



The Law Society

**The Law Society**  
Consolidated Report and Financial Statements  
for the year ended 31 December 2009

*financial*  
**report 2009**

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## The Law Society Group

This report covers the Law Society Group's (the "Group") financial year from 1 January 2009 to 31 December 2009. The activities of the Group are made up of the Law Society (the "Society"), the Solicitors Indemnity Fund Limited (SIFL), Solicitors Indemnity Fund (SIF), and Legal & Professional Claims Limited (LPC). The Society is composed of three distinct arms as follows:

- the professional body (TLS), providing representative services, law reform work, membership activities and support services;
- the Solicitors Regulation Authority (SRA), providing regulatory services; and,
- the Legal Complaints Service (LCS), providing complaints handling services.

Further information on each of the arms of the Society and the other entities is given below:

### TLS, representative services, law reform work and membership activities

TLS is the professional body for more than 145,000 solicitors qualified in England and Wales of whom approximately 120,000 are in practice both at home and across the globe. In this capacity, the Society negotiates with and lobbies the profession's regulators, government and other decision makers, promotes law reform and human rights, and offers training and advice to its members.

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

### SRA

SRA exists to set, promote and secure in the public interest standards of behaviour and professional performance necessary to ensure that consumers receive a good service and that the rule of law is upheld.

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

### LCS

LCS is for members of the public wishing to make a complaint about solicitors. Formerly known as the Consumer Complaints Service, this independent and impartial body works with solicitors to resolve any issues quickly and efficiently.

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

### Support services

Support services are provided to all parts of the Group through Central Services, managed by the Chief Executive of TLS. These services include Finance, Human Resources and Development, IT and Facilities.

### SIFL, SIF and LPC

SIF is the Society's former professional indemnity business with SIFL acting as agent for SIF.

Legal & Professional Claims Limited provides SIF with administration and claims handling services. It is a wholly owned subsidiary company of the Society.

[www.lpclaims.com](http://www.lpclaims.com)

## President's Report

The Society is a forward-looking, member-driven organisation committed to meeting the needs of all parts of the solicitors' profession whilst meeting clear and sustainable business objectives. In 2009 the Society continued to lead the profession in charting a course through the downturn and building a future in its aftermath.

### Supporting solicitors

The first priority of TLS is to support the solicitors' profession. In recent months, this has focused on helping solicitors to modify their business models to cope with the worst effects of the downturn and to succeed once it has passed. TLS provides support to enable solicitors to make the most of new opportunities in the legal market following the full implementation of the Legal Services Act. It also endeavours to assist in the opening of new markets at home and abroad and to help maintain and foster relationships with legal professions overseas, for the benefit of the profession.

TLS speaks to policy and decision-makers on behalf of the profession. This role has assumed extra significance given the 2010 general election, as TLS has sought to influence the election platforms of all the major political parties.

TLS Chief Executive Des Hudson reports on the work of TLS in its professional body role on page 5 and on its support services role on page 10. Interim Group Finance Director Peter Beddows reports on the overall financial picture of the Group on page 11.

### Regulation in the public interest

In 2008, TLS commissioned an independent review of solicitors' regulation by Lord Hunt of Wirral. Lord Hunt delivered his report and recommendations in September 2009. Since that time, TLS has engaged broadly with all levels of the profession to gauge reaction to Lord Hunt's ideas. TLS continues to work closely with the SRA and other stakeholders to develop many of the Hunt proposals, in particular a system of outcomes-focused regulation. To aid this process, I have established a Presidential Reference Group to monitor and to assist implementation across the profession. This Group consists of representatives of all parts of the profession, the SRA and other regulators and an independent academic regulatory expert.

Antony Townsend, Chief Executive of the SRA, reports on page 6.

### Paving the way for the Office for Legal Complaints (OLC)

The process leading up to the transfer of responsibility from the LCS to the OLC remains on track. The OLC is due to become fully operational towards the end of 2010. TLS continues to work towards a smooth transition of responsibilities

while minimising process costs. In the meantime, the LCS continues to provide an excellent complaints handling service in terms of speed, quality and customer satisfaction, which compares well with any similar complaints-handling body.

Deborah Evans, Chief Executive of the LCS, reports on page 8.

### The presidential year

I began my year as president in July 2009, taking 'the rule of law' as my theme. Inherent in this is a commitment to raise the public perception of the role that solicitors play in maintaining the stability of society and in defending the right of every individual to access to justice. In keeping with this theme, TLS has led debate around issues in the broader public interest involving the law, including the freedom of the individual, basic civil liberties and the availability of publicly-funded advice. I have also worked to advance a greater appreciation of the value of public legal education.

Without access to justice there can be no rule of law. The legal aid system has come under increasing pressure in recent years as a consequence of budgetary cuts and changes to contract terms. It is not sustainable in its current form. As a consequence, TLS has launched a comprehensive review into access to justice provision in England and Wales, to report in late 2010.

The maintenance of the rule of law relies upon the existence of a healthy and resilient legal profession. Professional indemnity insurance (PII) is a pressing issue for many solicitors. Under my presidency TLS has undertaken extensive work to ease the problems suffered by parts of the profession in renewing their PII. TLS is currently advancing a comprehensive review of existing PII arrangements, from which it will duly make recommendations to the SRA.

As the country takes tentative steps away from recession, I have repeatedly emphasised the contribution that the legal services sector makes to the City of London and to the economy more widely. The legal services sector in England and Wales is a world leader, but it relies upon the right regulatory conditions to maintain its global pre-eminence. I have consistently fought to defend these interests before decision-makers, both in public and in private.

By the end of my presidency, I hope to bequeath a more settled regulatory system and a more secure environment for all solicitors. I have no doubt that my successor, Linda Lee, and her officeholder team will build on this progress.



Bob Heslett  
President

## Group Reports:

### The Law Society professional body

#### Strategy

The vision and charter for TLS was commissioned in 2009 and this document has been utilised to inform the detail which sits beneath the vision: The Blueprint. The vision and charter will be published in full once the details of the Blueprint have been determined in 2010/11.

The 2009 year presented a number of significant challenges as the Society sought to reduce reliance on the practising certificate fee income during the most severe recession since the Second World War. We also aimed to clarify and strengthen the services we offered both to our members and to the wider legal services market. We are committed to providing relevant services and practical help for all sectors of the profession, to developing policy to advance the interests of the profession, and of the wider public interest, and to ensuring that TLS is seen as a leading contributor to public debate on all the key legal issues affecting our members.

#### Achievements

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

- Reduced the proportion of the practising certificate fee taken by TLS to just over one fifth (22%) from just under one third (33%)
- Negotiated a third party finance facility to allow solicitors to spread PC fee payments over 10 months
- Provided a comprehensive package of support to help with professional indemnity insurance renewals
- Extended our package of support to help solicitors survive the downturn
- Continued to campaign for a sustainably funded legal aid system, ensuring that the best value tendering pilot would be thoroughly assessed before rollout
- Lobbied for new market opportunities overseas
- Organised trade missions to Nigeria, Ukraine, Qatar and China
- Promoted England and Wales as the jurisdiction of choice for international dispute resolution
- Commissioned Lord Hunt of Wirral to undertake an independent review of what constitutes effective modern regulation of the profession
- Commissioned Nick Smedley to review and make recommendations on the regulation of corporate legal work

- Ran a major campaign to educate the public about the importance of getting proper legal advice, which was seen over 100 million times
- Achieved the equivalent of over £60m worth of positive media coverage for the Society and the profession
- Provided a new media training service for firms
- Held the legal sector's most prestigious awards series, sponsored by Mercedes-Benz
- Organised a series of thought leadership events addressed by some of the most innovative thinkers in today's legal and business worlds
- Continued to provide extensive guidance to the profession on anti-money laundering regulations, which includes our Treasury-approved practice note
- Published 26 new and updated practice notes on subjects including the Disability Discrimination Act, Disputed Wills, Firm Based Regulation and Legal Disciplinary Practice
- Held events across England and Wales to highlight the opportunities and threats presented by the Legal Services Act and its impact on practice
- Launched the Legal Compliance Bulletin to provide practical information on every aspect of legal compliance and regulation
- Added Lawyerline to our range of solicitor help lines to provide assistance on client care and complaints handling issues
- Extended our range of member benefits

#### Corporate responsibility

The creation of a dedicated business unit in 2009 underlined TLS's commitment to all aspects of corporate responsibility as an employer and as leader of the profession. From increasing pro bono activity and tackling climate change to enhancing access to the profession and improving diversity, the year saw both growing success for flagship initiatives to support and promote responsible practice within the profession, and further improvements in our own performance.

We launched our Diversity and Inclusion Charter, uniting over 100 leading law firms and in-house legal departments in a commitment to best practice and annual performance reports.

Our work through the Legal Sector Alliance (LSA) continued. One hundred and forty-five firms representing over a quarter of solicitors in private practice are now working together through the LSA to reduce carbon emissions and adopt environmentally sustainable practices. We established the LSA in partnership with Dibb Lupton Alsop Piper and the charity, Business in the Community, in 2007.

We awarded twelve full Legal Practice Course scholarships through our Diversity Access Scheme

to exceptional students facing social, educational, financial or personal obstacles to qualification as a solicitor.

The seventh National Pro Bono Week was the busiest ever, with a 55% increase in activities promoting and celebrating the time and professional skills that lawyers donate to their communities. National Pro Bono Week is organised by TLS and other leading membership organisations in the legal sector. We were the principal sponsor and host of the fifth London Legal Walk, which raised over £380,000 for legal advice charities. In addition staff organised many fundraising activities and appeals for organisations including the Chancery Lane Pro Bono Clinic for Deaf Clients, the National Stroke Association and the Food Chain.

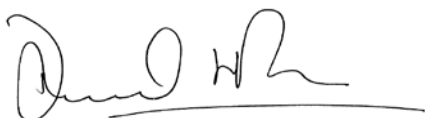
During 2009 we also took part in the Stonewall Workplace Equality Index, climbing 151 places, and continued to support Interlaw - a network of networks and a model we want to pursue for other groups.

## Looking ahead

Having described a Vision and Charter for TLS, I commissioned a project to look at the layer of detail beneath that vision: a Blueprint for a reformed TLS, fit to take on the challenges of a fast-changing legal landscape. This Blueprint Project delivered a test Blueprint at Christmas 2009 consisting of preliminary analysis of the customer offering and the implications for the organisation behind that offer. It also looked to align itself with the SRA Enabling Programme (see page 8) to make sure the Society as a whole benefits from technology solution synergies.

The Blueprint Project has reviewed past projects and run a carefully designed exercise to capture the views of members and customers. Taking a lead from these customers, the work is focused on their central perceptions of what TLS is for. Initial conclusions suggest members and customers regard the heart of TLS's offer as a professional body providing the qualification of solicitor. TLS's public benefit and professional interest work sit on that foundation - it underpins TLS's influence. Other fundamentals (networking, advice, information) cluster around it.

These high-level issues warrant further testing with customers in collaboration with the SRA. Early in 2010, the Blueprint Project proposed joint governance for the Enabling Programme and the Blueprint work. This will facilitate joint working on the customer offer, and maximise the benefits of the Society technology solution.



*Des Hudson*  
*Chief Executive - the Law Society*

# Group Reports:

## SRA

### Strategy

For 2009, the SRA's Strategic Plan set out five strategic themes, which were identified by the SRA Board at the time as being the SRA's long-term ambitions. The five strategic themes were:

- Setting the standards
- Support and monitoring
- Consumer protection, enforcement and discipline
- Access to justice, transparency and consumer information
- Organisational improvement

### Achievements

The 2009 Business Plan set out a series of objectives, actions, milestones and measures grouped under the five strategic themes. The large majority of these were successfully delivered (118 out of 124). Highlights are included below:

### Strategic theme 1: Setting the standards

#### Objective

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.

#### Achievements

Successful implementation of the first year of the work based learning pilot to test new ways of enabling solicitors to train. The interim evaluation report provided positive feedback from participants.

Consultation on and approval of the new regulations for the qualified lawyers transfer scheme. The new scheme will open up opportunities for lawyers from a much wider range of countries to qualify as solicitors of England and Wales and includes a robust assessment of applicants' competence against the same standard of qualification as home qualified lawyers.

Continued implementation of the new Legal Practice Course (LPC) including recruitment and appointment of external examiners for the new LPC, the development and delivery of training for them and undertaking validation events for providers applying to offer the new LPC from September 2010.

