



The Law Society

**The Law Society**  
Consolidated Report and Financial Statements  
31 December 2007

*financial*  
**report 2007**

# Contents

Reports from the president and the chief executives	3
Council's report and statement of the Council's responsibilities	9
Independent auditors' report to the members of the Law Society (the 'Society')	15
Consolidated income and expenditure account: Year ended 31 December 2007	16
Consolidated statement of total recognised gains and losses	16
Consolidated balance sheet: 31 December 2007	17
Consolidated cash flow statement: Year ended 31 December 2007	18
Notes to the consolidated cash flow statement: Year ended 31 December 2007	19
Notes to the accounts: Year ended 31 December 2007	21

# Reports from the president and chief executives

This report covers the Law Society's financial year from January 2007 and looks at the activities of the Law Society group made up of the representative Law Society and central services, the Solicitors Regulation Authority, the Legal Complaints Service, the Solicitors Disciplinary Tribunal, Solicitors Indemnity Fund and Legal & Professional Claims Ltd.

## President's report

2007 was a pivotal year for the Law Society as our new chief executive, Des Hudson, helped us really get to grips with our new mission. I took over as president from Fiona Woolf in the middle of that year and must stress how much the profession owes her as a result of her diligent and robust work with government on the development of the Legal Services Act.

### A new regulatory framework

As early as 2006 and in anticipation of the Act, the Council of the Society delegated regulation to an independent board of the Law Society, the Solicitors Regulation Authority (SRA), which has a majority of solicitor members. But the SRA remains accountable to the Council for the discharge of its regulatory responsibilities and the Council has the power to change the SRA framework as it sees fit within the limits of the Act.

As a result of those changes and the work of the Society team on the developing legislation, we have safeguarded profession-led regulation. Under the new arrangements the Society will be the approved regulator of solicitors. A key task of my year as president has been to ensure that those arrangements are working as the Council intended and this will be kept under constant review. The Board of the SRA agree that some adjustments are needed based on our experience of the first two years of the SRA's operation.

As the provisions of the Act begin to be implemented, we are working hard to establish a positive working relationship with the fledgling Legal Services Board (LSB), the oversight regulator of all legal services. The clear circumscription of the LSB's powers and explicit commitment by the government to light touch regulation were both key successes for the Society during the passage of the Act.

### Supporting solicitors

The delegation of regulatory responsibilities has sharpened the focus of the Society as a representative body in promoting and defending our members' interests. That means ensuring that the regulatory and legislative environment for legal services fosters innovation, respects and enhances our professional values and helps solicitors meet clients' needs effectively whether we are in-house

or in private practice. The Society is also working hard to improve the quality, breadth and relevance of information, services and support of immediate practical benefit to solicitors day to day.

The chief executive of the Law Society Des Hudson reports on page 4 on the overall financial picture of the Law Society group and on page 6 on the work of the representative Law Society.

### Managing the cost of regulation

The Act brings in some very sensible rationalisation in the regulation of legal services, but the work of regulation and the oversight arrangements will continue to be funded by the professions. As the largest legal profession in England and Wales by far, the majority of the financial burden falls on solicitors and we are working with the Ministry of Justice to ensure that those costs are proportionate.

We have also to ensure that, while the SRA is able to fulfil its functions effectively, its funding base is reasonable and does not place an unwarranted burden on the profession.

Antony Townsend, chief executive of the Solicitors Regulation Authority, reports at page 7.

### Handling consumer complaints

As part of the new arrangements, a new central body is being created to handle consumer complaints relating to all legal service providers. The functions of the Society's Legal Complaints Service (LCS) will be rolled into a new Office of Legal Complaints (OLC) along with the complaints handling arms of the other professional bodies such as the Bar Council and ILEX.

Deborah Evans, chief executive of the Legal Complaints Service reports on its work at page 8.

### My work as president

Elected by the Council from amongst its members, the president of the Law Society steers the Society's strategy.

My personal emphasis has been on promoting the excellence of the services provided by our profession. I initiated the first annual Excellence Awards in October 2007 and as I write I am in the middle of a campaign to explore and promote how our professional ethics underpin the very best of modern legal practice. We are also running a national advertising campaign promoting services provided by solicitors to private clients. Representing the profession at meetings and events around the world, I promote England and Wales as the jurisdiction of choice for the resolution of commercial disputes, while at home we fight the profession's corner on issues as diverse as the retention of privilege for in-house lawyers, the legal aid system, the changing small claims process and of course the development of entity-based regulation.

My successors as president, Paul Marsh (from July 2008-09) and then Bob Heslett (from July 2009) both plan to continue and build on this work. Their emphasis will be law as a business because the provisions of the Legal Services Act enabling new models of practice begin to come on stream during their presidencies. Paul and Bob will be helping the profession understand the possibilities and challenges that arise and develop strategies to meet them.

Most importantly, all of us on Council and within the Society are committed to stronger and more open communications with our members so that we can be sure that we are meeting your needs and reflecting your concerns.

## The Law Society group

*Report by Des Hudson, chief executive*

The Law Society is chiefly funded by the profession through the practising certificate fee which meets the costs of regulation and complaints handling as well as the Society's public interest work on law reform issues.

We are committed to reducing reliance on the practising certificate (PC) fee income through increasing commercial income and improving the efficiency of our operations. In 2007 we reduced the level of the PC fee to £950 from the 2006 level of £1020. In 2008 we will be considering very carefully the appropriate level of contribution to the Compensation Fund given the current level of reserve. Any decision to reduce that contribution from its 2007 level of £300 will need to take account of the challenging economic environment we are now in and the likely effect on firms. Full details of the Compensation Fund are available as a separate set of accounts.

To improve efficiency, we had already taken steps to bring the Society's pension liabilities under control by closing the final salary scheme to new members. Now we have amended the terms of the scheme for existing members to ensure that it does not overburden the Society's finances. Further changes will be introduced in 2008 following consultation with staff.

## People

The Society's staff are its most important assets and account for 52% of our total expenditure. During the year there was a reduction in staff costs of 4.7%. The average number of full time posts reduced by 51 positions in the year following a reorganisation of our IT support function. Staffing levels will continue to change as we review our resourcing needs in the light of changing priorities. Elsewhere we have undertaken reorganisations to sharpen our focus on supporting solicitors in their day to day work and there will be more

adjustments to come to ensure that we are responsive to our members' needs and providing relevant services.

To improve effectiveness and efficiency, in 2007 the Society spent £540,000 on people development training activities including performance and personal development management programmes covering communication, influencing and coaching skills as well as equal opportunities training. In addition, the Society has spent in excess of £600,000 on technical and specific job related training.

## Diversity and equal opportunities

The Law Society is an equal opportunity employer. Our programme of equality and diversity work also aims to help the profession in addressing the challenges of recruiting and retaining the best talent regardless of their background. In 2007 the Council established a new equality and diversity committee to coordinate work across the representative Law Society, the SRA and LCS.

## Looking ahead

In 2008 we have already introduced further cost control measures by consolidating all the Society's print functions in the Midlands and closing the London print room.

During the remainder of the year we will be consulting with staff on the introduction of a performance related pay scheme and a revised pension scheme. This will introduce a more sustainable approach to remuneration more closely aligned with market norms.

Greater efficiency is especially important in light of the changing economy which is likely to result in reduced income from, for example, advertising revenue.

## Reducing our environmental impact

In 2007 the Society committed to an Environmental Management System (EMS) which will seek to reduce continually the impact of our operations on the environment and ultimately achieve carbon neutrality by 2011. In order to demonstrate tangible progress of our EMS, we have adopted the phased implementation system recommended by the Acorn Scheme and will apply for accreditation under the quality standards for environmental management systems of the Acorn Scheme BS8555 and ISO14001.

Our progress will be measured against a series of set targets and will be published in regular reports on our website. However our achievements to date include:

- Energy efficiency measures which have resulted in a total saving of 953,392 kWh or 410 tonnes of CO<sub>2</sub>, and a saving on our baseline for energy consumption of 18%.

- A pilot project using 'green' energy at our smaller sites with a view to tender for green energy options prior to the existing energy contracts for the main sites expiring in November 2008.
- The amendment of our procurement procedures for tenders to include an environmental statement and, as relevant, specific EMS requirements.
- The initiation of a programme to reduce the use of water through better control e.g. fitting percussion taps and dual flush toilet cisterns.
- Installation of drinking water filtration and carbonation equipment to provide a 'green' bottled water product for meetings and hospitality at our main site.
- The establishment of a staff led 'Go Greener Group' to support internal communication of the EMS and environmental issues and educate and influence staff.

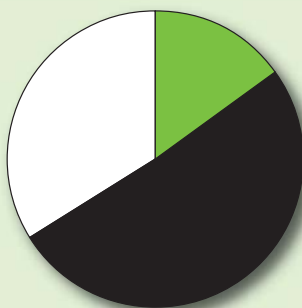
## Financial review

### Operating results

#### Practising Certificate Fee 2006/7

PC fee 2006/7: £1,020

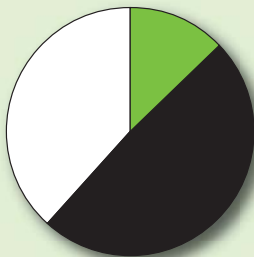
- The Law Society: £155
- SRA: £520
- LCS: £345



#### Practising Certificate Fee 2007/8

PC fee 2007/8: £950

- The Law Society: £122
- SRA: £466
- LCS: £362



The reduction in income from the practising certificate fee contributed to the reduction in surplus from £30.4m in 2006 to £10.0m in 2007. However, the major reduction related to Solicitors Indemnity Fund.

Despite the drop in the practising certificate fee, total income only reduced from £127.2m in 2006 to £126.3m in 2007, being maintained by a 4% increase in other income, including Gazette advertising revenues, which rose from £22.6m to £23.5m.

Overall, the cost of operating our offices was down 22% on the previous year.

However, despite some significant reductions in expenditure in computer charges, printing and stationery, postage, telephony and general administration expenses, total expenditure increased from £118.9m to £123.7m. This was due to increased legal and professional fees relating to the Society's work defending Legal Aid, costs caused by provision for the miners' compensation claims, an impairment charge of £2.6m relating to software licences and an increase in irrecoverable VAT and taxation of £2.7m. In addition the recoveries of administration expenses from the Compensation Fund were £2.9m lower in 2007 than in the previous year.

### Consolidated balance sheet

The balance sheet remains strong. Accumulated reserves stood at £34.9m, up from £29.4m in 2006.

