Private & Confidential - Not for Publication <u>Practising Certificate Fee (PCF) Allocation Survey 2013</u>

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1. Summary

The purpose of this paper is to seek the views of the practising profession ahead of the Bar Council determining, following consultation with the Bar Standards Board (BSB) and subject to the approval of the Legal Services Board (LSB), how the PCF should be allocated in 2014/15 and beyond.

Under current arrangements, the level of the PCF is related to seniority. There is now an increasing disconnect, certainly at the publicly funded Bar, between earnings and seniority, and increasing financial pressure on the publicly funded bar. This paper proposes that:

- the allocation of the PCF should be based on income rather than years of call. This approach is consistent with the practice of many Chambers which fix individual members' contributions to chambers expenses by reference to a percentage of fee income;
- there should be 6 rates of PCF related to income bands, ranging from £100 for those whose gross fees are less than £30,000 to £1,500 for those whose gross fees are more than £240,000; and
- arrangements for employed and self-employed practitioners should be harmonised. The consequence of this is that employed barristers will pay by reference to gross income, as against self-employed practitioners paying by reference to gross fees.

2. Background

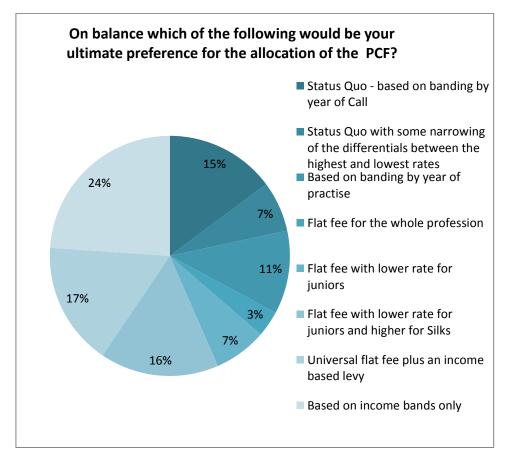
A levy, based upon year of Call, on all practitioners as the primary means of funding the Bar Council's activity has its origins many years prior to the Access to Justice Act 1999, which enabled the introduction of the compulsory payment of the PCF. This arrangement has been the subject of particular scrutiny in recent years.

Surveys were conducted in 2010 and 2011. There was the recognition that, whereas there might have been a better case when year of Call was adopted over 40 years ago as the basis of PCF allocation, it is demonstrably no longer an accurate proxy for income. However, respondents were cautious about revealing individual income to the Bar Council. Other issues emerging from the consultations included reference to the fact that a fee based on year of call disadvantaged those who either took a break from the profession (for example, to raise a family) or having been called did not, for whatever reason, start to practise until some years later. Reservations were also expressed as to whether the PCF paid by the most junior members of the Bar was disproportionately low. Finally, there remained a divergence of views as to whether the self-employed and employed Bar should pay the same level of PCF.

A further consultation on the PCF allocation was conducted during Autumn 2012 to which 13% of the practising Bar responded. The subsequent report on the consultation can both be found on the Bar Council website at the following link: http://www.barcouncil.org.uk/media/200006/pcf_allocationsurvey2012report.pdf

While there is some inconsistency in the overall percentage figures, (as 19% of those who started the survey failed to complete it), a majority of respondents (56.6%) stated that they preferred a change from the present arrangements. There was a range of preferences as to the best alternative to the present arrangements. 41% of respondents said that in principle they supported the introduction of an income-based approach to PCF allocation across the entire profession.

No other alternative gathered this much support. Moreover, as the following graph illustrates, there was a spread of responses to the question of which was the consultees' ultimate preference for the allocation of the PCF:



Only 22% of respondents to the 'ultimate preference' question favoured the retention of the status quo. There was support for each of the alternative proposals, with allocation based on 'income bands only' being the most popular single option (24%), with a further 17% favouring a combination of a universal flat fee and an income based levy.

The detailed results have been discussed within the PCF Consultation Working Group, the BSB's Planning, Resources & Performance (PRP) Committee, the General Management Committee (GMC) and the Finance Committee (FC). The majority view was that a further consultation was necessary in which a simple choice should be offered between a minor variation to the status quo and an income based model. The latter was prompted by the overall level of support expressed in the survey. It was noted that there was a need to be sensitive to the significant circumspection, also expressed in the survey, regarding disclosure of the relevant detail.

