



The Law Society

The Law Society
Consolidated Report and Financial Statements
31 December 2008

financial
report 2008

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Reports from the president, chair of the Board of the SRA, chair of the Board of the LCS and chief executives

This report covers the Law Society's financial year from January 2008 and looks at the activities of the Law Society group made up of the representative arm and central services (TLS), the Solicitors Regulation Authority (SRA), the Legal Complaints Service (LCS), the Solicitors Disciplinary Tribunal (SDT), Solicitors Indemnity Fund (SIF) and Legal & Professional Claims Ltd (LPC).

President's report

Paul Marsh

2008 saw the profession confronting the most severe global economic downturn of modern times, with many firms forced to adapt to survive. The Law Society continues to transform itself into an organisation which operates according to clear business principles, and is now more efficient and effective than ever before with demanding targets for future efficiency gains.

Supporting the profession

The Law Society has continued to lead the profession, acting as its spokesperson to policy and decision-makers, as a facilitator in the development of creative new approaches and opportunities, and as a lobbyist in the opening of new markets. In addition it has worked tirelessly to provide the products and services that solicitors need on a daily basis.

The Law Society chief executive Des Hudson reports on page 4 on the overall financial picture of the Law Society group, and on page 8 on the work of the Law Society in its representative role.

Regulation in the public interest

The SRA's initial business plan set out a series of key deliverables for 2008, many of which were substantially delivered. A new risk assessment process was introduced to improve regulation in the public interest, the ethics guidance service was enhanced and consultations were held on key issues including the SRA's equality and diversity strategy and action plan. Peter Williamson, chair of the Board of the SRA, and Antony Townsend, chief executive of the SRA, report at page 9.

In late 2008, the Society commissioned an independent review of regulation led by Lord Hunt of Wirral. That review which will be informed by the work of the Smedley report (the regulation and supervision of large 'corporate firms') will report in autumn 2009 following extensive consultation with the profession and its stakeholders.

Preparing for LCS closure

As we prepare for the closure of LCS and the establishment of the Office for Legal Complaints (OLC) in 2010 our priorities are to ensure continuity in the effective delivery of complaints handling up until closure and to minimise the costs of that process. Shamit Saggat, chair of the Board of the LCS, and Deborah Evans, chief executive of the LCS, report at page 10.

My year as president

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

My year as president began in July 2008. Its theme, the business of law, has been the focus of a series of activities designed to help solicitors in all sectors (employer and employed, private practice and in-house) to be competitive, to maximise the opportunities available to them and to be successful despite the most challenging conditions. In delivering my theme we have to date:

- Held a series of thought leadership events on subjects including the impact of the Legal Services Act, collective redress and the role of regulation in the business of law
- Worked to reduce barriers to market entry in jurisdictions including India, Singapore, Brazil, Malaysia, Bulgaria and New York
- Promoted England and Wales as the jurisdiction of choice for international dispute resolution
- Formed new special interest groups focusing on competition law and the needs of solicitors with disabilities
- Launched new initiatives from existing international, law management, dispute resolution, probate, property and junior lawyers groups.

I believe passionately that there should be no barriers to talent in our profession and I have worked hard to promote equality and diversity issues. I was delighted to announce the launch of the Law Society's BME Forum in 2008, which will promote the interests of black and minority ethnic solicitors, and of the Law Society's Diversity Forum (previously the City Firms Forum) which will continue its work on the diversity agenda in that sector.

My successors as president, Bob Heslett (from July 2009) and Linda Lee (from July 2010) will continue to build on this work. They will blend innovation and openness with a sensible regard for our enduring values and the independence of our profession. They will also lead the profession through further change as result of the Legal Services Act.

The Law Society group

Des Hudson, chief executive

The Law Society is primarily funded by the profession through the practising certificate (PC) fee. This income covers the costs of regulation and complaints handling as well as the Society's work on law reform issues and the legislative process.

We are committed to managing the cost of the PC fee by increasing our commercial income and improving operational effectiveness. We will work closely with the SRA, LCS and SIF in order to achieve this.

Like most organisations the Law Society has many challenges within the current economic climate and we have renewed focus on containing costs and finding efficiencies.

Considerable effort has gone into managing costs in 2008 in order to establish the organisation in a position that is sustainable for the future. I have restructured the business to enhance its commercial outlook and potential, taking advantage of opportunities to rationalise and streamline operations. All posts have been evaluated against market equivalents, pay scales have been adjusted and a performance-related pay system has been introduced to reward and encourage excellence. I have also introduced a creative benefits package within a tightly controlled budget.

People

The Society's staff are its most important asset and account for 55% of our total expenditure. During the year there was an increase in total staff costs of 1.9%. The average number of full-time equivalent posts remained stable year on year.

To improve effectiveness and efficiency, in 2008 the Society spent £0.8m on people development training activities. In addition, the Society has spent in excess of £0.5m on technical and specific job-related training.

Equality and diversity

The Law Society is an equal opportunities employer. Our equality and diversity work also aims to help the profession to recruit and retain the most talented individuals regardless of their background. In 2008, I appointed a diversity champion from amongst the directors. This was to inform the Society's own work and leadership role in terms of inclusiveness and to support similar work across the profession. These steps are now starting to bear fruit.

Lord Ouseley's review and his observations suggesting an unexplained disproportionate number of regulatory investigations and associated

actions involving black and minority ethnic solicitors identified serious challenges for the SRA. Plans to address these have been developed and are currently being implemented.

Our environmental footprint

We have made good progress towards the environmental management system objectives we signed up to in 2007.

The Legal Sector Alliance, a partnership between the Law Society, DLA Piper and Business in the Community, and a number of law firms, ran a series of roadshows providing practical help on environmental issues to the profession without forcing them to choose between profit and planet. We also launched the carbon footprint calculator so that legal practices can measure their CO₂ production as a starting point to reducing it. The Society received certification for its four main office locations under the IEMA Acorn Scheme by achieving Phases 1, 2 and 3 of the British Standard 8555:2003 Environmental Management Systems.

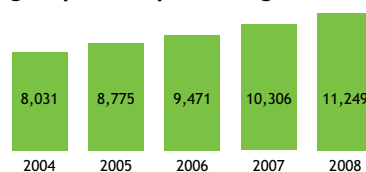
Looking ahead

Along with many other businesses, the Society will continue to focus on maximising the benefit it can derive from its assets. Key to this is effective exploitation of our intellectual property to deliver support to solicitors with a constant drive to improve value for money.

Particular areas of concern are the establishment costs of the Legal Services Board (LSB) and OLC, as well as their ongoing running costs. We are working closely with government, LSB and OLC to ensure that the new regulatory framework is as efficient and cost effective as possible. The Society is committed to playing its part in the timely and successful implementation of the Legal Services Act.

The LSB and OLC implementation costs are to be funded by way of a levy on the Society. The Society will initially bear the costs and will recover these from members as part of the annual renewal process. As the Society is de facto acting as agent no provisions have been made in the financial statements for the year ended 31 December 2008 in relation to these costs.

Solicitors from minority ethnic groups with practising certificates



Data as at July of each year.

Financial review

Operating results

The Society generated a surplus during the year of £17.7m (2007: £10m) of which £12.1m was attributable to the Law Society and £5.9m attributable to the professional indemnity activities performed by the Solicitors Indemnity Fund (SIF).

The surplus within the Society has been principally generated by a rescheduling in expenditure on the projects which form the Society's business and IT investment strategy, savings in staff costs during the year, due to delayed recruitment, and savings in the current service costs of the pension scheme following changes to the level of benefits provided under the scheme.

Solicitors holding practising certificates and student numbers

Practising certificates are issued for the period 1 November until 31 October and therefore the following information on the numbers of practising certificates issued relates to the fee year and not the financial year.

The number of solicitors holding a certificate in 2007/08 amounted to 116,702, an increase of 3.98% (2006/07 112,239, an increase of 3.82%). Current practising certificate numbers for the period ending 31 October 2009 are not complete but there were 112,246 solicitors holding certificates as at March 2009.

In 2008 terminations increased from 5,433 in 2007 to 7,363, an increase of 35.5%. This may reflect the current economic environment or may be as a result of more solicitors failing to meet the regulatory deadlines. Growth in student numbers continued with an intake of 10,814 in 2008 compared with 10,395 in 2007, an increase of 4.0%.

