

SRA BOARD

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SOLICITORS REGULATION AUTHORITY
Minutes of the SRA Board meeting
held on 23 May 2019 at 12.30
at 24 Martin Lane, London EC4R 0DR

Subject to final approval by the SRA Board at its meeting on 17 July 2019

Present: Anna Bradley (Chair)
Sharon Darcy
David Heath
Peter Higson
Paul Loft
Barry Matthews
Geoff Nicholas
Dame Denise Platt
Chris Randall
Selina Ullah
Tony Williams
David Willis

In attendance: Paul Philip, Mark Draisey, Robert Loughlin, Jane Malcolm, Juliet Oliver, Julie Brannan, Chris Handford, Dominic Tambling

1 APOLOGIES

1.1 The Chair welcomed Board members to the meeting. Apologies had been received from Elaine Williams.

2 MINUTES OF THE MEETING HELD ON 6 MARCH 2019

2.1 The minutes of the meeting held on 6 March 2019 were approved as a true and accurate record.

3 MATTERS ARISING AND DECLARATIONS OF INTEREST

3.1 There were no matters arising that would not be covered elsewhere on the agenda and all actions due had been completed or were in hand.

3.2 David Heath was now Vice President of the Frome Agricultural Society. Sharon Darcy was no longer a member of the Council of the Consumers' Association but is now a member of the Public Policy Committee of the British Academy. Interests were otherwise as previously declared and available to view on the SRA website. Members would declare any additional particular interest in an individual item if necessary.

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4 CHAIR'S UPDATE

- 4.1 The Chair thanked Board members for their contributions to the workshop discussion that morning on the development of the Corporate Strategy 2020–23 which had focused on reviewing a draft strengths, weaknesses, opportunities and threats (SWOT) analysis. The Board had also begun to identify key considerations and potential areas of focus for developing our next strategic objectives.
- 4.2 This followed on from the discussion at the Board's April away day at which it undertook a 12-year horizon scan focusing on three categories: political, economic and technological. To inform discussion the Board had received thought provoking presentations from: Robert Bourns, Chair of the Law Society's Board; Vicky Pryce, Chief Economic Adviser and Board Member, Centre for Economics and Business Research; and Chris Gorst and Harry Armstrong from the National Endowment for Science and the Arts (NESTA).
- 4.3 The Board had also begun to consider the potential impacts of the key factors identified on the legal sector and its regulation and building on this work, the Executive had produced the SWOT analysis which also covered social and environmental developments, which ran through many of the discussions at the away day.
- 4.4 The Executive would now work up a first draft of a strategy on this basis for consideration at its 17 July 2019 meeting and then again at its September meeting, ahead of full public consultation ahead of publication in spring 2020.
- 4.5 The Chair went on to report that the Board workshop also covered how best to ensure that it was accountable and transparent in its work, building on the strong track record of publishing more information, for example the Annual Review and details of waivers granted, as well as future commitments such as the digital register and a report on first-tier complaints. Options included the publication of a wider suite of KPIs, more information on how the Board makes decisions and potentially more immediate and fuller coverage of Board meetings. This would also align with the Legal Services Board's planned review of transparency across all the legal regulators. Some changes, including the publication of fuller minutes of Board meetings, would be introduced immediately but further recommendations would be developed and put to the Board in the near future.
- 4.6 The Chair also reported on external meetings she had had since the previous Board meeting, including with Lucy Frazer MP who was then the Parliamentary Under Secretary of State at the Ministry of Justice, Lord Thomas of Cwmgiedd and Bob Neill MP, Chair of the Justice Select Committee.

5 COMMITTEE CHAIR REPORTS

- 5.1 The Chair noted that the Board had received written updates from the Chairs of each of the three Board committees, and invited questions from Board members on these.

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- 5.2 The Chair of the Finance and Audit Committee noted that the key items discussed at its most recent meeting on 7 May 2019 were dealt with in the CEO report at item 6 and in the finance items at 7 to 9.
- 5.3 The Chair of the People Strategy Committee reported that at its most recent meeting on 4 April 2019 the Committee had reviewed a number of HR policies. The Board noted that the Committee had also received an update on the staff networks and it was agreed that Board members would act as sponsors for these.
- 5.4 The Chair of the Policy Committee reported that at its most recent meeting on 10 April 2019 the Committee had considered a number of issues including the Solicitors Qualifying Examination (SQE), continuing competence, the implementation of Standards and Regulations and advocacy. A proposal to consult on the last of these issues would be brought to the July Board meeting.