The issue has become more pressing in the light of the dramatic actual and anticipated cuts in legal aid and the consequent growing plight of the publicly funded Bar. The latter has a wide implication in so far as a decline in the total number of practitioners means that a greater share of the PCF burden will have to be shouldered by those who remain. Indicative and anonymised information obtained from the Bar Mutual Indemnity Fund (BMIF) suggests there is a considerable disparity in fee earnings across the self-employed Bar, and the potential capacity for those earning more to carry a greater burden of the PCF in the interest of the profession as a whole. The latter approach very much accords with the values and traditions of the profession.

As part of the 2012 consultation, the Crown Prosecution Service (CPS) argued, on behalf of the employed Bar, for maintaining the differential between the PCF paid by the employed Bar and self-employed Bar predicated on the assumption that the representational services given by the Bar Council are far less for the employed bar than the self-employed Bar, and the regulatory activity of the BSB is also much less, reflecting the reduced risk that employed barristers pose and the fact that performance and disciplinary matters are tackled internally by the CPS and other employer organisations. Consequently, any change to the current arrangements could mean that the employed Bar would meet more than its 'fair share' (however that might be defined) of the total cost. Consideration was given as to whether this risk based argument was sustainable and, if so, whether it was equally applicable to any other group or groups. As matters currently stand, our data capture is insufficiently comprehensive and robust to create a formula for that allocation of the PCF based on risk. However, we are introducing more sophisticated systems which would inform such an approach should that, in due course, be considered an appropriate way to proceed.

3. The Practising Certificate Fee

The core PCF represents the direct contribution of the practising Bar to the costs of running the Bar Council and its representational and (via the Bar Standards Board)

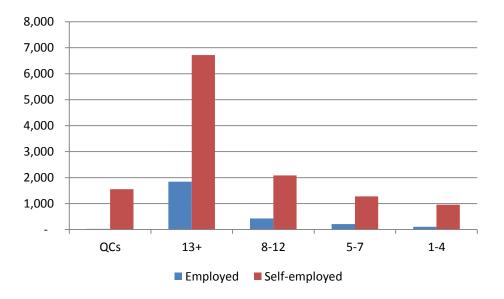
regulatory activities. The PCF represents c 60% of the income of the Bar Council, and although it has increased over the last four years, is now projected to broadly plateau at c £9.5 million. Of this year's £9.3 million raised, nearly 90% is raised from self-employed practitioners and the remainder from employed practitioners.

4. The Current System for allocation of the PCF

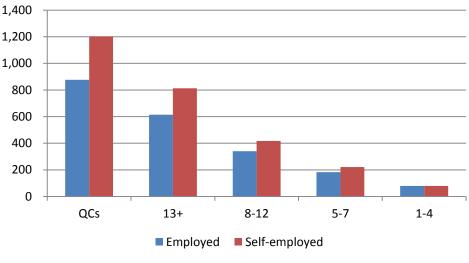
There are currently a total of 12 bands. While years of Call 1- 2 and 3- 4 pay the same PCF, the split is preserved for Members Services Fee (MSF) differentiation purposes. In the table below, the final column is the number of practitioners (as of June 2013) who fell within each band.

Self Employed Bar – Call band	Core Fee (£) (i.e. excludes levies)	Practitioner Headcount (June 2013)
QC	1,202	1,557
Junior (13 Years and over from Call)	813	6,720
Junior (8 to 12 Years from Call)	417	2,082
Junior (5 to 7 Years from Call)	222	1,276
Junior (1 to 4 Years from Call)	80	955
Employed Bar – Call band	Core Fee (£) (i.e. excludes levies)	Practitioner Headcount (June 2013)
Employed Bar – Call band		
	(i.e. excludes levies)	(June 2013)
QC	(i.e. excludes levies) 877	(June 2013) 26
QC Junior (13 Years and over from Call)	(i.e. excludes levies) 877 615	(June 2013) 26 1,844

Graphically, this distribution of individual practitioners translates into the following:-







The amount payable per call band is as follows:-





Finally, the amount raised across each call band is as follows:



Chart 3 – Total PCF raised from each call band

We aimed to raise circa £9.5m in core PCF in 2013/14. Of this:

- QCs represent 10% of practitioners and pay 19% of the total core PCF
- Those of 13 years Call and over represent <u>56%</u> of practitioners and pay <u>67%</u> of the total core PCF.
- Those of 8 to 12 years Call represent <u>16%</u> of practitioners and pay <u>10%</u> of the total core PCF
- Those of 5 to 7 years Call represent <u>10%</u> of practitioners and pay <u>3%</u> of the total core PCF
- Those of 1 to 4 years Call represent <u>7%</u> of practitioners and pay <u>1%</u> of the total core PCF