### Pensions

The Law Society provides a final salary pension scheme for employees who joined before 1 January 2005. For staff joining after that date, a defined contribution stakeholder arrangement is in place.

Despite operating more prudent pension assumptions, the funded pension liability reduced from £12.4m to £9.9m. However this does not reflect the actuarial position of the scheme and in anticipation of finalising the triennial valuation, the Trustees have made an informal demand for a further £40m contribution.

The last actuarial valuation of the scheme was at 31 December 2004 which indicated a deficit of £71.8m. The actuary is currently performing his triennial valuation although the results are not expected until later during the year. However, the Society has revised its mortality assumptions and adopted the long cohort mortality tables for its FRS17 calculations in advance of the formal actuarial valuation.

In addition to the schedule of contributions, the Society has made two special contributions of £25m in 2005 and 2006 and made a further commitment to pay special contributions of £20m over a period of 5 years. Payments of £12m (being the £8m reported last year and further contributions this year of £4m) have been made so

far and two further payments of £4m per annum will be made before 2010. In July 2007 the Trustees made an informal demand for a further £40m in advance of the formal valuation process.

In common with other organisations the Law Society is taking steps to manage its exposure to the increasing cost of defined benefit schemes. In 2007 following consultation with staff, the Society reduced the accrual rate for the defined benefit scheme. Further changes to remuneration and pensions will be the subject of consultation in 2008.

## Professional indemnity insurance

Solicitors Indemnity Fund (SIF) administers the Society's former professional indemnity business. Now in run-off, SIF's accounts are consolidated with those of the Society. Under the Solicitors Indemnity Rules 2007, the Society is empowered to require SIF Ltd to release to the Society any part of the Fund which is surplus to indemnity requirements, such sums to be used for providing indemnity or otherwise for the overall benefit of the solicitors' profession in such manner as the Council may decide. The chief executive of SIF Ltd advised the Society that the fund would have a surplus of £1.5m at the year end. Accordingly, in November 2007 the Council directed the Fund to pay the identified surplus to the Society, to be applied in accordance with the rules. It is anticipated that further payments will be made in the future.

In July 2007, SIF transferred its shareholding in Solicitors Indemnity Fund Operations Limited to the Society. At the same time, the name of the company was changed to Legal and Professional Claims Limited (LP Claims). LP Claims provides SIF with administrative and claims handling services in respect of the run-off of the Fund. The company will publish its own accounts for 2007.

## Property

The Society holds the freehold to a number of properties in London, Redditch and Leamington Spa. During the year the value of the property portfolio decreased by £2.9m largely due to a decrease in the value of commercial properties in London and the Midlands.

The open market value of 113/114 Chancery Lane was £18.5m, a decrease of £2.6m. The open market value of Carey Street is £2.2m. The open market value of Victoria Court, the premises currently occupied by the LCS, is £2.7m, and Ipsley Court, occupied by the SRA and support services, £3.4m.

The Library collection has been valued at £3.2m, although the value reflected in the accounts is zero.

We have committed to no new major leases in 2007.

## Capital expenditure

During the year the Society invested £1.7m in equipment, furniture and computers of which £1m relates to two projects - the implementation of a case management system for the LCS and the implementation of a membership database for the Law Society (representation).

The Society has been looking at the way it implements its significant IT change management programmes and invests in the infrastructure which forms part of its long term IT strategy. As a result it has had to make some fairly difficult decisions with respect to the programmes that were underway, to determine whether they were fit for purpose. The Board decided to impair the value of the software relating to the case management project, Visual Files, and an earlier programme of changes to the way the Society kept in contact with its key stakeholders called Programme Engineer. An impairment of £2.6m is included in the Society's administration expenditure as noted above.

## IT strategy

The Society began a review of its group IT strategy earlier this year led by the chief executive of the Law Society in consultation with the chief executives of SRA and LCS. Significant improvements are needed to the Society's ability to deliver change management programmes successfully. The current interim IT director is implementing a strategy that aims to deliver value for money solutions that are fit for purpose for the businesses in which we operate. This means that we will exploit group wide synergies where there is a common purpose or data, focus on customer requirements and improve project governance.

# The representative Law Society

*Report by Des Hudson, chief executive*

## Supporting solicitors

The Council of the Law Society has set itself clear objectives to be achieved by the end of 2010.

They are that:

- the **public** regard solicitors as the first, natural choice for legal advice and assistance above all other providers.
- **business** at home and around the world views solicitors qualified in England and Wales as the pre-eminent legal advisers and trusted business partners, with English law as the jurisdiction of choice for contracts and dispute resolution.
- **policy makers and the public** view the Society as a leading and trusted authority on all legal issues and a significant leader in civil society.



- the **government and the profession's regulators** view the Society as the authentic voice of the entire profession.
- **solicitors** consider the Society to be the most important representative organisation for them, delivering relevant practical support throughout their careers and a leading voice on the business of law.

## Achievements in 2007

2007 marked the start of major changes at the Society to ensure that we can meet those objectives of helping, protecting and promoting solicitors. We began to reshape the Society as a modern and responsive representational professional body. This meant changes to resourcing, management structures, governance and general organisation to ensure that we are meeting our members' needs efficiently and accurately. Accordingly, I have set five business priorities for the Society to underpin the achievement of the Council's objectives. They are to:

- improve value for money for our members
- increase the relevance of services we deliver for our members
- build a sustainable future for the Society by reducing our dependence on the practising certificate fee
- increase our status and influence with government and other key stakeholders
- improve organisational capability and performance

The introduction of segmented web-based services and the launch of products such as Practice Notes are the early fruits of our sharper focus. That focus is also evident in our robust *What Price Justice?* campaign and the wider work to defend Legal Aid as well as our intervention in the AkzoNobel case, where we aim to protect the legal professional privilege of in-house lawyers.

Despite a challenging commercial environment we intend to increase the already very considerable profits from our commercial services such as Gazette advertising, publishing, sponsorship and training and events. This income is used to keep to a minimum the funding that we need to seek from the practising certificate fee. Making sure our staffing structure reflects what we need to do to support our members also helps to ensure we are delivering value for money.

## Representing all our members

The profession we serve is diverse in many senses. Solicitors work in a range of different types of practice and have a myriad of specialisations. Our new emphasis on relevance of services and listening to our members helps us to meet the

challenge of supporting them wherever and however they work.

But the profession is also ethnically and culturally diverse and this presents challenges for the Society and the profession to overcome together. Over 10% of solicitors are from a black or minority ethnic background and their pay lags behind that of white solicitors. More and more solicitors are women (43.4% of the profession in 2007) but their pay lags behind that of men. A 2006 survey of gay and lesbian solicitors found instances of discrimination.

In 2007 we used the Society's influence to ensure that the impact on black and minority ethnic law firms and clients of changes to legal aid provision was considered by the Legal Services Commission. We maintained the pressure on the Judicial Appointments Commission to address effectively the lack of diversity in judicial appointments. We undertook the Great Quality of Life debate which sought to address issues of staff retention, work/life balance and flexible working and made an Excellence award for achievements in equality and diversity. And we established an equality and diversity committee to steer the Society's work with the profession.

Feedback indicates that members began to appreciate the changes we are making. In July 2006, 57% of solicitors polled were proud to be associated with the Society, but by July 2007 this figure increased to 66%. In July 2006 53% of solicitors said that the Society understands the pressures they face and that percentage increased to 62% by July 2007.

## The Solicitors Regulation Authority

*Report by Antony Townsend, chief executive*

The strategic objectives of the Solicitors Regulation Authority's Board were first published in 2006.

## Setting the standards

- To set standards for entry to the profession, professional behaviours and continuing professional development so as to maintain and enhance the competence, performance and ethical conduct of solicitors and uphold the rule of law
- To set standards for organisations offering legal services.

## Support and monitoring

- To provide information, advice and support to solicitors and organisations to help them comply with the standards set
- To operate processes to monitor compliance with standards, so as to identify cases requiring remedial, investigative or other regulatory action

- Consumer protection, enforcement and discipline
- To protect consumers by ensuring effective professional indemnity and Compensation Fund arrangements
- To tackle unacceptable professional or organisational performance, misconduct and dishonesty by firm, fair and timely regulatory and disciplinary action

## Access to justice, transparency and consumer information

- To promote choice, innovation and accessibility in the provision of legal services through various types of business structure
- To provide information to help consumers to make decisions about legal services and to understand the standards they are entitled to expect

## Achievements in 2007

In 2007, the SRA launched the new Solicitors Code of Conduct, which takes a principles-based approach rather than the old, prescriptive rules-based approach. To continue the work of moving regulation forward, we consulted on new principles to underpin regulatory decision making and piloted a new process for the identification and assessment of regulatory risks. The risk-based regulation will help us to target our efforts more effectively and so become more efficient.

We also began a strategic programme of initiatives and consultations with the objective of rationalising the quality assurance framework for solicitors throughout their careers.

We worked with the Department of Constitutional Affairs/Ministry of Justice, in co-operation with the Law Society and the Legal Complaints Service where appropriate, to improve the provisions of the Legal Services Bill, and lay the groundwork for the regulation of new forms of legal practice.

To support our engagement with the profession, we ran a number of roadshows to present the work of the SRA and take questions.

## Business changes

The evolving regulatory task and the wish to take advantage of new management tools meant that in 2007 we needed to establish a managed change programme covering the reform of business processes and structures and the introduction of new IT. During 2007 we completed the reorganisation of SRA into eight new directorates and appointed the relevant management teams. Business plans and measures were developed and these are being followed for each directorate.

These steps have helped to improve productivity and deliver efficiency savings. For example the call centre handled 600,000 calls in 2007 compared with 501,000 in 2006, an increase of 20%; average

headcount in the contact centre increased by only 14%. Further, costs have been contained or reduced in several areas of the business. Overall the business delivered a saving of £1.1m, against a net budget of £24.6m.

## Principal risks and uncertainties

The SRA Board has identified a number of risks to our ability to deliver essential business change and develop our operation in accordance with the requirements of our strategic objectives. These include risks posed by lack of clarity in the current governance arrangements between the Law Society and SRA, which we are working on with the Law Society; by the fact that the Legal Services Board has yet to develop criteria for regulation; by reliance on legacy IT systems and inherited organisational culture; by inability to manage and meet the expectations raised by the introduction of entity-based regulation; and by our limited capacity to forecast future trends in legal services.

The management of these risks has been built into the SRA's key deliverables for 2008.

