



## Consultation on 2016 PCF & Bar Council budget for Financial Year 2016/17

### Introduction

The Bar Council has approved budget proposals for 2016/17 to fund the regulatory activities of the Bar Standards Board (BSB) and the representation and support activities of the Bar Council. These proposals were scrutinised by the Bar Council Finance Committee (FC) in October 2015 and reviewed and approved by Bar Council on 9 November 2015.

As required by law and the Legal Services Board (LSB), we now invite members of the profession to review these proposals and comment, in particular on:

- The amount of income we intend to collect from Practising Certificate Fees (PCF);
- The amounts that we intend to spend for regulatory<sup>1</sup> and other permitted purposes;
- How income from PCF is allocated between regulatory and other permitted purpose activities; and
- The scale of PCF charges for individual practitioners.

We have provided a survey tool to encourage responses and to receive your feedback.

The paragraphs below outline the key changes to the Practising Certificate Fees; the funding requirements and high level operating budgets of Bar Council (BC) and the regulator, the Bar Standards Board (BSB); and the support services provided by Resources Group (RG).

### 2016/17 PCF Funding and Operating Budget

#### Summary of Changes to PCF

- Practising Certificate Fees will increase by 1.25%
- We have simplified the levy structure by combining the PCF and the LSB levies. This has no effect on the total cost for any individual as both are compulsory. The 1.25% PCF rise is applied only to that element of the fee that was PCF in 2015.
- The effective rise in compulsory fee for any practitioner is between £1 to £19 per annum, 0.9% and 1.2%.

---

<sup>1</sup> Regulatory means relating to Bar Standards Board's own activity. Permitted purposes are those defined under s51 (4) of Legal Services Act 2007 and Rule C6 of LSB Practising Fee Rules 2009 and are described in Appendix C.

## 2016 PCF Fee Structure

Income Band	Earnings	2015 Renewals				2016 Renewals			New PCF	Year on year change
		PCF	LSB Levy	Combined	PCF Fee Increase*	GCB PCF element	LSB Levy element			
Band 1	0-30k	£ 100	£ 9	£ 109	1.25%	£ 1	£ 101	£ 9	£ 110	0.9%
Band 2	30k-60k	£ 200	£ 18	£ 218		£ 2	£ 202	£ 18	£ 220	0.9%
Band 3	60k-90k	£ 400	£ 36	£ 436		£ 5	£ 405	£ 36	£ 441	1.1%
Band 4	90k-150k	£ 725	£ 69	£ 794		£ 9	£ 734	£ 69	£ 803	1.1%
Band 5	150k-240k	£ 1,100	£ 105	£ 1,205		£ 14	£ 1,114	£ 105	£ 1,219	1.2%
Band 6	240k+	£ 1,500	£ 133	£ 1,633		£ 19	£ 1,519	£ 133	£ 1,652	1.2%

\*Fee increases are based on PCF only and are rounded to whole £'s.

- We intend to consult with the profession, employers and chambers on the withdrawal of the current bulk payment discount arrangements. This discount applies where larger chambers and employers make payments on behalf of larger groups of barristers. The discount will remain in place for 2016 PCF collections and we would not expect changes in PCF discounts to be effective before June 2016.
- We forecast that total income from PCF will increase £0.4m (5%) to £10.4m. This is mainly due to strong growth in earnings within the profession. Fee increases will contribute £112k.
- PCF funding for
  - BSB increases from £5.8m to £6.8m, 15.9%. This increase is primarily due to a reduction in other sources of funding for the BSB, for example the Inns Subvention. Regulatory costs are planned to reduce £0.3m, 5%.
  - Other Permitted Purposes decreases from £4.1m to £3.7m, 9%. Funding from other sources increases by £0.4m so total expenditure on representation activities is planned to be at the same level as in 2015.

## Budget Summary

The 2016-17 budget is based on a three year financial forward look taking account in particular of the need to meet costs arising from the expiry in 2019 of the lease on the Bar council's current office accommodation; the estimated liability of £3m from the closed defined benefit pension scheme which materialises over the long term; and the cash required to manage other risks to income and expenditure.

The Bar Council currently has reserves of £4m (2014/15). The strategy underpinning the 2016-17 budget includes using a small amount from the reserve ([]) to smooth the financial impact on the profession.