6 CHIEF EXECUTIVE'S REPORT

- 6.1 The Chief Executive Officer said that there were three matters in his report which required decision by the Board. Firstly, the Board was asked to agree to the appointment of Tom Fothergill, Chief Operating Officer at the Law Society, as a Director of the Solicitors Indemnity Fund Limited (SIFL) for a further period of five years. The Board agreed and also noted the appointment of Mark Draisey as a Director of SIFL, which had been delegated to the Chair at the 6 March 2019 Board meeting.
- 6.2 The Board also agreed to delegate authority to the Chair to agree to make any changes needed to the Standards and Regulations and associated commencement orders.
- 6.3 The Board was also asked to agree a small change to an application which had been made to the LSB for approval of changes to our Compensation Fund and Professional Indemnity Insurance rules which implement the changes required to address new ways of practising permitted under the new rules.
- 6.4 The LSB had raised a number of queries on these and was due to make a decision by 3 June 2019. One outstanding query related to grounds for making a claim for funds belonging to a client.
- 6.5 In relation to freelancers, we proposed, given the limited nature of their practice, that this would and should relate simply to the client money they are entitled to hold i.e. fees and disbursements. Any other funds taken or misappropriated dishonestly would be covered under that ground. The LSB would like this to include any other categories of loss of client monies. For example, where the solicitor mistakenly holds money they are not entitled to hold, and then this gets paid out to a third party incorrectly.
- 6.6 The Executive believed that the risk to the Fund from including this was limited and the current arrangements do give rise to an inconsistency in the protections

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available which others might find hard to understand. The Board was therefore asked to agree that we make a slight change to the rules to bring the two in line, and that this change is signed off by the Chair. The Board agreed.

- 6.7 The CEO also reported on a number of issues for noting. These included preparations for the new Standards and Regulations, which were going well, and the publication of our anti-money laundering (AML) thematic report on Trust and Company Services work and an associated warning notice, and other AML related initiatives.
- 6.8 Board members noted the publication of the Solicitors Disciplinary Tribunal's (SDT) response to its consultation on the making of procedural rules in relation to applications to the Tribunal. The Board welcomed the Tribunal's intention to move away from applying the criminal standard of proof to the cases it hears in favour of the civil standard of proof.
- 6.9 The CEO also reported on progress on the Modernising IT Programme and noted the reset of our relationship with the contractor for the delivery of our regulatory systems. The Executive also confirmed that regular assessments were made on progress, so that resources could be allocated appropriately, and that work on website migration and the development of a digital register were on track.

7 SRA DRAFT BUDGET 2019/20 AND NET FUNDING REQUIREMENT

- 7.1 The Board was asked to consider the draft budget for 2019/20 for SRA costs to inform the net funding requirement (NFR) for 2019/20.
- 7.2 The draft budget and NFR had been considered by the Finance and Audit Committee at its meeting on 7 May 2019. The Committee had undertaken extensive due diligence on the proposed budget and NFR including on: the underlying assumptions for on-going and recurring costs and changes to those costs; new areas of work not previously undertaken and impact of projects; the impact of the overall NFR on the PC fee, and was content to advise the Board to agree them.
- 7.3 The proposal for SRA expenditure for 2019/20 showed a reduction of £0.3m from the current year. Significant variations from this year's budget included additional provision for costs of staff undertaking AML work and from the transfer of shared services staff, on IT charges, and on a reduction in the charge to the Compensation Fund.
- 7.4 In response to questions from Board members the Executive confirmed that discussions on the Law Society's funding requirements took place in advance of the setting of our draft budgets and thus the overall proposals for the NFR.
- 7.5 The Board approved the draft 2019/20 budget for SRA costs to inform the net funding requirement for 2020. It also agreed to delegate any necessary material amendments to the Chair and CEO prior to submission to the Business and Oversight Board.

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7.6 The proposed PC fee would now be the subject of a public consultation run by TLS and the Group NFR would be put to the Business and Oversight Board on 28 June 2019 and then to the TLS Council for approval on 4 July 2019. The Board would then be asked to confirm PC fee levels at its meeting on 17 July 2019 before submission to the Legal Services Board for approval. The final budget for 2019/20 would be put to the Board for approval at its meeting on 22 October 2019.