## The Legal Complaints Service

*Report by Deborah Evans, chief executive*

## Development and performance

The Legal Complaints Service Board has set a three year improvement agenda with three strategic objectives:

- Improving our services at LCS;
- Informing customers; and
- Raising standards in the legal profession through sharing information.

## Achievements in 2007

Stretching targets had been agreed with the Legal Services Complaints Commissioner for the year 2006-07, in particular that by year end there should be no files in excess of 12 months old. The LCS's performance has now reached levels that compare favourably with other complaints handling organisations.

We undertook an awareness raising exercise in Rother Valley in conjunction with a local MP, Kevin Barron, to explain to former miners that they could use our service should they have suffered an inappropriate deduction by their solicitor under the then DTI's compensation scheme. The pilot was very successful with 10% of all miners contacted pursuing their complaint and there are now plans to carry out further awareness raising in 2008.

The LCS also continued its investigation into publishing solicitors' complaints records and have



now begun a public consultation on the proposals. Should the Board make the decision to publish complaints, this could change the approach of solicitors to complaints resolution and impact on the number of complaints received. However, we will be listening very carefully to the views of clients, consumer organisations and solicitors on the detailed proposals.

LCS undertook a management restructure to ensure that the appropriate posts were in place. As a result of this a risk manager was appointed for LCS to improve the organisation's risk awareness and management. A sub-committee of the Board was also developed to look at risk across the business. Before that group could begin its work, our offices were flooded in July when the River Leam burst its banks, but a quick disaster recovery operation minimised downtime.

## Planning for launch of the Office for Legal Complaints

Work towards the establishment of the new Office for Legal Complaints that will handle consumer complaints across the legal professions has begun. Our key concerns are of course continuity of service as responsibilities are handed over in 2010 and the set up and running costs of the new operation. One of the aims of the Legal Services Act is to ensure that redress is easily understood and accessible. We are committed to making sure that consumers are not confused as the changes to the legal services market begin in advance of the inception of the OLC.

We are also aware that a smooth and well-planned handover to the Office for Legal Complaints is very important so consumers can continue to access redress easily - and so that solicitors know how any complaints against them will be handled and by which organisation. We are working closely with the Law Society and the Ministry of Justice to make sure that our expertise in handling complaints informs the creation of the OLC, and that our experience of working with consumers and solicitors helps make the handover from the LCS to the OLC as smooth as possible for the people that use our service.

## Council's report and statement of the Council's responsibilities

### The Law Society's role

Historically, the Law Society has combined responsibilities for both regulating and representing solicitors in England and Wales. The Law Society remains a single legal entity and will be an Approved Regulator under the terms of The Legal Services Act 2007 (LSA). The Council delegated its regulatory functions (insofar as legally possible) to

the Solicitors Regulation Authority (SRA) and the Legal Complaints Service (LCS) in January 2006, while retaining overall responsibility for ensuring that the regulatory functions are carried out effectively and in accordance with the principles of better regulation.

The Law Society has overall responsibility for ensuring the regulatory responsibilities are carried out effectively as well as being directly responsible for the promotion of the interests of the profession and for promoting law reform; the SRA has delegated responsibility for the regulation of solicitors, and the LCS has delegated responsibility for dealing with consumer complaints. Each of the three organisations has its own chief executive.

The Council of the Law Society is an elected body of solicitors. The solicitor and lay members of the Board of the SRA and of the Board of the LCS were appointed in accordance with best practice for public appointments ('Nolan principles'). No-one may be a member of the Council and of the regulatory boards at the same time.

## The Combined Code

The Society is incorporated by Royal Charter. This means that the Combined Code on Corporate Governance is not strictly applicable to the Society. The Society is committed to the principles of good corporate governance and has agreed that it should comply or put in place steps to comply whenever it is appropriate and practical to do so given the Law Society's status as a chartered corporation.

The Council is continuing to make adjustments where it is appropriate to bring the Society's practice more in line with the Code. The following paragraphs explain the Society's approach in relation to the Combined Code's main sections, and the areas of non-compliance.

## Strategic management

The Society's governing body is the Council. The Council maintains strategic oversight but delegates most corporate functions to the Management board ('the board'). There are three other operating boards covering regulatory affairs, membership activities and legal policy.

In practical terms, for the purposes of the Combined Code, the Board is the nearest equivalent of a plc board of directors. The Society's two-tier governance model (Council/boards) provides an alternative framework of checks and balances to that which the Combined Code envisages through independent, non-executive directors. There is no equivalent of a senior independent, non-executive, although the Council members on the boards do not have executive functions. The unrestricted right of Council members to table motions to Council has been and continues to be an alternative means of ensuring concerns can be voiced in the absence of the Code's senior, independent, non-executive director.

The Council's responsibilities are derived from statute and the Society's Charter, Bye-Laws and General Regulations. The Charter and Bye-Laws reserve certain matters to the annual general meeting of Law Society members.

There are 100 places on the Council. Most members are elected for a four year term, which is renewable. There is no direct equivalent of non-executive directors. The Council's Remuneration committee has six members, of whom three are non-Council members; the Audit committee has eight members, of whom two should be Council members. The chairs of these committees are non-Council members.

The boards of the Legal Complaints Service and Solicitors Regulation Authority are not represented on the Board or on the other committees of the Council but attend meetings for items of business relevant to them.

Induction is provided for Council members. The Board and the Audit committee regularly review risk management issues.

## Regulation and complaints handling

The Society has separated the governance of its regulatory and representative functions by delegating the former to the boards of the SRA and the LCS, while final responsibility remains with the Law Society Council. The LCS Board has a majority of lay members, while the SRA Board has a solicitor majority, with significant lay membership.

As explained in the office holders' report below, when the Legal Services Act (which received Royal Assent in October 2007) comes into force fully, complaints handling will become the responsibility of a separate body, the Office for Legal Complaints (OLC). The Society's intention is that LCS staff will be the subject of a TUPE-type transfer to the OLC. So far as regulatory activities (currently dealt with by SRA) are concerned, the Society will be the Approved Regulator subject to oversight by a new Legal Services Board.

## Representation

In 2006 the Law Society conducted a major consultation with the profession on the future of the Society's representative and membership service functions. New governance and business arrangements were designed following this consultation and the business planning process which identified the business priorities for the Society.

## Solicitors Disciplinary Tribunal

The Society also provides the funding for the Solicitors' Disciplinary Tribunal (SDT), a statutory tribunal whose primary function is to adjudicate upon allegations of professional misconduct or breaches of professional rules by solicitors. The SDT is constitutionally and operationally independent of the Law Society, although its

administration is funded by the Society and its staff are Law Society employees who are seconded to the Tribunal. The Tribunal's members are appointed by the Master of the Rolls. It will acquire independent operating powers under the LSA.

## Office holders

The Society has three office holders: the president, vice president and deputy vice president. They hold office for one year at a time. Each year, the Council elects the deputy vice president (DVP); the previous year's DVP becomes vice president and the vice president becomes president. The hand-over takes place at the AGM in July.

The office holders are the Society's main ambassadors, and represent the Society at home and abroad. The president is a full-time appointment. The president chairs the Council. The vice president and the treasurer co-chaired the Corporate Governance Board, replaced in July 2007 by the Board chaired by the treasurer ('treasurer' was a title customarily given to the chair of the former Finance & Resources Board, and has been retained for the chair of the Board).

## Chairs of the regulatory boards

The two regulatory boards each have a chair. The chair of the Board of the Solicitors Regulation Authority is Peter Williamson. The chair of the Board of the Legal Complaints Service is Shamit Sagar.

## Chief executives

Desmond Hudson is the chief executive of the Law Society, Antony Townsend chief executive of the SRA, Deborah Evans is chief executive of LCS.

The chief executives are responsible for advising on and implementing policy, for the management of staff and for ensuring that the Society, the SRA and the LCS operate effectively and efficiently. Each chief executive is responsible for a budget approved by the Council. The chief executive of the Law Society is responsible to Council and the other chief executives are responsible to their boards.

## The Board

The Corporate Governance Board was dissolved on 18 July 2007 and the Board was established on 19 July 2007.

The Board is responsible for the preparation of financial statements which give a true and fair view of the group's position at the end of the financial year and of any surplus or deficit. In preparing the financial statements for 2007, the Board has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;

- stated whether applicable accounting standards have been followed; and
- prepared the financial statements on the going concern basis.

During 2007 the Board was responsible for ensuring that proper accounting records were kept. The Board was also responsible for the system of internal control, for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud. The Board regularly reviewed risk management issues, including the progress of the new risk policy.

The directors of the companies whose accounts are consolidated with those of the Society are similarly required to prepare accurate financial statements, keep proper accounting records and safeguard the companies' assets.

The consolidated financial statements include the Society and its subsidiaries (together the 'group').

Financial statements are published on the Society's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Society's website are the responsibility of the Board. The Board's responsibilities also extend to the ongoing integrity of the financial statements contained therein.

The Board did not undertake a formal evaluation of its own performance in 2007, having come into being only in July, and so does not report on how performance evaluation of the Board, its committee and its members was carried out. It has scheduled a review of its own performance for July 2008, at the end of its first year of operation.

## Remuneration

In 2007 payments were made to:

- the office holders or their firms or employers;
- the chairs and members of the regulatory boards.
- Council members received expenses only.

In 2007, the chairs of the Remuneration committee and Audit committee also received payment.

The Remuneration committee advises on compensation to the office holders, and Council, board and committee chairs and members; it approves the remuneration arrangements for the chief executives and senior managers.

## Accountability and audit

The relevant Combined Code provisions are met, except where indicated in these statements. There are no interim or price-sensitive reports to include in the assessment of the Society's financial position. There is an organisational structure with defined roles for the Board and the Audit committee.

## Auditors

A resolution to appoint BDO Stoy Hayward LLP as the Society's auditors for the 2007 accounts was approved at the July 2007 Annual General Meeting.

Following a recommendation from the Audit committee, the Board has adopted a policy in relation to the provision of non-audit services by the auditors, with the objective of ensuring that the provision of such services does not impair the external auditor's independence or objectivity. This includes, inter alia, assessing all relationships with the audit firm, including their partners and staff; assessing the nature and level of fees for non-audit services in relation to the audit fee; obtaining confirmation of independence from the auditors; and ensuring the appropriateness of the firm as providers for non-audit services.

The split between audit and non-audit fees for the year under review is disclosed in note 6. The non audit fees were principally paid in respect of taxation services provided and are considered by the audit committee not to affect the auditors' independence or objectivity.