#### Objective

To set standards for organisations offering legal services.

### **Achievements**

Successfully completed on schedule the rules, regulations and guidance needed to enable Legal Disciplinary Practices, firm based regulation and the new regime for recognised sole practitioners. A revised Code of Conduct to reflect these changes was published in the summer.

Outcomes Focused Regulation strategy paper which sets out the framework for delivery for a new approach to regulation was produced and approved.

### **Strategic theme 2: Support and monitoring**

#### **Objective**

To provide information, advice and support to solicitors and organisations to help them comply with the standards set.

#### **Achievements**

There have been continuing improvements to the accessibility of the guidance provided to the profession, including monthly updating and publishing of guidance through 'A Question of Ethics'. There were continued improvements in the performance of the Ethics Guidance Helpline, with 85% of calls answered within 45 seconds and 100% of correspondence dealt with within 10 days.

Development of a more targeted and diverse programme of events to engage with the profession. This included client care seminars, a series of focus groups on specific consultations for the profession and a programme of workshops for particular equality groups, as well as Regulation Roadshows, which were held at nine locations across the country and were attended by nearly 900 solicitors.

#### **Objective**

To operate processes to monitor compliance with standards, so as to identify cases requiring remedial, investigative or other regulatory action.

#### **Achievements**

Our Corporate Regulation Project has been established and a Director appointed to lead this work, as well as establishing a London office for the SRA. We commenced the development of a regulatory regime for Alternative Business Structures, and to pilot new regulatory arrangements for the corporate legal sector.

### **Strategic theme 3: Consumer protection, enforcement and discipline**

#### **Objective**

To protect consumers by ensuring effective professional indemnity and Compensation Fund arrangements.

### **Achievements**

We conducted a comprehensive review of the Compensation Fund arrangements as well as reviewing the protection afforded to clients in the event of the collapse of a bank in which client money was held. The Financial Protection Committee began a fundamental review of the Assigned Risks Pool.

#### **Objective**

To tackle unacceptable professional or organisational performance, misconduct and dishonesty by firm, fair and timely regulatory and disciplinary action.

#### **Achievements**

We improved the timeliness of our prosecutions brought to the SDT, with 95% of cases issued within 12 months and 60% within six months. We also developed our Fraud and Confidential Intelligence Bureau, with additional resource dedicated to tackling mortgage fraud. We commissioned research to better understand the reasons for disproportionality in regulatory decisions. We developed and published the criteria by which we take our decisions, and started to inform solicitors of the reasons for undertaking inspections of their practices.

### **Strategic theme 4: Access to justice, transparency and consumer information**

#### **Objective**

To promote choice, innovation and accessibility in the provision of legal services through various types of business structure.

#### **Achievements**

We successfully passported all firms and sole practitioners to the new firm-based regulation regime. From 31 March 2009, the first new legal disciplinary practices were in place. We have made progress with preparations for regulating alternative business structures by 2011, publishing a discussion paper in June.

#### **Objective**

To provide information to help consumers to make decisions about legal services and to understand the standards they are entitled to expect.

#### **Achievements**

We made progress in identifying consumer needs through the implementation of the Consumer Engagement Strategy and Action Plan, including development of relationships with consumer groups and further consumer research. We completed and published the second Consumer Research study including a supplementary study on consumer experiences in dealing with solicitors for conveyancing purposes.

We also developed, consulted on and approved the SRA Complaints Handling Policy, which will include an element of independent review.



## Strategic theme 5: Organisational improvement

### Objective

To demonstrate value for money in all our dealings.

### Achievements

We launched our Enabling Programme, which will embed new and improved business processes and IT systems to ensure we can deliver effective firm-based regulation as required by the Legal Services Act. Our corporate approach to business planning, risk management and audit was further developed.

### Objective

To attract and retain high calibre staff who are committed to service excellence through continuous business improvement.

### Achievements

We implemented a new performance management process and developed and introduced technical and behavioural competencies, with the competencies being used to form part of 2009 end of year reviews.

We successfully delivered the first full year of the Equality and Diversity Strategy and Action Plan and completed and published 25 Equality Impact Assessments. We commissioned research to look in more detail at the reasons behind the disproportionate involvement of equality groups in some of our regulatory activities.

## Looking ahead

A new Board took office on 1 January 2010.

We have identified four key priorities for 2010-13. These priorities represent the main outcomes we will deliver for our stakeholders:

- Outcomes Focused Regulation
- Organisational reform
- Be a respected and recognised regulator
- Be the lead regulator for ABS

The Legal Services Act 2007 brings with it significant opportunities both for consumers of legal services and for the legal profession, as well as challenges for the SRA and other legal regulators. The SRA is developing different approaches to regulating solicitors and firms in the public interest, with improved methods of assessing risk, and a more proportionate, supervisory form of regulation for firms with sophisticated risk management systems in place. Regulation will also focus more on the quality of what a solicitor is delivering to the client, rather than prescribing how they reach that stage - a more 'outcomes-focused' approach.

We will continue to take forward our work on reforming the training, development and quality assurance of solicitors. In 2010 we will bring in a new fairer fee structure to meet the costs of

regulation. We will continue to respond to increased demand and will ensure we implement interventions in a proportionate and timely manner with the overriding aim of protecting the public.

In 2009, we demonstrated our commitment to dealing with the serious issue of mortgage fraud by investing considerable resources in improving our engagement with lenders to gather relevant information and to encourage reporting of mortgage fraud, and to introduce a system of alerts to pre-empt fraud. We will continue this in 2010 with our programme of work encompassing prevention, detection, and deterrence.

Our Enabling Programme will continue apace, to provide us with the modern business processes and IT systems needed to support these changes and enable us to become a more efficient and effective regulator. We will also address our knowledge and skills gaps, and have better equipped our workforce through the recruitment of new staff with the skills we need, and the empowerment and development of existing staff to ensure they have the skills and confidence to make decisions and to deliver excellent service to all our stakeholders.



*Antony Townsend*  
Chief Executive - the Solicitors Regulation Authority

## Group Reports:

### LCS

#### Strategy

2010 is likely to be the final full year of operation for the LCS. The OLC has already been started and is expected to be handling complaints under its own legal powers ('vest') by the end of 2010.

The transfer of responsibility for complaints handling to this new body means that we must now take a different strategic view to that which we have followed for the past four years. The Board of the OLC is starting to make key decisions - such as how it will operate, the staff structure, opening date, and any requirement for a period of 'overlap running' - but these are currently not finalised.

Until the OLC requirements are clear, LCS needs to maintain flexible strategic options to provide an effective service to our customers and solicitors whilst moving towards an eventual smooth closure.

#### Achievements

This year saw the LCS continue to produce results that compare very favourably with the best consumer redress organisations.



Stretching targets for the year once again called for the organisation to have no file open that was more than 12 months old. At the end of the year LCS had only 11 files open older than 12 months old; only two of these files did not have a justifiable reason for missing the target. This meant that LCS closed 99.9% (99.85% in 2008) within 12 months. In 2005 the organisation had around 1,200 cases more than 12 months old.

The three month target called for 66% of files to be closed within this timeframe. This target was met. LCS also maintained its standards with regards to quality performance, a business area that saw substantial improvement during 2008.

These impressive results were achieved during a period of uncertainty for LCS and its staff.

#### **Redress for former miners and their dependents**

Phase 2 of the LCS coal health initiative gathered pace throughout 2009. This initiative saw LCS work with a number of law firms who handled coal health compensation claims. These firms wrote to their former clients asking them to reconsider how their matter was handled. In the first instance the former miner or their dependents were encouraged to contact the firm if they felt they had grounds for a complaint. However, if after this process they remained unhappy they had the option of contacting LCS.

By the autumn of 2009 more than 50,000 former miners had been contacted by firms as part of the Phase 2 initiative and more than £1.8m returned to them or their dependents. When combined with monies returned to former miners who have made a complaint through normal LCS procedures the total returned to former miners and their dependents is approaching £4m.

### **Looking ahead: the Board of the LCS**

January 2010 saw a change in the composition of the Board of the LCS. A new Board was formed which will help guide the organisation through the period leading up to the opening of the OLC.

In December 2009 the 14 person LCS Board, chaired by Professor Shamit Saggar, was dissolved at what was the end of a contractual period. This Board had been in place since 2006 and had overseen impressive improvements in LCS performance.

It has been replaced by a Board that is still chaired by Professor Shamit Saggar and features two lay and two solicitor members. They are Andrea Cook, John Halliday, Arif Khan and Michael Tildesley.

LCS Board meetings now also have present three TLS observers given that much of the business conducted features planning for the handover to the OLC.

This Board met for the first time on 6 January 2010.

### **Looking ahead: planning for launch of the OLC**

It is anticipated that 2010 will see the OLC open for business with the new organisation taking responsibility for service complaints against solicitors practising in England and Wales. However, at the time of writing the vesting date for OLC has yet to be formally declared and considerable uncertainty surrounds the recruitment of staff from LCS to OLC. Work towards the opening of the OLC has now been under way for more than 12 months.

Continuity of service remains the key priority for LCS as it works through what could be its final year of operation. One of the aims of LCS is to ensure that redress is easily understood by all customers, whatever their background. The organisation remains committed to ensuring that customers are not confused by the changes to the legal services market in advance of the inception of the OLC.

LCS will work closely with the new organisation in the key months leading up to its opening to ensure both members of the public and members of the profession understand the changes being made. LCS is aware that a smooth and well-planned handover to OLC is very important so that consumers can continue to access redress easily - and that solicitors understand how complaints will be handled and by which organisation.

LCS will endeavour to work closely with TLS, the Ministry of Justice, the Legal Services Board and the OLC Board to make sure that expertise in complaints handling informs the creation of the OLC and that experience of working with consumers and solicitors helps make the handover from LCS to OLC as smooth as possible for the people that use the service.

Law Society legal action that sought a determination regarding the application of TUPE to the issue of staff transfer between LCS and the OLC resulted in a ruling that TUPE did not apply. As a result redundancy costs have been included within provisions made to cover the closure costs of the LCS. The total closure cost provision in the financial statements is £4.9m, as disclosed in note 17.

LCS is now working closely with OLC to ensure that as many LCS staff as possible can join the new organisation through the agreed recruitment process.



*Deborah Evans  
Chief Executive  
- the Legal Complaints Service*

## Group Reports:

### Support services

#### People

Our people are fundamental to helping us achieve our commitments to providing value for money, relevant support and services to our members. 2009 saw a number of initiatives to develop, support and engage with our people in all parts of the Society.

#### Employee engagement

In September 2009 we further extended our employee engagement with the introduction of local employee forum groups for each part of the Society. Representatives were drawn from management, the trade union, equality and diversity and health and safety.

Our new annual employee survey was initiated in November 2009 with in-depth questions related to equality and diversity, and communications. The overall response rate was encouraging at over 60%. A number of results compare favourably with external benchmarks (Chartered Institute of Personnel and Development survey). Results are being shared with senior management teams in each part of the Society and action plans are being developed to address relevant issues.

#### Learning and development

Performance management was a core activity in 2009 with all individuals working to business-focused objectives. During the last quarter of 2009 over 2,200 work-hours of training were provided to support managers in setting appropriate objectives, recognising good performance, behaviours and managing under-performance.

In the last quarter of the year our top layer of managers and directors participated in our change leadership programme. This was a fully integrated programme of development and support for senior leaders in the Group, customised to reflect the years of change the Society is entering and to enable leaders to champion and deliver the required change.

#### Diversity and inclusion

Some of our key employment policies have been strategically reviewed including recruitment, disciplinary, grievance and flexible working. It is the Society's policy to treat all employees fairly and equally regardless of race, sex, sexual orientation, marital status or disability.

We launched a successful diversity campaign to augment our existing information on employees; this will be repeated periodically to ensure our monitoring data is robust.

A comprehensive computer-based training package on equality and diversity was rolled out across most of the Society. The impact of this was reflected in the employee survey results, with 84% of respondents stating they were aware of the Society's equality and diversity strategy.

The Society has an important responsibility to represent every member of the profession, and to support the profession in its efforts to reflect the society it serves and achieve an approach to inclusion that meets the expectations of solicitors and their clients today. In spring 2009 the Council agreed an Equality and Diversity Framework for the Society that is available on our website.

