



REVIEW OF LICENCE AND PRACTICE FEE ARRANGEMENTS

CONSULTATION PAPER

August 2023

Consultation deadline

This consultation will run for 6 Weeks.

It will close on 8 September 2023.

Background

Each year in June, CLC regulated practices renew their Professional Indemnity Insurance (PII). As part of this process regulated practices are required to provide turnover figures to the insurers. The CLC uses these turnover declarations to calculate the practice fee payable for the next licensing period which runs from November to October.

The practice fee contribution rates together with the Individual License fees and other administration charges are reviewed annually to ensure that revenue collected through these charges are sufficient to cover the forecast expenditure for the next financial year. The Council of the CLC reviews the forecast and if necessary, makes changes to fee rates and or expenditure to ensure there is sufficient resources available to the CLC to execute its statutory responsibilities.

The proposed fees are then consulted on and interested parties have an opportunity to comment on the fee proposals for the next licensing year. After considering the responses received and if necessary, amending the proposal, an application is made to the LSB for approval.

What we propose

For the next licensing year beginning on 1 November 2023, the CLC is proposing to make the following changes to the fees charged:

1. **Practice Fee rates will be increased by up to 10%** (The last amendment was in 2021 when we increased the number of fee bandings and the fee rates were reduced by 23%);
2. **Other licensing administration charges will be amended** where there is an under recovery on time spend assessing the application or a misalignment between charge type.

The CLC is proposing that the following fees remain unchanged from the current set rates:

3. **Compensation Fund Contributions remain unchanged** (The last amendment was in 2021 when we increased the number of fee bandings. The contribution rates were last amended in 2020 when they were reduced by 60%);
4. **Individual License Fees remain unchanged** (last amended in 2010);
5. **The OLC Levy allocation between availability and usage will remain unchanged.** The availability charges is currently set at 70% of the cost and the usage charges at 30% of the cost (This charge was introduced in 2021 as carve out from the Practice Fee).

The CLC is wholly funded by the profession and through the profession by consumers. We have always tried to keep the cost of regulation as low as possible. Since 2016 we have

reduced the Practice Fee contribution rates by an effective 61% and the Compensation Fund Contributions by 60%. We have also worked hard to keep our costs as low as possible and reduced operational spend wherever we could.

This year, for the first time since 2009 we have seen the aggregate practice turnover fall by 4%. This means that the revenue we receive from Practice Fees will also decrease. The CLC runs a very lean organisation and we have little scope to absorb this loss of revenue without compromising our ability to regulate effectively. This would be to no-one's benefit and not something that can be contemplated. At the same time, we are seeing increased demand on our resources, from stakeholders and other regulators, including increase in the levies charged, which is going to necessitate taking steps to increase our capacity over the next few years.

Why this consultation is important

Because the CLC is funded by the Practices and Individuals that we regulate, it is important that they and other stakeholders have an opportunity to review and comment on the source and application of the funding to ensure the burden on Practice and Individuals is kept to a minimum and that the organisation has sufficient resources to execute its statutory objectives.

Responding to this consultation

The CLC will publish all responses and may refer to any of them specifically in any further document it publishes following this consultation. If you wish your response to be treated as confidential, please let us know when you respond.

There are 2 ways to respond to this survey:

- 1) You can respond to the consultation by email to consultations@clc-uk.org
- 2) or by post to:

The Council for licensed Conveyancers
WeWork
120 Moorgate
London
EC2M 6UR

Consultation deadline

This consultation will run for six weeks to the close of business on 08 September 2023.

Next steps

The Council of the CLC will consider the responses to this consultation and finalise a submission to the LSB to approve the final fee arrangements. That submission will be published along with consultation responses (noting the caveat about confidentiality above).

Summary of Consultation Questions:

- 1) Do you agree that the **turnover bandings** included in paragraph 12 should remain unchanged?
- 2) Do you agree with the CLC proposal to increase the current **Practice Fee rates** by up to 10%?
- 3) Do you agree that the **Compensation Fund Contribution rates** should remain unchanged from the current rates (see rates table annex 2)?
- 4) Do you agree with the CLC proposal to not amend **OLC levy allocation** between the availability fee (70% of cost allocated to all practices) and usage fee (30% of the cost allocated to practices with cases accepted by the OLC)?
- 5) Do you agree that the **Individual practice certificate cost** remains unchanged from the current fee?
- 6) Do you agree that the **administration charges** should be amended as shown in paragraph?