Income

The main source of income for the Society is the practising certificate fee and reliance on this fee grew in 2008 due to the impact of the economic

environment on the Society's commercial activities. Practising certificate and other fee income increased from £102.7m to £108m, an increase of 5.2%. This increase was primarily due to the number of additional members paying for practising certificates as the fee charged did not vary between the 2006/07 and 2007/08 fee years, although there is additional revenue for two months from the higher fees levied for the 2008/09 fee year to cover additional deficit payments to the pension scheme.

Other revenues declined by £1.8m due largely to a £2.3m decline in the Gazette advertising income. The Gazette operates on very tight margins and when advertising revenues decrease, production and material costs are managed by reducing the size of the publication.

Expenditure

Total expenditure has remained relatively stable year on year being £122.9m for 2008 and £123.7m for 2007. However within individual expenditure items there were some significant movements.

Wages and salaries have increased from £50.7m to £53.1m in 2008. Based on the Law Society employee numbers disclosed in note 7 of the financial statements, average salaries have increased from £39,096 per annum to £40,843 per annum in 2008, an increase of 4.5%. This increase is in line with expectations given prior year inflation and additional years' service increments for 2008.

The £1.6m reduction in other pension costs relates to a £2.8m decrease in the current service cost of the defined benefit scheme (see note 20). This decrease is offset by increased contributions to the defined contribution scheme during the year.

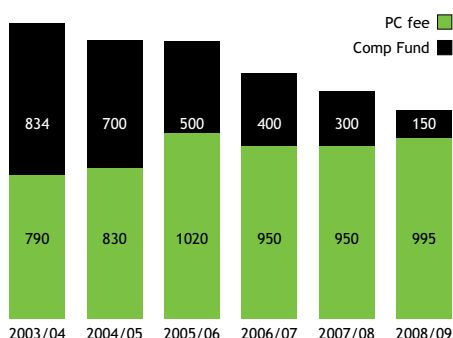
Other employment costs have increased to £5.2m in 2008 from £3.9m in 2007. The principal reasons for the movement are an increase in severance payments by £1.1m to £1.6m in 2008 and an increase in staff recruitment costs by £0.1m to £0.7m in 2008. The staff recruitment cost increase represents increased recruitment campaign activity and assessment centres, driven respectively by increased staff in the SRA (and continuing staff numbers in the LCS) and major changes to the Law Society legal policy team.

The increase in computer charges year on year of £0.3m predominantly represents costs spent on new infrastructure improvements.

Other professional fees for 2008 total £12.3m compared to £11.1m in 2007, an increase of £1.2m. The increase, relating to activities of the SRA, represents a £1.5m increase in net intervention costs as cost recoveries have not covered as large a proportion of costs in 2008 as in 2007.

General administration expenses increased by £0.7m. The principal increase was £0.5m spent on the advertising campaign supporting solicitors.

PC fee and Compensation Fund - £

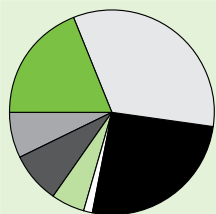


Data as at July of each year.

Practising certificate fee split 2008

Pro rata PC fee for the year ended 31 December 2008: £957

■ The Law Society: £183
■ SRA: £319
■ LCS: £247
■ SDT: £13
■ Capital projects: £50
■ Special pension contributions: £77
■ Transfer to reserves: £68*



* To cover future pension funding requirements

Rent, rates, heating, cleaning and insurance costs appear to have increased by £0.6m during the year. However the 2007 expenditure benefited from a one-off reversal of a £0.5m provision for the closure of regional offices. No such items arise in 2008.

Consolidated balance sheet

The balance sheet remains strong. Accumulated reserves stood at £50.3m, up from £34.9m at 31 December 2007. However this needs to be compared with the actuarial deficit of £59.1m as at 31 December 2007 for the defined benefit pension scheme, of which £6.4m is reflected in the accounts under the current accounting rules. See the Pensions section below for further information.

Investments decreased by £8m from £46m to £38m as SIF reduced significantly the number of outstanding claims provisions. Gross claims provisions reduced by £8.9m to £30.4m.

Cash and cash equivalents, which cover the Society's funds, increased by £18.5m (2008: £140.2m, 2007: £121.7m). This reflects the collection of the annual practising certificate fee which is largely completed by the end of the financial year. The funds are maintained in AAA money market funds with a major institution. Steps have been taken since the year end to split the investment between two major AAA money market funds as discussed with the Society's independent advisers.

Receivables and prepayments reduced by £1.5m to £6.8m during the year reflecting improvements in the collection of trade receivables but also the downturn in commercial sales.

Creditors reduced by £6.1m year on year as a result of several factors. Fees collected on behalf of the Compensation Fund were remitted to the fund in full before the end of the year. At 31 December 2007 amounts due to the fund totalled £9.6m. Amounts due to suppliers have increased by £4.5m as a result of timing differences in payment runs made before the year end in 2008 and 2007. There has also been an increase in the value of practising certificate fees received in advance. The increase reflects both an increase in the level of the practising certificate fee to £995 for the 2008/09 practising year and an increase in the volumes of certificates as discussed above.

Provisions for liabilities and charges, after restating the 2007 comparatives (see note 1), have increased by £1.3m year on year. The increase represents the net effect of the change in accounting policy for claims provisions, as a result of which the £2.7m SIF run-off cost provision at 31 December 2007 is no longer required (see note 1), and the increase in the provision for the costs of ongoing interventions, disciplinary proceedings and litigation year on year. This increase totalled £4.3m reflecting both a significant increase in the number of interventions year on year, rising from 48 cases in 2007 to 71 cases in 2008, and a significant increase in the magnitude of specific interventions at the end of 2008 compared to 2007.

Pensions

The Law Society's primary means of making pension provision for employees is a final salary pension scheme. The scheme is closed to new members, and for employees who joined after 1 January 2005 a defined contribution stakeholder arrangement is in place.

During the year the Law Society took a number of additional steps in order to minimise the risk of escalating costs in the final salary pension scheme, including reducing the accrual rate and the pension increase rate with effect from April 2008. The January 2008 pensionable salary increase was also restricted to the increase in the Retail Prices Index. For January 2009 no changes to base salary or pensionable salary were made. The Society did implement a flexible benefits scheme whereby employees were able to choose a range of benefits funded from a non-pensionable flexible benefits fund. Our intent over time is to introduce personal flexibility that allows employees to arrange their 'pay' in the way that most suits their own needs or the needs of their families.

At the same time the Society also introduced a scheme for those employees who wished for example to take advantage of the tax efficient benefits of building a pension fund through salary sacrifice, and introduced a new universally available defined contribution pension scheme with Legal & General.

The latest actuarial valuation of the scheme at 31 December 2007 prepared by the trustees has indicated a deficit of £59.1m and the trustees have raised a formal demand for this amount payable by 31 March 2009. The Society has acknowledged a suggested schedule of contributions prepared by the scheme actuary and has agreed to fund the deficit over a period of seven years. The first payment has been made and we will make the second payment before 31 December 2009.

The financial statements show a far lower deficit than revealed at the actuarial valuation, primarily because the pension liabilities under the financial statements are prepared on the basis that the liabilities are discounted in line with the yields on

high-quality corporate bonds whereas the actuarial valuation is prepared on a significantly more prudent basis that the liabilities are discounted in line with the yields on government bonds. Corporate bonds yields have widened significantly in the current recession, which has had the result of significantly lowering the pension liabilities in the financial statements relative to the pension liabilities determined in the actuarial valuation. It is the pension liabilities in the actuarial valuation which drive the cash calls on the Society, which are therefore more significant to the Society.

During 2009 the Society will continue to work mitigating the risk and significant costs associated with operating a defined benefit pension scheme through consulting on the investment strategy and looking at opportunities to 'buy in' or 'buy out' the liabilities of the scheme with an insurance provider. The Society estimated that the 'buy out' deficit was £70m in early November 2008.

Professional indemnity insurance

The consolidated accounts include the accounts of the Solicitors Indemnity Fund (SIF), the Society's former professional indemnity business, and Legal and Professional Claims (LP Claims) which provides SIF with administration and claims handling services.

SIF generated a surplus after tax of £5.9m in 2008 (2007: £3.4m). The surplus was generated through a decrease in the provision for claims and an increase in the level of recoveries. SIF is now substantially in run-off and the number of claims being handled has decreased significantly.

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. During the year SIF released £2m of funds to the Society which were surplus to indemnity requirements.