#### Recruitment

In 2009 we introduced compulsory completion of application forms for all posts. This form includes a diversity monitoring section allowing us to appropriately monitor equal access for all. The form is anonymised before the selection process.

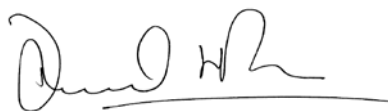
The SRA was accredited with "Two Ticks" in recruitment and we are looking to achieve this across the whole Society in 2010.

We have also been working with recruitment advisers to make our advertising more inclusive. We already advertise in a diverse range of press and online media and we have increased use of advert placement aimed at less-represented groups.

#### Environmental sustainability

The Society achieved the first phase of accreditation towards international standard ISO14001 for our environmental management system. We achieved a 3% reduction in tonnes of CO2 per employee compared with our 2008 carbon footprint, and are on track to be carbon neutral by 2011.

Energy-reduction measures have resulted in a 20% decrease in our energy consumption. All paper used is either 100% recycled or from forestry accredited sustainable resources and we aim to reduce the number of laser printers in our offices by 23% by the end of 2010. We are committed to reducing waste and manage a wide range of recycling facilities. Increased use of videoconferencing has enabled us to reduce travel and improve our communications.



*Des Hudson*  
*Chief Executive - the Law Society*

# Financial and Operating Review

## Group results

Practising certificate (PC) fee income reported in the year amounted to £126.0m, compared with £103.7m in 2008. On the face of it this represents an increase of £22.3m or 21.5%. However, included in the 2009 total were specific amounts collected to fund levies that enable the set up of the Legal Services Board (LSB), OLC and the Solicitors Disciplinary Tribunal (SDT). The amount collected to fund LSB/OLC was £13.9m and to fund the SDT was £1.8m (2008: £0.7m). The Income and Expenditure Account shows these amounts as both income - in terms of fees collected from the profession - and outgoings - in terms of those funds being paid across in their entirety to LSB, OLC and SDT.

Given the timing of the PC fee year (from 1 November to 31 October), other than the specific amounts referred to above, the fees collected in the last quarter of 2009 have been spread over the period to which they relate resulting in a significant proportion being carried on the Balance Sheet within Creditors. In simple terms, we account for 2/12ths of the 2009/2010 PC fee income in 2009 and 10/12ths in 2010, in accordance with established practice and the period to which the revenue relates. The 2009/2010 fee levels (including the headline practising certificate fee of £1,180) were set in the expectation of a slightly shrinking market in terms of number of PC fee payers. In fact, the number of PC fee payers continued to show limited but positive growth which has delivered slightly higher than expected fee income levels carried forward into 2010. All of this, as usual, will be taken into account when setting the 2010/2011 PC fee levels.

### *Society membership and student numbers*

*Practising certificates are issued for the year 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 2008/09 amounted to 119,524, an increase of 2.42% (2007/08: 116,702, an increase of 3.98%). Current practising certificate numbers for the year ending 31 October 2010 are not complete but there were 113,767 solicitors holding certificates as at 16 March 2010.*

*In 2009 terminations increased from 7,363 in 2008 to 8,075, an increase of 9.67%. This may reflect the current economic environment or may be as a result of more solicitors failing to meet the regulatory deadlines.*

*Student numbers declined, with an intake of 10,202 in 2009 compared with 10,814 in 2008, a decrease of 5.66%. They remain slightly behind the 2007 intake of 10,395.*

The underlying costs of the Society were reduced by 9.8% from £121.3m to £109.4m. The key reasons for this were a focus on budgetary discipline and value for money coupled with volume related costs that fell as commercial activity reduced - see below - (£0.8m), reducing costs of operating the LCS as that operation moved towards what is likely to be its final full year of activity (£2.1m) and a one-off recognition of the write-down of fixed asset values in 2008 (£8.1m).

For the first time this year Society costs are broken down on the face of the Income and Expenditure account under 5 key headings - representative and law reform services, membership activities, support services, regulatory services and complaints handling. In the interest of transparency these costs are then further analysed in note 2 of these financial statements. It is our intention to continue to develop this aspect of our reporting in future years. For example, we have been able to report separately this year on the cost of support services but this includes costs that are taken centrally for administrative purposes (significant pension costs and irrecoverable VAT for example) that actually relate to the overall organisation and do not truly relate to the cost of providing the support services of Finance, Human Resources and Development, IT and Facilities.

The cost reductions in the year were offset by falls in non fee income as that faced considerable commercial pressure in the year as the credit crunch impacted on key revenue lines. Overall, non fee income, excluding exceptional VAT, fell from £26.1m in 2008 to £18.4m in 2009, a 29.5% reduction. The biggest single factor in this was the reduction in commercial activities, of which advertising revenue generated by the Gazette is most significant, which fell from £13.3m in 2008 to £9.1m in 2009, a 31.5% reduction. Mitigating this fall in revenue, the costs of Gazette production were also reduced albeit not by an amount equivalent to the income loss in the year.

Insurance operations under SIF/LPC which are reported in some detail in note 26 to the financial statements contributed £8.5m to the 2009 surplus (2008: £4.5m). This allowed a cash dividend to be paid to the Society of £6.0m (2008: £2.0m). As these insurance operations run down, we are maintaining prudent provisioning against the risk of future claims but were nevertheless able to release £12.9m (2008: £11.8m) from Balance Sheet provisions to the benefit of the Income and Expenditure Account.

Investment income fell from £7.2m in 2008 to £2.0m in 2009 as a direct reflection of the lower

interest rate environment and performance of the wider economy. As the Balance Sheet shows, we have significant investments and bank and cash available for investment (£204.9m at 31 December 2009 compared with £178.3m at 31 December 2008) although this is not representative of the average balance held throughout the year as the year end position benefits from the significant PC fee collection in the 4th quarter of each year.

There were two exceptional items in the 2009 Income and Expenditure account. First, provisions have been set aside to cover the estimated cost of closure of LCS (£4.9m, 2008: £nil), an event which is expected to take place in late 2010 or early 2011 for which the costs are likely to be incurred on a staged basis, and a further £0.6m (2008: £nil) being the legal fees incurred in pursuing the TUPE claim, which ruled against the Society in early 2010. Second, we reflect in these accounts a positive exceptional item of £2.6m (2008: £nil) in respect of our successful claim for repayment of VAT - see further details on this below.

In total we are reporting a surplus for the financial year 2009 of £23.4m (2008: £17.7m). This is adjusted for actuarial assumptions on the pensions schemes (£6.8m, 2008: £2.8m) and for unrealised gains and losses on SIF investments (2009: £0.3m loss, 2008: £0.4m gain) resulting in an additional £16.3m (2008: £15.3m) being added to the Society's Accumulated funds which stand at £66.6m at 31 December 2009 (2008: £50.3m).

## Taxation

The Group incurs Corporation Tax as outlined in note 1 to the financial statements. With regard to other taxes three significant Society reviews have taken place during the year as noted below:

- **Employment tax**  
In April 2008 Her Majesty's Revenue and Customs (HMRC) commenced a comprehensive review of employment tax matters of the Society. HMRC have confirmed the majority of matters raised as part of the review have been satisfactorily resolved. With regard to items still unresolved the Society continues to liaise with HMRC, seeking external professional advice as considered appropriate. No amounts are recorded within the financial statements in relation to the unresolved matters and only immaterial amounts could potentially be incurred.
- **VAT**  
The Society, in conjunction with professional advisors, performed a full review of the Society's VAT procedures during the year and as a result submitted a significant VAT reclaim to HMRC. In January 2010 HMRC confirmed £2.6m would be refunded to the Society in respect of all VAT quarters up to 31 March 2008. This amount has been included within the financial statements as an exceptional VAT item, further disclosures are given in note 3. No amounts are recorded within

the financial statements in respect of claims for VAT quarters beyond 31 March 2008 as HMRC have not yet confirmed whether any amounts will fall due to the Society, however, claims made are in the order of £1m.

- **Other**  
The Society, in conjunction with professional advisors, has been negotiating the repayment of other taxes paid over to HMRC that the Society now believes did not require payment. HMRC have agreed that an element of the tax paid over can be repaid to the Society subject to certain conditions. The Society continues to liaise with HMRC both with regard to the remaining elements and the conditions stipulated. No amounts are recorded within the financial in respect of this claim although the amounts concerned are not expected to be material.

## Pensions

The Society's primary means of making pension provision for employees is a final salary pension scheme (the "Scheme"). The Scheme is closed to new members, and for employees who joined after 1 January 2005 a defined contribution group personal pension arrangement is in place.

During the year the Trustees of the pension fund "bought in" certain pensioner liabilities via a £78.0m insurance policy with MetLife. The Society and the Trustees are continuing to liaise regarding further options to help manage the risks associated with final salary schemes.

The latest full actuarial valuation of the scheme at 31 December 2007, based on the assumptions agreed by the Trustees, has indicated a deficit of £59.1m and the Trustees raised a formal demand for this amount payable by 31 March 2009. The Society 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 Society paid £13.0m of additional contributions to the Scheme in the year in accordance with the agreement.

The next full actuarial valuation will be undertaken as at 31 December 2010 and a revised funding plan will be discussed. Given movements in the wider economy it is not possible to estimate the change in valuation but there should be a curtailment gain in relation to the LCS employees due to leave over the next twelve months.

The financial statements include a far lower deficit than revealed at the full actuarial valuation primarily because, in accordance with FRS 17, pension liabilities included within the financial statements are prepared on the basis that the liabilities are discounted in line with the yields on high-quality corporate bonds, despite the fact the Scheme does not hold such investments. The full actuarial valuation on the other hand is prepared on a significantly more prudent basis whereby liabilities are discounted in line with the yields on



government bonds. It is the pension liabilities in the full actuarial valuation which drive the cash calls on the Society and are therefore more significant to the Society.

The actuarial assumptions utilised for the FRS17 valuation in the financial statements are established by the Society under actuarial advisement. Given market volatility at the end of 2008 the discount rate used was an assumption at the more conservative end of the range of acceptable assumptions whereas at the end of 2009, given less market volatility, the assumptions are at the mid-point of the 2009 widely accepted range. This has resulted in the reported Scheme deficit decreasing in the current year where most schemes have seen a deficit increase.

## Group balance sheet and cash-flow

The balance sheet remains strong. Accumulated reserves stood at £66.6m, up from £50.3m at 31 December 2008. However, this needs to be considered in light of the full actuarial deficit of £59.1m calculated as at 31 December 2007 for the defined benefit pension scheme, of which only £0.9m is reflected in the financial statements under the current accounting rules and assumptions. See the Pensions section above for further information.

See Property Strategy, IT Strategy and Capital expenditure sections below for commentary on fixed assets and assets held for resale.

Investments increased by £41.4m from £38.0m to £79.4m. This movement represents a change in the Society's investment strategy during the year, as a result of which £50.0m of funds were held on medium term deposit at the year end and are therefore included within investments as opposed to bank and cash. In the prior year no medium term deposits were held meaning all funds were included as bank and cash. This increase is partially offset by an £8.7m reduction in SIF investments which it continues to utilise to fund its activities.

Gross claims provisions in relation to the insurance activities of SIF reduced by £12.9m to £17.5m. The reduction arises as the estimated outstanding liabilities relating to all indemnity years continues to reduce following the Fund going into run-off in 2000.

Debtors increased by £1.0m to £7.8m during the year reflecting the exceptional VAT asset of £2.6m at the current year end offset by a reduction in trade debtors, as a result of the continued downturn in commercial sales.

Bank and cash amounts decreased by £14.9m (2009: £125.4m, 2008: £140.3m). This movement includes the aforementioned effect of the change in investment strategy which if added back would result in an overall increase of £35.1m. This increase reflects the collection of the 2009/10 practising certificate fee, discussed above, which

was largely completed by the end of the financial year. The cash flows of the Society are seasonal with the vast majority of the practising certificate fees, the main source of Society income, being collected in the last quarter of the financial year funding the Society through the remainder of the year until the next renewal.

With respect to the investment strategy, at the start of the year the Society's funds were maintained in AAA money market funds with one major institution, from April 2009 the funds were split between two major AAA money market funds and further diversification was made in December 2009. All changes were approved by the Society's Investment Committee, having taken independent advice. The Investment Committee will continue to review the appropriateness of the Society's investment strategy quarterly through 2010.