The **disadvantages** of the PCF allocation based upon year of Call are:

- Assuming that the Bar wished to maintain the principle and thus far it has gone unchallenged – that the more established practitioners at the Bar should support the more junior Bar then year of Call is not a reliable indicator of income and ability to afford such a gesture. As such, it is evident that there are relatively junior members of the Bar paying a significantly smaller PCF than their senior junior and QC colleagues, despite earning more in fees.
- Such an approach for allocating the PCF by seniority potentially disadvantages those, predominantly women, who take a career break, and those who enter practise some years after Call. The latter do not necessarily have the level of earnings commensurate with their ostensible seniority in the profession.
- The PCF paid by those in the 1-4 years of Call and 4 -7 years of Call bands is seen as being disproportionately low.
- The debate as to whether the self-employed and employed Bar should pay the same level of PCF remains unresolved.
- While not exclusively the case, this approach favours younger members at the expense of older members and may no longer be appropriate in equalities terms.

The **advantages** of retaining the status quo are:

- It is a tried and tested system that despite the anomalies (which are addressed through the lower income PCF waiver arrangements) allows more senior practitioners to support those more junior without prejudicing the confidentiality of individual fee income.
- We have invested heavily in IT software that supports the present banding arrangements. Maintaining the status quo will avoid the further cost and risk associated with change.
- It acknowledges by a differentiated fee that the employed bar places less demand, as compared to the self-employed Bar, on the regulatory and representative resources of the Bar Council.
- There will be no need to take the matter to the Legal Services Board (LSB) for approval. The latter is an unwelcome distraction for staff already heavily committed by a series of coincident additional initiatives including the introduction of the regulatory standards framework and reducing the Bar Council's footprint in Celcon House.

Bar Council Majority View. Retention of the status quo is the least favoured option. The disadvantages heavily outweigh the advantages particularly as year of Call is not an accurate proxy for income and, therefore, affordability. Consequently, there are too many anomalies and inequities to maintain the arrangement.

5. An Income Model.

Making the Case

The consultation on the allocation of the PCF last autumn identified the following general **advantages** of a move to a more income-related allocation of the PCF:

- An income based model would address the fundamental question of affordability and the anomalies associated with the present year of Call based model.
- The publicly-funded Bar, and the Criminal Bar in particular, is seeing its earnings drastically cut, and a move to an earning-related PCF would provide support to these practitioners at a critical time potentially enhancing their retention prospects. This would be a way for privately-funded practitioners to demonstrate support for the publicly-funded Bar.
- The Bar has a long tradition of the established members of the Bar helping financially those of their colleagues who are earning less and notably so those who are still seeking to establish a practice. The latter has become even more important given the significant cuts in opportunity and fees faced by the publicly funded Bar. An income based model will more readily identify those in most need.
- There is nothing unusual about this approach as fee income is used in many Chambers as a basis for allocating overhead cost.
- An income based model would address equalities issues (see below)
- An income based model would further the case that the employed and selfemployed Bar should pay the same fee.
- An income based model would also facilitate more meaningful equalities impact assessment.

The consultation on the allocation of the PCF also identified the following general **reservations** in relation to an income based model:

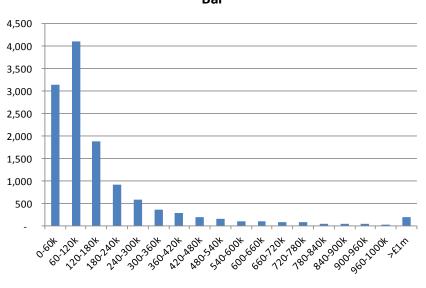
- The tradition of the more senior members of the Bar supporting the more junior has its origins in a period where the fee was a voluntary payment and proportionately lower. Such an arrangement is no longer applicable with a mandatory fee and independent regulatory body.
- The publicly funded Bar arguably places the greatest demands on both regulatory and representative resources and potentially represents the highest regulatory risk so subsidy is inappropriate.
- Certain practice areas and individuals would effectively be carrying a disproportionate share of the cost of regulating and representing the profession and this is potentially divisive.
- Those asked to subscribe the most might require a proportionate change in their influence on Bar Council affairs.
- It will be a tax on practice, success and hard work.
- Earned fees are not a measure of disposable income and hence affordability.
- In many Chambers overhead costs are already apportioned in proportion to fee earnings so this further subsidy to the more junior Bar is unnecessary.