Property

The Society holds the freehold to a number of properties in London, Redditch and Leamington Spa. Based on desktop valuations performed as at 31 December 2008, the value of the property portfolio decreased by £5.8m to £20.9m during the year. The portfolio is now valued at levels similar to those held in December 2004. The open market value of 113/114 Chancery Lane was £14.3m, a decrease of £4.2m. The open market value of Carey Street is £1.8m. The open market value of Victoria Court, the premises currently occupied by the LCS, is £2.2m, and of Ipsley Court, occupied by the SRA and support services, is £2.6m. The values reflected in the accounts represent the historic cost of the property portfolio net of depreciation and total £16.8m at the year end.

The lease on the Holborn property currently occupied by the LCS has been extended to 31 December 2009.

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

Capital expenditure

During the year the Society invested £1.6m (2007: £1.7m) in equipment, furniture and computers. There were two major capital projects during the year. The Council Chamber was refurbished to provide a modern fit for purpose auditorium that can accommodate a hundred members. Investment of £0.6m in the Chamber was made on the basis it would also widen the Society's portfolio of rooms for hire, and lettings income from the Chamber in its first year is encouraging.

In addition the Society also funded the £0.4m refurbishment of new tribunal rooms at Gatehouse, the building occupied by the SDT. The additional tribunal rooms were required to meet the demand for increased sitting days for disciplinary proceedings brought before the Tribunal.

Major capital projects relating to property in 2009 have been halted. Maintenance continues as normal.

At the end of the financial year we performed a physical review of equipment and furniture and computer and hardware assets in conjunction with an assessment of the useful economic lives of these assets. This has resulted in a rationalisation of asset lives which now more appropriately reflect the period over which the Society uses these assets. As a result of these exercises £5.1m of depreciation has been charged in excess of the amount that would have been charged if the asset lives had not been revisited and the physical verification had not taken place.

This amount includes accelerated depreciation of £0.3m relating to the Society's membership software, work on which was halted in early 2008 whilst the business assessed its requirements. In addition, assets with zero net book value have been disposed of and this is reflected in the disposal section of note 9.

IT strategy

Following the review of its group IT strategy the Society has embarked on the feasibility stages for a number of significant change management projects which will enable the group to deliver improved services to its members and the regulated profession.

The Society renewed the support contract for outsourced IT infrastructure and application management services on 1 January 2009. The new contract is expected to deliver the service at a more competitive cost, making use of shared services and off shoring where appropriate.

Progress has also been made on delivering a new web solution for the Society which will concentrate on replacing the existing platforms with a single

web group platform solution. Although at an early definition stage, detailed planning has commenced on the major business change project, the SRA Enabling project. This is a business led project concentrating on embedding new processes and more effective ways of working. The project is critical for the SRA if it is to deliver its business strategy and the improvements in regulation envisaged as the result of the Legal Services Act. However the Society needs to make sure that the funds are well spent and that the project delivers the benefits promised in a robust fashion.

The representative activities of the Law Society

Des Hudson, chief executive

Supporting solicitors

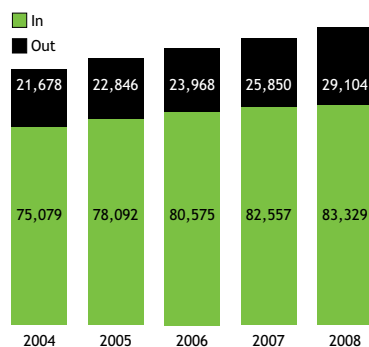
The Council of the Law Society has set itself clear objectives to be achieved by the end of 2010. They are that:

- 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.

In 2007 I 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

Solicitors in private practice/employed outside private practice



Data as at July of each year.

Achievements in 2008

In our mission to deliver a modern and responsive representational professional body that helps, protects and promotes solicitors, we:

- lobbied for new market opportunities overseas
- organised trade missions to Nigeria, Brazil, Ghana, USA and France
- promoted England and Wales as the jurisdiction of choice for international dispute resolution
- created a comprehensive package of support to help solicitors survive the downturn
- ran a major national PR and advertising campaign to educate the public about the importance of getting proper legal advice
- continued to provide extensive guidance to the profession on anti-money laundering regulations
- began to exploit new online communication channels
- achieved over £50m positive media coverage for the Society and the profession
- refocused the Gazette to give more support to in-house and commercial solicitors
- published 18 practice notes on subjects including anti-money laundering, VAT changes, tax payments and redundancy
- held the legal sector's most prestigious awards series, sponsored by Mercedes-Benz
- launched the BME Forum to create a powerful voice for black and minority ethnic solicitors
- held a series of thought leadership events addressed by some of the most innovative thinkers in today's legal and business worlds
- commissioned an independent review of regulation to report in Autumn 2009 to ensure regulation is fit for purpose
- developed new special interest groups to provide targeted support
- enhanced our online library service in a partnership with LexisNexis Butterworths.

Representing all our members

The profession we serve is diverse in many senses. During 2008 we:

- established a BME Forum
- appointed a diversity champion - internal and professional
- followed up the salary survey to explore and address obstacles to entry/progress
- took part in the Stonewall Workplace Equality Index - helping to inform our work
- supported Interlaw - a network of networks and a model we want to pursue for other groups.

Solicitors Regulation Authority

Peter Williamson, chair of the Board of the SRA, and Antony Townsend, chief executive

The strategic objectives

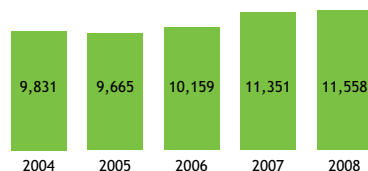
The SRA Board published its first strategic plan, covering 2009-2012, in 2008. This sets out in detail how the SRA intends to achieve its objectives and provides the framework for the annual business plan.

Key objectives are:

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.

Students enrolled with the Law Society



Data as at July of each year.

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.

Organisational improvement

- To demonstrate value for money in all our dealings.
- To attract and retain high calibre staff who are committed to service excellence through continuous business improvement.

Achievements in 2008

The SRA's initial business plan set out a series of key deliverables for 2008, most of which were substantially delivered. Further progress in a number of areas is currently inhibited by old processes and IT. A new two-year enabling programme of work has been planned, aimed at embedding new and improved business processes and IT systems to ensure the SRA is able to deliver effective entity-based regulation as required by the Legal Services Act. The programme commenced in spring 2009.

The SRA has continued to develop its business planning processes, introducing improved key performance indicators, better financial monitoring and improved corporate risk processes, and further developing the role of the Scrutiny Committee. There remains scope for substantial improvement in these areas, and further work will be carried out in 2009.

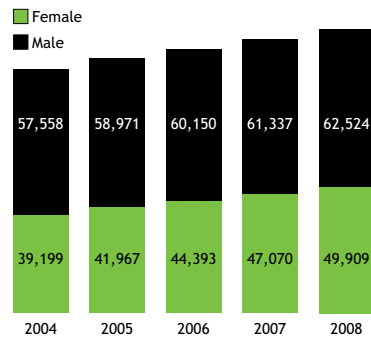
The SRA's purpose is to regulate in the public interest. We introduced a new risk assessment process early in the year to apply consistent and transparent risk scoring, with benefits for public protection as well for the profession. We also started to publish certain types of regulatory decisions on our website, and launched a research study to provide more information on consumer attitudes and issues.

We significantly improved the level of support and guidance to the profession, by doubling the opening hours of our ethics guidance service.

We consulted on a wide range of issues, ranging from the use of new powers related to the Legal Services Act to a new scheme for lawyers who qualified overseas and others who wish to be admitted as solicitors in England and Wales (the Qualified Lawyers Transfer Scheme). Two initiatives focused on widening access to the profession - the work-based learning pilot launched in autumn 2008, plus the validation of new-style, more flexible legal practice courses to run from September 2009. Ten roadshows for the profession were held around the country to enable discussion of the work of the SRA and key regulatory issues. We developed our approach to the regulation of bigger firms by means of extended visits to volunteer practices.

We also launched a consultation on our Equality and Diversity Strategy and Action Plan, to ensure the SRA is, and is seen to be, an open, fair, transparent and proportionate regulator. The strategy and action plan are designed to address the recommendations and criticisms in Lord Ouseley's independent review into disproportionate regulatory outcomes for black and minority ethnic practitioners. Regular reports on progress against the action plan are being published.