Introduction

1. The Legal Services Act 2007, s.51(4) specifies the permitted purposes for which fees received by the CLC may be applied (see Annex 1). s.51(5) specifies that 'a practising fee is payable under the regulatory arrangements of an approved regulator (such as the CLC) only if the Board has approved the level of the fee'.
2. The CLC Council meet on 27 July 2023 and resolved that Practice Fees should be increased by no more than 10% and administration costs be aligned with the cost of providing the service. The Council further resolved that there would be no change to any

of the other fee rates (Individual License Fee rates, Compensation Fund Contributions and OLC Levy allocation). These proposals are subject to consultation and LSB approval.

3. The Council is conscious of the additional burdens being placed on regulated practices and individuals and has previously resolved not to increase fee rates during the pandemic or during the economic crisis last year. This was done through using reserves, careful cost control and not increasing headcount. Our operational costs remain at 2015 levels After factoring in inflationary increases, there has been a real and significant reduction in CLC Operating expenditure. Keeping the financial burden of regulation to a proportionate level is a key element of the CLC's commitment to supporting a thriving conveyancing and probate sector.
4. Over the last 2 years the CLC has noted increasing regulatory and reporting burdens from third parties. The expectations on us as a regulator are increasing and we need to scale up our abilities to effectively deliver on AML, sanctions as well as provide resources to the regulated community to help them comply and stay abreast of the latest developments.
5. The 9% increase in Practice Fee rates offsets a 4% reduction in fee income resulting from lower Practice Turnovers. In turn this means there is only a real increase of up to 6% which is well below the inflationary increases that have been absorbed over the last few years.
6. The CLC is a pure regulator and does not have a representative function. All costs incurred by the CLC are applied only to permitted purposes
7. The CLC's role is to safeguard the public interest and consumers by regulating providers to deliver high quality and accessible legal services.
8. The CLC's regulatory activities include:
 - setting educational and training standards for entry to the profession
 - issuing licences to practise to those qualified to provide conveyancing and probate services and to Alternative Business Structures
 - maintaining a register of all CLC Lawyers and CLC Practices
 - setting standards to regulate the professional practice, conduct and discipline of CLC Lawyers and CLC Practices
 - setting standards to maintain adequate professional indemnity insurance and a compensation fund to protect consumers
 - monitoring the work and conduct of CLC Practices
 - providing guidance and advice to CLC Practices to maintain compliance with our regulatory requirements

- investigating allegations of misconduct and where appropriate taking disciplinary action and
 - collaborating with key stakeholders in the legal services market to monitor and shape future policy.
9. The CLC’s approach to regulation is proportionate, risk-based and outcomes-focused. Licence holders are required to demonstrate that they:
- act with independence and integrity
 - maintain high standards of work
 - act in the best interest of clients
 - deal with regulators and ombudsmen in an open and cooperative way and
 - promote ease of access and service.

Turnover Banding

10. The Practice Fee and Compensation Fund contributions are calculated on a sliding scale based on the practice’s turnover.
11. The turnover banding was reviewed and amended in 2021. The number of bands was increased from 4 to 9 and the top turnover band was increased from £3m to £16m.
12. The practice distribution across the bandings has been reviewed and there is still a good spread of practices across the turnover bands. This is illustrated in the table below which shows the practice allocations by turnover banding for the last 3 years.

Fee bands and practice allocation	Number of Practices July 21	Number of Practices	Number of Practices
£0 – £100,000	21	20	12
£100,001 – £250,000	57	37	35
£250,001 – £500,000	58	58	47
£500,001 – £1,000,000	48	51	56
£1,000,001 – £2,000,000	16	28	29
£2,000,001 – £4,000,000	6	9	10
£4,000,001 – £8,000,000	6	12	7
£8,000,001 – £16,000,000	5	1	5
£16,000,001 and over	2	5	4
	219	221	205

13. Because the distribution of practices across the turnover bands has not changed materially and there is no significant concentration in any single banding, the CLC is proposing not to amend the turnover bandings for the 2023-2024 billing cycle.

Consultation Question:

- 1) Do you agree that the **turnover bandings** included in paragraph 12 should remain unchanged?