## Audit Committee

The committee met eight times in 2007. Its terms of reference are consistent with the Combined Code, as far as is possible given the Society's management structure and governance. None of its members are members of the Board although two members are members of Council. The Audit Committee has responsibility, on behalf of Council, for the review of internal control and the overseeing of action required as a result of matters raised by the external auditors. The committee also reviews the plans and monitors the progress of the Internal Audit Unit. Both the internal and external auditors attend the meetings and have direct access to its chair.

Though as a non-solicitor, the chair of the Audit Committee has no formal right to attend and address the Council and the AGM, the president has issued a standing invitation to him to do so as required.

## Internal control

The Society recognises the value of the internal control principle in the Combined Code, and adheres voluntarily to it. In doing so, the Society acknowledges that internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable assurance against material misstatement or loss. The preceding paragraphs explain how the Society's structures relate to the main provisions of the Combined Code.

## Monitoring of internal controls

The Council gave specific responsibility for internal control to the Board, although all boards have risk management responsibilities. The Board was

therefore primarily responsible for reviewing the effectiveness of the Society's system of internal control in 2007. It did not carry out its own review, having come into being only half way through the year, but has relied upon the work of internal and external audit (it will in future make a formal assessment in its annual report to Council).

It was recognised that the governance framework under which the Society separated its regulatory from its representative roles would have to be reviewed following the granting of Royal Assent to the Legal Services Act 2007 and in the light of experience since separation in 2006. This work which started recently is unlikely to be completed before mid 2008.

The Board is confident that it has received the appropriate assurances and information from the three chief executives about the effectiveness of the underlying internal control system.

Throughout the year, the Corporate Governance/ Management boards received regular progress reports on the achievement of strategic objectives and any related financial implications and control issues. The Board received updates on the development of the strategic risk register, and the operational risk registers and associated action plans, which are being completely relaunched. It took action on key risk and control issues, the results of which are regularly monitored by the Audit Committee. The Board continues to seek ways to improve the scheme of delegated authorities.

## Delegated authorities

The Scrutiny Committee reviewed the exercise of delegated powers by the representational boards. The Remuneration Committee approved the remuneration arrangements for the chief executives and senior managers, and advised on compensation to the office holders, chairs and members of committees, Council members and members of the regulatory boards.

## Internal audit

The Internal Audit Unit carried out its annual assurance review for 2007. The Board did not do its own control review, but is nevertheless satisfied that it has received sufficient information from all of the sources above to have monitored the effectiveness of the Society's system of internal controls, and set in train changes where required by the reorganisation of the Society.

## Risk management

The Council, through the Board, the Law Society chief executive and the chief executives of the SRA and LCS has re-established a process for identifying, evaluating and managing the significant risks faced by the Society. The resulting strategic registers have been in place across the Society since February 2008, and in the process is continuing to develop.

It cannot yet be said to be embedded, though a full action plan is being progressed to bring this about.

Each department identifies and reviews the risks faced by the Society and assesses what controls are in place and key actions that are required to manage the significant risk. The key risks are reported regularly to the Board and Audit Committee.

## Business plans and budgets

The Annual Budget and Plan is prepared following a thorough process involving senior management. Objectives and metrics have been developed, and the risk process has been incorporated into business planning and in-year reporting. The Council approves revenue and capital budgets annually. The Council and the Board have approved the budgets for 2008 and these are subject to monthly review by the Board, chief executives, the finance team and budget holders in terms of actual performance against plan.

Senior directors are for the first time being asked to provide the accountable officer with a signed annual assurance statement in relation to their operation of internal controls for the major areas of risk for which they are responsible.

## Statement of going concern

The Council's opinion is that the Society will have sufficient resources to meet its liabilities as they fall due over the 12 months from the date of signing the accounts. As a result, the Council has satisfied itself that the Society is a going concern.

## Board members' attendance records in 2007

The Combined Code requires presentation of the attendance record of the board of directors. Attendance of Council members at Council meetings is recorded in the minutes, and available to members of the Society on request. Given the Council's size, the records are not shown here.

The attendance records for the Corporate Governance Board, Management Board, the Audit Committee and the Remuneration Committee are below. The numbers in brackets denote the maximum number of meetings a person could have attended, allowing for the period during which he/she was a board or committee member, if less than the full year under review.

## The Corporate Governance Board's membership from 1 January 2007 to 18 July 2007 was:

Andrew Holroyd	(president from 14 July 2007, having been vice-president)
Paul Marsh	(vice-president from 14 July 2007, having been deputy vice president)
Andrew Caplen	
Helen Davies	
Nigel Day	(appointed 10 July 2006)
Michael Franks	
Philip Hamer	(treasurer)
Bob Heslett	(deputy vice president from 14 July 2007)
Linda Lee	(appointed 12 April 2007)
Alexandra Marks	
Sue Nelson	
Fiona Woolf	(president until 14 July 2007)
Rodney Warren	(resigned 20 April 2007)
Desmond Hudson	(chief executive from 1 September 2006)

## The Management Board's membership from 19 July 2007 to 31 December 2007 was:

Philip Hamer	(chair & treasurer)
Andrew Holroyd	(president)
Paul Marsh	(vice president)
Bob Heslett	(deputy vice president)
Peter Adams	
Andrew Caplen	
Nick Fluck	
Sue Nelson	
Tim O'Sullivan	
Desmond Hudson	(chief executive)

## The membership of the Audit Committee from 1 January 2007 to 31 December 2007 was as follows:

Stephen Brooker	(chair)
Sue Carter <sup>#</sup>	(due to retire on 31 August 2008)
Stuart Collins	(due to retire on 31 August 2008)
Michael Lawson	(retired 31 August 2007)
Geoffrey Mitchell	(retired 31 August 2007)
Murray Ross	(due to retire 31 August 2009)
Michael Singleton <sup>#</sup>	(due to retire 31 August 2008)
Grenville Page	(from 3 October 2007)
David Wilson	(from 28 February 2007)

<sup>#</sup> Council members of the Audit Committee. The remainder are independent members.  
There is currently one vacancy for a non-solicitor member.



## Attendance records

### Corporate Governance Board

Total number of meetings in 2007	8 meetings
Fiona Woolf	8
Andrew Holroyd	7
Paul Marsh	5
Andrew Caplen	7
Helen Davies	7
Nigel Day	5
Michael Franks	6
Philip Hamer	8
Bob Heslett	8
Linda Lee	3 (3)
Alexandra Marks	7 (7)
Sue Nelson	8
Rodney Warren	5 (5)
Desmond Hudson	8

### Audit Committee

Total number of meetings in 2007	8 meetings
Stephen Brooker	8
Sue Carter	7
Stuart Collins	8
Michael Lawson	4 (5)
Geoffrey Mitchell	3 (5)
Grenville Page	2 (2)
Murray Ross	7
Michael Singleton	7
David Wilson	7 (7)

### Management Board

	6 meetings
Andrew Holroyd	5
Paul Marsh	2
Peter Adams	4
Andrew Caplen	6
Nick Fluck	5
Philip Hamer	6
Bob Heslett	3
Sue Nelson	6
Tim O'Sullivan	6
Desmond Hudson	6

The numbers in brackets denote the maximum number of meetings a person could have attended, allowing for the period during which he/she was a board or committee member, if less than the full year under review.

The Law Society chief executives have been included as they are voting members. Non-voting senior manager members have not been included.

Approved by the Management Board of the Law Society on behalf of the Council of the Law Society and signed on behalf of the Law Society, the Trustee and the Solicitors Regulation Authority Board.

# Independent auditors' report to the members of the Law Society (the 'Society')

We have audited the consolidated financial statements of the Law Society and its subsidiary entities, as listed in note 1 to the accounts, ('the group') for the year ended 31 December 2007 which comprise the consolidated income and expenditure account, consolidated statement of total recognised gains and losses, consolidated balance sheet, consolidated cash flow statement, notes to the consolidated cash flow statement and the related notes. The financial statements have been prepared under the accounting policies set out therein.

## Respective responsibilities of the Council and auditors

As described in the statement of Council's responsibilities, the Council, through the Management Board, is responsible for the preparation of the annual report and financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant reporting framework and whether the information given in the Council's Report is consistent with those financial statements. We also report to you if, in our opinion, the Society has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the Council's Report and Reports from the president and chief executives and consider the implications for our report if we become aware of any apparent misstatements within them.

Our report has been prepared pursuant to the requirements of the bye-laws of the Society and for no other purpose. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditors' 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 Society and the Society's members as a body, for this report and we hereby expressly disclaim any and all such liability.

## Basis of audit opinion

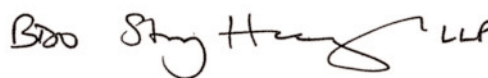
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Management Board in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's affairs as at 31 December 2007, and of its surplus for the year then ended; and
- the information given in the Council's Report is consistent with the financial statements.



**BDO STOY HAYWARD LLP**

*Chartered Accountants*

London

Date: 22 May 2008

---

## Consolidated Income and Expenditure account for the year ended 31 December 2007

	Notes	Continuing operations 2007 £'000	Discontinued operations 2007 £'000	Total 2007 £'000	Total 2006 £'000
<b>Income</b>					
Practising certificates and other fees	3	102,739	0	102,739	104,667
Other income	5	23,529	0	23,529	22,576
		126,268	0	126,268	127,243
<b>Expenditure</b>					
Administration expenses	6	117,197	0	117,197	110,507
Establishment expenses	6	6,526	0	6,526	8,321
Donation to the Law Society Bursary Fund		0	0	0	100
		123,723	0	123,723	118,928
Investment income and interest	4	3,132	3,947	7,079	9,950
Other finance income	20	2,011	0	2,011	0
(Deficit)/surplus arising on professional indemnity insurance operations	11	0	(1,652)	(1,652)	1,855
Negative goodwill released in respect of professional indemnity operations		0	0	0	10,275
<b>Surplus for the financial year</b>		<b>7,688</b>	<b>2,295</b>	<b>9,983</b>	<b>30,395</b>

Discontinued operations relate solely to the activities of the Solicitors Indemnity Fund (SIF).