Solicitors with practising certificates



A huge amount of groundwork was carried out in 2008 to prepare for the new types of firms enabled by the Legal Services Act, and to provide solicitors with clear information and guidance on what the legislation means for them and their firms.

In financial terms, overall the SRA delivered a saving of £1.5m against a net budget of £25.5m. Improvements in efficiency allowed us to cope with increased workload in many areas, such as an increased number of inspections by the Forensic Investigations Team, within existing headcount.

Principal risks and uncertainties

A number of risks to delivering our strategic objectives have been identified. These include risks that current approaches and governance arrangements with the Law Society will not meet with criteria to be developed by the LSB in 2009, the risk of failing to identify and manage external

change in a fast-changing environment, and risks around resources, including IT systems, being inadequate to meet the requirements of modern, efficient and proportionate regulation. Controls have been put in place to manage these risks.

Legal Complaints Service

Shamit Saggar, chair of the Board of the LCS, and Deborah Evans, chief executive

Development and performance

The Board of the LCS 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 2008

The 2007/08 plan year (1 April 2007 - 31 March 2008) saw the LCS continue to strengthen all areas of its performance. The organisation's results demonstrated it was performing at levels attainable by the very best consumer organisations.

Stretching targets for the year called on LCS to have no file open more than twelve months old. At the end of the year LCS had just four files open older than twelve months, each with a justifiable reason. This meant the organisation closed 99.85% of files within twelve months. Just three years previously the LCS had around 1,200 cases more than twelve months old.

The three month target called for 67% of files to be closed within this timeframe. This target was also met. Impressive improvements in quality performance were also achieved with substantial improvements seen in some areas.

The groundwork for Phase II of LCS's coal health initiative was completed, involving extensive negotiation with law firms. This will enable the organisation to work with a number of law firms who handled coal health compensation claims. The firms will write to their clients asking them to reconsider how their matter was handled. In the first instance former miners will be encouraged to contact the firm if they feel they have a complaint. However, if after this process they remain unhappy they do have the option of contacting LCS.

The LCS decided not to proceed with its proposal to publish the complaints records of solicitors. Throughout a detailed consultation process and exhaustive debate the Board of the LCS remained committed to the principle of transparency. It was

steadfast in its belief that this principle would deliver benefits to consumers of legal services and members of the legal professions alike. However, the practical steps necessary to ensure a process that was fair to all parties were adversely impacted on by the reduced lifespan of LCS.

It is now anticipated that the OLC will come into being in mid to late 2010. In anticipation of this LCS is now developing a performance plan that will cover the period from January 2009 until the point of closure. This plan will seek to maintain the high levels of performance delivered by the organisation over the past two years throughout the testing period of transition to the OLC.

Planning for launch of the Office for Legal Complaints

Work towards the opening of the OLC, which will handle consumer complaints across the legal profession, is well under way.

Continuity of service remains our key concern as we move towards the opening of the new organisation in 2010. One of the aims of the Legal Services Act is to ensure that redress is easily understood and accessible. We remain 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 OLC is very important so that consumers can continue to access redress easily - and that solicitors know how any complaints will be handled and by which organisation. We are working closely with the Law Society, the Ministry of Justice and the newly formed LSB and OLC Board 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 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). All staff and assets, whether employed in the SRA or LCS, are 'Law Society staff' or assets as the case may be. The Council delegated its regulatory functions (insofar as legally possible) to the SRA and the 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 including the making of professional rules, 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 a regulatory board 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). The Board is chaired by the treasurer. There are also other boards to oversee regulation and complaints on the one hand, and representation functions on the other (regulatory affairs, membership 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 a hundred 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 four are non-Council members; the Audit Committee has eight members, of whom one is a Council member and one an SRA Board member. The chairs of these committees are non-Council members. The boards of the LCS and SRA are not represented on the Board 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. The LCS Board has a majority of lay members, while the SRA Board has a solicitor majority, with significant lay membership.

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 OLC. The government has given a commitment 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 the new LSB.

Solicitors Disciplinary Tribunal

The Society also provides the funding for the 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 it. The SDT'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 office of president is a full-time appointment. The president chairs the Council.

Current chairs of the regulatory boards

The two regulatory boards each have a chair and report to the Council. The chair of the Board of the SRA is Peter Williamson. The chair of the Board of the LCS is Shamit Saggat.

Chief executives

Desmond Hudson is the chief executive of the Law Society and chief accounting officer for all parts of the Society, Antony Townsend is chief executive of the SRA, and 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 Board is responsible for the preparation of financial statements which give a true and fair view of the position of the Society and its subsidiaries (together 'the group') at the end of the financial year and of any surplus or deficit. In preparing the financial statements for 2008, 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 2008 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 are for 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.

Performance evaluation

On 28 January 2009 the Council agreed wider terms of reference for the Society's Scrutiny Committee which will enable it to supplement the Board and other boards' own performance reviews by carrying out its own. These reviews will be of a whole board's performance.

The Board did not undertake a formal evaluation of its own performance in 2008 and so does not report on how performance evaluation of the Board, its committee and its members was carried out. A formal review will take place in 2009.

Remuneration

In 2008 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 2008, 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 2008 accounts was approved at the July 2008 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 auditors' 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 propriety 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.

In 2008, the Audit Committee oversaw the market-testing of external audit for the Society for 2009-2011, and recommended that Pricewaterhouse Coopers LLP be appointed. The Council endorsed this recommendation. The Audit Committee would like to thank BDO Stoy Hayward LLP for the contributions they have made to the Society during their period of tenure.

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 other boards have risk management responsibilities. The Board was therefore primarily responsible for reviewing the effectiveness of the Society's system of internal control in 2008. It did not carry out its own review, but has relied upon the work of internal and external audit.

Critical controls upon which the Board has focussed are

- Governance, consequent upon the Legal Services Act 2007
- Project management
- Risk management
- Financial controls

Governance

The governance framework review following the granting of Royal Assent to the Act resulted in the creation of a Member-level Review Group to help resolve any disagreements between the regulatory and representative functions over shared services. The terms of reference and consultation of this Group have been amended in 2009, in the light of experience.

Project management

The Board approved the group IT strategy; which specifies how projects are to be planned, approved and run, under tighter discipline and with proper business leadership.

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 the process is continuing to develop. Good progress was made in 2008 by all three divisions on this. The next steps will be to improve consistency and comprehensiveness checks on the risks, monitor the mitigating controls, and integrate the whole into business planning. Once this is done risk management will be properly embedded.

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 significant risks. The key risks are reported regularly to the Board and Audit Committee.

Financial controls

Financial controls and systems were in need of updating and the new managers in the Finance Department began work on this in 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 Management Board received regular progress reports on the achievement of strategic objectives and any related financial implications and control issues. The Board received updates on the strategic risk register and associated action plans, which are being completely re-launched. 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 monitored the exercise of delegated powers by the 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.

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

strategic risks have been included in business planning and in-year reporting. The Council approves revenue and capital budgets annually. The Council and the Board have approved the budgets for 2009 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 have again been 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.

Audit Committee

The Committee met eight times in 2008. 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 is a member of the Board although until September two members were members of Council. Thereafter there was one Council member and one member of the SRA Board. 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 audit

The Internal Audit Unit carried out an annual assurance review for 2008 as part of its planned audit coverage. Audits of systems always assess how the controls protect against the risk of fraud or illegal acts.

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 twelve 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 2008

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 membership and attendance records for the Management Board, the Audit Committee and the Remuneration Committee are shown.

The Management Board's membership from 1 January 2008 to 31 December 2008 was:

Philip Hamer	(chair & treasurer)
Andrew Holroyd	(president until July 2008 / retired from July 2008)
Paul Marsh	(vice-president until July 2008 / president from July 2008)
Bob Heslett	(deputy vice-president until July 2008 / vice-president from July 2008)
Linda Lee	(deputy vice-president from July 2008)
Peter Adams	
Andrew Caplen	
Nick Fluck	
Sue Nelson	
Tim O'Sullivan	
Desmond Hudson	(chief executive)

The Audit Committee's membership from 1 January 2008 to 31 December 2008 was:

Stephen Brooker	(chair)
Sue Carter [#]	(retired August 2008)
Stuart Collins	
Murray Ross	
Michael Singleton [#]	(retired August 2008)
Grenville Page	
David Wilson	
Stanley Williams [#]	(from September 2008)
Bob Spedding	(from September 2008)
John Stoker ^{##}	(from November 2008)

[#] Council member of the Audit Committee

^{##} SRA Board member of the Audit Committee.