Practice Fee rate setting

14. The CLC has been running a planned deficit budget since 2019. Through this deficit the CLC has released more than £2.3m in reserves back to CLC regulated practices.
15. Reserve levels have now depleted sufficiently that we need to at least maintain the reserve levels being held. Steps taken during the pandemic and economic crisis have meant that reserves have fallen faster than planned.
16. CLC will need to run a surplus budget to maintain and grow reserves to protect against future uncertainty and business needs.
17. Practice turnovers declared during the PII renewal and used for the calculation of Practice Fees have reduced by 4%. If we do not make any changes to the Practice Fee rate that CLC revenue from Practice Fees would decrease by 4% (£64,000).
18. The Council carefully considered whether Practice Fee rates should be increased at the Council meeting held on 27 July 2023. The Council noted the following at the meeting:
 - without any change to the fee rates that the CLC would receive less revenue in the next financial year and put additional pressure on funding existing operations. The Council also noted that the Practice Fee had been reduced by an effective 61% since 2016 and that operating expenditure had remained broadly flat over that period, which after adjusting for inflation has resulted in a real decrease operating costs.
 - The current economic climate necessitates regular benchmarking and cost of living adjustments to staff salaries. This is imperative to retain our key employees and attract new employees. Staff adjustments will need to be made in the next budget.
 - Third party oversight has become more intensive and placed additional demands on the organisation specifically in relation to AML and sanctions.
 - Staff are being asked to do more and employee numbers have stayed flat for a number of years. This is no longer sustainable and poses a risk to business continuity. As such we need to recruit to a number of key positions and take steps to ensure retention of existing staff members.
 - The Organisation needs to generate a neutral or positive cashflow for the next financial year as it has no surplus reserve.
 - We are seeing an increase in recharge costs across the board (LSB costs are increasing by 21.6% and the legal Ombudsman costs are increasing by 18% (although this is a separate charge to the profession the CLC needs to hold reserve to pay in advance prior to recovery from practices)
19. The Council then considered the plan and estimated costs for the next financial year and determined that it was indeed necessary to increase Practice Fee rates. A fee rate

increase of no more than 10% was agreed as it enabled the CLC to generate a small surplus with a modest increase in expenditure. Council felt that a 9% increase was in line with current inflation rates and that after the increase the burden on the regulated community was still relatively low in that the practice fee was on average 0.52% (0.47% prior to the increase) of practice turnover. The estimate in paragraph 21 and the fee rate tables in Annex 2 have modelled on a 9% fee rate increase.

20. The table below illustrates the impact of the increase in fee rates across a range of indicative turnovers:

Turnover	2022 fees	2023 fees	Annual Increase	Additional monthly payment
100,000	580	632	52	4
250,000	1,411	1,537	126	11
500,000	2,736	2,982	246	21
1,000,000	5,186	5,657	471	39
2,000,000	9,996	10,907	911	76
4,000,000	19,476	21,247	1,771	148
8,000,000	36,476	39,807	3,331	278
10,000,000	44,896	48,987	4,091	341

21. The income and expenditure forecast for 2023 and estimate for 2024 is summarised in the table below.

Practice Fund Forecast & Estimate	Budget 2023	Forecast 2023	Var to budget		Forecast 2023	Estimate 2024	Var to forecast
Practice Fee	1,640,716	1,668,605	27,889		1,668,605	1,719,563	50,958
Individual License Fees	689,093	715,801	26,708		715,801	734,067	18,266
Other income	109,317	107,767	(1,550)		107,767	103,669	(4,098)
TOTAL REVENUE	2,439,126	2,492,172	53,046		2,492,172	2,557,299	65,126
Staff costs	1,483,823	1,504,628	(20,805)		1,504,628	1,702,275	(197,647)
Other operational expenditure	941,713	909,938	31,775		909,938	843,946	65,992
TOTAL EXPENDITURE	2,425,536	2,414,566	10,971		2,414,566	2,546,221	(131,655)
SUPRLUS/(DEFICIT)	13,590	77,607	64,017		77,607	11,078	(66,529)

Notes on forecast and estimate results:

- The surplus in 2023 is as a result of disciplinary cost recovery awards granted by the independent Adjudication Panel. Some respondents have however not refunded the CLC and we are taking steps to recover the debt.
- Individual License Fee income has shown good growth in 2023. This is due to a steady flow of individuals applying for their first qualifying license. We have also seen a steady flow of CILEX license holders transfer to CLC regulation.