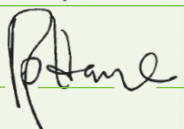
## Consolidated statement of total recognised gains and losses

	2007 £'000	2006 £'000
Surplus for financial year	9,983	30,395
Actuarial loss recognised in the pension schemes	(5,300)	(4,023)
Unrealised gains on investments	870	246
<b>Total gains recognised since last annual report</b>	<b>5,553</b>	<b>26,618</b>

# Consolidated Balance Sheet as at 31 December 2007

	Notes	2007 £'000	2006 £'000
<b>ASSETS</b>			
Tangible assets	9	28,022	38,693
Investments	10	45,999	78,276
Reinsurers' share of claims provision	15	3,560	15,751
Current assets:			
Inventories		266	243
Receivables and prepayments	13	8,234	7,861
Cash and cash equivalents		121,740	102,171
<b>TOTAL ASSETS</b>		<b>207,821</b>	<b>242,995</b>
<b>LIABILITIES</b>			
Current liabilities:			
Creditors	14	(119,193)	(134,616)
Gross claims provisions	15	(39,318)	(62,520)
Provision for other liabilities and charges	16	(3,864)	(3,144)
<b>TOTAL LIABILITIES</b>		<b>(162,375)</b>	<b>(200,280)</b>
<b>Total net assets excluding pension liability</b>		<b>45,446</b>	<b>42,715</b>
Pension liability - unfunded		(660)	(975)
Pension liability - funded	20	(9,856)	(12,363)
<b>Total net assets including pension liability</b>		<b>34,930</b>	<b>29,377</b>
<b>Represented by:</b>			
Accumulated fund brought forward		29,377	2,759
Total recognised gains and losses		5,553	26,618
Accumulated fund carried forward	17	34,930	29,377

The financial statements were approved by the Management Board of the Law Society on 22 May 2008.  
Signed on behalf of the Council of the Law Society on 22 May 2008.

A Holroyd		PRESIDENT
P Hamer		TREASURER

## Consolidated cash flow statement for the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
<b>Net cash outflow from operating activities</b>	I	(16,880)	(44,372)
Returns on investments and servicing of finance	II	7,079	2,856
Taxation		(1,178)	1,136
Capital expenditure and financial investment	II	(1,671)	6,463
<b>Cash outflow before management of liquid resources and financing</b>		(12,650)	(33,917)
Management of liquid resources	IV	11,367	33,602
<b>Decrease in cash in the year</b>	III	(1,283)	(315)
<b>Reconciliation of net cash flow to movement in net funds</b>			
Decrease in cash in the year		(1,283)	(315)
Cash outflow from changes in liquid resources		(11,367)	33,602
<b>Change in net funds resulting from cash flows</b>		(12,650)	(33,917)
Net losses on investments		(58)	(1,570)
<b>Movement in net funds</b>	III	(12,708)	(35,487)
<b>Net funds at 1 January</b>		180,447	215,934
<b>Net funds at 31 December</b>		167,739	180,447



# Notes to the consolidated cash flow statement for the year ended 31 December 2007

## I Reconciliation of surplus for the year to net cash outflow from operating activities

	2007 £'000	2006 £'000
Surplus for the year	9,983	30,395
Depreciation charges	8,984	10,613
Movement in provision for professional indemnity insurance run-off costs	(561)	(667)
Decrease in professional indemnity insurance claims incurred net of reinsurance	(11,011)	(25,634)
Increase in miners' cases provisions	1,218	0
Loss/(Profit) on disposal of tangible fixed assets	3,358	(5,335)
Investment income and interest receivable	(7,079)	0
Tax charge	2,135	449
(Increase)/decrease in stocks	(23)	55
(Increase)/decrease in debtors	(770)	6,773
Decrease in creditors	(18,592)	(19,868)
Increase/(decrease) in fees in advance	2,672	(1,848)
Decrease in pension fund liabilities	(8,122)	(27,990)
Net realised losses on investments	928	1,816
Release of negative goodwill	0	(10,275)
Net cash outflow from operating activities	(16,880)	(44,372)

# Notes to the consolidated cash flow statement for the year ended 31 December 2007

## II Analysis of cash flows for headings netted in the cash flow statement

	2007 £'000	2006 £'000
<b>Returns on investments and servicing of finance</b>		
Interest received	7,079	2,856
<b>Net cash inflow from returns on investments and servicing of finance</b>	<b>7,079</b>	<b>2,856</b>
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(1,671)	(3,690)
Sale of fixed assets	0	10,153
<b>Net cash (outflow)/inflow from capital expenditure and financial investment</b>	<b>(1,671)</b>	<b>6,463</b>

## III Analysis of net funds

	At 1 January 2007 £'000	Cash flow £'000	Other non-cash items £'000	At 31 December 2007 £'000
Cash in hand and at bank	4,976	(1,283)	0	3,693
Cash held in deposits	148,191	5,176	0	153,367
Fixed interest stock	27,280	(16,543)	(58)	10,679
	<b>180,447</b>	<b>(12,650)</b>	<b>(58)</b>	<b>167,739</b>

Other non cash items consists of £928k net realised losses on value of investments and £870k net unrealised gains on investments.

## IV Management of liquid resources

	2007 £'000	2006 £'000
Cash withdrawn from bank accounts	11,367	33,602

# Notes to the accounts: Year ended 31 December 2007

## 1. Accounting policies

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards but not in accordance with the full requirements of the Companies Act 1985. The particular accounting policies adopted are described below and these have been applied consistently in the current and prior year.

The financial statements are prepared under the historical cost convention with the exception of valuation of investments and claims provisions (see below).

### Basis of preparation

Following the decision of the Council of the Law Society in June 1999 to move to market insurance, the professional indemnity insurance operations went into run-off on 1 September 2000. On 4 October 2005 the Solicitors Indemnity Fund (SIF) became a quasi subsidiary of the Law Society due to a change in solicitors indemnity fund rules. The professional indemnity insurance operations have ceased and are therefore treated as discontinued activities. Under FRS3 it is also necessary to provide for all future anticipated administration costs, which are referred to as run-off costs.

### Basis of consolidation

#### Non-consolidated entities

A review was undertaken in November 2005 (and agreed at the January 2006 Corporate Governance Board meeting) to consider if consolidation was appropriate. It was agreed that the following entities should not be consolidated into the financial statements of the Law Society: Compensation Fund, Stannard Bequest Fund, The Law Society Retirement Benefits Scheme, The Law Society Trustees Limited, The Law Society Charity, The Law Society Pension Scheme and the Assigned Risks Pool.

These entities are not consolidated in the consolidated Society financial statements because the Law Society does not exercise control over these entities.

#### Liquid resources

For the purposes of the cash flow statement, liquid resources are defined as current asset investments and short term deposits.

#### Practising certificates

Fees received in respect of practising certificates for the practising year which commences on 1 November are apportioned over the practising certificate period to which they relate.

No credit has been taken for fees due but not received at the balance sheet date, since there is no certainty that these will be paid.

### Examination fees and legal practice course fees

Examination fees are accounted for in the year in which the examination is held. Legal practice course fees are apportioned over the period of the course to which they relate.

### Admission, annual enrolment, registration and transfer of training contracts

These fees are accounted for on a cash received basis.

### Students' enrolment fees

These fees are payable on registration and are apportioned over the period to which they relate.

### Taxation

Full provision is made for taxation payable on activities during the year. The Law Society is only liable for taxation on its investment income and gains and obtains no tax relief for its overhead expenditure, which is regarded as being incurred for the benefit of members whose fees are correspondingly not taxed. Tax relief is obtained on annual payments made under deed of covenant and Gift Aid. Its subsidiary, The Law Society Services Limited, is liable for corporation tax on its profits.

### Deferred taxation

Deferred taxation is recognised in respect of all timing differences (except those noted as exceptions in the accounting standard) that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date. Deferred tax assets are recognised only to the extent that it is more likely than not that there will be taxable profits from which the future reversal of the underlying timing differences can be deducted.

### Depreciation of fixed assets

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment.

Depreciation is provided on a straight-line basis to write off the cost less estimated residual value over the periods indicated overleaf:

- (i) In respect of freehold property which has been split into various component parts with each category being depreciated over its useful economic life as follows, or straight line over 50 years:

Building structure	50 years
Internal finishes	15 years
Services and fittings	25 years
External works	35 years

Costs of repairs and maintenance are charged against revenue in the year in which they are incurred.

- (ii) In respect of leasehold property and improvements:

Premiums paid - over the period to the next open market rent review

Improvements - over ten years or the period of the lease if shorter

- (iii) In respect of equipment and furniture:

Motor vehicles: over five years

Equipment and furniture: over ten/five/four years

- (iv) In respect of computers and hardware:

Mainframe, computer hardware, servers and operating software: over five years

Software associated with the Society's customer relationship management and web systems is being written off over five years from the point at which the relevant software is first used.

All other computing equipment and software: over three/four years.

All additions to the library are now written off in the year of purchase.

No depreciation is charged on freehold land.

## Goodwill

Goodwill arising on an acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. Negative goodwill has arisen on the acquisition of Solicitors Indemnity Fund, as no consideration was paid for monetary and non-monetary assets. Upon disposal of the relevant assets, this negative goodwill has been written off to reserves, through the Consolidated Income and Expenditure Account.

## Valuation of investments

All investments, which relate to professional indemnity insurance activities, comprise deposit accounts and fixed interest stocks held by Merrill Lynch on behalf of SIF. Fixed interest stocks are valued at their mid-market value at the balance sheet date. As these funds are held to meet long term liabilities, they are classified as fixed asset investments.

## Investment income

Interest on government stocks, bonds and deposits has been accounted for on an accruals basis. All other investment income has been taken into account on the basis of the due date.

## Inventories

Inventories are valued at the lower of cost and net realisable value.

## Contributions

Professional Indemnity Insurance contributions are accounted for on the accruals basis.

## Claims paid

Professional Indemnity Insurance claims are accounted for as and when payment is authorised. They include the cost of panel solicitors and the cost of internal claims handling staff, including an appropriate share of overheads.

## Claims provisions

Estimation techniques are used to determine the Gross Claim Provision of Professional Indemnity Insurance activities which represent 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. 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 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. Claims provisions include the estimated costs of panel solicitors and of internal claims handling staff, including an appropriate share of overheads.

Claims provisions are discounted to take account of future investment income which will be earned on the assets held for meeting claims. It is considered appropriate to discount claims provisions because contributions to the Fund were determined after taking account of future investment income. The discount is calculated using the rate of interest which corresponds to the Fund's estimated long term rate of investment return and an estimate of the time to settlement based on the historic trend.

The gross claim provision has been calculated in accordance with the insurance SORP.

## Lease transactions

Rentals under operating leases are charged to the income and expenditure account in equal annual amounts over the lease term.