The remaining Audit Committee members are independent.

The Remuneration Committee membership from 1 January 2008 to 31 December 2008 was:

Shaun Tyson	(chair)
Philip Hamer [#]	
David Taylor [#]	
Ronnie Fox	
Dean Fuller	
Sally Irvine ^{##}	(from November 2008)

[#] Council member of the Remuneration Committee

^{##} SRA Board member of the Remuneration Committee.

The remaining Remuneration Committee members are independent.

Attendance records

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.

Management Board

Total meetings during the year	13
Philip Hamer	13
Andrew Holroyd	8 (8)
Paul Marsh	8
Bob Heslett	10
Linda Lee	3 (5)
Peter Adams	11
Andrew Caplen	13
Nick Fluck	12
Sue Nelson	11
Tim O'Sullivan	9
Desmond Hudson	13

Remuneration Committee

Total meetings during the year	6
Shaun Tyson	6
Philip Hamer	6
David Taylor	5
Ronnie Fox	6
Dean Fuller	6
Sally Irvine	1 (1)

Audit Committee

Total meetings during the year	8
Stephen Brooker	8
Sue Carter	5 (6)
Stuart Collins	8
Murray Ross	7
Michael Singleton	4 (6)
Grenville Page	7
David Wilson	3
Stanley Williams	1 (2)
Bob Spedding	2 (2)
John Stoker	1 (1)

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 SRA Board.

Independent auditors' report to the members of the Law Society

We have audited the consolidated financial statements of the Law Society and its subsidiary entities, as listed in note 11 to the accounts, ('the group') for the year ended 31 December 2008 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, chair of the Board of the SRA, chair of the Board of the LCS 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

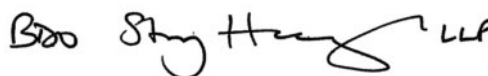
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 2008, 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: 20 May 2009

Consolidated income and expenditure account for the year ended 31 December 2008

	Notes	Continuing operations 2008 £'000	Discontinued operations 2008 £'000	Total 2008 £'000	Total 2007 £'000
Income					
Practising certificates and other fees	3	108,027	-	108,027	102,739
Other income	5	21,724	-	21,724	23,529
	2	129,751	-	129,751	126,268
Expenditure					
Administration expenses	6	115,907	-	115,907	117,197
Establishment expenses	6	6,956	-	6,956	6,526
		122,863	-	122,863	123,723
Investment income and interest	4	4,553	2,637	7,190	7,079
Other finance income	20	458	-	458	2,011
Surplus/(deficit) arising on professional indemnity insurance operations	25	-	3,213	3,213	(1,652)
Surplus for the financial year	17	11,899	5,850	17,749	9,983

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

Consolidated statement of total recognised gains and losses

	Notes	2008 £'000	2007 £'000
Surplus for financial year		17,749	9,983
Actuarial loss recognised in the pension schemes	20	(2,823)	(5,300)
Unrealised gains on investments	25	410	870
Total gains recognised since last annual report	17	15,336	5,553

Consolidated balance sheet as at 31 December 2008

	Notes	2008 £'000	2007 restated £'000
ASSETS			
Tangible assets	9	19,145	28,022
Investments	10	38,033	45,999
Reinsurers' share of claims provision	15	1,130	3,560
Current assets:			
Inventories		321	266
Receivables and prepayments	13	6,771	8,234
Cash and cash equivalents		140,264	121,740
TOTAL ASSETS		205,664	207,821
LIABILITIES			
Current liabilities:			
Creditors	14	(111,892)	(118,021)
Gross claims provisions	15	(30,438)	(39,318)
Provisions for liabilities and charges	16	(6,292)	(5,036)
TOTAL LIABILITIES		(148,622)	(162,375)
Total net assets excluding pension liability		57,042	45,446
Pension liability - unfunded		(360)	(660)
Pension liability - funded	20	(6,416)	(9,856)
Total net assets including pension liability		50,266	34,930
Represented by:			
Accumulated fund brought forward		34,930	29,377
Total recognised gains and losses		15,336	5,553
Accumulated fund carried forward	17	50,266	34,930

The financial statements were approved by the Management Board of the Law Society on 20 May 2009.

Signed on behalf of the Council of the Law Society on 20 May 2009.



P Marsh
PRESIDENT



P Hamer
TREASURER

Consolidated cash flow statement for the year ended 31 December 2008

	Notes	2008 £'000	2007 restated £'000
Net cash inflow/(outflow) from operating activities	I	12,814	(17,808)
Returns on investments and servicing of finance	II	7,190	7,079
Taxation		(8,380)	(1,178)
Capital expenditure and financial investment	II	(1,476)	(1,671)
Cash inflow/(outflow) before management of liquid resources and financing		10,148	(13,578)
Management of liquid resources	III	8,376	33,147
Increase in cash in the year	IV	18,524	19,569
Reconciliation of net cash flow to movement in net funds			
Increase in cash in the year		18,524	19,569
Cash outflow from changes in liquid resources		(8,376)	(33,147)
Change in net funds resulting from cash flows		10,148	(13,578)
Unrealised gains on investments		410	870
Movement in net funds	IV	10,558	(12,708)
Net funds at 1 January		167,739	180,447
Net funds at 31 December		178,297	167,739

Notes to the consolidated cash flow statement for the year ended 31 December 2008

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

	2008 £'000	2007 restated £'000
Surplus for the year	17,749	9,983
Depreciation charges	10,353	8,984
Loss on disposal of tangible fixed assets	-	3,358
Investment income and interest receivable	(7,190)	(7,079)
Other finance income	(458)	(2,011)
Tax charge	2,124	2,135
Increase in inventories	(55)	(23)
Decrease/(increase) in receivables and prepayments	1,447	(770)
Increase/(decrease) in creditors	143	(17,092)
Decrease in professional indemnity insurance claims incurred net of reinsurance	(6,450)	(11,011)
Increase in provisions for liabilities and charges	1,256	1,829
Difference between pension charge and cash contributions	(6,105)	(6,111)
Net cash inflow/(outflow) from operating activities	12,814	(17,808)

Notes to the consolidated cash flow statement for the year ended 31 December 2008

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

	2008 £'000	2007 £'000
Returns on investments and servicing of finance		
Investment income and interest	7,190	7,079
Net cash inflow from returns on investments and servicing of finance	7,190	7,079
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(1,568)	(1,671)
Sale of fixed assets	92	-
Net cash outflow from capital expenditure and financial investment	(1,476)	(1,671)

III Management of liquid resources

	2008 £'000	2007 restated £'000
Sale of current asset investments	8,376	33,147

IV Analysis of net funds

	At 1 Jan 2008 £'000	Cash flow £'000	Other non- cash items £'000	At 31 Dec 2008 £'000
Cash and cash equivalents	121,740	18,524	-	140,264
Current asset investments	45,999	(8,376)	410	38,033
	167,739	10,148	410	178,297

Other non-cash items relate to unrealised gains on investments.

Notes to the accounts for the year ended 31 December 2008

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 SIF rules. The professional indemnity insurance operations have ceased and are therefore treated as discontinued activities.

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, Statutory Trust Accounts, Stannard Bequest Fund, The Bursary Fund, The Trust Prize 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.

Prior year restatement

Due to a significant year on year increase in legal costs relating to ongoing interventions, disciplinary proceedings and litigation, year end liabilities in respect of these costs have been reclassified from within amounts due to suppliers to provisions for liabilities and charges. 31 December 2007 year end amounts have therefore been restated. The effect of this restatement on the consolidated balance sheet for 2007 is as follows:

	As previously reported £'000	As restated £'000	Movement £'000
Amounts due to suppliers	11,869	10,697	(1,172)
Provisions for liabilities and charges	3,864	5,036	1,172

The restatement has no effect on the surplus reported for the year ended 31 December 2007.

Management Board believe the restatement provides clearer presentation of creditor and provision balances to readers of the financial statements.

Liquid resources

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

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

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.

The Law Society Services Limited and Legal and Professional Claims Limited are liable for corporation tax on their profits for the year.

The Solicitors Indemnity Fund is liable for corporation tax on its surplus for the year.

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 useful economic life of fixed assets as noted below:

- (i) In respect of freehold property, each property has been split into various component parts. Each component part is being depreciated over its useful economic life as follows:

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

No depreciation is charged on freehold land.