- The increase in staff costs is due to cost-of-living salary adjustments and the recruitment of additional staff to fill key posts.
- OLC charges are not included as the CLC has no control over these costs and they are recovered through a separate charge.

22. The reduction in operational expenditure is largely as a result of reduced office rent costs (we reduced our space and cost by more than 50%)

Consultation Question:

- 2) Do you agree with the CLC proposal to increase the current **Practice Fee rates** by up to 10%?

Compensation Fund Contributions

23. The Compensation Fund financial forecast and estimate for 2023 and 2024 are set out in the table below.

Compensation Fund Forecast & Estimate	Budget 2023	Forecast 2023	Var to budget	Forecast 2023	Estimate 2024	Var to forecast
Practice Contribution Revenues	461,589	469,722	8,133	469,722	422,882	(46,840)
Ages Balances Received	-	151,715	151,715	151,715	-	(151,715)
Bank Interest	63,060	90,846	27,786	90,846	105,000	14,154
TOTAL REVENUE	524,649	747,557	222,908	747,557	527,882	(219,675)
Compensation Grants	-	1,100	(1,100)	1,100	-	1,100
Legal Fees re.Comp Fund Claims	180,000	100,000	80,000	100,000	120,000	(20,000)
Practice Fund cost recharge	132,459	132,459	-	132,459	141,731	(9,272)
Direct Intervention Costs	75,541	90,000	(14,459)	90,000	76,000	14,000
Intervention Consultancy	4,000	60,000	(56,000)	60,000	25,000	35,000
TOTAL EXPENDITURE	392,000	383,559	8,441	383,559	362,731	20,828
SUPRPLUS/(DEFICIT)	132,649	363,998	231,349	363,998	165,151	(198,847)

24. Revenue is expected to decrease in 2024 because of lower practice turnovers. Expenditure is expected to be in line with the 2023 forecast year.
25. New compensation awards and intervention expenditure are not budgeted due to the unpredictable timing and cost. The surplus is used to fund these costs with any additional cost being drawn from reserves. The Fund is currently fully reserved in line with the current reserving policy.
26. The CLC has been receiving claims and enquiries for compensation for investment property related losses. These claims are being held in a special category and will be assessed together once all claims are received. There is a potential that payment of these claims could result in a significant utilisation of reserves held.
27. Because the Fund is generating a surplus which should be sufficient to fund existing operations, new compensation awards and interventions and grow reserves, the CLC is proposing not to amend the Compensation Fund contribution rates for 2023-24. Note that the surplus on the Compensation Fund is ring fenced and cannot be used against a deficit on the Practice Fund.

Consultation Question:

- 3) Do you agree that the **Compensation Fund Contribution rates** should remain unchanged from the current rates (see rates table annex 2)?

OLC Levy

28. **Please note** that the CLC is required by Law to pay the cost levied by the Legal Ombudsman (Legal Services Act 2007 (Levy) (No.2) (Amendment) Rules 2014). We have no say in the cost or how it is allocated to us. All regulators that have cases accepted for investigation by the ombudsman share the cost proportionally based on case numbers. (Note that the outcome of the investigation is irrelevant to the charging mechanism).
29. In 2022 the CLC implemented a new OLC levy which recharges the Legal Ombudsman costs allocated to CLC to regulated practices based on availability and usage of the service.
30. These costs were previously recovered through the Practice Fee. These charges were separated from November 2021 and the Practice Fee rates were adjusted accordingly.
31. The CLC implemented this levy to:
 - Increase the transparency of the charge which was increasing significantly year on year;
 - Raise awareness of the cost and incentivise better complaint handling;
 - Allocate some of the cost based on usage (less than 50% of practices have had cases accepted for investigation in the last 3 years).
32. The CLC receives the final invoice from the legal ombudsman in March of each year (for the period ended then). The CLC pays the invoice in April of each year and recovers the cost from practices over the next 12 months.
33. The Legal Ombudsman costs are allocated to practices via an availability fee (70% of the cost) which is allocated to practices based on their Practice Fee as a % of the total Practice Fee and a usage fee (30% of the cost) which is allocated as a cost per case.
34. The estimate for the 2023-24 year, received from the legal Ombudsman is **£1,021,952**. The total cost allocated to the CLC has increased by 18% (£157,906). The case numbers have also increased for the 2022-23 going from 327 to 374 an increase of 8%. A summary of the case numbers and costs since implementation of the levy is included in the table below.