Creditors, including those creditors due in more than one year, increased £18.7m year on year. The most significant increase results from a levy by the LSB towards the cost of set up of the OLC totalling £13.9m (2008: £nil). Of the £13.9m, £7.1m falls due within one year and £6.8m falls due in more than one year. No amounts will be paid until inception of the OLC, payments will be made in stages. Additionally there has been a £7.2m increase in the value of practising certificate fees received in advance, reflecting the increase in the 2009/10 fee levied against 2008/09 and the slight increase in the number of PC fee payers year on year.

Provisions increased by £8.9m year on year reflecting a significant increase in the number and complexity of interventions year on year resulting in a £3.4m provision increase. In addition provisions for the closure costs of the OLC totalling £4.9m have been made at the year end; further information is given in the Group Reports: LCS on page 8.

## Property strategy

The Society holds the freehold to a number of properties in London, Redditch and Leamington Spa which are included in the financial statements at cost less accumulated depreciation except for the property at Victoria Court in Leamington Spa which is included as an asset held for resale. Based on desktop valuations performed as at 31 December 2009, the value of the property portfolio stands at £20.4m (2008: £20.9m), down £0.5m year on year.

Taking each property in turn:

- the open market value of 113 / 114 Chancery Lane is £13.9m (2008: £14.3m);
- the open market value of Carey Street is £1.9m (2008: £1.8m);
- the open market value of Victoria Court is £2.2m (2008: £2.2m), and
- the open market value of Ipsley Court is £2.4m (2008: £2.6m).

The values reflected in the financial statements for both freehold lands and buildings and assets held for resale total £16.1m at the year end.

In light of the closure of the LCS and set up of the OLC, the Society has taken the decision to sell Victoria Court, the freehold property currently occupied by the LCS. As a result this property is disclosed as an asset held for resale within the financial statements rather than a fixed asset. While marketing of the Victoria Court premises has commenced before we have full knowledge of vesting date, and therefore the subsequent date by which vacant possession can be offered to an acquirer, our responsibilities to customers and staff will be paramount. We will ensure that no transaction on the premises is allowed to compromise our ability to deal effectively and efficiently with complaints until final handover of responsibility to the OLC.

## IT strategy

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

Although at an early definition stage, the Blueprint Project delivered a test Blueprint at Christmas 2009. This consisted of preliminary analysis of the customer offering and the implications for the organisation. This is a business led project concentrating on the customer offer that will necessitate the embedding of new processes and more effective ways of working. The project is critical for TLS if it is to deliver the Vision and Charter for TLS, defined by the Chief Executive of TLS.

Now at the finalisation of proof of concept stage, the SRA Enabling Programme will continue apace during 2010. Like the Blueprint Project, this project 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 a result of the Legal Services Act.

Early in 2010 the Blueprint Project proposed joint governance for the Enabling Programme and the Blueprint work. This will facilitate joint working on the customer offer and maximise the benefits of the Society technology solution. That said, the Society needs to make sure that the funds are well spent and that both projects deliver the benefits promised in a robust fashion.

## Capital expenditure

During the year the Group invested £0.7m (2008: £1.6m) in fixed assets. The majority of the investment relates to IT hardware and software costs for the ongoing change management projects

and upgrade of the Society's current finance systems, completed in June 2009.

Consultancy and other scoping costs of ongoing change management projects have been written off where the costs incurred were deemed not to be capital in nature. These costs make up part of the Investment projects costs reported in note 2c.

## Principal risks and uncertainty

The Group seeks, as far as possible, to comply with the Combined Code. The Code would require commercial entities to identify key operational risks. We regard such an approach as good practice that the Group should as far as possible follow. We have therefore sought to identify what we regard as the key risks (although they are not intended to be an exhaustive list) facing the profession and in the remaining parts of the report to identify the ways in which the Group's focus and prioritisation choices reflect those risks.

We consider those risks to be as follows:

- Maintenance of the rule of law and ensuring the rule of law by securing access to justice for all, irrespective of the means to pay, via a vibrant system of legal aid or other appropriate measures.
- The structured and effective implementation of the Legal Services Act 2007 and in particular the introduction of alternative business structures with appropriate systems of public protection, the avoidance of adverse implications for access to justice and the sensible amendment of other supervisory and/or regulatory arrangements to reflect the changed risk profiles that Alternative Business Structures (ABS) could represent.
- The availability of a vibrant and viable market for the provision of public indemnity insurance together with the analogous arrangements (e.g. the Compensation Fund) to ensure the diversity of forms of practice by solicitors and continuation of the unparalleled levels of public protection provided by the rules and regulations of the solicitors profession.

The Administration order against Quinn Insurance demonstrates the potential volatility of the solicitors' PII market. We will continue to work closely with market participants to find ways of increasing and maintaining the market capacity to help mitigate the detrimental effect of any future challenges.


- The maintenance of customer choice in the selection and appointment of solicitors to act on their behalf.
- The independence and integrity of the profession by the sound and effective discharge of our obligations as approved regulator, ensuring the effective operation of our regulatory arm the SRA, and the independence of our profession from government and other related bodies.



## Outlook for the future

In the wider economy 2010 is expected to see a move out of recession. It will nevertheless remain a challenging year for the profession in terms of charting a course through the aftermath of the credit crunch. Supporting solicitors during this period will remain a paramount aim of the Group. In addition there are a number of key developments that are expected to shape our coming year:

- Development of the Blueprint Project and SRA Enabling Programme
- Moves towards outcomes-focused regulation
- Preparation for ABS
- Increasing volume of intervention activity
- Maintaining performance in the LCS while preparing for vesting to the OLC
- Introduction of fairer fees approach
- Evolution of budgetary approach involving the LSB and reflecting OLC levies
- Progress regarding funding of the final salary pension scheme
- Funding of key improvement programmes via the project investment fund and capital expenditure
- Maintaining commercial income streams in spite of the recessionary environment



*Peter Beddows*  
*Interim Group Finance Director*

## Council's Report and Statement of Responsibilities

### The Society's role

Previously, the Society as the professional body for a self-regulatory profession combined the responsibilities of both regulating and representing solicitors in England and Wales. The Society remains a single legal entity and is an Approved Regulator under the terms of The Legal Services Act 2007 (LSA). The Council (the Society's ultimate governing body) delegated its regulatory functions to the SRA and the LCS, while remaining under the LSA responsible for proper discharge of the regulatory functions and objectives specified in the LSA.

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

The Council of the 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 (the "Code") on Corporate Governance does not need to be applied by 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 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 Code's main sections, and the key areas of current 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. The Council has established other boards

to address regulatory affairs, membership and legal policy. For the purposes of the 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 Code envisages through independent, non-executive directors. Excluding the role of the Chairs of the four boards, 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 a direct equivalent of the Code's senior, independent, non-executive director concept.

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 (AGM) of Society members.

There are a hundred places on the Council. Most members are elected for a four year term, which is renewable without limit. 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 should be 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 or on the other committees of the Council but attend meetings for items of business relevant to them. No Council member may be a member of either the SRA or the LCS Board.

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

## Regulation and complaints handling

The Society has separated the governance of its functions by delegating regulation and complaints handling to the boards of the SRA and the LCS respectively. The Society will be the approved regulator subject to oversight by the new LSB.

The LCS Board has a majority of lay members, while the SRA Board has a solicitor majority, with significant lay membership pending full compliance with the rules established by the LSB.

Under the LSA complaints handling will become the responsibility of a separate body, the OLC, later in 2010.

## Insurance operations

The insurance operations of the Group are carried out by SIFL, SIF and LPC. Whilst Council maintain overall governance through setting the indemnity

rules of these entities, day to day operations are overseen by the board of directors of SIFL and LPC.

## Office for Legal Complaints and the Legal Services Board

The Society also provides, via a levy upon it, funding for the OLC, the new statutory body that will handle customer complaints across the legal profession, and the LSB. Under the Act the OLC and LSB are constitutionally and operationally independent of the Society.

## 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 Society. The SDT's members are appointed by the Master of the Rolls.

## 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. The chair of the Board of the SRA is Charles Plant who took over from Peter Williamson on 1 January 2010. The chair of the Board of the LCS is Professor Shamit Saggat.

## Chief Executives

Desmond Hudson is the Chief Executive of TLS, Antony Townsend Chief Executive of the SRA and Deborah Evans is Chief Executive of the LCS.

The Chief Executives are responsible for advising on and implementing policy, for the management of staff and for ensuring that TLS, 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 TLS is responsible to Council and the other Chief Executives are responsible to their boards.

## Statement of responsibilities of the Board

The Council is responsible for overall governance of the Group. Under delegated authority from the Council, the Board is responsible for the preparation of financial statements which give a true and fair view of the position of the Group at the end of the financial year and of any surplus or deficit for that year.

The Board are therefore responsible for preparing the non-statutory Group financial statements in accordance with the basis of preparation and accounting policies in note 1. The Board must not approve the non-statutory Group financial statements unless they are satisfied that they have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies in note 1 to the non-statutory Group financial statements.

In preparing the non-statutory Group financial statements for 2009, the Board have:

- selected suitable accounting policies and then applied them consistently;
- made judgements and accounting estimates that are reasonable and prudent;
- stated the basis of preparation and accounting policies applied; and
- prepared the non statutory Group financial statements on the going concern basis unless it is inappropriate to assume that the Group will remain in business.

The Board are responsible for keeping adequate accounting records that are sufficient to explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Board is responsible for the system of internal control. The Board regularly reviewed risk management issues, including the progress of the new risk policy.

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.

Each member of the Board confirms that so far as they are aware, there is no relevant audit information of which the Group's auditors are unaware and they have taken all the steps that they ought to have taken as a Board member with delegated authority in order to make themselves aware of any relevant audit information and to

establish that the Group's auditors are aware of that information.

## 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 2009 and so discloses that it does not report on how performance evaluation of the Board, its committee and its members was carried out.

## Remuneration

In 2009 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 2009, the chairs of the Remuneration Committee and Audit Committee also received payment. The Remuneration Committee advises on compensation to the office holders, Council, board and committee chairs and members; it approves the remuneration arrangements for the Chief Executives and senior managers. Related party transactions are disclosed in note 20.

## Accountability and audit

The relevant Code provisions are largely met. Key areas of non-compliance are disclosed within the statements except where they are not relevant for the assessment of the Society's financial position. There is an organisational structure with defined roles for the Board and the Audit Committee.

## Auditors

Following a market testing exercise overseen by the Audit Committee, a resolution to appoint PricewaterhouseCoopers LLP as the Group's auditors for the 2009 accounts was approved at the July 2009 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 3. The non-audit fees were principally incurred in respect of taxation and consultancy services provided and are considered by the Audit Committee not to affect the auditors' independence or objectivity.

## Internal control

The Group recognises the value of the internal control principle in the Combined Code and chooses to voluntarily comply where possible. 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 Group's structures relate to the main provisions of the 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 Group's system of internal control in 2009. It did not carry out its own review, but has relied upon the work of internal audit. Critical controls upon which the Board has focussed are:

- Governance, consequent upon the Legal Services Act 2007
- Project Management
- Risk Management
- Financial Controls

Further information in respect of the above matters is given below.

## 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 were amended in 2009, in the light of experience, to create the Support Services Resolution Board. This board is chaired by the Deputy Vice-President and has four members nominated by TLS, four from the SRA, and two independent members. It has formal powers to decide upon support services issues which have not been resolved at executive level. Its first meeting was held in September 2009. Meetings are held as and when required.

## 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, TLS 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 Group. The resulting strategic registers have been in place across the Society since February 2008, and the process is continuing to develop. During 2009 the TLS, SRA and LCS worked to improve consistency and comprehensive 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 department heads in the Finance Department continued to work on this in 2009.

Despite a major initiative to improve the purchase to pay system during 2009, insufficient progress was made to produce reliable systems generated accruals figures at the year end. As a result significant manual intervention was required to provide the reported accruals figure. The Finance Department is taking urgent steps to restore effective systems controls over this area.

Apart from that, 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 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 reviews the scheme of delegated authorities annually.