Costs of repairs and maintenance are charged against revenue in the year in which they are incurred.
- (ii) In respect of short 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, during the year Management Board have reviewed and revised the useful economic life of assets in this category to five years. This represents a change in accounting estimate. Previously assets in this category were depreciated over four, five or ten years. It is the opinion of Management Board that the revised life more appropriately reflects the period over which economic benefit is derived from these assets by the Society.
- (iv) In respect of computers and hardware, during the year Management Board have reviewed

and revised the useful economic life of assets in this category to three years for all hardware assets and five years, from the point of first use, for all software assets. This represents a change in accounting estimate. Previously assets in this category were depreciated over three, four or five years. It is the opinion of Management Board that the revised lives more appropriately reflect the period over which economic benefit is derived from these assets by the Society.

In conjunction with the review of equipment and furniture and computers and hardware asset lives all assets in these categories have been verified and reconciled to the fixed asset register. As a result of both these exercises £5,135,000 of depreciation has been charged in the year in excess of the amount that would have been charged if asset lives had not been revised and verification had not taken place. This additional charge is included within the depreciation figures disclosed in note 9 for each asset category.

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.

It has previously been considered appropriate to discount claims provisions because the contributions to the fund were determined after taking account of future investment income. However, as the last contribution collection retained was for the indemnity year 31 August 2001 and, as the low level of remaining unsettled claims give rise to considerable variability as to the timing of their settlement, it is no longer considered appropriate to discount claims provisions. As a consequence of ceasing to discount claims provisions, it is no longer considered necessary to provide for future anticipated run-off costs, since they are offset by the expected future investment return of the fund. This represents a change in accounting policy, as in previous years the claims provisions were discounted and a provision for run-off costs was carried. The overall prior year effect of this change in accounting policy totals £176,000 and is not material to the group financial statements. As such prior year comparatives have not been restated at a group level.

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 defined contribution (money purchase) pension scheme has been in place 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 twelve months of commencing employment, became eligible to join the new scheme.

The Law Society makes contributions towards the defined contribution scheme, up to maximum of 12.25% 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.

Defined benefit 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. Valuations are obtained annually and are updated at each balance sheet date. The resulting defined benefit asset or liability is presented separately after other net assets on the face of the balance sheet.

Defined benefit pension - unfunded

The unfunded scheme (also referred to as ex-gratia or top-up scheme) was implemented by the Law Society in the '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.

Defined contribution pension

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	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Analysis by class of business						
Law Society activities	129,751	126,268	12,066	7,874	41,197	29,950
Legal and Professional Claims Limited	-	-	(167)	(185)	144	315
Solicitors Indemnity Fund	-	-	5,850	2,294	8,925	4,665
	129,751	126,268	17,749	9,983	50,266	34,930

3. Practising certificates and other fees

	2008 £'000	2007 £'000
Practising certificates	102,274	97,640
Examination and legal practice course fees	2,920	2,245
Admission fees	873	766
Student enrolment fees	909	878
Annual enrolment fees	424	426
Registration and transfer of training contracts	627	784
	108,027	102,739

4. Investment income and interest

	2008 £'000	2007 £'000
Bank deposit interest	4,553	3,132
Fixed interest and deposits	2,077	3,542
Interest on payments into court	560	405
	7,190	7,079

5. Other income

	2008 £'000	2007 £'000
Gazette income from advertisements	7,575	9,827
Publications and products	1,910	2,098
Courses and functions	1,070	1,399
Sponsorship income	359	191
Library	135	141
Royalty income	999	894
Room hire and conferences	472	536
Grant income	757	788
Catering	290	307
Foreign lawyer registration	1,507	1,522
Special interest sections income	932	851
Family Law Panel fees	182	134
Countrywide legal indemnity	276	507
Personal Injury Panel	148	47
Authorisation of course providers	684	582
Business services to solicitors	853	765
Other subscriptions	125	146
Section 12 waiver fee	190	195
Incorporated practice rules fee	296	211
Lexcel assessment fees	219	166
Limited liability partnership fee	375	324
Cost directions income	990	641
CRB enquiry fee	379	347
Rights of audience	95	100
Other panel fees	331	(39)
Sundry income	575	849
	21,724	23,529

Grant income includes £396,000 (2007: £372,000) from the European Commission, £359,000 (2007: £335,000) from the Department for Constitutional Affairs, £2,000 (2007: £3,000) from the Foreign Commonwealth Office, and £nil (2007: £78,000) from the Department for Education & Skills.

6. Analysis of expenditure

	2008 £'000	2007 £'000
Administration expenses		
Employment costs:		
Wages and salaries	52,465	50,124
Social security costs	4,576	5,382
Other pension costs	4,672	6,219
Other costs	5,161	3,862
	66,874	65,587
Gazette printing and stationery	2,770	2,745
Other printing and stationery	1,441	1,706
Postage and telephone	2,177	1,960
Computer charges	5,002	4,692
Office holders' expenses	383	359
Council and committee expenses	1,123	1,086
Staff travelling and other expenses	2,548	2,547
Legal fees	6,895	7,475
Auditors' remuneration	172	199
Other professional fees	12,274	11,093
Operating lease costs	464	749
General administration expenses	5,378	4,676
Loss on disposal of fixed assets*	-	3,358
Depreciation - equipment and furniture and computer hardware	9,412	7,954
Value Added Tax irrecoverable	6,106	6,363
Financial services application and registration fees and Legal Services Complaints commission	1,269	1,241
SDT expenses	259	140
Operating loss on claims handling business	173	192
Taxation (excluding SIF)	672	2,153
	125,392	126,275
Recoveries of administration expenses from the Law Society Compensation Fund	(9,225)	(8,953)
Other recoveries	(260)	(125)
	115,907	117,197

*Includes an exceptional impairment charge of £nil (2007: £2,600,000).

	2008 £'000	2007 £'000
Establishment expenses		
Rent, rates, heating, cleaning and insurances	3,409	2,852
Operating lease costs	1,125	1,701
Repairs and alterations	1,293	1,102
Employment costs:		
Wages and salaries	589	584
Social security costs	49	53
Other pension costs	45	115
Depreciation - property	796	844
	7,306	7,251
Recoveries of establishment expenses from the Compensation Fund	(350)	(725)
	6,956	6,526
In addition to their remuneration, the auditors, BDO Stoy Hayward LLP, were also paid £97,000 (2007: £105,000) in respect of the following matters:		
Non audit fees		
Tax services:		
Compliance services	13	15
Advisory services	84	82
Other services:		
IT outsourcing/strategy /review	-	6
Other services not covered above	-	2
	97	105

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 nine directors of the Law Society received total emoluments including pension contributions of £1,562,242 for the year to 31 December 2008 (2007: £1,894,825).

The highest paid member was the chief executive who received emoluments (including pension contributions) of £304,849 (2007: £230,726), comprising £288,603 (2007: £217,426) in salary and benefits and pension contributions of £16,246 (2007: £13,300).

As at 31 December 2008, four members of the senior management team are members of the Law Society final salary scheme, four members are members of the Law Society stakeholder scheme - a defined contribution pension 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 £73,128 in 2008 (2007: £68,979). Board members (office holders) were each paid £4,800 p.a. for service on the Board (2007: £4,800 p.a.), with further payments of £400 per day (2007: £400 per day) for additional duties.

The SRA chief executive and the SRA directors received total emoluments, including pension contributions, of £1,091,892 (2007: £919,975) for the year to 31 December 2008. The highest paid member of the team was the chief executive who received emoluments including pension contributions of £205,445 (2007: £172,713), comprising £194,665 (2007: £162,738) in salary and benefits and pension contributions of £10,780 (2007: £9,975).

As at 31 December 2008, three of the team including the SRA chief executive are members of the Law Society stakeholder scheme - a defined contribution pension scheme, whilst four others are members of the Law Society final salary pension scheme.

Legal Complaints Service

The chair of the LCS Board received emoluments of £73,128 in 2008 (2007: £75,700). Board members (office holders) were each paid £4,800 p.a. for service on the Board (2007: £4,800 p.a.), with further payments of £400 per day (2007: £400 per day) for additional duties.

The LCS chief executive and the director of customer services received total emoluments, including pension contributions, of £274,677 (2007: £268,361) in the year to 31 December 2008. The highest paid member of the team was the chief executive who received emoluments including pension contributions of £160,821 (2007: £147,791), comprising £151,659 (2007: £139,426) in salary and benefits and pension contributions of £9,162 (2007: £8,365).

