



THE LAW SOCIETY
of SCOTLAND

www.lawscot.org.uk

Budget explanatory note

7 August 2009

Introduction from the Treasurer

As a partner in a central Scotland firm and the Society's new treasurer, I could not be more aware of the challenges faced by the profession and the importance of presenting a prudent budget to the profession.

The budget is published as part of our commitment to transparency. It is presented in a format which mirrors the new Society structure, this is the format in which the 2008/09 annual accounts will be published. It should make the figures easier to understand when read in conjunction with the corporate plan.

The proposed cost for the Practising Certificate, Membership and Retention on the Roll to be approved by the Council for 2009/10 is **£565, £150 and £70** respectively. The Council of the Society approved a budget which accommodates the reduced PC fee (a reduction of £100). This budget plans a deficit income and expenditure figure of £80,052. This deficit will be funded using a contribution from existing reserves and some of this year's forecast surplus. We will still maintain reserves at around £2 million by the end of 2009/10. This is an appropriate level as it equates to approximately three months of average budgeted expenditure.

The recession and the impact of the Scottish Legal Complaints Commission (SLCC) levy has meant that a conservative approach has been taken with this budget bearing in mind the degree and speed of the economic recovery and the possibility of fewer practising certificates. Based on this analysis, we have made an assumption that the number of practising members will reduce by 300 from the current level of 10,216.

Every aspect of the Society has been examined to identify savings where possible. As the majority of our expenditure relates to employment costs, a salary freeze was announced in February 2009 and a recruitment freeze was implemented at the same time. In July 2009, the Society took the difficult decision to introduce a voluntary redundancy scheme from which we have assumed, for this budget's purposes a decrease in employment costs of £250k.

Increased use of telephone conferencing and the use of emails will result in increased saving in travel and post. Further savings will be found within the governance costs which include Council, Board and Corporate office travel, catering, convener remuneration and all international travel. The £100,000 shown as a separate line represents approximately 10% of these annual costs. Convener and office bearer remuneration was also frozen in 2008 pending a review.

We have given a more detailed explanation below. If there are any questions, please email them to membersenquiries@lawscot.org.uk and we will try to reply as soon as possible. Frequently asked questions about this budget will be added to the website.

David McClements
Treasurer

Summary income & expenditure statement and cash flow analysis for financial year 2009/10

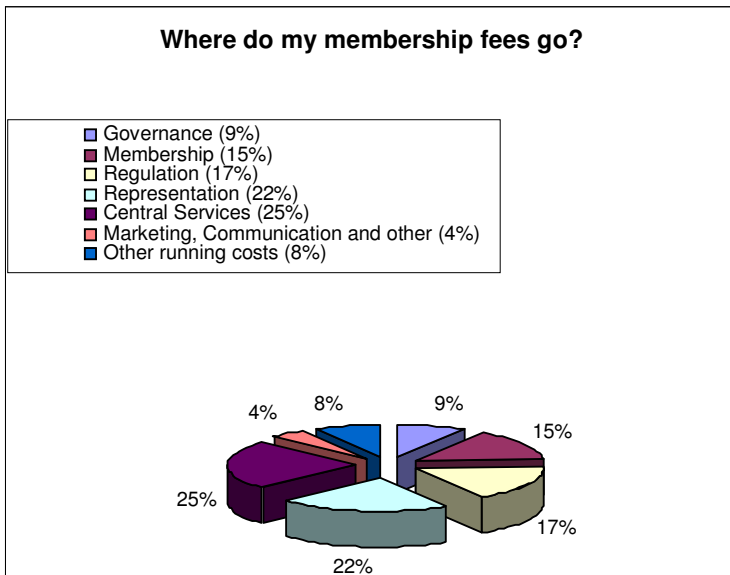
The income and expenditure account for financial year 2009/10 is planned to be:

Income	£7,910,000
Expenditure	(£7,990,000)
Planned Surplus/ (Deficit)	(£ 80,000)

We have assumed that the number of practising members will reduce by 300. If in the event more practising certificates are renewed than planned for, then the finances will run to a surplus. Equally if the number of non-renewals exceeds the budgeted figure, the Society will run at a larger deficit. The position with renewals will become apparent during late November/early December and plans will be adjusted to take account of the impact.