## Development costs

Software development expenditure is capitalised if it is separately identifiable, it is reasonably certain that the development will be successful and, on completion, it will provide a material benefit to the Society.

## Pension costs

The Council of the Law Society decided to close the old Law Society pension scheme to new members from 1 January 2005. From that date, a new pension scheme has been set up whereby staff who entered employment on or after 1 January 2005, and staff who entered employment before then but had not joined the old scheme within 12 months of commencing employment became eligible to join the new scheme, which will be a Defined Contribution (Money Purchase) scheme.

The Law Society makes contributions towards the new scheme, which will be double the individual employee's contribution up to maximum of 7% of basic salary. A separate defined contribution pension scheme is also available to staff involved in the professional indemnity insurance operations.

For defined benefit schemes, the amounts charged to the income and expenditure account are the current service costs and gains and losses on settlements and curtailments. Past service costs are recognised immediately in the income and expenditure account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

## Pension - funded

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the group, in separate trustee-administered funds. Pension scheme assets are measured at market value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

## Pension - unfunded

The unfunded scheme (also referred to as ex-gratia or top-up scheme) was implemented by the Law Society in the '80s when inflation was running very high. Under the scheme the Society agreed to top up/increase pensioners' payments to account for the erosion of the value of pensions. A monthly payment is made by the Society to Legal and General (L&G) and L&G in turn pay this money to the pensioners. The amounts payable are reviewed regularly by Punter Southall and 'valued' each year by a qualified actuary. Any change in value of the scheme is charged to the Society and included in the financial statements.

For defined contribution schemes the amount charged to the income and expenditure statement 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.



## 2. Segmental analysis

	Income		Surplus/(deficit) for the financial year		Net Assets	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000	2007 £'000	2006 £'000
<b>Analysis by class of business</b>						
Law Society activities	129,393	130,099	7,873	11,171	29,950	26,377
Claims handling operations	7	0	(185)	0	315	0
Professional indemnity operations	0	0	2,295	19,224	4,665	3,000
	129,400	130,099	9,982	30,395	34,930	29,377

## 3. Practising certificates and other fees

	2007 £'000	2006 £'000
Practising certificates	97,640	100,065
Examination and legal practice course fees	2,245	2,017
Admission fees	766	708
Student enrolment fees	878	885
Annual enrolment fees	426	452
Registration and transfer of training contracts	784	540
	102,739	104,667

## 4. Investment income and interest

	2007 £'000	2006 £'000
Bank deposit interest	3,132	2,856
Fixed interest and deposits	3,542	6,249
Interest on payments into court	405	845
	7,079	9,950

## 5. Other income

	2007 £'000	2006 £'000
Gazette income from advertisements	9,827	9,035
Publications and products	2,098	1,772
Courses and functions	1,399	1,068
Sponsorship	191	187
Library	141	131
Royalty income	894	813
Room hire and conferences	536	484
Grant income	788	762
Catering	307	400
Foreign lawyer registration	1,522	1,750
Special interest sections income	851	898
Family Law Panel fees	134	216
Countrywide legal indemnity	507	436
Personal Injury Panel	47	144
Authorisation of course providers	582	526
Business services to solicitors	765	843
Other subscriptions	146	203
Section 12 waiver fee	195	207
Incorporated practice rules fee	211	223
Lexcel assessment fees	166	179
Limited liability partnership fee	324	245
Cost directions income	641	494
CRB enquiry fee	347	197
Rights of audience	100	196
Other panel fees	(39)	254
Sundry income	849	913
	23,529	22,576

Grant income includes £371,855 (2006: £273,610) from the European Commission, £366,150 (2006: £339,445) from the Department for Constitutional Affairs, £2,583 (2006: £52,289) from the Foreign Commonwealth Office, and £77,775 (2006:£nil) from the Department for Education & Skills.

## 6. Analysis of expenditure

	2007 £'000	2006 £'000
<b>Administration expenses</b>		
Employment costs:		
Wages and salaries	50,124	49,974
Social security costs	5,382	3,990
Other pension costs	6,219	9,402
Other costs	3,862	5,493
	65,587	68,859
Gazette printing and stationery	2,745	2,671
Other printing and stationery	1,706	1,856
Postage and telephone	1,960	2,389
Computer charges	4,692	5,393
Office holders' expenses	359	336
Council and committee expenses	1,086	1,015
Staff travelling and other expenses	2,547	2,204
Legal fees	7,475	4,654
Auditors' remuneration	199	100
Other professional fees	11,093	9,455
Operating lease costs	749	869
General administration expenses	4,676	5,101
*Loss on disposal of fixed assets	3,358	939
Depreciation - equipment and furniture and computer hardware	7,954	9,368
Value Added Tax irrecoverable	6,363	4,907
Financial services - application and registration fees	277	255
Legal Services Complaints Commission	964	1,036
Solicitors' Disciplinary Tribunal expenses	140	122
Operating loss on claims handling business	192	0
Taxation (excluding SIF)	2,153	909
	126,275	122,438
Recoveries of administration expenses from the Law Society Compensation Fund	(8,953)	(11,804)
Other recoveries	(125)	(127)
	117,197	110,507

\* Includes an exceptional impairment charge of £2.6m (see note 9).

	2007 £'000	2006 £'000
<b>Establishment expenses</b>		
Rent, rates, heating, cleaning and insurances	2,852	4,072
Operating lease costs	1,701	1,607
Repairs and alterations	1,102	1,303
Employment costs:		
Wages and salaries	584	608
Social security costs	53	51
Other pension costs	115	110
Depreciation - property	844	947
	7,251	8,698
Recoveries of establishment expenses from the Compensation Fund	(725)	(377)
	6,526	8,321
In addition to their remuneration, the auditors, BDO Stoy Hayward LLP, were also paid £105,000 (2006: £55,000) in respect of the following matters.		
	2007 £'000	2006 £'000
<b>Non audit fees</b>		
Tax services:		
Compliance services	15	0
Advisory services	82	10
Other services:		
IT outsourcing/strategy /review	6	15
SIF Consolidation re 2005 accounts	0	30
Other services not covered above	2	0
	105	55

Tax advisory services include work in relation to VAT and income tax advice and assistance given during the year.

This additional remuneration is included in other professional fees.

## 7. Compensation, remuneration and staff numbers

### Senior Management

The chief executive and the 10 directors of the Law Society received total emoluments including pension contributions of £1,894,825 for the year to 31 December 2007 (2006: £2,572,000).

The highest paid member was the chief executive who received emoluments including pension contributions of £230,726, comprising £217,426 in salary and benefits and pension contributions of £13,300. There is no year on year comparison as the chief executive started in mid 2006.

As at 31 December 2007, seven members of the senior management team are members of the Law Society Final Salary Scheme, whilst two others including the chief executive are members of a private stakeholder scheme - a defined contribution scheme.

### Solicitors Regulation Authority

The chair of the SRA Board received emoluments of £68,979 in 2007 (2006: £ 71,000). Board members (office holders) were each paid £4,800 p.a. for service on the Board (2006: £4,800 p.a.), with further payments of £400 per day (2006: £400 per day) for additional duties.

The SRA chief executive and the SRA directors received total emoluments, including pension contributions, of £919,975 (2006: £573,000) for the year to 31 December 2007. The highest paid member of the team was the chief executive who received emoluments including pension contributions of £172,713, comprising £162,738 in salary and benefits and pension contributions of £9,975. There is no year on year comparison as the chief executive started in mid 2006.

As at 31 December 2007, only two of the team including the SRA chief executive are members of the Law Society Stakeholder Scheme - a defined contribution pension scheme; all other SRA directors (five) are members of the Law Society Final Salary Pension Scheme.

### Legal Complaints Service

The chair of the LCS Board received emoluments of £75,700 in 2007 (2006: £ 71,000). Board members (office holders) were each paid £4,800 p.a. for service on the Board (2006: £4,800 p.a.), with further payments of £400 per day (2006: £400 per day) for additional duties.

The LCS chief executive and the director of consumer services received total emoluments, including pension contributions, of £ 268,361 (2006: £119,000) in the year to 31 December 2007. The highest paid member of the team was the chief executive who received emoluments including pension contributions of £147,791, comprising £139,426 in salary and benefits and pension contributions of £8,365. There is no year on year comparison as the chief executive started in mid 2006.

As at 31 December 2007, the LCS chief executive is a member of the Law Society Stakeholder Scheme - a defined contribution pension scheme; the director of consumer services is a member of the Law Society Final Salary Pension Scheme.

### Staff numbers

The average number of occupied full time equivalent posts for the year was as follows:

	2007	2006
The Law Society	1270	1318
Legal Professional Claims Ltd	28	31
<b>Total</b>	<b>1298</b>	<b>1349</b>



## 8. Tax on profit on ordinary activities

Analysis of tax charge on ordinary activities.

	2007 £'000	2006 £'000
UK corporation tax at 22%/30% (2006: 22%/30%) based on profit for the period	2,684	6,185
Adjustment in respect of prior years	(548)	68
	2,136	6,253
Deferred tax:		
Timing differences, origination and reversal	(1)	(1,170)
	2,135	5,083
Factors affecting tax charge for the current period.		
The tax assessed for the period is higher than that resulting from applying the standard rate of corporation tax in the UK 30% (2006: 30%).		
The differences are explained below:		
	2007 £'000	2006 £'000
Profit from ordinary activities before tax and excluding mutual activities	8,663	22,160
Tax @ 30%	2,599	6,648
Adjustments to tax:		
Reduced rate (22%) paid by SIF	(252)	(1,576)
Expenses not deductible for tax purposes	184	162
Capital allowances in excess of depreciation	282	(16)
Marginal relief	0	(9)
Mark to market transitional adjustment	0	1,184
Adjustment of tax value for sale of fixed assets	0	(234)
Unutilised losses carried forward	57	15
Other timing differences	(186)	11
Prior period adjustment	(548)	68
Tax charge	2,136	6,253

## 9. Tangible assets

	Freehold land and buildings	Leasehold property & improve- ments	Equipment and furniture	Computers and hardware	Total
	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>					
At 1 January 2007	27,433	456	14,034	41,939	83,862
Additions	0	0	524	1,147	1,671
Disposals / Impairments	(418)	(88)	(439)	(37,339)*	(38,284)
At 31 December 2007	27,015	368	14,119	5,747	47,249
<b>Accumulated depreciation</b>					
At 1 January 2007	8,648	358	7,659	28,504	45,169
Charge for the year	802	43	1,343	6,796	8,984
Transfers	0	0	(3,414)	3,414	0
Disposals / Impairments	0	(46)	(369)	(34,511)*	(34,926)
At 31 December 2007	9,450	355	5,219	4,203	19,227
<b>Net book value</b>					
At 31 December 2007	17,565	13	8,900	1,544	28,022
At 31 December 2006	18,785	98	6,375	13,435	38,693

Freehold land and buildings are periodically valued. The total open market value at the last valuation in 2007 was £26,725,000.