Legal Ombudsman cost	CLC regulated practice % of cases	CLC regulated practices case numbers	Total number of OLC cases	Actual cost charged to the CLC	Cost per case
2021/23	5.30%	263	4,962	£686,511	£2,610
2022/23	6.10%	327	5,361	£864,046	£2,642
2023/24 (Estimate)	6.60%	374	5,667	£1,021,952	£2,732

Note: case numbers are an average over 3 years

35. Although the Legal Ombudsman has taken steps to increase early resolution of cases, we have noted an increase in cases opened and then closed without further investigation in 2022 and 2023. This appears to be pushing the case numbers up.

Legal Ombudsman case numbers	2018	2019	2020	2021	2022	2023 YTD
Total number of CLC cases	158	317	270	341	428	230
number of practices with cases	50	75	64	70	61	50

36. Because of this increase in case number that are not investigated we do not wish to unfairly penalise practices by increasing the percentage of cost allocated to the usage fee (currently 30% of the total cost).

37. The CLC is querying the reason for opening and then closing cases without investigation and will not make any changes to the allocation model until this is clarified.

Consultation Question:

- 4) Do you agree with the CLC proposal to not amend **OLC levy** allocation between the availability fee (70% of cost allocated to all practices) and usage fee (30% of the cost allocated to practices with cases accepted by the OLC)?

Individual License Fees

5. Individual license holders are required renew their license annually and pay a Practicing Certificate Fee.
6. The current individual licensing fees are set out in the table below.

	Individual License Fees	Current fee
1	Individual licence for Conveyancing or probate	£400
2	Individual licence for Conveyancing and probate	£475

7. The CLC is proposing that the individual licensing fee remains unchanged for the next billing cycle.

Consultation Question:

- 5) Do you agree that the **Individual practice certificate cost** remains unchanged from the current fee?

Other Fees

8. The table below lists the various licence application and administration charges levied on applicants.
9. We have carefully reviewed our current charges against the time and cost of progressing applications. Where the fee being charged resulted in an under recovery of the cost it has been amended.

	License or Application Type	Existing Fee	Revised Fee	Notes
ANNUAL LICENSE FEES				
1	Individual licence for Conveyancing or probate	£400	£400	No change
2	Individual licence for Conveyancing and probate	£475	£475	No change
INDIVIDUAL APPLICATION FEES				
3	Application fee - Individual licence application	£150	£150	No Change
4	Application Fee – Head of Legal Practice (HoLP)	£240	£240	No Change

License or Application Type		Existing Fee	Revised Fee	Notes
5	Application Fee – Head of Finance and Administration (HoFA)	£240	£240	No Change
6	Application Fee – Registered Manager	£150	£180	To cover cost of additional checks required
7	Reinstatement of lapsed CLC license		£150	Adding new listed charge based on cost to process
8	Reapplication for a CLC Licence after a period of suspension or disqualification		£240	Adding new listed charge based on cost to process
9	Additional fees for complex cases with adverse findings. (The applicant will be notified prior to proceeding and will be updated on progress and cost.)		£80/h	Adding new listed charge
PRACTICE APPLICATION FEES				
10	New practice application – (Alternative Business Structure)	£1,200	£1,200	No change
11	New practice application – (Recognised body)	£150	£1,200	updating cost to reflect cost of processing and application and misalignment with ABS charge
12	Additional checks required due to delay in issue of license. (The applicant will be notified prior to proceeding and will be updated on progress and cost.)		£80/h	Adding new listed charge
13	New Corporate Investors/Owners notification (to be paid by the incoming party)		£540	Adding new listed charge based on cost to process
14	Change of ownership - existing non corporate owners (to be paid by the CLC Practice)		£280	Adding new listed charge based on cost to process
15	Change of ownership - new non corporate owners (to be paid by the CLC Practice)		£280	Adding new listed charge based on cost to process
16	Addition of a legal service to the license		£160	Adding new listed charge based on cost to process
17	Notification of new branch office		£50	Adding new listed charge based on cost to process
OTHER ADMINISTRATION FEES				
18	Issue of a duplicate licence	£50	£25	updating cost to reflect cost of processing and application
19	Amendment to a licence	£75	£75	No change

Consultation Question:

- 6) Do you agree that the **administration charges** should be amended as shown in paragraph?