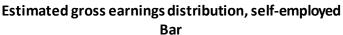
- Any such initiative will require every practitioner to provide some information to the Bar Council with regard to their fee earnings. This gives rise to issues of confidentiality and the risk that such information might be vulnerable to exploitation should the Freedom of Information Act (FoIA) be extended, as is likely, to include the Bar Council.
- The income based PCF abatement arrangements, which allow less well remunerated practitioners to pay a lower fee than would otherwise be the case, obviate the need to have an income based bands for all practitioners.
- It would involve a greater level of administration and, therefore potentially cost.
- It will involve expensive changes to Barrister Connect and the core database.

Designing A Model

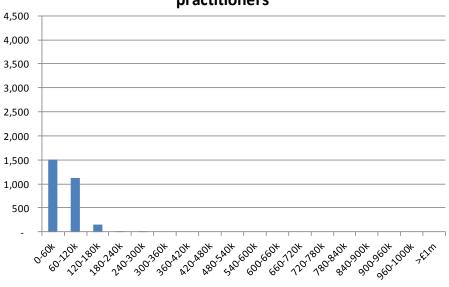
The Bar overall continues to be a successful profession, in terms of overall earnings. However, individual practice areas, and individual practitioner circumstances, are enormously variable.

Our estimates of *self-employed* practitioners' aggregate gross earnings are of c. ± 2 billion (so an average of c $\pm 160,000$ per self-employed practitioner, although the distribution will be very broad, with an estimated 50% of the self-employed bar having gross fees of c $\pm 100,000$ or less).





Our estimate of the earnings of *employed* barristers is of gross income of c. £150 million, and an average income of c £50,000. Self-employed gross fees (pre-expenses, and pre-tax) and employed income (pre-tax) are by no means like for like, and no direct comparison can be made.



Estimated gross income distribution of employed practitioners

The wide divergence in gross earnings generates issues of ratio and scale. As a consequence, designing an income model that is simple, fair and enforceable is complicated. Therefore, a fair process involves having:-

- a minimum level of fee;
- a range of income bands; and
- critically, a capped maximum level of contribution.

Additional practical considerations include:

- While we have restricted access to anonymised data regarding the self-employed Bar as a whole, we do not hold individual practitioner income data for either the self-employed or employed Bar. For a number of the latter there is a certain amount of income data in the public domain. However, in order for this approach to work all practitioners would be required to declare their annual earnings within bands, as part of the authorisation to practise process. For self-employed practitioners this is likely to be the figure, within a band, most recently declared to BMIF. For the employed Bar, the figure, again within a bands, is likely to be earnings from practising over the previous 12 months. All practitioners must be obligated to allow the Bar Council to validate declared earnings with the BMIF, employers or by other means.
- The income data upon which we would have to rely will always be historic. To illustrate the point, a practising certificate for the period 1 April 2014 to 31 March 2015 would, for a self-employed practitioner, have to be based upon fee income received 1 January 2013 to 31 December 2013.
- The Code of Conduct Annex C Practising Certificate Rule 4.1 reads:
 - 4. You may apply for a practising certificate by:
 - 4.2submitting such information in support of the application as may be prescribed by the Bar Council(acting by the Bar Standards Board);

It is regarded that this suffices for the purposes of obligating all practitioners to declare such income data as may be required.

- An income based system for PCF allocation will constitute a material change and will require the prior approval of the LSB – a process that will take a minimum of 28 working days.
- An income based model could not be implemented without changes to Barrister Connect and the Core database a process estimated to take 95 working days plus testing and an estimated cost of £50k.
- As an income based model is open to potential abuse. It will require an appropriate means of monitoring and this will involve matching data against that provided to the BMIF, and/or requesting the provision of individual P60s (End of year tax certificate) and or tax returns. Breaches will be referred to the Bar Standards Board for disciplinary action. This has a staff resource and cost implication.

6. The Proposed Model.

Based upon the principles of any system being **simple, fair and enforceable**, the proposed income based model would have the following constituent elements:

<u>Simple</u>. We propose:

- A total of 6 income bands (see below) starting at £0 £29,999k and capped at earnings of £240,000 and above.
- It should operate within the existing Barrister Connect PCF collection arrangements and adopt a 'Tick Box' approach.
- The same bands will apply to both the employed and the self-employed Bar.
- There will be no requirement for maintaining the existing income based fee reduction arrangements

Fair. We propose:

- The minimum payable by any practitioner will be £100. This will be payable by all barristers whose gross fees or gross salary is £30,000 or less.
- The fee to be paid by all other barristers will depend upon the income band in which they fall. All barristers in an income band will pay the same fee. The highest income band should be that for barristers earning £240,000 and above (i.e. circa 17% of the practising Bar). This would have the effect of capping the PCF for barristers earning over £240k.