The Society is budgeted to have a positive cash position of £2,012,000 at the end of 2009/10. The Finance Committee have determined that this is an acceptable level of reserves as it equates to approximately three months of average budgeted expenditure.

How the PC is spent



A summary of increases and decreases year on year is shown below with a brief explanation for each section. It should be noted that at the time of publishing, the 2008/09 forecast will be updated after third quarter reviews (which are currently being carried out).

Representation

• 2009/10 Budget Income	£401,600
• 2009/10 Budget Expenditure	(£1,837,188)
• 2009/10 Budget Net Expenditure	(£1,435,588)
• 2008/09 Forecast Net Expenditure	(£1,289,869)
• <i>increase / (decrease)</i>	£29,975
• <i>% increase / (decrease)</i>	2%

There has been an increase in employment costs as staff resources have been prioritised here. Following the governance review, this area was identified as needing investment to ensure

adequate service for members. Any new posts have been recruited internally and vacancies created elsewhere have not been filled.

See note under central services regarding convener remuneration (reallocation in 2009/10 to this heading – previous years are shown under Central Services).

Net cost of annual conference in 2009/10 reduced as the 2008/09 net cost was significantly higher than normal as it was the Society's 60th anniversary. The annual conference is expected to make a net profit in 2009/10 but sponsorship (including that for the annual conference and Update events) is shown separately under marketing, communication and other (business development).

The Update department's net income is anticipated to recover during 2009/10 as the economy recovers.

There is a new budget for stakeholder engagement. Previously budgets were held in different areas. For clarity/ transparency and control these budgets have been consolidated here.

Membership

• 2009/10 Budget Income	£0
• 2009/10 Budget Expenditure	(£992,568)
• 2009/10 Budget Net Expenditure	(£992,568)
• <i>2008/09 Forecast Net Expenditure</i>	<i>(£749,278)</i>
• <i>increase / (decrease)</i>	<i>£243,290</i>
• <i>% increase / (decrease)</i>	<i>(32%)</i>

There is an increase in employment costs due to members of staff being reallocated here from Central Services. This is due to the Society's restructure and the implementation of the new membership database. Individuals previously reported under Central Services (Administration) are now reported more accurately under Membership (Registrar).

Paralegals – new costs associated with a new membership category. Set up costs in part funded by general membership income. In future years as paralegal membership grows this will be self funding.

Education – increased costs due to the implementation plan for the new training framework.

See note under central services regarding convener remuneration (reallocation in 2009/10 to this heading – previous years are shown under Central Services)

Regulation

• 2009/10 Budget Income	£120,000
• 2009/10 Budget Expenditure	(£1,256,315)
• 2009/10 Budget Net Expenditure	(£1,136,315)
• <i>2008/09 Forecast Net Expenditure</i>	<i>(£1,232,084)</i>
• <i>increase / (decrease)</i>	<i>(£95,769)</i>
• <i>% increase / (decrease)</i>	<i>(8%)</i>

Decrease in employment costs due to reduction in staff numbers.

See note under central services regarding convener remuneration (reallocation in 2009/10 to this heading – previous years are shown under Central Services)

Continued decrease in regulation and Scottish Solicitor Disciplinary Tribunal costs. Following 1 October 2008 when the SLCC took over service complaints, the cost of handling complaints at the

Society has begun to reduce. However, because the SLCC will only be responsible for service complaints arising from instructions which are given after 1 October 2008, the Society will continue to handle all complaints, despite the SLCC commencing on 1 October 2008. There will be a 'tail' of service complaints which the Society needs to handle until the Society's responsibility for handling any new service complaints ceases on 1 October 2010.