The Library collection, which has a net book value of £nil (2006: £nil) is shown within equipment and furniture. It is periodically valued for insurance purposes. The latest valuation in 2007 totalled £3,214,800.

\* Included in the disposals/impairments is an exceptional charge of £2.6m. The breakdown of the exceptional charge of £2.6m is as follows:

Programme Engineer project	£1.5m
Visual Files project	£1.1m
	£2.6m

**Programme Engineer** - A wide reaching programme designed to improve the way the Society kept in contact with its key stakeholders.

A project appraisal was concluded in 2007 and the decision was taken not to proceed with the full implementation as the programme was not able to deliver benefits previously envisaged. This was due to significant changes to the regulatory and representative functions arising from the Clementi review and resulted in an impairment of £1.5m.

**Visual Files** - A case management system for the LCS

This project was halted in December 2007 due to concerns regarding the suitability of the application and it was unclear that the project could deliver benefits within the time frame required. Impairment amounts to £1.1m.

## 10. Investments

	2007 £'000	2006 £'000
Fixed interest stocks	10,679	27,280
Deposits	35,320	50,996
	45,999	78,276

## 11. Subsidiary and other undertakings

### Legal & Professional Claims Limited

In July 2007, the Solicitors' Indemnity Fund (SIF) transferred its entire shareholding in Solicitors Indemnity Fund Operations Limited (SIFOL) to the Society. SIFOL's name was then changed to Legal and Professional Claims Limited (LP Claims) and the authorised and issued share capital increased to £500,000 by way of a cash injection from the Society.

LP Claims provides SIF with administrative and claims handling services in respect of the run-off of the Fund for which it charges a fee equivalent to its operational costs.

The company has published its own accounts for 2007 and these accounts are consolidated in the Law Society. The company incurred a loss of £186,000 in its first year of operation. This was a planned loss.

The Society had the following principal subsidiary undertakings. They are all incorporated in Great Britain and operate in England and Wales.

	Nature of business	Issued share capital	Percentage of ownership
The Law Society Services Limited	Trade and services	£100	100%
Solicitors Indemnity Fund	Professional Indemnity Insurance	Fund	100%
Legal and Professional Claims Limited	Professional indemnity insurance claims handling	£500,000	100%

The Solicitors' Indemnity Fund (SIF) is considered to be a quasi-subsiidiary (see note 1) under the terms of Financial Reporting Standard 5 (FRS 5) and its assets and liabilities are consolidated in these financial statements.

## Summarised financial statements for SIF

	2007 £'000	2006 £'000
<b>Revenue account</b>		
Gross claims paid	(12,089)	(17,795)
Reinsurance recoveries	550	72
Decrease in gross provision for reclaims	23,202	43,866
(Decrease)/increase in amount recoverable from reinsurers	(12,191)	(18,233)
Reinsurance premiums recoverable		160
Insurance claims incurred net of reinsurance	(528)	8,070
Investment return	3,853	5,443
Administration expenses	(133)	(163)
Payment to the Law Society	(1,500)	0
Profit on sale of assets	0	6,274
(Contributions)/refunds	(1)	73
Interest on underpaid tax	(44)	0
Tax credit/(charge)	18	(4,166)
<b>Surplus after tax</b>	<b>1,665</b>	<b>15,531</b>
There are no other recognised gains or losses for the year.		
The surplus shown above as recognised in the primary statements is:		
	2007 £'000	2006 £'000
<b>Consolidated Income and Expenditure account</b>		
Investment income and interest	3,947	7,094
(Deficit)/Surplus arising on professional indemnity insurance operations	(1,652)	1,855
<b>Statement of total recognised gains and losses:</b>		
Unrealised gains	870	246
	3,165	9,195
Profit on sale of assets not recognised as fair valued at date of acquisition	0	6,336
Release of surplus to the Society not recognised at group level(1,500)		0
	<b>1,665</b>	<b>15,531</b>

Administrative expenses are broken down as follows:

	2007 £'000	2006 £'000
Staff	1,153	2,278
Premises	317	427
Administration service charge	1,314	0
Computer	490	547
Legal and professional	124	232
Audit	91	58
Insurance	112	208
Depreciation	184	180
Other operating costs	129	220
Total operating expenditure in the period	3,914	4,150
Less the fee charged to LPC Ltd for use of assets	(442)	0
Less cost of internal claims-handling staff, including share of overheads	(2,778)	(3,320)
Administrative expenditure in the period	694	830
Movement in provision for run-off costs	(561)	(667)
Charge to revenue account in the period	133	163

The provision for run-off costs represents future anticipated administration costs as set out in the accounting policies. The cost of internal claims handling staff, including an appropriate share of overheads, has been included in claims paid as described in the accounting policies.

#### Balance Sheet

	2007 £'000	2006 £'000
<b>Assets</b>		
Investments	45,999	78,276
Reinsurers' share of claims provision	3,560	15,751
Debtors	882	3,274
Fixed assets	407	416
Bank balances	3,435	4,855
<b>Total assets</b>	<b>54,283</b>	<b>102,572</b>
<b>Liabilities</b>		
Gross claims provision	39,318	62,520
Provision for other liabilities and charges	2,646	3,144
Creditors	7,654	33,908
<b>Total liabilities</b>	<b>49,618</b>	<b>99,572</b>
<b>Net assets</b>	<b>4,665</b>	<b>3,000</b>

## Cashflow statement

	2007 £'000	2006 £'000
Net cash flow from operating activities	(31,590)	(25,475)
Cash expenditure	(2,049)	(22,458)
<b>Net cash outflows</b>	<b>(33,639)</b>	<b>(47,933)</b>

## 12. Joint ventures

### a) SPIL

On 25 April 2000 the Society entered into a joint venture agreement with St. Paul Holdings Limited. In accordance with this agreement, a joint venture company, Solicitors Professional Indemnity Limited - SPIL#1 (the 'joint venture Company'), was set up for the following purposes: to arrange the provision of compulsory professional indemnity insurance to solicitors in private practice in England and Wales under the new open market arrangements; to act as marketing, claims handling and underwriting agent of St. Paul International Insurance Company Limited in respect of solicitors' professional indemnity insurance; and to provide run-off and related services to the Solicitors Indemnity Fund.

During the year ended 31 December 2002, St. Paul Holdings Limited transferred its shareholding to St. Paul Co. Inc who subsequently transferred it to St. Paul London Limited.

The Law Society owned 51 'A' shares and St Paul owned 49 'B' shares in SPIL#1.

The agreement with St Paul was terminated on 30 September 2004.

The Law Society was approached by St Paul with an offer to enter a new joint venture agreement but under this agreement St Paul would not manage and administer the run-off of SIF.

The carve-out of the management of the run-off of SIF was achieved by the shares in SPIL#1 being transferred from each of the Law Society and St Pauls to Solicitors Indemnity Fund Limited on 1 October 2004. The Law Society gave no warranties or indemnities in respect of the 'A' shares and received £51 from SIF Limited in consideration for the transfer.

The Law Society entered into a number of agreements relating to SPIL#2 on 1 October 2004. The arrangements largely mirror the agreements which were in place on the previous joint venture, but crucially, the difference between SPIL#1 and SPIL#2 is that SPIL#2 will not operate and will remain effectively dormant unless and until St Paul group fails to offer quotations for compulsory professional indemnity insurance to the profession (trigger event).

### b) Queen's Counsel Appointment Limited (QCAL)

A joint venture company with the Bar Council, Queen's Counsel Appointment (limited by guarantee and not having a share capital) was incorporated on 13 April 2005. The main purpose is to support and facilitate the process for the selection and appointment of Queen's Counsel (or King's Counsel), and to support the independent Selection Panel charged with the conduct of that process, and thereby to assist the process in serving the public interest by offering a fair and transparent means of identifying excellence in advocacy in the higher courts.

The loan outstanding from QCAL at 31 December 2007 was £33,334.



### 13. Receivables and prepayments

	2007 £'000	2006 £'000
Trade debtors	3,883	2,591
Other Law Society affiliated entities	242	257
Other debtors	1,839	1,437
Deferred tax asset	66	3
Prepayments	1,611	1,517
Corporation tax recoverable	0	460
Claims recoveries receivable	20	13
Accrued income	179	608
Reinstatement premiums recoverable	0	544
Claims recoverable under master policies	37	37
VAT	357	394
	8,234	7,861

All amounts fall due within one year.

### 14. Creditors

	2007 £'000	2006 £'000
Amounts due to suppliers	11,868	12,810
Other creditors including taxation and social security	8,943	8,238
Fees received in advance	87,077	84,405
Compensation Fund	9,575	689
Accrued expenses	862	1,535
Contributions refundable	175	25,767
Stop loss insurance recoveries payable	135	132
Excess of loss insurance recoveries payable	492	492
Claims payable	2	479
Claims payable under master policy	63	69
	119,192	134,616

Included in other creditors are balances of £1,433,000 (2006: £1,364,000) in respect of PAYE and National Insurance.

All amounts fall due within one year.

## 15. Claims provision

	2007 Gross £'000	2007 Reinsurance £'000	2007 Net £'000	2006 Net £'000
Total provision	42,223	(3,995)	38,228	50,048
Discount adjustment	(2,905)	435	(2,470)	(3,279)
Provision at discounted value	39,318	(3,560)	35,758	46,769
Provision brought forward	62,520	(15,751)	46,769	72,402
Release of the provision to income and expenditure account	(23,202)	12,191	(11,011)	(25,633)

The professional indemnity insurance claims provisions have been discounted using the long term discount rate of investment return of 3% (2006: 3%).

## 16. Provisions for liabilities and charges

	As at 1 January 2007 £'000	Released in the year £'000	Added in the year £'000	As at 31 December 2007 £'000
SIF run off costs	3,207	(561)	0	2,646
Miners' compensation cases	0	0	1,218	1,218
Indemnity insurance operations deferred tax	(63)	63*	0	0
<b>Total</b>	<b>3,144</b>	<b>(498)</b>	<b>1,218</b>	<b>3,864</b>

\*Transferred to debtors

The provision for run-off costs represents future anticipated administration costs in respect of the professional indemnity insurance operations. The cost of the internal claims-handling staff, including an appropriate share of overheads, has been included in claims paid, as described in the accounting policies note.