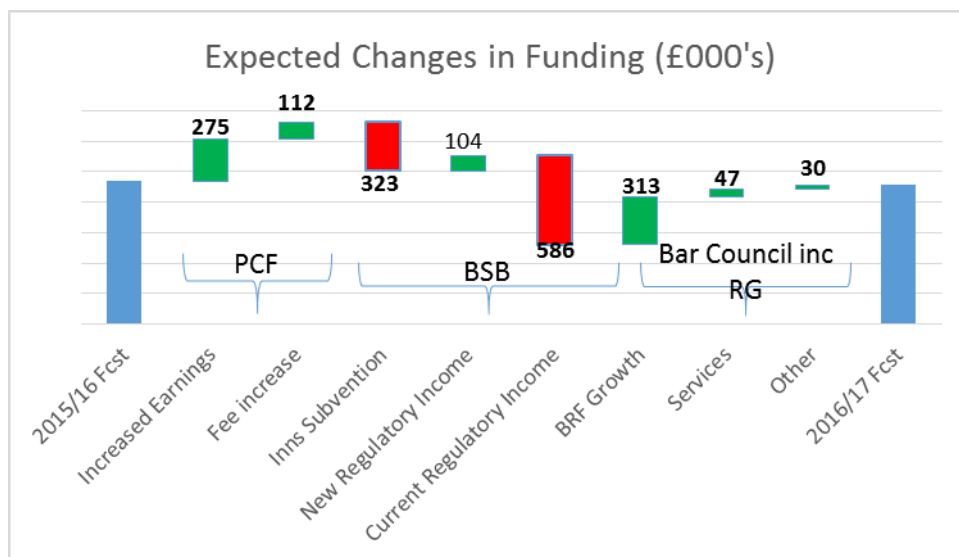
Over the next three years:

- We expect to see significant reductions in the level of non-PCF income to the regulator as their transformation to risk based regulation is completed. A large component of this comes from the change in the education training system and the reduced capacity for charges to students. Cost reductions will follow but will lag behind reductions in non-PCF income.

- We will maintain the current level of Representative activity and increasingly seek to fund it from surpluses earned from increased charges for services to members and from more barristers deciding to pay the Bar Representation Fee.
- We will complete a three year programme of investment into our systems and processes which on completion will reduce costs by £0.5m annually allowing us to rebuild reserves without significant rises in income.
- We expect small annual PCF rises to be necessary in each of the next three years but we will seek to keep these as small as possible, sufficient to ensure the organisation can meet its cash and P&L commitments over this time.

Following the planned £15.m expenditure on accommodation changes in 2018/19 we will begin to rebuild reserves towards normal levels. We expect to balance the budget over the three year period taking reserves and cash levels into account but in the first year expect a small deficit budget. 2016/17 is the first year of this plan.

### Changes in Funding 2016/17



The work of the Bar Council is funded by income from the compulsory PCF; from services and voluntary subscriptions collected by the representative side of the Bar Council; and from fees & charges collected by BSB.

PCF income is apportioned between the Bar Council and BSB on an agreed basis to ensure that the BSB has the resources it reasonably requires to meet regulatory costs taking account of income from other regulatory fees and charges. Income from services to members supports Bar Council representation activity only.

In 2016/17, we expect income of £14.1m, an increase of £141k (1%) on 2015/16's target.

- We aim to collect an additional £0.4m from PCF against the 2015/16 target. £0.3m of this is from earnings growth and £0.1m from an increase in PCF fee rates of 1.25%.
- The Inns' Subvention is expected to be £0.25m, down £0.3m on 2015/16. This is the last year for which we will receive this income.

- Regulatory Fees and Charges are expected to raise £0.95m, down 34%, £0.5m. Income from existing education activity will drop to £0.8m (down £0.6m, 41%) due to the effect of the ongoing downward trend in student numbers combined with the implementation of planned changes in Bar training activity. New income streams include fees from QASA and Alternative Business Structure applications.
- We plan to raise £1.1m from Bar Representation Fees. This is a significant increase on 2015/16, and will require continuing concerted efforts to increase the numbers paying this voluntary subscription.
- Charges for training events, services and conferences are expected to raise £1.1m, slightly up on this year's forecast. Overall net earnings (income after direct costs) from Services will provide a £0.7m contribution to representation activities.