As at 31 December 2008, the LCS chief executive is a member of the Law Society stakeholder scheme - a defined contribution pension scheme, whilst the director of customer 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:

	2008	2007
The Law Society	1,299	1,297
Legal Professional Claims Ltd	25	28
Total	1,324	1,325

8. Tax on profit on ordinary activities

Analysis of tax charge on ordinary activities:

	2008 £'000	2007 £'000
UK corporation tax at 20.5%/28.5% (2007: 22%/30%) based on profit for the period	2,843	2,684
Adjustment in respect of prior years	(724)	(548)
	2,119	2,136
Deferred tax:		
Timing differences, origination and reversal	5	(1)
	2,124	2,135
Of the total tax charge shown above £672,000 (2007: £2,153,000) is disclosed in note 6 as taxation (excluding SIF). Taxation in respect of SIF is included within the amount reported in the consolidated income and expenditure account as the surplus/(deficit) arising on professional indemnity insurance operations.		
Factors affecting tax charge for the current period:		
The tax assessed for the period is lower than that resulting from applying the standard rate of Corporation tax in the UK 28.5% (2007: 30%). The differences are explained below:		
	2008 £'000	2007 £'000
Profit from ordinary activities before tax and excluding mutual activities	10,399	8,663
Tax @ 28.5% (2007: 30%)	2,964	2,599
Adjustments to tax:		
Reduced rate 20.5% (2007: 22%) paid by SIF	(603)	(252)
Expenses not deductible for tax purposes	238	184
Capital allowances in excess of depreciation	-	282
Unutilised losses carried forward	247	57
Other timing differences	(3)	(186)
Prior period adjustment	(724)	(548)
Tax charge	2,119	2,136

9. Tangible assets

	Freehold Land and Buildings £'000	Short Leasehold Property and Improvements £'000	Equipment and Furniture £'000	Computers and Hardware £'000	Total £'000
Cost					
At 1 January 2008	27,015	368	14,119	5,747	47,249
Additions	-	-	1,260	308	1,568
Disposals	-	-	(11,565)	(5,105)	(16,670)
At 31 December 2008	27,015	368	3,814	950	32,147
Accumulated depreciation					
At 1 January 2008	9,450	355	5,219	4,203	19,227
Charge for the year	783	13	8,023	1,534	10,353
Disposals	-	-	(11,558)	(5,020)	(16,578)
At 31 December 2008	10,233	368	1,684	717	13,002
Net book value					
At 31 December 2008	16,782	-	2,130	233	19,145
At 31 December 2007	17,565	13	8,900	1,544	28,022

Freehold land and buildings are periodically valued. The total open market value at the last valuation in 2008 was £20,890,000.

The Library collection, which has a net book value of £nil (2007: £nil) is shown within equipment and furniture. It is periodically valued for insurance purposes. The latest valuation in 2007 totalled £3,215,000.

10. Investments

	2008 £'000	2007 £'000
Fixed interest stocks	9,678	10,679
Deposits	28,355	35,320
	38,033	45,999

11. Subsidiary and other undertakings

The Society had the following principal subsidiary undertakings at 31 December 2008 and 31 December 2007. 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 above entities are consolidated in the group financial statements.

The Solicitors Indemnity Fund (SIF) is considered to be a quasi-subsiary (see note 1) under the terms of Financial Reporting Standard 5. As such there is a requirement to disclose a summary of SIFs financial statements within these financial statements. These disclosures are provided in note 25.

12. Joint ventures

The Society had the following joint ventures at 31 December 2008 and 31 December 2007. The results, assets and liabilities of both joint ventures are excluded from the financial statements as they are not material to the group.

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 2008 was £nil (2007: £33,000).

13. Receivables and prepayments

	2008 £'000	2007 £'000
Trade debtors	3,118	3,883
Other Law Society affiliated entities	291	242
Other debtors	1,330	1,839
Deferred tax asset	50	66
Prepayments	1,475	1,611
Claims recoveries receivable	10	20
Accrued income	125	179
Claims recoverable under master policies	37	37
VAT	335	357
	6,771	8,234

All amounts fall due within one year.

14. Creditors

	2008 £'000	2007 restated* £'000
Amounts due to suppliers	15,186	10,697
Taxation and social security	2,652	8,943
Fees received in advance	93,081	87,077
Compensation Fund	-	9,575
Accrued expenses	280	862
Contributions refundable	-	175
Stop loss insurance recoveries payable	138	135
Excess of loss insurance recoveries payable	492	492
Claims payable	-	2
Claims payable under master policy	63	63
	111,892	118,021

Included in taxation and social security are balances of £1,542,000 (2007: £1,433,000) in respect of PAYE and National Insurance.

All amounts fall due within one year.

*See note 1 for details of the 2007 restatement.

15. Claims provision

	2008 Gross £'000	2008 Reinsurance £'000	2008 Net £'000	2007 Net £'000
Total provision	30,438	(1,130)	29,308	35,758
Provision brought forward	39,318	(3,560)	35,758	46,769
Release of the provision to income and expenditure account	(8,880)	2,430	(6,450)*	(11,011)

*The credit balance of £6,450,000 is net of a £2,470,000 debit resulting from the change in claims provisions accounting policy, see note 1.

16. Provisions for liabilities and charges

	As at 1 January 2008 £'000	Adjustment* £'000	Released in the year £'000	Added in the year £'000	As at 31 December 2008 £'000
SIF run-off costs	2,646	(2,646)	-	-	-
Miners' compensation cases	1,218	-	(618)	-	600
Dilapidations	-	-	-	236	236
Total as previously reported	3,864				
Interventions, disciplinary proceedings and litigation **	1,172	-	(1,172)	5,456	5,456
	5,036	(2,646)	(1,790)	5,692	6,292

* The £2,646,000 adjustment results from the change in claims provisions accounting policy, see note 1.

** See note 1 for details of the 2007 restatement.

The provision for miners' compensation cases includes the costs of legal fees and ex gratia payments.

The provision for interventions, disciplinary proceedings and litigation includes the costs of legal fees to complete ongoing matters at the year end.

17. Accumulated fund

	Accumulated Fund 2008 £'000	Accumulated Fund 2007 £'000
At 1 January	34,930	29,377
Surplus for the financial year	17,749	9,983
Actuarial loss recognised in the pension schemes	(2,823)	(5,300)
Recognised gains on investments	410	870
At 31 December	50,266	34,930

18. Operating lease commitments

The Society's commitments for rental payments under operating leases payable during the year to 31 December 2009 are as follows:

	Land and buildings		Other operating leases	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Leases expiring within one year	271	-	-	242
Leases expiring between two and five years	442	629	-	-
Leases expiring after five years	375	545	-	-
	1,088	1,174	-	242

19. Capital commitments

At 31 December 2008, amounts contracted for but not provided in the financial statements for the acquisition of IT software amounted to £nil (2007: £100,000).

At 31 December 2008, approved capital project expenditure not yet contracted or provided in the financial statements amounted to £140,000 (2007: £nil).

20. Pension commitments

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

UK equities	Barclays Global Investors (BGI)
	Scottish Widows Investment Partnership (SWIP)
	Lindsell Train
Overseas equities	AllianceBernstein (Alliance)
Fixed Interest Bonds	BlackRock

Over the year to 31 December 2008 the Society paid regular contributions of 27% p.a. of pensionable salaries up to 31 July 2008 and thereafter 15.3% p.a. of pensionable salaries. The contributions paid to the Scheme during the year totalled £12,203,000 (2007: £14,563,000). There were no amounts outstanding at the year end (2007: £nil).

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. Contributions paid to the scheme during the year totalled £780,000 (2007: £820,000). There were no outstanding prepaid or accrued contributions at the year end (2007: £nil).

A separate defined contribution pension scheme is available to staff involved in the professional indemnity insurance operations. Contributions paid to the scheme during the year totalled £159,000 (2007: £159,000). There were £nil outstanding prepaid or accrued contributions at the year end (2007: £nil).

FRS 17 retirement benefits

The latest actuarial valuation of the Scheme at 31 December 2007 prepared by the trustees has indicated a deficit of £59.1m and the trustees have raised a formal demand for this amount payable by 31 March 2009. The Society has acknowledged a suggested schedule of contributions prepared by the scheme actuary and has agreed to fund the deficit over a period of seven years. The first payment has been made and we will make the second payment before 31 December 2009.