Annex 1
Permitted Purposes
Extract LSB Practising Fee Rules

Monies raised through practising fees must not be applied for any purpose other than one or more of the permitted purposes.

The permitted purposes are:

(a) the regulation, accreditation, education and training of applicable persons and those either holding themselves out as or wishing to become such persons, including:

- (i) the maintaining and raising of their professional standards; and
- (ii) the giving of practical support, and advice about practice management, in relation to practices carried on by such persons;

(b) the payment of a levy imposed on the approved regulator under section 173 [Legal Services Act 2007] and/or the payment of a financial penalty imposed on the approved regulator under section 37 of the Act;

(c) the participation by the approved regulator in law reform and the legislative process;

(d) the provision by applicable persons, and those either holding themselves out as or wishing to become such persons, of legal services including reserved legal services, immigration advice or immigration services to the public free of charge;

(e) the promotion of the protection by law of human rights and fundamental freedoms;

(f) the promotion of relations between the Approved Regulator and relevant national or international bodies, governments or the legal professions of other jurisdictions;

(g) increasing public understanding of the citizen's legal rights and duties.

Annex 2
Fee Rate tables

PRACTICE FUND (2023-24)			
Turnover Banding	Practice Fee payable		
£0 – £100,000	£632		
£100,001 – £250,000	£632 plus	0.603%	of turnover in excess of £100,000
£250,001 – £500,000	£1,537 plus	0.578%	of turnover in excess of £250,000
£500,001 – £1,000,000	£2,982 plus	0.535%	of turnover in excess of £500,000
£1,000,001 – £2,000,000	£5,657 plus	0.525%	of turnover in excess of £1,000,000
£2,000,001 – £4,000,000	£10,907 plus	0.517%	of turnover in excess of £2,000,000
£4,000,001 – £8,000,000	£21,247 plus	0.464%	of turnover in excess of £4,000,000
£8,000,001 – £16,000,000	£39,807 plus	0.459%	of turnover in excess of £8,000,000
£16,000,001 and over	£76,527 plus	0.456%	of turnover in excess of £16,000,000

PRACTICE FUND (2022-23)			
Turnover Banding	Practice Fee payable		
£0 – £100,000	£580		
£100,001 – £250,000	£580 plus	0.554%	of turnover in excess of £100,000
£250,001 – £500,000	£1,411 plus	0.530%	of turnover in excess of £250,000
£500,001 – £1,000,000	£2,736 plus	0.490%	of turnover in excess of £500,000
£1,000,001 – £2,000,000	£5,186 plus	0.481%	of turnover in excess of £1,000,000
£2,000,001 – £4,000,000	£9,996 plus	0.474%	of turnover in excess of £2,000,000
£4,000,001 – £8,000,000	£19,476 plus	0.425%	of turnover in excess of £4,000,000
£8,000,001 – £16,000,000	£36,476 plus	0.421%	of turnover in excess of £8,000,000
£16,000,001 and over	£70,156 plus	0.418%	of turnover in excess of £16,000,000

COMPENSATION FUND (2023-24)			
Turnover Banding	Compensation Contribution Payable		
£0 – £100,000	£500		
£100,001 – £250,000	£500 plus	0.165%	of turnover in excess of £100,000
£250,001 – £500,000	£748 plus	0.158%	of turnover in excess of £250,000
£500,001 – £1,000,000	£1,143 plus	0.122%	of turnover in excess of £500,000
£1,000,001 – £2,000,000	£1,753 plus	0.118%	of turnover in excess of £1,000,000
£2,000,001 – £4,000,000	£2,933 plus	0.112%	of turnover in excess of £2,000,000
£4,000,001 – £8,000,000	£5,173 plus	0.079%	of turnover in excess of £4,000,000
£8,000,001 – £16,000,000	£8,333 plus	0.078%	of turnover in excess of £8,000,000
£16,000,001 and over	£14,573 plus	0.077%	of turnover in excess of £16,000,000