8 COMPENSATION FUND CONTRIBUTION FOR 2019/20

- 8.1 The Board was asked to consider what the level of Compensation Fund contributions for 2019/20 should be. The proposal was for a reduction from the contribution levels in the current year.
- 8.2 The Finance and Audit Committee (FAC) considered the proposed contributions at its meeting on 7 May 2019. It undertook extensive due diligence on the proposed contributions and in doing so had regard to a number of factors including: the Board's established approach to the management of the Fund and contribution setting; the operational performance of the Fund during 2018/19 including the number of interventions that we carried out; and the Executive's assessment of current and immediately proximate claims, including high-value claims.
- 8.3 FAC received periodic reports on high value cases which could have a significant impact on the Fund and so could reassure the Board that these had been considered in detail and would be kept under review. The Committee had also considered the impact of the proposed reforms to professional indemnity insurance and the Compensation Fund. The Committee had agreed the proposed contributions for 2019/20 and noted that this will form background information in the TLS consultation on the PC fee which is about to begin (item 7).
- 8.4 The Board agreed to set the contributions to the Compensation Fund for 2019/20 at:
- Individual Contribution £60 (2018/19 - £90)
 - Firm contribution £1,150 (2018/19 - £1,660).

9 COMPENSATION FUND 2018 FINANCIAL STATEMENTS

9.1 The Board was asked to consider the Compensation Fund 2018 Financial Statements, Letter of Representation and Statement of Disclosure for the year ending 31 October 2018. The annexes to the paper included a number of pieces of evidence as to assurances that had been obtained including: substantive testing performed by Deloitte as internal auditors on grant payments; residual balance recoveries, grant recoveries via subrogation; and grant recovered from defaulting solicitors. The Committee has also requested confirmation in writing from the Executive, as additional assurance, that it was not aware of anything that would prevent the SRA from agreeing to the statements in the letter of representation and this had been provided.

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9.2 In response to questions from Board members it was confirmed that:

- i. Board members were not aware of any non-compliance with laws and of fraud or allegations of fraud, that the Executive had not advised the Board of any such instances, and the Executive was not aware of any such instances.
- ii. The Executive was not aware of any post-balance sheet events. It was confirmed that the level of materiality was very low, as the fund operated on a cash basis.
- iii. The Executive was not aware of any claims against the Fund for its operation (as opposed to claims for compensation from the Fund itself).
- iv. That the evidence in the paper and assurances given by the Executive were sufficient to enable the Board to agree to the final sentence of the Letter of Representation confirming that each member had taken all the steps that they ought to have as an SRA Board member in order to make themselves aware of any relevant audit information and to establish that they were aware of that information.

9.3 The Board agreed the Compensation Fund 2018 Financial Statements and Letter of Representation.

9.4 On a related matter, the Chief Executive stated that he had been asked to provide a Letter of Representation to the TLS Board on the SRA accounts for the previous financial year, which was almost identical to that which the Board had agreed in relation to the Compensation Fund. The TLS Board would then rely on this in providing a similar Letter of Representation to the auditors on the Group accounts. This varied from the previous arrangement where the SRA Board and TLS Board would each provide such a letter to the auditors.

9.5 The Board noted that the Finance and Audit Committee had considered the Group financial statements at its meeting on 7 May 2019 and noted that the CEO would sign the Letter of Representation.

10 DELIVERING THE SOLICITORS QUALIFYING EXAMINATION

10.1 The Board was asked to consider models for delivery of the SQE. A key priority for the implementation of SQE was to keep the cost to candidates as low as possible, in line with the commitment to widening access to the profession, and the Board had exploratory discussions as to how this might best be achieved.

11 ANY OTHER BUSINESS

11.1 The Board discussed the new meeting structure which had been used for the first time, including the introduction of a substantial workshop session on the morning of each meeting, and agreed that this had been helpful. As noted under the Chair's

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report, further recommendations on accountability and transparency would be brought to a meeting in the near future.

11.2 The Chair thanked Board members. There was no other business. The Board would next meet on Tuesday 16 and Wednesday 17 July 2019 at The Cube, 199 Wharfside Street, Birmingham BR1 1RN