## Operating Expenditure Budget

The commentary below describes the movements between these high level budget proposals and 2015/16 forecasts and references the chart below and the table and notes in Appendix 1. Expenditure budgets are described by Group (the vertical boxes labelled A through D in Appendix 1) and against the notes 7-11.

### Expenditure Budget Summary

We will reduce total operational spend by £220k but will invest most of this saving in the 2015-2018 Information Management project. Total overall revenue spend will reduce £17k.

Underlying regulatory and representative spend is lower than the 2015/16 forecast but shared support costs are increasing from the inward investment activity:

- Regulatory costs (including indirect overheads and a share of project costs) will decrease £87k;
- Representation activity costs (including indirect overheads and project spend) will increase £70k.

### BSB (Box A)

Total costs, before discretionary pay award provision of £77k (Note 8), are down 5% against 2015/16 targets.

Staffing costs increase £93k (A, Note 7) driven by the restructure and upskilling of the organisation. There will be a reduction in headcount from 80 to 77 and a reduction in the size of the senior management team. There will be significantly lower committee costs with the saving used to increase spend to access external expertise. Non-staffing costs reduce 30%, £365k (A, Note 9) from

- Effects of the Future Bar Training plans which streamline the delivery of Education and Training activity
- Reductions in the research and consultancy budget.

## **Bar Council representative activity (Box B)**

Bar Council representative activities include services to members, for both permitted and non-permitted purposes. Total costs (excluding the pay award provision of £44k) reduce 2.4%.

- Staffing costs (Note 7) reduce 1%, overall headcount will remain unchanged.
- Non staffing costs (Note 9) reduce 5%, £73k (led by better margins on events).

## **Resources Group (Box C)**

Overall costs remain in line with 2015/16 forecasts (before provisions for pay awards) allowing for:

- Staffing cost allowances reduce (from lower recruitment fees and temporary staff costs) whilst headcount remains constant (note 7).
- Non staffing costs (Note 9) increase slightly taking into account increased risk of further insurance premium rises, and additional software licensing from 2015 & 2016 application development.
- Facility costs increase slightly anticipating some service fee increases & small changes in depreciation costs (Notes 10 and 11).

## **Project Spend (Box D)**

This includes the projected revenue spend for the Information Management project launched in September 2015.

## **Allocation of Resources Group overheads**

Resources Group costs are allocated to the two operating Groups (and further split between Services and Representation) shown in our annual reports. We have provided an indicative allocation of spend. The allocation will be computed based on the detailed functional cost budgets determined in February 2016 (Note 12).

## **Funding non Permitted Purposes activities**

Representation activities include an element of non-permitted purposes costs which may not be funded by PCF. We choose to fund these through the surplus on Services activities. The cross funding support (Note 13) between Services and Representation functions is indicative as the final value is dependent on the detail of any non-permitted purpose activity carried out by the Representation functions and will be determined in February.

## **Reserves and Cash Levels**

We project an operating loss of £156k before DB pension charges. The FC determined in September that this level of earnings is acceptable in the context of a three year plan of small annual increases to PCF (provided future income and spend targets are met).

This result will reduce reserves at the end of 2016/17 to £3.1m.

The level of Free Cash grows by £0.3m (before pension charges) despite the operating loss, due to a favourable differential between capital investment and depreciation costs and an increase in deferred income.

### **Next steps**

Following review of the consultation responses, all operational areas will be instructed to prepare detailed operating budgets that meet the income and expenditure budget control totals. This process will include bringing together the financial plans and the operating plans to produce and publish the annual business plans that linking resources, activities and priorities for each of the Bar Council and Bar Standards Board.

The detailed financial plans will be brought to the Bar Council Finance Committee for review and approval in February 2016.