A provision of £1.2m was made in the accounts relating to miners' compensation cases. The costs include legal fees and ex gratia payments.

## 17. Accumulated fund

	Accumulated fund 2007 £'000	Accumulated fund 2006 £'000
At 1 January 2007	29,377	2,759
Surplus for the financial year	9,983	30,395
Actuarial loss recognised in the pension schemes	(5,300)	(4,023)
Recognised gains on investments	870	246
At 31 December 2007	34,930	29,377

The accumulated fund balance at 31 December 2007 is stated after deducting cumulative pension liabilities of £9,856,000 (2006: £12,363,000).

## 18. Operating lease commitments

The Society's commitments for rental payments under operating leases payable during the year to December 2008 are as follows:

	Land and buildings		Other operating leases	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Leases expiring within one year	0	0	242	0
Leases expiring between two and five years	629	0	0	733
Leases expiring after five years	545	409	0	136
	1174	709	242	869

## 19. Capital commitments

At 31 December 2007, amounts contracted for but not provided in the financial statements for the acquisition of IT software amounted to £0.1m (2006: £1.5m).

## 20. Pension commitments

The Society operates a pension scheme (the 'Scheme') providing benefits based upon final pensionable salary. The Council of the Law Society decided to close the old Law Society pension scheme to new members from 1 January 2005. The assets of the Scheme are held separately from those of the Society in a trustee administered scheme. These assets are invested and managed as follows:

UK equities	Barclays Global Investors (BGI) Scottish Widows Investment Partnership (SWIP) Lindsell Train
Overseas equities	Bank of Ireland (until July 2006) AllianceBernstein (Alliance)
Fixed Interest Bonds	BlackRock (formerly Merrill Lynch)

The total employers contribution for the year was £8,443,433 (2006: £10,522,709 - 14 month period).

The funded pension liability on the FRS17 accounting basis reduced from £12,363,000 to £9,856,000 at 31 December 2007. Over the year to 31 December 2007 the Society paid contributions of 27% p.a of pensionable salaries. The Society has also agreed special contributions £4m per year from 2007 to 2010 inclusive amounting to £20m.

## Other pensions

The Society also operates a defined contribution scheme providing benefits based on the amounts paid into the scheme and the performance of the investments.

The scheme incurred costs of £820,283 during the year (2006: £750,000)

There were no outstanding prepaid or accrued contributions at the year end.

A separate defined contribution pension scheme is available to staff involved in the professional indemnity insurance operations. The scheme incurred costs of £159,335 during the year (2006: £163,000). There were £nil outstanding prepaid or accrued contributions at the year end (2006: £nil).

The chief executive of the Law Society is a member of a private Stakeholder scheme - a defined contribution scheme. The scheme incurred costs of £12,188 during the year (2006: £2,200). There were £1,108 outstanding accrued contributions at the year end (2006: £1,100).

## FRS retirement benefits

The Society operates a defined benefit scheme in the UK. A funding update was carried out at 31 December 2007 by a qualified independent actuary. The service cost has been calculated using the projected unit method.

The major assumptions used by the actuary were (in nominal terms):

	2007	2006	2005	2004
Discount rate	5.40%	4.90%	4.80%	5.30%
Rate of increase in salaries	4.80%	4.70%	4.20%	4.85%
Rate of increase of pensions in deferment	3.30%	3.00%	2.70%	2.85%
Rate of increase in pensions in payment or LPI Pensions (for pensions accrued before 1 November 2002)	5.00%	5.00%	5.00%	5.00%
Rate of increase in pensions in payment or LPI Pensions (for pensions accrued after 1 November 2002)	3.30%	3.00%	2.70%	2.85%
Inflation assumption	3.30%	3.00%	2.70%	2.85%

The assets in the scheme and the expected rates of return were:

	2007 Long term rate of return expected	Value £'000	2006 Long term rate of return expected	Value £'000	2005 Long term rate of return expected	Value £'000
Equities	7.60%	78,823	7.60%	98,222	7.10%	58,136
Bonds	4.60%	118,685	4.60%	86,297	4.10%	79,955
Cash	5.25%	6,129				
Total market value of assets		203,637		184,519		138,091
Present value of scheme liabilities		(213,493)		(196,882)		(174,415)
Deficit in the scheme and net pension liability		(9,856)		(12,363)		(36,324)

**Analysis of the movements in the scheme deficit during the year**

	2007 £'000	2006 £'000	2005 £'000
Opening deficit in the scheme and net pension liability	(12,363)	(36,324)	(44,841)
Current service cost	(6,647)	(9,025)	(7,664)
Normal contributions	8,536	10,583	9,824
Annual contribution	4,000	4,000	4,000
One off contribution	0	25,000	25,000
Past service cost	(93)	(1,665)	(373)
Other finance income/(costs)	2,011	(909)	(1,168)
Actuarial loss	(5,300)	(4,023)	(21,102)
Closing deficit in the scheme and net pension liability	(9,856)	(12,363)	(36,324)

Amounts that have been included within the financial statements for the year ended 31 December 2007 are as follows:

**Analysis of the amount charged to operating profits**

	2007 £'000	2006 £'000	2005 £'000
Current service cost	6,647	9,025	7,664
Past service cost	93	1,665	373
Total operating charge	6,740	10,690	8,037

### Analysis of net return on finance income

	2007 £'000	2006 £'000	2005 £'000
Expected return on scheme assets	11,790	7,625	5,861
Interest on scheme liabilities	(9,779)	(8,534)	(7,029)
Net return	2,011	(909)	(1,168)
Refund of unrecognised surplus	0	0	0
Other finance income	2,011	(909)	(1,168)

### Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	2007 £'000
Actual return less expected return on assets	(3,948)
Experience gains and losses on liabilities	(3,068)
Changes in assumptions	1,716
Actuarial gain/(loss) recognised in STRGL	(5,300)
Adjustment due to surplus cap	0
Net/loss recognised	(5,300)

### History of experience gains and losses

	2007	2006	2005	2004	2003
Difference between expected and actual return on scheme assets:					
Amount (£'000)	(3,948)	1,489	10,006	3,524	3,221
Percentage of scheme assets	(2%)	1%	7%	4%	5%
Experience (losses)/gains arising on the scheme liabilities					
Amount (£'000)	(3,068)	(2,407)	(4,018)	1,184	3,065
Percentage of scheme liabilities	(1%)	(1%)	(2%)	1%	3%
Total actuarial (losses)/gains recognised in the statement of total recognised gains and losses					
Amount (£'000)	(5,300)	(4,023)	(21,102)	547	(6,098)
Percentage of the present value of scheme liabilities	(2%)	(2%)	(12%)	0%	(5%)



## 21. Monies held as a consequence of the intervention process

The Law Society is trustee of funds vested in it as a result of intervention into a firm of solicitors and is responsible for ensuring that the funds are properly accounted for and distributed appropriately. These cash balances are referred to as the Statutory Trust Accounts (STAs). The Fund is able to recover from those cash balances grants it has made provided certain procedures are followed.

The High Court on 14 March 2006 determined that the Statutory Trusts held by the Law Society are subject to public law rather than the private law of trusts. The Law Society has power to determine who is beneficially entitled to the funds taken in trust as a consequence of intervention in a bona fide, rational and reasonable way, and taking note of private law trust principles. Distributions from the STAs are made from a "best list" of beneficial owners established through investigation.

Accounts to the value of £12.7m have been adjudicated in 2007 from which £11.1m has been distributed. Of this £8.3m was recovered to the Compensation Fund through rights of subrogation and £2.8m was paid to other claimants leaving £1.6m undistributed as residual (dormant) balances in those accounts. During the year new STAs were established to the value of £3.7m. At 31 December 2007, £50.9m (2006: £55.9m) was held by the Law Society as statutory trustee which includes £2.1m accrued in interest and additional deposits of £300,000 received during the year.

The High Court judgment also allows the Law Society to recover costs incurred from determining beneficial entitlement and making distribution. The Society has indicated that it will only do this from the un-distributable balances of each STA in accordance with public trust law.

The rightful beneficiary of monies in the STAs is often not known, and in some cases may never be known. Where dormant balances are left following initial distributions from the STAs the Compensation Fund may have a legal entitlement to some of these monies. It is intended that reimbursement will first be made in full to identified claimants against the STA and then the cost of distribution from that STA recovered before transfers to the Compensation Fund are considered. It is anticipated that this will start to take place in the second quarter of 2008.

This contingent asset, being the unknown amount that may be remitted from the STAs to the Compensation Fund has been excluded from the Fund's statement of assets and liabilities.

## 22. Related party transactions

In 2006, the Law Society decided to disclose payments over £10,000 to Council members for professional services. 2007 and 2006 disclosure are as follows:

	2007	2006
Michael Garson	£23,992	£ 0
Denis Cameron	£11,500	£16,155
Rodney Warren	£ 0	£25,500
Robert Brown	£ 0	£17,625

Solicitors Indemnity Fund (SIF) paid £14,877 (2006: £2,000) and LPC limited paid £6,000 to the chair for activities undertaken in 2007.

## 23. Council members' expenses

In addition to expense costs of attending meetings, annual expense allowance may be claimed in respect of incidental expenses, which Council members and their firms have incurred on behalf of the Society.

The rates may be claimed as follows:

All chairs of the boards, committees and sub-committees covered by the allowance	£3,375
Chair of the Solicitors Disciplinary Tribunal	£3,375
Other Council members	£1,125
Other committee members and members of the Solicitors' Disciplinary Tribunal	£562

## 24. Litigation

The Law Society has a very robust process of reviewing and managing high profile litigation matters relating to the representative function, Solicitors Regulation Authority, Legal Complaints Service and Solicitors Disciplinary Tribunal. The Law Society considers that there are no major litigations which require disclosure in the financial statements.

## 25. Contingent liability

The Legal Complaints Service met all its timeline and planning targets set by the LSCC for the year ended March 2008. The result of the quality audit by the LSCC is unlikely to be known until May 2008. It is expected that not all of the quality targets will be met and as such there is a risk of a fine being levied. Management considers that if a fine was to be imposed by the LSCC, this would not be material.







The Law Society

113 Chancery Lane  
London  
WC2A 1PL

[www.lawsociety.org.uk](http://www.lawsociety.org.uk)

© 2008 The Law Society