## Delegated authorities

The Scrutiny Committee reviewed the exercise of delegated powers by the boards apart from the regulatory 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 are used, 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 2010 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 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 six times in 2009. Its terms of reference are consistent with the Code, as far as is possible given the Group's management structure and governance. None of its members is a member of the Board although it has one Council member and one member of the SRA Board. The Audit Committee has responsibility, on behalf of the 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 relevant 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 its annual assurance review for 2009 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 Board's opinion (on behalf of the Council) is that the Group will have sufficient resources to meet its liabilities as they fall due over the 12 months from the date of signing the accounts. As a result, the Board (on behalf of the Council) has satisfied itself that the Group is a going concern.

## Board members' attendance records in 2009

The 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, and

governance structure whereby Council members are not considered to be akin to directors given their role, the records are not shown here.

The membership and attendance records for the Board, the Audit Committee and the Remuneration Committee are shown below - the numbers in brackets denote the maximum number of meetings a person could have attended, allowing for the period in which they were a Board or committee member, if less than a full year.

## Management Board membership and attendance records from 1 January 2009 to 31 December 2009

<b>Total meetings during the year</b>		<b>10</b>
Philip Hamer#	Chair and Treasurer	10
Paul Marsh#	President to July'09; retired in July'09	4 (7)
Bob Heslett#	Vice-President to July'09; President from July'09	9
Linda Lee#	Deputy Vice-President to July'09; Vice-President from July'09	10
John Wotton#	Deputy Vice-President from July'09	3 (3)
Des Hudson	Chief Executive	10
Peter Adams#		9
Andrew Caplen#		9
Nick Fluck#		9
Sue Nelson#		8
Tim O'Sullivan#		10
# Council member		

## Audit Committee membership and attendance records from 1 January 2009 to 31 December 2009

<b>Total meetings during the year</b>		<b>6</b>
Stephen Brooker	Chair to November'09	6
Bob Spedding	Chair from November'09	6
Stuart Collins		4
Grenville Page		5
Murray Ross		6
John Stoker##	Retired December'09	5
Stanley Williams#		6
David Wilson	Retired March'09	0 (1)

# Council member

## SRA Board member

All other members are independent of Council, any other Board or Committee

## Remuneration Committee membership and attendance records from 1 January 2009 to 31 December 2009

<b>Total meetings during the year</b>		<b>7</b>
Shaun Tyson	Chair	7
Ronnie Fox		7
Dean Fuller		6
Philip Hamer#	Treasurer	7
David Taylor#		7
Sally Irvine	Retired December'09	6

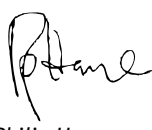
# Council member of the Remuneration Committee

All other members are independent of Council, any other Board or Committee

Approved by the Management Board of the Society and signed on behalf of the Council of the Society.



Bob Heslett  
President



Philip Hamer  
Treasurer

Date: 11 June 2010



# Independent Auditors' Report to the Council of the Law Society

We have audited the consolidated financial statements of The Law Society for the year ended 31 December 2009 which comprise the Consolidated Income and Expenditure Account, the Consolidated Balance Sheet, the Consolidated Cash-Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and the related notes. These consolidated financial statements have been prepared under the basis of preparation and the accounting policies set out therein.

## Respective responsibilities of the Management Board and auditors

The Management Board's responsibilities for preparing the consolidated financial statements in accordance with the basis of preparation and accounting policies in note 1 to the consolidated financial statements are set out in the Statement of Board Responsibilities.

Our responsibility is to audit the consolidated financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for management's purposes to assist the Council to discharge their stewardship obligations and fiduciary responsibilities in respect of the Society under the Bye-laws in accordance with our engagement letter dated 8 February 2010 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come including without limitation under any contractual obligations of the Society and its subsidiaries, save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the consolidated financial statements give a true and fair view, in accordance with the basis of preparation and accounting policies in note 1 to the consolidated financial statements.

We read the other information contained in the Consolidated Report and Financial Statements, and consider whether it is consistent with the audited consolidated financial statements. This other information comprises only the President's Report, the Group Reports, the Financial and Operating Review and all of the other information listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated financial statements. Our responsibilities do not extend to any other information.

## 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 consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the Board in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the Society and its subsidiaries 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 consolidated 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 consolidated financial statements.

## Opinion

In our opinion the consolidated financial statements for the year ended 31 December 2009 give a true and fair view, in accordance with the basis of preparation and accounting policies in note 1 to the consolidated financial statements, of the state of the Society and its subsidiaries affairs as at 31 December 2009 and of its surplus for the year then ended.



PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditor  
London  
14 June 2010

## Consolidated income and expenditure account for the year ended 31 December 2009

	Note	Income £'000s	Expenditure £'000s	2009 £'000s	Income £'000s	Expenditure £'000s	Restated 2008 £'000s
<b>Practising certificate income:</b>							
Practising certificate fees collected to fund internal activities		110,302	-	110,302	102,954	-	102,954
Amounts collected and allocated to fund OLC / LSB levies		13,947	-	13,947		-	
Amounts raised to fund SDT		1,777	-	1,777	697	-	697
		126,026	-	126,026	103,651	-	103,651
<b>The Society:</b>							
Representative and law reform services	2	302	(10,999)	(10,697)	120	(11,352)	(11,232)
Membership activities	2	11,995	(13,999)	(2,004)	16,237	(15,466)	771
Support services	2	6	(39,459)	(39,453)	4	(46,478)	(46,474)
Regulatory services	2	5,722	(28,231)	(22,509)	9,535	(29,266)	(19,731)
Complaints handling	2	363	(16,674)	(16,311)	204	(18,759)	(18,555)
Exceptional VAT	3	2,587	-	2,587	-	-	-
		20,975	(109,362)	(88,387)	26,100	(121,321)	(95,221)
<b>Insurance operations:</b>							
Solicitors Indemnity Fund	26	13,823	(5,493)	8,330	12,308	(7,643)	4,665
Legal Professional Claims		2,866	(2,730)	136	3,076	(3,249)	(173)
		16,689	(8,223)	8,466	15,384	(10,892)	4,492
<b>Funding of external bodies:</b>							
OLC / LSB		-	(13,947)	(13,947)	-	-	-
Solicitors Disciplinary Tribunal		-	(1,777)	(1,777)	-	(697)	(697)
Operating result	4	163,690	(133,309)	30,381	145,135	(132,910)	12,225
Exceptional fundamental reorganisation costs of the LCS	5			(5,459)			-
Investment income	6			2,009			7,190
Other finance (charges) / income	18			(1,602)			458
Results before taxation				25,329			19,873
Taxation	7			(1,891)			(2,124)
Surplus for the financial year	19			23,438			17,749

All of the above activities are continuing activities except for the Insurance operations which were discontinued from 2000.

## Consolidated cash-flow statement for the year ended 31 December 2009

	Note	2009 £'000s	2008 £'000s
Surplus for the financial year		23,438	17,749
Actuarial loss recognised in the pension schemes	18	(6,821)	(2,823)
SIF unrealised (loss) / gain on investments		(283)	410
Total recognised gains since the last financial statements		16,334	15,336

There are no material differences between the results before taxation and the surplus for the financial year stated above and their historic cost equivalents.

## Consolidated balance sheet as at 31 December 2009

	Note	2009 £'000s	2008 £'000s
<b>Assets</b>			
Fixed assets	10	16,375	19,145
Investments	11	79,448	38,033
Re-insurers share of claims provision	16	99	1,130
		95,922	58,308
<b>Current assets</b>			
Assets held for resale	12	1,858	-
Inventories - goods for resale		231	321
Debtors	13	7,767	6,771
Bank and cash		125,412	140,264
Total assets		231,190	205,664
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Creditors	14	(123,747)	(111,892)
<b>Liabilities due in more than one year:</b>			
Creditors	15	(6,834)	-
Gross claims provisions	16	(17,555)	(30,438)
Provisions	17	(15,164)	(6,292)
Total liabilities		(163,300)	(148,622)
Total net assets excluding pension liabilities		67,890	57,042
<b>Pension liabilities:</b>			
Funded	18	(940)	(6,416)
Unfunded		(350)	(360)
Total net assets including pension liabilities		66,600	50,266
<b>Represented by:</b>			
Accumulated funds at start of the year		50,266)	34,930
Total recognised gains since the last financial statements		16,334	15,336
	19	66,600	50,266

The financial statements on pages 22 to 48 were approved by the Management Board of the Society and signed on behalf of the Council of the Society.



Bob Heslett  
President



Philip Hamer  
Treasurer

Date: 11 June 2010

## Consolidated cash-flow statement for the year ended 31 December 2009

	Note	2009 £'000s	2008 £'000s
Net cash inflow from operating activities	I	27,232	12,814
Returns on investments and servicing of finance	II	2,009	7,190
Taxation paid		(1,658)	(8,380)
Capital expenditure and financial investment	II	(737)	(1,476)
Cash inflow before management of liquid resources and financing		26,846	10,148
Management of liquid resources	II	(41,698)	8,376
(Decrease) / increase in cash in the year	IV	(14,852)	18,524
<b>Reconciliation of net cash flow to movement in net funds:</b>			
(Decrease) / increase in cash in the year		(14,852)	18,524
Cash inflow / (outflow) from changes in liquid resources		41,698	(8,376)
Change in net funds resulting from cash flows	IV	26,846	10,148
Unrealised (loss) / gain on investments		(283)	410
Movement in net funds		26,563	10,558
Net funds at 1 January 2009		178,297	167,739
Net funds at 31 December 2009		204,860	178,297

Exceptional items in the Income and Expenditure Account have no cash flow impact.

# Notes to the consolidated cash-flow statement for the year ended 31 December 2009

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

	2009 £'000s	2008 £'000s
Surplus for the year	23,438	17,749
Depreciation charges	1,649	10,353
Investment income and interest receivable	(2,009)	(7,190)
Other finance charge/(income)	1,602	(458)
Tax charge	1,891	2,124
Decrease/(increase) in inventories	90	(55)
(Increase) / decrease in debtors	(981)	1,447
Increase in creditors and creditors due in more than one year	18,441	143
Decrease in professional indemnity insurance claims incurred net of reinsurance	(11,852)	(6,450)
Increase in provisions	8,872	1,256
Difference between pension charge and cash contributions	(13,909)	(6,105)
Net cash inflow from operating activities	27,232	12,814

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

	2009 £'000s	2008 £'000s
Returns on investments and servicing of finance:		
Investment income and interest	2,009	7,190
Net cash inflow from returns on investments and servicing of finance	2,009	7,190
Capital expenditure and financial investment:		
Purchase of tangible fixed assets	(737)	(1,568)
Sale of fixed assets	-	92
Net cash outflow from capital expenditure and financial investment	(737)	(1,476)



## Notes to the consolidated cash-flow statement for the year ended 31 December 2009

### III. Management of liquid resources

	2009 £'000s	2008 £'000s
(Purchase) / sale of current asset investments	(41,698)	8,376

### IV. Analysis of net funds

	At 01.01.09 £'000s	Cash flow £'000s	Other non-cash items £'000s	At 31.12.09 £'000s
Cash and cash equivalents	140,264	(14,852)	-	125,412
Current asset investments	38,033	41,698)	(283)	79,448
	178,297	26,846	(283)	204,860

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

# Notes to the accounts for the year ended 31 December 2009

## 1. Accounting policies

### Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and in accordance with the requirements of the Companies Act 2006 to the extent that the Board believe that they are applicable to the Group. As the Society is a body incorporated by Royal Charter it is not required to comply with the Companies Act 2006, however, the Group has complied with those elements of the Companies Act relevant to the Group's financial statements that the Board believes are necessary to enable the financial statements to give a true and fair view.

The financial statements are prepared under the historical cost convention with the exception of the valuation of investments.

The most significant accounting policies adopted by the Group are described below and these have been applied consistently.

### Basis of consolidation

Consolidated financial statements have been prepared which comprise the Society and its principal subsidiary undertakings, the Group, as disclosed in note 9. The financial statements only disclose the consolidated Group results, prepared utilising the equity method of accounting. No separate Income and Expenditure Account or Balance Sheet is presented for the Society itself. All notes to the financial statements relate to the Group unless otherwise stated.

#### Non consolidated entities

In the opinion of Management Board the following entities should not be consolidated into the financial statements:

- 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 considered to be subsidiaries, associates or joint ventures as defined by FRS 2 or FRS 9.