The financial statements show a far lower deficit than revealed at the actuarial valuation, primarily because the pension liabilities as accounted for under FRS 17 are prepared on the basis that the liabilities are discounted in line with the yields on high-quality corporate bonds whereas the actuarial valuation is prepared on a significantly more prudent basis that the liabilities are discounted in line with the yields on government bonds. Corporate bonds yields have widened significantly in the current recession, which has had the result of significantly lowering the pension liabilities in the financial statements relative to the pension liabilities determined in the actuarial valuation. It is the pension liabilities in the actuarial valuation which drive the cash calls on the Society, which are therefore more significant to the Society.

During 2009 the Society will continue to work mitigating the risk and significant costs associated with operating a defined benefit pension scheme through consulting on the investment strategy and looking at opportunities to 'buy in' or 'buy out' the liabilities of the Scheme with an insurance provider. The Society estimated that the 'buy out' deficit was £70m in early November 2008.

The results of the FRS 17 valuation of the Scheme for the year ended 31 December 2008, as carried out by a qualified independent actuary, are noted below:

The amounts recognised in the balance sheet are as follows:

	2008 £'000	2007 £'000
Present value of funded obligations	202,970	213,493
Fair value of Scheme assets	(196,554)	(203,637)
Net liability	6,416	9,856

The amounts recognised in the income and expenditure account and statement of total recognised gains and losses (STRGL) are as follows:

	2008 £'000	2008 £'000	2007 £'000	2007 £'000
Current service cost		3,878		6,647
Interest cost	11,585		9,779	
Expected return on Scheme assets	(12,043)		(11,790)	
Other finance income		(458)		(2,011)
Past service cost		98		93
Total pension cost recognised in the income and expenditure account		3,518		4,729
Actuarial losses immediately recognised		2,823		5,300
Total pension cost recognised in the STRGL		2,823		5,300

Changes in the present value of the defined benefit obligations are as follows:

	2008 £'000	2007 £'000
Benefit obligation at beginning of year	213,493	196,882
Current service cost	3,878	6,647
Interest cost	11,585	9,779
Plan participants' contributions	2,422	2,027
Past service costs	98	93
Actuarial (gains)/losses	(24,306)	1,352
Benefits paid	(4,200)	(3,287)
Benefit obligation at end of year	202,970	213,493

Changes in the fair value of Scheme assets are as follows:

	2008 £'000	2007 £'000
Fair value of Scheme assets at beginning of year	203,637	184,519
Expected return on Scheme assets	12,043	11,790
Actuarial losses	(27,129)	(3,948)
Employer contribution	9,781	12,536
Member contributions	2,422	2,027
Benefits paid	(4,200)	(3,287)
Fair value of Scheme assets at end of year	196,554	203,637

The major categories of Scheme assets as a percentage of total Scheme assets are as follows:

	2008	2007
Equities	25%	39%
Bonds	73%	58%
Cash	2%	3%
	100%	100%

The actual loss on Scheme assets for the year was £15,086,000 (2007: £7,842,000 gain).

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages) are as follows:

	2008	2007
Expected return on Scheme assets:		
Equities	6.75%	7.60%
Bonds	3.75%	4.60%
Cash	2.00%	5.25%
Discount rate	5.50%	5.40%
Rate of increase in salaries	3.40%	4.80%
Rate of increase in pensions in payment	3.40%	3.30%
Rate of increase of pensions in deferment	3.40%	3.30%
Inflation	3.40%	3.30%

Mortality rates at 31 December 2008:

	Male	Female
Member age 65 (current life expectancy)	23	26
Member age 45 (life expectancy at age 65)	25	27

Amounts for the current and previous four years are as follows:

	Financial year ending in				
	2008	2007	2006	2005	2004
Benefit obligation at end of year (£'000)	(202,970)	(213,493)	(196,882)	(174,415)	(129,356)
Fair value of Scheme assets at end of year (£'000)	196,554	203,637	184,519	138,091	84,515
Deficit (£'000)	(6,416)	(9,856)	(12,363)	(36,324)	(44,841)
Experience adjustments on Scheme liabilities (£'000)	-	(1,006)	(2,407)	(4,018)	1,184
Experience adjustments on Scheme assets (£'000)	(27,129)	(3,948)	1,489	10,006	3,524

21. Related party transactions

The Law Society is related to the Compensation Fund. During the year the Society collected contributions on behalf of the Compensation Fund totalling £8,410,000 (2007: £12,507,000). During the year the Society recovered costs from the Compensation Fund as disclosed in note 6. At the year end the amount due from the Compensation Fund totalled £218,000 (2007: £9,603,000 due to the Compensation Fund).

In 2006, the Law Society decided to disclose payments over £10,000 to Council members for professional services. No Council members received payments over £10,000 in 2008. In 2007 Michael Garson was paid £23,992 and Denis Cameron £11,500.

22. 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	£3,510
Chair of the SDT	£3,510
Other Council members	£1,170
Other committee members and members of the SDT	£585

23. Litigation

The Law Society has a very robust process of reviewing and managing high profile litigation matters relating to the representative function, SRA, LCS and SDT. The Law Society considers that there are no major litigations which require disclosure in the financial statements.

24. OLC and LSB set up costs

As noted in the reports from the president, chair of the Board of the SRA, chair of the Board of the LCS and chief executives section of the financial statements, the OLC and LSB implementation costs are to be funded by way of a levy on the Society. The Society will initially bear the costs and will recover these from members as part of the annual renewal process. As the Society is de facto acting as agent, no provisions have been made in the financial statements for the year ended 31 December 2008 in relation to these costs. Current estimates indicate the establishment costs to be recovered via the levy total £19.9m.

25. Summary of the financial statements of the Solicitors Indemnity Fund

The disclosures given below are a summary of the financial statements of the Solicitors Indemnity Fund (SIF) as reported in SIFs own financial statements. Whilst prior year amounts are disclosed as having been restated, following a change in the claims provisions accounting policy, the restatements are not reflected in the group accounts as they are not material to the group. See note 1 for further information.

Summarised revenue account

	2008 £'000	2007 restated £'000
Gross claims paid	(4,029)	(12,089)
Reinsurance recoveries	237	550
Decrease in gross provision for reclaims	11,785	25,512
Decrease in amount recoverable from reinsurers	(2,865)	(13,691)
Decrease in claims incurred net of reinsurance	5,128	282
Investment income	2,637	3,947
Increase/(decrease) in value of investments	520	(58)
Investment expenses	(27)	(36)
Investment return	3,130	3,853
Administrative expenses charge	(680)	(694)
Interest on underpaid tax	-	(44)
Contributions payable	(42)	(1)
Surplus before tax	7,536	3,396
Tax (charge)/credit	(1,452)	18
Surplus after tax	6,084	3,414
Release of surplus to the Society	(2,000)	(1,500)
Prior year adjustment	176	(73)
Surplus for the year	4,260	1,841

There are no other recognised gains or losses for the year.

25. Summary of the financial statements of the Solicitors Indemnity Fund (continued)

Administrative expenses are broken down as follows:

	2008 £'000	2007 £'000
Administrative service charges	3,078	1,314
Staff	-	1,153
Premises	360	317
Computer	294	490
Legal and professional	91	124
Audit	75	91
Insurance	142	111
Depreciation	117	184
Other operating costs	-	130
Total operating expenditure in the year	4,157	3,914
Less the fee charged to LPC Ltd for use of assets	(756)	(442)
Less cost of internal claims-handling staff, including share of overheads	(2,721)	(2,778)
	680	694

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.

The surplus for the year reported in the summarised revenue account above has been recognised in the group financial statements as follows:

	2008 £'000	2007 £'000
Consolidated income and expenditure account		
Investment income and interest	2,637	3,947
Surplus/(deficit) arising on professional indemnity insurance operations	3,213	(1,652)
Statement of total recognised gains and losses:		
Unrealised gains	410	870
	6,260	3,165
Release of surplus to the Society not recognised at a group level	(2,000)	(1,500)
Prior year adjustment recognised in 2008 at a group level	-	176
	4,260	1,841

Summarised balance sheet

	2008 £'000	2007 restated £'000
Assets		
Investments	38,033	45,999
Reinsurers' share of claims provision	1,130	3,995
Debtors	745	882
Fixed assets	262	407
Bank balances	2,267	3,435
Total assets	42,437	54,718
Liabilities		
Gross claims provision	30,438	42,223
Creditors	3,074	7,654
Total liabilities	33,512	49,877
Net assets	8,925	4,841



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