Jones left Oct -21	Yasmin Sheikh until Jun-20 (mat leave); left Oct-21	Jessica Yu from Oct-21
Sinead McGrath left Oct-21	Lubna Shuja; vice president from Mar-21	
Maria Memoli left Oct-21	Paul Singh from Oct-21	The following members joined Council after the 2020-21 financial year:
Joe Mensah-Dankwah	Bal Singh Atwal from Oct-21	Louise Duckett Jan-22
Christopher Morgan left Oct-21	Ravinder Singh Chumber	Alan East Jan-22
Mark Newby	David Steed left Oct-21	Charlotte Hill Jan-22
Caroline Newman	Clive Sutton	Johnny Shearman Jan-22
Christopher Noon		
Nwabueze Nwokolo left Oct-21		



Boards & Committees

The membership records for the Board, SRA Board and Audit Committee are shown below.

The Board

12 meetings took place from November 2020 to October 2021. Details of attendance and composition of the Board was as follows:

Attended	Meetings	Name
1	(2)	David Greene (President (until March 2021) † Left Council October 2021
12	(12)	Stephanie Boyce (Vice President as of 14 October 2020, President from March 2021) †
12	(12)	Robert Bourns (Chair)
10	(12)	Michael Garson †
12	(12)	Peter Wright (Chair of Policy and Regulatory Affairs Committee) † (left October 2021)
5	(5)	Paul Davies † (left October 2021)
12	(12)	Laura Uberoi †
12	(12)	Lubna Shuja (Deputy Vice-President as of 14 October 2020, Vice-President from March 2021) †
10	(12)	Bill Butler (Chair of Finance and Investment Committee)
12	(12)	Judy Craske (Chair of People and Remuneration Committee)
11	(12)	Vicky Lockie
11	(12)	Penelope Warne
11	(12)	Nick Emmerson (Deputy Vice-President from October 2021)†
7	(12)	Caroline Newman † (co-opted)

The numbers in brackets denote the maximum number of meetings a person could have attended, allowing for the period in which they were a Board or Committee member, if less than a full period.

The following members joined the Board after the 2020-21 financial year:

Peter Watson-Lee Jan-22
Sarah Austin Jan-22

SRA Board

SRA Board membership and attendance for 2021 comprised:

Attended	Meetings	Name	Position/term
11	(11)	Anna Bradley (Chair)	
10	(10)	Ann Harrison	Joined January 2021
1	(1)	David Heath	Left December 2020
10	(11)	Peter Higson	Left December 2021
11	(11)	Paul Loft	
8	(11)	Barry Matthews	Left December 2021
10	(11)	Geoff Nicholas	Left December 2021
10	(10)	Dermot Nolan	Joined January 2021
9	(10)	Vikas Shah	Joined January 2021
10	(10)	Elizabeth Smart	Joined January 2021
7	(11)	Selina Ullah	
11	(11)	Tony Williams	
1	(1)	David Willis	Left December 2020

Lisa Mayhew was appointed on 1 January 2022.

Committees

Audit Committee

Audit Committee membership and attendance for 2021 comprised:

Attended	Meetings	Name	Position/term
3	(3)	Joanne Stimpson	Chair
3	(3)	Heather Butler	Independent Member
3	(3)	Hilary Daniels	Independent Member
3	(3)	Bill Butler	Board Member

†Council member  
All other members are independent of Council, any other board or committee.

Law Society Registered Office

The Law Society, 113 Chancery Lane, London WC2A 1PL

The following member joined the Committee after the 2020-21 financial year:

Sarah Austin Mar-22
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113 Chancery Lane London WC2A 1PL

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