The following joint venture entity is not consolidated in the financial statements as in the opinion of Management Board the results, assets and liabilities continue to be immaterial to the Group:

- Queen's Counsel Appointment Limited

#### Prior year restatement

The 2008 Consolidated Income and Expenditure Account and the related 2008 notes have been restated in a different presentational format. This restatement improves segmental reporting in the financial statements which Management Board believe provides readers of the financial statements a clearer understanding of how the Groups activities are carried out and the associated income and expenditure of those activities. The restatement has no effect on the surplus reported for the year ended 31 December 2008.

### Significant judgements and key sources of estimation

To be able to prepare the financial statements in accordance with United Kingdom accounting standards, management and the Management Board must make estimates and assumptions that affect the recorded asset and liability items as well as other information, such as that provided on provisions and pensions. These estimates are based on historical experience and various other assumptions that management and Management Board believe are reasonable. The result of these forms the basis for making judgements about the carrying value of assets and liabilities that may not be readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

### Income

#### Practising certificate fees collected to fund internal activities

Revenue in relation to practising certificate fees to fund internal activities is recognised when solicitors become entitled to receive their practising certificate for the current year, subject to final checks being undertaken. These fees are then apportioned over the year to which the practising certificate relates, which runs from 1 November to 31 October, except where people join during the year.

#### Amounts collected to fund OLC/LSB levy and amounts raised to fund the SDT

Amounts collected via the practising certificate fees to fund OLC/LSB levies and amounts raised to fund the SDT are recognised immediately, they are not apportioned over the practising certificate year.

A proportion of the annual practising certificate fee is assigned to cover the OLC/LSB levy and SDT funding, this proportion is based on anticipated solicitor numbers. Where actual solicitor numbers differ to those anticipated any amounts “over/under” collected are included within practising certificate fees collected to fund internal activities.

#### Other income

There are a significant number of other income streams. For each, income is recognised on an accruals basis ensuring that revenue is recognised as the goods or services are delivered. All income amounts are stated net of VAT.

### Funding of external bodies

OLC/LSB levy amounts are recognised in full when the Society is formally notified a levy falls due regardless of the period to which that levy relates. SDT funding amounts are recognised in full when the annual budget of the SDT is formally agreed by the Society, SDT and LSB regardless of the period to which that budget relates.

### Foreign currency

Monetary assets and liabilities in foreign currencies are translated into sterling at rates of exchange ruling at the end of the year. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. All foreign exchange differences have been taken to the Income and Expenditure account during the year.

### Exceptional items

Exceptional items are those material items which, by virtue of their size or incidence, are presented separately in the Income and Expenditure account to enable a full understanding of the Group financial performance.

### Taxation

The 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 at the standard rate of United Kingdom corporation tax.

The Solicitors Indemnity Fund is liable for corporation tax on its taxable surplus for the year at a rate agreed with HMRC of 20%.

### Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed

at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

All liabilities are recognised.

### Fixed assets and depreciation

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

Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is provided on a straight-line basis to write off the cost less estimated residual value over the useful economic life of the assets as follows:

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

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

No depreciation is charged on freehold land

Cost of repairs and maintenance are charged to the Income and Expenditure account in the year incurred

- ii. In respect of short leasehold property and improvements:
 

Premiums paid	over the year to the next open market rent review
Improvements	over ten years or the period of the lease if shorter
- iii. In respect of furniture and equipment, 5 years

iv. In respect of computers and hardware:

Hardware assets	3 years
Software assets	5 years from the point of first use
Licences	Over the period of the licence or not capitalised if less than one year

## 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.

All other costs are expensed as incurred.

## Assets held for resale

Assets held for resale comprise assets which the Society intends and expects to sell within one year from the date of classification as held for resale. Assets classified as held for sale are valued at the lower of their carrying amount immediately prior to their classification as held for resale and their fair value less costs to sell. Assets classified as held for resale are not subject to depreciation.

## Valuation of investments

Investments, comprising listed securities, are valued at their mid-market value at Balance Sheet date on a portfolio basis. Upward revaluations are taken to the Income and Expenditure account where they are a reversal of previously recognised impairments or taken to the Statement of Total Recognised Gains and Losses where the value is an increase above historical cost. Impairments to the value of investments are taken to the Statement of Total Recognised Gains and Losses where they are a reversal of previously recognised upward revaluations or the Income and Expenditure account where they fall below historical cost. Profits and losses on sales of investments are measured by reference to the carrying value.

## Investment income

Interest on fixed interest securities and deposits is accounted for on an accruals basis. All movements in valuation of investments are recognised through the Income and Expenditure account.

## Inventories

Inventories are valued at the lower of cost, using the first in first out basis, and net realisable value. Using information available at the year end the Society makes judgements based on experience to provide for potentially obsolete and/or old inventories.

## Contributions

Professional indemnity insurance contributions are accounted for on the accruals basis.

## Reinsurance recoveries

Reinsurance recoveries are accounted for as and when payment becomes due.

## Claims costs

Claims are accounted for as and when payment is authorised. They include the costs 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 years. Claims provisions include the estimated costs of panel solicitors and of internal claims handling staff, including an appropriate share of overheads. Claims are not discounted.

## Run-off costs

In accordance with FRS3 and the ABI SORP provision is made for future run-off costs as the fund is in wind down. Under the SORP it is not necessary to provide for future anticipated administrative run-off costs to the extent that they are offset by the expected future investment return of the Fund. Therefore no provision has been made for these costs.

## Reinsurance provisions

Reinsurance policies are held to provide cover for the risk associated with uncertainties of claims settlements and costs. Claims are made against policies to the extent that criteria have been met. Amounts are recognised to the extent that it is believed they are recoverable with provision made for any doubtful debts.

## Provisions

Provisions are recognised in respect of present obligations as a result of past events where it is probable that an outflow of resources will be required to settle the obligations and they can be reliably estimated. All provisions are made based on managements best estimate given past experience and available information.

The Group recognises provisions for the following items on the basis outlined below:

- Refunds - the Group recognises, based on historic experience, provisions for expected refunds of practising certificate fees resulting from final application checks being performed post year end.
- LCS closure costs - the Group has recognised, based on management and Management Board best estimates, the anticipated costs of the LCS closure.
- Miners' compensation cases - the Group recognises provisions for the unavoidable costs of completing work pertaining to these cases at the point at which we are notified of the case.
- Interventions, disciplinary proceedings and litigation - the Group recognises provisions for the unavoidable costs of completing proceedings in these areas at the point of proceedings commenced.
- Dilapidations - the Group recognises provisions for the unavoidable costs of restoring leased property to the same state as when the property lease was taken on by the Group. These costs are provided for evenly over the life of the lease.

Contingent liabilities are possible obligations whose existence depends on the outcome of certain future events or those present obligations where the outflows or resources are uncertain or cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote or immaterial.

### Lease transactions

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

- the lease term is less than 75 percent of the estimated economic life of the equipment
- the present value of lease payments is less than 90 percent of the equipment's fair market value; and
- ownership is retained by the lessor during and after the lease term.

The Group has no finance leases or hire purchase arrangements.

### Pension costs

From 1 January 2005, all new staff are eligible to join their respective defined contribution scheme. The funded defined benefit pension scheme was closed to new members from 1 January 2005.

#### Defined contribution scheme

The 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.

The amount charged to the Income and Expenditure account 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.

#### Defined benefit schemes

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 year 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. Actuarial valuations are obtained tri-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 Society in the 1980s 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 & General (L&G) and L&G in turn pay this money to the pensioners. The amounts payable are reviewed regularly by Punter Southall, scheme administrators, 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.

### Liquid resources

For the purposes of the cash-flow statement, liquid resources are defined as current asset investments, representing amounts receivable within one year.

## 2. Segmental reporting

To provide readers of the financial statements a clearer understanding of how the Groups activities are carried out and the associated income and expenditure of those activities, improved segmental reporting is provided in the years financial statements. As a result the 2008 Consolidated Income and Expenditure Account and the related 2008 notes have been restated to reflect the new presentational format. The restatement has no effect on the surplus reported for the year ended 31 December 2008.

The segmental results for the Group are disclosed on the face of the Income and Expenditure account and in this note. The segments reported reflect the Groups organisational and management structures. Other than those amounts reported as “international” in b. below, all income is derived from the United Kingdom.

Due to ongoing changes in the organisational and management structures providing regulatory services within the Society, segmental reporting is only disclosed on an overall basis for this area. Disclosures are made on the face of the Income and Expenditure account. Similarly complaints handling activities, relating entirely to the LCS, are only disclosed in total on the face on the Income and Expenditure account.

### a. Representative and law reform services

	Income £'000s	Expend- iture £'000s	2009 £'000s	Income £'000s	Expend iture £'000s	Restated 2008 £'000s
Supporting Council, committee, board and office holders	-	(3,564)	(3,564)	-	(3,317)	(3,317)
Government relations and legal policy	(6)	(4,483)	(4,489)	-	(4,787)	(4,787)
Communications	308	(2,952)	(2,644)	120	(3,248)	(3,128)
	302	(10,999)	(10,697)	120	(11,352)	(11,232)

### b. Membership activities

	Income £'000s	Expend- iture £'000s	2009 £'000s	Income £'000s	Expend iture £'000s	Restated 2008 £'000s
Commercial activities	9,146	(7,482)	1,664	13,298	(8,324)	4,974
Membership services	2,070	(2,862)	(792)	1,914	(3,673)	(1,759)
UK operations	56	(1,501)	(1,445)	71	(1,371)	(1,300)
International	723	(2,154)	(1,431)	954	(2,098)	(1,144)
	11,995	(13,999)	(2,004)	16,237	(15,466)	771

### c. Support services

	Income £'000s	Expend- iture £'000s	2009 £'000s	Income £'000s	Expend iture £'000s	Restated 2008 £'000s
Finance	-	(2,927)	(2,927)	(3)	(3,486)	(3,489)
Facilities	6	(8,135)	(8,129)	7	(9,840)	(9,833)
Information Technology	-	(2,388)	(2,388)	-	(2,349)	(2,349)
Human Resources and Development	-	(4,682)	(4,682)	-	(4,196)	(4,196)
Central overheads *	-	(16,267)	(16,267)	-	(23,871)	(23,871)
Investment projects	-	(5,060)	(5,060)	-	(2,736)	(2,736)
	6	(39,459)	(39,453)	4	(46,478)	(46,474)



\* Central overheads include the following amounts:

	Income £'000s	Expend- iture £'000s	2009 £'000s	Income £'000s	Expend- iture £'000s	Restated 2008 £'000s
Depreciation	-	(1,529)	(1,529)	-	(9,609)	(9,609)
Irrecoverable VAT	-	(7,553)	(7,553)	-	(6,107)	(6,107)
Net retirement benefit income and expenditure adjustments	-	797	797	-	1,983	1,983
IT support contracts	-	(4,180)	(4,180)	-	(4,390)	(4,390)
Telecommunication costs	-	(394)	(394)	-	(687)	(687)
Hardware and software repairs	-	(181)	(181)	-	(207)	(207)
Training and development costs	-	(682)	(682)	-	(842)	(842)
Severance costs	-	(721)	(721)	-	(1,834)	(1,834)
Recruitment costs	-	(699)	(699)	-	(735)	(735)
Staff benefits, including medical insurance	-	(1,125)	(1,125)	-	(1,443)	(1,443)
	-	(16,267)	(16,267)	-	(23,871)	(23,871)

Although there is no formal recharge of support service costs across the rest of the Society, for budgeting purposes representative services and membership activities are allocated approximately 29% of support services costs. Regulatory services and complaints handling services are allocated approximately 48% and 23% of costs respectively.

The net assets of the Group are segmented by the Society and insurance operations below. Further analysis by segment, as analysed in notes a to c above, is not currently undertaken by the Group and therefore is not disclosed.

d. Net assets

	2009 £'000s	2008 £'000s
The Society	57,387	41,197
Insurance operations	10,213	9,069
Net cash outflow from capital expenditure and financial investment	67,600	50,266

### 3. Exceptional VAT

Exceptional VAT relates to VAT reclaimed from HM Revenue and Customs (HMRC) following a review of the Society's partial exemption methodology. The total amount of £2.6m represents £1.6m of claims made for accounting years preceding 1 May 1997 and £1.0m relating to the VAT quarters 31 March 2006 to 31 March 2008. Claims in respect of later quarters are still ongoing and are not reflected in the financial statements although it is estimated potential gains are £1m.