Governance

• 2009/10 Budget Income	£0
• 2009/10 Budget Expenditure	(£591,706)
• 2009/10 Budget Net Expenditure	(£591,706)
• <i>2008/09 Forecast Net Expenditure</i>	<i>(£778,482)</i>
• <i>increase / (decrease)</i>	<i>(£186,776)</i>
• <i>% increase / (decrease)</i>	<i>(24%)</i>

A decrease of £186,000 has been budgeted due to reduced number of Council and committee meetings, a freeze on convener and office bearer remuneration pending a review to be carried out by an independent working party and a commitment to find further savings throughout the year.

See note under central services regarding convener remuneration (reallocation in 2009/10 to this heading – previous years are shown under Central Services)

Central Services

• 2009/10 Budget Income	£0
• 2009/10 Budget Expenditure	(£1,579,724)
• 2009/10 Budget Net Expenditure	(£1,579,724)
• <i>2008/09 Forecast Net Expenditure</i>	<i>(£2,100,227)</i>
• <i>increase / (decrease)</i>	<i>(£520,503)</i>
• <i>% increase / (decrease)</i>	<i>(25%)</i>

Decrease in employment costs due to members of staff being transferred from here to Membership (see note under Membership for details).

Convener remuneration (£165,000 in 2008/09) is reported here for previous years but for the budget in 2009/10 it has now been split to each committee's costs and is shown more appropriately under each strand of the Society's costs.

The Society's work to save staff time as well as costs by using more efficient working practices will continue next year. For example, there will be continued investment in the membership roll database to streamline membership management, renewal and to generate better information about members. This is reflected in the increased budgeted costs of the IT department.

Human Resource costs have decreased significantly reflecting minimal recruitment costs (only replacement of essential posts where they cannot be filled internally).

Marketing, Communication and other

• 2009/10 Budget Income	£816,170
• 2009/10 Budget Expenditure	(£1,112,324)
• 2009/10 Budget Net Expenditure	(£296,154)
• <i>2008/09 Forecast Net Expenditure</i>	<i>(£415,546)</i>
• <i>increase / (decrease)</i>	<i>(£119,392)</i>
• <i>% increase / (decrease)</i>	<i>(29%)</i>

Net income (largely sponsorship and advertising income) is anticipated to recover during 2009/10 as the economy recovers. Savings have also been made in various expenditure lines.

Other running costs

• 2009/10 Budget Income	£65,000
• 2009/10 Budget Expenditure	(£619,776)
• 2009/10 Budget Net Expenditure	(£544,776)
• <i>2008/09 Forecast Net Expenditure</i>	<i>(£843,628)</i>
• <i>increase / (decrease)</i>	<i>(£288,852)</i>
• <i>% increase / (decrease)</i>	<i>(34%)</i>

The income in this area consists of bank interest. This has been high in previous years however, as the interest rates have fallen dramatically, so has the income. The budget for 2009/10 anticipates interest rates remaining low in the beginning of the financial year when the Society holds a high bank balance and then increasing towards the end of the financial year when the Society's cash reserves are decreasing.

The contingency appears to increase dramatically but in reality it doesn't. At the beginning of 2008/09 the contingency was £90,000 and, as it has been used throughout the year, the budget has been re-allocated to the appropriate areas. It is necessary to hold a contingency to allow for any unforeseen events that may occur throughout the year.

Corporation tax is paid on bank interest, royalty income and investment income only, no expenditure can be offset. An investigation into the corporation tax liability of the Society and its related entities took place during 2008/09 and concluded that the Society and its related entities were structured in the most tax efficient way possible. Notwithstanding the need to pay tax, the net income defrays costs to the profession overall.

The depreciation charge budgeted for 2009/10 has increased due to the investment in the membership database and the continued rolling investments in systems and IT. Rolling investment in replacement equipment is essential for maintenance and to ensure that it is capable of running modern programs (in particular the new membership database).