**David Botha**  
**Director of Finance**  
**November 2015**

# Appendix 1 – Bar Council Consolidated Budget Summary

## Bar Council Consolidated Flash Budget Summary

	2014/15 Actuals				2015/16 Est				2016/17 Flash Budget				Change F/(A)		
	Bar Standards Board	Services	RPS	Bar Council	Bar Standards Board	Services	RPS	Bar Council	Bar Standards Board	Services	RPS	Bar Council		Resources Group	Projects
PCF	5,863		3,641	3,641	5,826		4,059	4,059	6,754		3,687	3,687			10,441
Imns Subvention	804		0	0	573		0	0	250		0	0			250
Regulatory Fees &	1,611		0	0	1,429		0	0	947		0	0		947	
Bar Representation	1,053		1,053	1,053	864		864	864	1,177		1,177	1,177		1,177	
Services Income	1,026		148	1,174	1,088		0	1,088	1,135		1,135	1,135		1,135	
Other			0	0			0	0			0	0	130	130	
<b>Total Income</b>	<b>8,278</b>	<b>2,079</b>	<b>3,789</b>	<b>5,868</b>	<b>7,828</b>	<b>1,952</b>	<b>4,059</b>	<b>6,011</b>	<b>7,951</b>	<b>2,312</b>	<b>3,687</b>	<b>5,999</b>	<b>130</b>	<b>0</b>	<b>14,080</b>
Staffing Costs	4,169	437	2,229	2,666	4,191	795	1,709	2,504	4,284	748	1,735	2,483	1,521		8,288
Uplift									77	13	31	44	27		148
Non Staffing Costs	1,026	547	911	1,458	1,217	600	814	1,414	852	595	746	1,341	1,199	433	3,824
Facilities				0			0	0				0	1,416		1,416
Depreciation				0			508	556				0	560		560
<b>Total Revenue</b>	<b>5,195</b>	<b>984</b>	<b>3,140</b>	<b>4,124</b>	<b>5,408</b>	<b>1,395</b>	<b>2,523</b>	<b>3,918</b>	<b>5,213</b>	<b>1,356</b>	<b>2,511</b>	<b>3,867</b>	<b>4,723</b>	<b>433</b>	<b>14,236</b>
RG Cost	3,049	388	1,368	1,756	2,852	852	1,223	2,075	2,960	770	1,426	2,196	(4,723)	(433)	13,803
Cross funding			669				670				670				219,627
<b>Surplus</b>	<b>34</b>	<b>38</b>	<b>(50)</b>	<b>(12)</b>	<b>(432)</b>	<b>(965)</b>	<b>983</b>	<b>18</b>	<b>(222)</b>	<b>(484)</b>	<b>419</b>	<b>(64)</b>	<b>130</b>	<b>(433)</b>	<b>(156)</b>
<b>P&amp;L</b>															<b>(158)</b>
Reserves b/f									4,051						3,760
Pensions Charge									0						(493)
Surplus added/(loss)									(314)						(156)
Change of LSB Levy									23					0	0
Reserves c/f									4,051						3,111
<b>Cashflow</b>															
Operating Surplus															(156)
Deduct Capital Spend															(333)
Add Back															560
Depreciation															
Add Back Income															
Carried Forward															
<b>Free Cash Movement</b>															<b>293</b>
				computed value											

£134k PCF plus VAT recovery change (£111k)

Unused balance of 370k QASA income in Y1

Note 19

Note 18

Note 17

Note 16

Note 15

Note 14

Note 13

Note 12

Note 11

Note 10

Note 9

Note 8

Note 7

## Appendix 2

### **Permitted Purpose activities.**

Under the Legal Services Act 2007, income from the practising certificate fee (PCF) may only be used for 'permitted purposes'.

Permitted purposes are defined by s51(4) of the Legal Services Act 2007 and Rule C6 of the LSB's Practising Fee Rules 2009. Putting the two sets of statutory requirements together, the permitted purposes may be summarised as follows:

- The regulation of authorised persons
- Accreditation of authorised persons
- Education and training of relevant authorised persons including the maintenance and raising of professional standards and providing practical support about practice management
- The payment of a levy due under s173 of the Legal Services Act 2007 to pay part of the costs of the LSB, the Legal Ombudsman and part of any expenditure by the Lord Chancellor in related setting up expenses
- Law reform and related legislative process
- Enabling relevant authorised persons to carry on reserved legal services
- Promoting the protection by law of human rights and fundamental freedoms
- The promotion of relations between the Approved Regulator and relevant national and international bodies, governments or the legal professions of other jurisdictions
- Increasing public understanding of the citizen's legal rights and duties.