### 4. Operating result

	2009 £'000s	2008 £'000s
<b>The Group operating result is stated after charging:</b>		
Depreciation	1,649	10,353
Amounts payable under operating leases - land and buildings	1,116	464
Audit fee	257	257
<b>Non-audit fees:</b>		
Tax and consultancy services provided by the auditors	169	-
Tax and consultancy services provided by the legacy auditors	220	120
<b>Audit and non-audit fees relating to the Society only are as follows:</b>		
Audit fee	196	172
<b>Non-audit fees:</b>		
Tax and consultancy services provided by the auditors	153	-
Tax and consultancy services provided by the legacy auditors	197	97

### 5. Exceptional fundamental reorganisation costs of the LCS

Exceptional fundamental reorganisation costs cover managements best estimate of the cost of closure of the LCS totalling £4.9m (2008: £nil). This event is expected to take place in late 2010 or early 2011 although costs are likely to be settled on a phased basis. In addition £0.6m (2008: £nil) of legal fees incurred in pursuing the TUPE claim for LCS staff, which ruled against the Society in early 2010, have been included as exceptional costs.

### 6. Investment income

	2009 £'000s	2008 £'000s
Bank deposit interest	1,269	4,553
Fixed interest and deposits	639	2,077
Interest on payments into court	101	560
	2,009	7,190

## 7. Taxation

	2009 £'000s	2008 £'000s
UK Corporation Tax at 21%/28% (2008: 20.5%/28.5%) based on profit for the year	1,806	2,843)
Adjustment in respect of prior years	100	(724)
	1,906	2,119
Deferred tax: timing differences, origination and reversal	(15)	5
	1,891	2,124

The tax assessed for the year is lower than that resulting from applying the standard rate of Corporation Tax in the UK 28% (2008: 28.5%). The differences are explained below:

	2009 £'000s	2008 £'000s
Profit from ordinary activities before tax and excluding mutual activities	4,754	10,399
Tax at 21%/28% (2008: 20.5%/28.5%)	619	2,964
<b>Adjustments to tax:</b>		
Reduced rate paid by SIF	-	(603)
Expenses not deductible for tax purposes	(61)	238
Capital allowances in excess of depreciation	(2)	-
Un-utilised losses carried forward	100	247
Other timing differences	1,250	(3)
Adjustment in respect of prior years	-	(724)
	1,906	2,119

The Group has tax losses carried forward as at 31 December 2009 amounting to £4.6m (2008: £nil). No deferred tax asset has been recognised in respect of these losses as there is uncertainty as to the timing of any future profits within those entities to which the losses relate. The unrecognised deferred tax asset relating to carried forward tax losses at 31 December 2009 is £1.3m (2008: £nil).

Exceptional items, as disclosed within the Income and Expenditure Account, have no specific tax impact due to the nature of the VAT item and given the fundamental reorganisation costs of the LCS fall within the non taxable activities of the Society.

There are no anticipated future events we are currently aware of that would materially affect any further tax charge.

## 8. Compensation, remuneration and staff numbers

The compensation, remuneration and staff numbers disclosed in this note do not include any amounts in respect of Council, Board or Committee members.

### TLS

The Chief Executive and the 9 directors of TLS received total emoluments, including pension contributions, of £1,519,663 for the year to 31 December 2009 (2008: £1,562,242).

The highest paid member was the Chief Executive who received emoluments, including pension contributions, of £334,895 (2008: £304,849), comprising £305,690 (2008: £288,603) in salary and benefits and £29,205 (2008: £16,246) pension contributions.

As at 31 December 2009, 5 members of the senior management team are members of the Law Society Retirements Benefits Scheme, a final salary pension scheme, 3 members are members of the Society stakeholder scheme, a defined contribution pension scheme, whilst 2 others, including the Chief Executive, are members of a private stakeholder scheme, a defined contribution pension scheme.

### SRA

The chair of the SRA board received emoluments of £75,384 in 2009 (2008: £73,128). SRA Board members (office holders) were each paid £4,800 per annum (2008: £4,800 per annum) for service on the SRA Board, with further payments of £400 per day (2008: £400 per day) for additional duties.

The SRA Chief Executive and the SRA directors received total emoluments, including pension contributions, of £985,080 (2008: £1,091,892) for the year to 31 December 2009. The highest paid member of the team was the Chief Executive who received emoluments, including pension contributions, of £224,051 (2008: £205,445), comprising £195,330 (2008: £194,665) in salary and benefits and £28,721 (2008: £10,780) pension contributions.

As at 31 December 2009, 4 members of the team are members of the Law Society Retirement Benefits Scheme, a final salary pension scheme, whilst 5 others, including the SRA Chief Executive, are members of the Law Society stakeholder scheme, a defined contribution pension scheme.

### LCS

The chair of the LCS board received emoluments of £75,384 in 2009 (2008: £73,128). LCS Board members (office holders) were each paid £4,800 per annum (2008: £4,800 per annum) for service on the LCS Board, with further payments of £400 per day (2008: £400 per day) for additional duties.

The LCS Chief Executive and the director of customer services received total emoluments, including pension contributions, of £308,354 (2008: £274,677) for the year to 31 December 2009. The highest paid member of the team was the Chief Executive who received emoluments, including pension contributions, of £196,620 (2008: £160,821), comprising £177,065 (2008: £151,659) in salary and benefits and £19,555 (2008: £9,162) pension contributions.

As at 31 December 2009, the director of customer services is a member of the Law Society Retirements Benefits Scheme, a final salary pension scheme, whilst the LCS Chief Executive is a member of the Law Society stakeholder scheme, a defined contribution pension scheme.

### Employment costs

The amount paid to employees during the year includes those amounts paid to the Chief Executive and directors of TLS, SRA and LCS aforementioned.

	2009 £'000s	2008 £'000s
Wages and salaries	54,503	53,054
Social security costs	5,119	4,625
Other pension costs	4,406	4,717
Other costs - mainly severance costs	6,867	5,161
	70,895	67,557

## Staff numbers

The average number of full time equivalent staff in the Group was 1,337 (2008: 1,324). TLS, SRA, LCS and Insurance operations averages are as follows:

	2009	2008
TLS	414	411
SRA	564	526
LCS	342	362
Insurance operations	17	25
	1,337	1,324

## 9. Subsidiaries and other undertakings - Society only

The Society had the following principal subsidiary undertakings as at 31 December 2009 and 31 December 2008. They are all incorporated in the United Kingdom and operate in England and Wales.

Undertaking (nature of trade)	Issued share capital	% of ownership / control
The Law Society Services Limited (commercial activities of the Society)	£100	100%
Solicitors' Indemnity Fund (professional indemnity insurance for solicitors)	Fund	100%
Solicitors' Indemnity Fund Limited (acting as agent for the Solicitors' Indemnity Fund)	Limited by guarantee	100%
Legal and Professional Claims Limited (professional indemnity insurance claims handling)	£500,000	100%
SPIIL#2 (dormant)	£100	51%

The above entities are consolidated in the Group financial statements.

The activities of Law Society Services Limited are disclosed within membership activities in note 2a.

SIF is considered to be a quasi-subsiary under the terms of FRS 5. As such there is a requirement to disclose a summary of SIF's financial statements within these financial statements, see note 26. SIF has been in wind down since 2000.

The Society had the following joint venture, incorporated in the United Kingdom and operating in England and Wales, as at 31 December 2009 and 31 December 2008.

Undertaking (nature of trade)	Issued share capital	% of ownership / control
Queen's Counsel Appointment Limited (support and facilitate the process for selection of Queens Counsel)	Limited by guarantee	50%

The above entity is not consolidated in the Group financial statements as the amounts are deemed immaterial to the Group.

## 10. Tangible assets

	Note	Freehold land and buildings £'000s	Furniture and equipment £'000s	IT hardware and software £'000s	Total £'000s
<b>Cost:</b>					
At 1 January 2009		27,015	3,814	950	31,779
Additions		34	44	659	737
Disposals		-	-	(273)	(273)
Transfer to assets held for resale	12	(4,174)	-	-	(4,174)
At 31 December 2009		22,875	3,858	1,336	28,069
<b>Accumulated depreciation:</b>					
At 1 January 2009		10,233	1,684	717	12,634
Charge for the year		718	753	178	1,649
Disposals		-	-	(273)	(273)
Transfer to assets held for resale	12	(2,316)	-	-	(2,316)
At 31 December 2009		8,635	2,437	622	11,694
<b>Net book value:</b>					
At 31 December 2009		14,240	1,421	714	16,375
At 31 December 2008		16,782	2,130	233	19,145

## 11. Investments

	2009 £'000s	2008 £'000s
Fixed interest stocks	8,528	9,678
Deposits	70,920	28,355
	79,448	38,033

## 12. Assets held for resale

In light of the closure of the LCS and set up of the OLC, the Society has taken the decision to sell Victoria Court, the freehold property currently occupied by the LCS. As such, this property has been transferred from fixed assets to assets held for resale. The carrying amount of the property immediately prior to reclassification was £1,858,045. The open market value of Victoria Court is £2.2m (2008: £2.2m) and as such no impairment issues arise. The property is currently being marketed.

## 13. Debtors

	Note	2009 £'000s	2008 £'000s
Trade debtors		2,658	3,118
Deferred tax asset	7	65	50
VAT (including exceptional VAT)	3	2,622	335
Amounts due from other Law Society affiliated entities		-	291
Other debtors		670	1,377
Prepayments and accrued income		1,752	1,600
		<b>7,767</b>	<b>6,771</b>

## 14. Creditors

	2009 £'000s	2008 £'000s
Trade creditors	11,295	15,186
Deferred revenue	100,326	93,081
Amounts due to other Law Society affiliated entities	824	-
Amounts due to the Office for Legal Complaints *	7,113	-
Taxation and social security **	2,895	2,652
Accrued expenses	686	280
Insurance related creditors	608	693
	<b>123,747</b>	<b>111,892</b>

\* These amounts are in respect of the set-up costs of the OLC and LSB of which £7.1m falls due within one year, as disclosed above, and £6.8m falls due in more than one year, as disclosed in note 15.

\*\* Included within taxation and social security are balances of £1,536,922 (2008: £1,542,000) in respect of PAYE and National Insurance.

## 15. Creditors due in more than one year

	2009 £'000s	2008 £'000s
Amounts due to the Office for Legal Complaints*	6,834	-
	<b>6,834</b>	<b>-</b>

## 16. Claims provision

	2009 Gross £'000s	2009 Reinsurance £'000s	2009 Net £'000s	2008 Net £'000s
Total provision	17,555	(99)	17,456	29,308
Provision brought forward	30,438	(1,130)	29,308	38,228
Release of the provision to income and expenditure account	(12,883)	1,031	(11,852)	(8,920)

## 17. Provisions

	As at 01.01.09 £'000s	Released in the year £'000s	Added in the year £'000s	As at 31.12.09 £'000s
Refunds	-	-	650	650
LCS closure costs	-	-	4,944	4,944
Miners' compensation cases	600	(525)	180	255
Interventions, disciplinary proceedings and litigation	5,456	(5,456)	8,830	8,830
Dilapidations	236	(135)	384	485
	6,292	(6,116)	14,988	15,164

The provision for refunds recognises, based on historic experience, the expected value of practising certificate fee refunds resulting from final application checks being performed post year end.

The provision for LCS closure costs represents the anticipated costs of the LCS closure based on management and Management Board best estimates. The most significant element of the provision relates to redundancy costs. See also note 5.

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.

The dilapidations provision represents the unavoidable costs of restoring leased property to the same state as when the property lease was taken on by the Group. These costs are provided for evenly over the life of the lease. Costs are calculated based on third party estimates of restoration costs per sq/ft for each property.

As suggested by the ABI SORP, no provision for the estimated SIF future run-off costs of £1,612,000 (2008: £2,242,000 before discount) is carried since they are expected to be offset in full by the expected investment return of the Fund.



## 18. Pension commitments

The Society operates a pension scheme, the Law Society Retirement Benefits Scheme (the 'Scheme'), providing benefits based upon final pensionable salary. The Council of the 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) Lindsell Train
Overseas equities	AllianceBernstein (Alliance)
Fixed Interest Bonds	BlackRock
Insurance policy	MetLife

Over the year to 31 December 2009 the Society paid regular contributions of 15.3% p.a. of pensionable salaries. Contributions paid to the Scheme during the year totalled £18.7m (2008: £12.2m) which include £13.0m (2008: £8.0m) of special contributions paid by the Society. There were no amounts outstanding at the year end (2008: £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 £1,633,788 (2008: £780,000). There were no outstanding prepaid or accrued contributions at the year end (2008: £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 £128,022 (2008: £158,765). There were no outstanding prepaid or accrued contributions at the year end (2008: £nil).

### FRS17 retirement benefits

The latest triennial actuarial valuation of the Scheme at 31 December 2007 prepared by the Trustees indicated a deficit of £59.1m and the Trustees have raised a formal demand for this amount payable by 31 March 2009.

The financial statements include a far lower deficit than revealed at the full actuarial valuation primarily because, in accordance with FRS 17, pension liabilities included within the financial statements are prepared on the basis that the liabilities are discounted in line with the yields on high-quality corporate bonds, despite the fact the scheme does not hold such investments. The full actuarial valuation on the other hand is prepared on a significantly more prudent basis whereby liabilities are discounted in line with the yields on government bonds. It is the pension liabilities in the full actuarial valuation which drive the cash calls on the Society and are therefore more significant to the Society.

The results of the FRS 17 valuation of the Scheme for the year ended 31 December 2009, as carried out by a qualified independent actuary, are as follows:

#### The amounts recognised in the balance sheet:

	2009 £'000s	2008 £'000s
Present value of funded obligations	(221,400)	(202,970)
Fair value of scheme assets	220,460	196,554
Net liability	(940)	(6,416)

The amounts recognised in the income and expenditure account are made up as follows:

	2009 £'000s	2008 £'000s
Current service cost	3,008	3,878
Interest cost	11,187	11,585
Expected return on plan assets	(9,585)	(12,043)
Past service cost	(12)	98
Total pension cost recognised in the income and expenditure account	4,598	3,518
Actuarial losses immediately recognised	6,821	2,823
Total pension cost recognised in the statement of total recognised gains and losses	6,821	2,823

The movement on the retirement benefit obligation in the year is as follows:

	2009 £'000s	2008 £'000s
Benefit obligation at beginning of year	202,970	213,493
Current service cost	3,008	3,878
Interest cost	11,187	11,585
Plan participants' contributions	1,761	2,422
Past service costs	(12)	98
Actuarial losses / (gains)	6,396	(24,306)
Benefits paid	(3,910)	(4,200)
Benefit obligation at end of year	221,400	202,970

The movement on the fair value of scheme assets in the year is as follows:

	2009 £'000s	2008 £'000s
Fair value of scheme assets at beginning of year	196,554	203,637
Expected return on plan assets	9,585	12,043
Actuarial losses	(425)	(27,129)
Employer contribution	16,895	9,781
Member contributions	1,761	2,422
Benefits paid	(3,910)	(4,200)
Fair value of scheme assets at end of year	220,460	196,554

The portfolio of assets is split as follows:

	2009 %	2008 %
Equities	24	25
Bonds	44	73
Insured pensioners	31	-
Cash	1	2
	100	100

The actual return on Scheme assets for the year was £9,160 (2008: loss on scheme assets of £15,086,000).

The key assumptions adopted in the actuarial valuation at the year end were as follows:

	2009 %	2008 %
Expected return on plan assets:		
Equities	7.50%	6.75%
Bonds	4.50%	3.75%
Cash	0.50%	2.00%
Discount rate	5.65%	5.50%
Rate of increase in salaries	3.85%	3.40%
Rate of increase in pensions in payment	3.85%	3.40%
Rate of increase of pensions in deferment	3.85%	3.40%
Inflation	3.85%	3.40%
	<b>Male</b>	<b>Female</b>
Member age 65 (current life expectancy)	23.8	26.2
Member age 45 (current life expectancy at 65)	25.8	28.1

A summary of the five year history:

Financial year ending in:	2009 £'000s	2008 £'000s	2007 £'000s	2006 £'000s	2005 £'000s
Benefit obligation at end of year	(221,400)	(202,970)	(213,493)	(196,882)	(174,415)
Fair value of scheme assets at end of year	220,460	196,554	203,637	184,519	138,091
Deficit	(940)	(6,416)	(9,856)	(12,363)	(36,324)
Experience adjustments on Scheme liabilities	5,104	-	(1,006)	(2,407)	(4,018)
Experience adjustments on Scheme assets	(425)	(27,129)	(3,948)	1,489	10,006

## 19. Accumulated fund

	2009 £'000s	2008 £'000s
At 1 January 2009	50,266	34,930
Surplus for the financial year	23,438	17,749
Actuarial loss recognised in the pension schemes	(6,821)	(2,823)
Unrealised (losses) / gains on investments	(283)	410
At 31 December 2009	66,600	50,266

## 20. Related party transactions

### Compensation Fund

The Society is related to the Compensation Fund as they are both controlled by the Council. During the year the Society collected contributions on behalf of the Compensation Fund totalling £20,499,874 (2008: £8,410,000). During the year the Society recovered costs from the Compensation Fund totalling £18,319,440 (2008: £9,575,000). At the year end the amount due to the Compensation Fund totalled £845,493 (2008: £218,000 due from the Compensation Fund).

### Council, Board and Committee members

Transactions the Society has directly with individual Council, Management Board, SRA Board, LCS Board, Audit Committee, Scrutiny Committee and Remuneration Committee members, excluding transactions expected in order for the member to carry out their duties, are considered related party transactions for the purposes of FRS8.

Furthermore, Society transactions with entities any member of the Management Board, SRA Board, LCS Board, Audit Committee, Scrutiny Committee and Remuneration Committee has significant influence over are also considered related party transactions for the purposes of FRS8.

Council members are not considered to be akin to directors given their role and, as a whole, the Council is deemed to be the ultimate controlling party of the Group. As such transactions with entities any member of the Council has significant influence over are not considered related party transactions for the purposes of FRS8.

Appropriate disclosures are given overleaf.

All related party transactions are carried out at arms length. Other than disclosed within this note, there were no material related party transactions.

## Council members - direct transactions

Member	2009		2008	
	Value of transactions £	Nature of the transactions	Value of transactions £	Nature of the transactions
John Calladine	2,550	External examiner fees	2,340	External examiner fees
Denis Cameron	1,000	Lecture fees	8,250	Lecture fees
Helen Clarke	8,882	Lecture fees	7,452	Lecture fees
Laura Devine	785	Article writing fees	-	-
Jeffrey Forrest	1,975	Conference fees	-	-
Robin ap Cynan	-	-	2,530	Assessment and panel fees
Simon Young	-	-	5,174	Article writing fees

## Board and Committee members - direct transactions

Member	2009		2008	
	Value of transactions £	Nature of the transactions	Value of transactions £	Nature of the transactions
Melissa Hardee	8,062	Lecture fees	1,800	Lecture fees
Penny Owston	508	Lecture fees	280	External examiner fees

## Board and Committee members - entity transactions

Entity (member)	2009		2008	
	Value of transactions £	Nature of the transactions	Value of transactions £	Nature of the transactions
Herbert Smith LLP (Charles Plant)	4,682	Legal services	-	-
Salomon Whittle Limited (Stephen Whittle)	6,210	Legal services	3,290	Legal services
Victor, Lissack, Roscoe and Coleman (Roger Roscoe)	63,186	Legal services	145,770	Legal services
Norton Rose LLP (Martin Coleman)	136,796	Legal services	89,223	Legal services
KPMG LLP (Bob Spedding)	68,239	Consultancy fees	-	-

## 21. Litigation

The Group has a very robust process of reviewing and managing high profile litigation matters relating to TLS, SRA, LCS and SDT. Provisions and accruals have been made in the financial statements to reflect litigation costs as appropriate. The Group considers that there are no major litigations which require disclosure in the financial statements.

## 22. Contingent gains and losses

### Insurance activities

SIF has an Adverse Loss Development Programme (ALDP) in place. Under the terms of the agreement if the Fund's claims liabilities are in excess of £90 million a claim may be made under this insurance. There is a clause in the contract which allows for a claw back of £3 million if certain preset conditions are breached. Up until 2008 £3 million reserve was carried in the balance sheet to account for this contingency, however the likelihood of this amounts ever being paid is considered so remote in 2009 that it has been released. Paid and estimated liabilities to 31 December 2009 from claims falling under this cover have not reached the excess point and are unlikely to do so, therefore, no recoveries under this policy have been recognised.

The ALDP allows for early commutation of this cover. The first point of exercise is 1 October 2010 and annually thereafter. If the Fund were to exercise this option there is a potential release of a profit share back to the Fund. Any profit share recovered under this arrangement would however be offset to some extent by the cost of any replacement cover. In the opinion of the SIF Directors any contingent gain is at this stage uncertain and cannot be reliably measured and has therefore not been recognised.

There are a number of assets over which the Fund has some title / claim which may lead to potential future recoveries. These potential assets are not recognised as part of the provisions for recoveries as, in the opinion of the SIF Directors, they are so uncertain that they cannot be practically measured.

## 23. Operating lease commitments

The Groups non-cancellable commitments for rental payments under operating leases payable during the year to 31 December 2009 are as follows:

	2009 £'000s	2008 £'000s
<b>Land and buildings:</b>		
Leases expiring within one year	15	271
Leases expiring between two and five years	442	442
Leases expiring after five years	561	375
	1,018	1,088

## 24. Capital commitments

As at 31 December 2009 there were no capital commitments (2008: £nil) although there was £593,000 (2008: £140,000) of internally approved Group project expenditure which is likely to be spent in 2010.

## 25. Post balance sheet events

Quinn Insurance provides PII cover to 2,911 UK Law firms and sole practitioners. The Administration order against Quinn Insurance issued on 30 March 2010 demonstrates the potential volatility of the solicitors' PII market. We will continue to work closely with market participants to find ways of increasing and maintaining the market capacity to help mitigate the detrimental effect of any future challenges.

No direct liabilities arise against the Society in respect of this matter and as such no adjustments have been made in the financial statements.



## 26. Solicitors' Indemnity Fund financial statements summary

The disclosures given below are a summary of the financial statements of SIF as reported in their own financial statements.

### Summarised revenue account

	2009 £'000s	Restated 2008 £'000s
Gross claims paid	(3,807)	(4,029)
Reinsurance recoveries	929	237
Decrease in gross provision for claims	12,883	11,785
Decrease in amount recoverable from re-insurers	(1,030)	(2,865)
Loss on disposal of other fixed asset investments	(17)	(22)
Income from fixed asset investments	740	2,637
Write down of value of fixed asset investments	(283)	-
Investment expenses	(17)	(27)
Administrative expenses	(622)	(680)
Contributions receivable / (payable)	11	(42)
Taxation charge	(1,779)	(1,416)
Release of surplus to the Society	(6,000)	(2,000)
Surplus for the year	1,008	3,578
Prior year adjustment	-	140
Other unrealised gains	-	542
Total recognised gains and losses	1,008	4,260

#### Administrative expenses are broken down as follows:

	2009 £'000s	2008 £'000s
Administration service charges	2,869	3,078
Premises	351	360
Computer	98	294
Legal and professional	102	91
Audit	51	75
Insurance	139	142
Depreciation	136	117
Other operating costs	16	-
Total operating expenditure in the year	3,762	4,157
Less: Asset Licence Fee received	(650)	(756)
Less: Cost of internal claims handling staff, including share of overheads	(2,490)	(2,721)
Charge to revenue account in the year	622	680

The surplus for the year reported above has been recognised in the Group financial statements as follows:

	2009 £'000s	2008 £'000s
<b>Consolidated Income and Expenditure account:</b>		
Solicitors' Indemnity Fund	8,330	4,665
Investment income and interest	740	2,637
Taxation	(1,779)	(1,452)
Statement of total recognised gains and losses:		
Unrealised (losses) / gains	(283)	410
	7,008	6,260
Release of surplus to the Society not recognised at Group level	(6,000)	(2,000)
	1,008	4,260

## Summarised balance sheet

	2009 £'000s	2008 £'000s
<b>Assets:</b>		
Investments	29,377	38,033
Re-insurers' Share of Claims Provision	99	1,130
Debtors	457	745
Fixed Assets	145	262
Bank Balances	466	2,267
Total Assets	30,544	42,437
<b>Liabilities:</b>		
Gross Claims Provision	(17,554)	(30,438)
Creditors	(3,057)	(3,074)
Total Liabilities	(20,611)	(33,512)
<b>Net Assets</b>	<b>9,933</b>	<b>8,925</b>







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