Enforceable. We propose:

- All practitioners will provide the Bar Council with the right of individual audit.
- False income declarations will amount to serious professional misconduct.

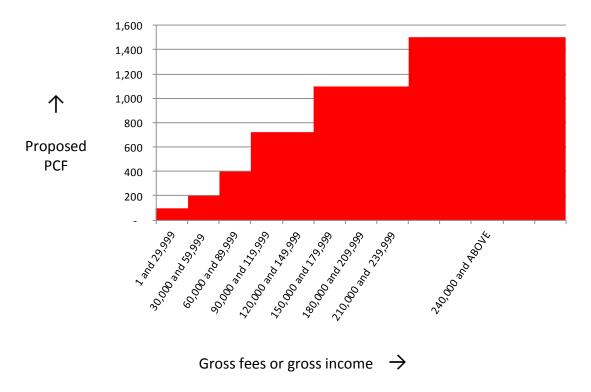
Based on:

- the BMIF's anonymised figures of 2012 fee declarations and the number of practitioners within each income band and such similar information that we have been able to glean from the employed Bar;
- an assumed 2014/15 PCF income target of c £9.5m;

an income based PCF model would look as follows:

Gross Fee Earnings/ Salary (applicable to both self-employed Bar and employed Bar)	PCF Core Fee (i.e. excludes levies)
£1 - £29,999	£100
£30,000 - £59,999	£200
£60,000 - £89,999	£400
£90,000 - £149,999	£725
£150,000 – £239,999	£1,100
£240,000 and above	£1,500

Graphically this looks like:



Under the current PCF allocation arrangements circa 8,400 practitioners pay a core fee of £800 and above; while circa 12,600 pay a core fee of £400 and above. Under the above income based model we estimate (based upon 2012 figures) that circa

4,000 practitioners will pay a core fee above £800; while circa 10,200 practitioners will pay a fee of £400 and above.

It is important to stress that the above PCF figures are <u>indicative</u> and, while remaining within the same bands and overall proportions, might have to change as we obtain more detailed and current earnings information in order to meet the 2014/15 budget requirements. However, a similar change would be required were we to remain with the current, call-based allocation method.

Equalities Impact

Anonymised data obtained from the BMIF, plus data gleaned from the Biennial Survey of the Bar 2011, the Bar Council/Legal Services Commission (LSC) Survey of the Bar 2007 and annual exit surveys indicate that there is a higher proportion of women, BAME and disabled practitioners amongst the less well remunerated members of the profession as compared to their % representation in the practising profession as a whole. An income based PCF is, therefore likely particularly to help the latter groups, promote retention and facilitate the Bar Council's equalities objective of promoting diversity.

The extant banding arrangements, which relate the PCF paid to years of Call, benefit, in general, the younger members of the profession at the expense of older members of the profession. An income based PCF removes this inequality.

As women and BAME groups represent a higher proportion of the employed Bar than they do as a percentage of the profession as a whole, any decision to align the PCF paid by the self-employed and employed members of the Bar could theoretically penalise both a higher percentage of women than men as well as those in BAME groups as compared to the white ethnic group. Understanding the implications for this group is complicated by the fact that, for the majority of employed barristers, respective employers pay the PCF on the individual's behalf. However, in the above income based model it is likely that the majority of employed practitioners will be in the two lowest income bands and many potentially would benefit.

The Bar Barometer 2012 indicates that over the previous 5 years the overall numbers of males obtaining pupillage is slightly higher than females (1204 v 1127). This is the group most likely to be affected by the increase in the lowest core fee from the current £80 to £100. The ethnic profile for those who obtained pupillage in the same period indicates that there is a higher percentage of BAME circa 16% in 1-4 years of Call group as compared to the 11% in the profession as a whole. Consequently, the proposed minimum fee of £100 will have a minor adverse diversity impact.

7. Assessment

<u>Bar Council Majority View</u>. Levying a fee on the basis of seniority no longer makes sense. An income based model addresses the crucial question of affordability at a time when the circa 50% of the Bar who rely in whole or part on public funding are faced with substantive reductions in both opportunity and fees. It is an opportunity

to reaffirm the 'One Bar' and reassert the core value of the Bar of helping those less able to help themselves. This income based model enjoys the particular support of the General Management Committee (GMC) and the leaders of the Specialist Bar Associations (SBAs) and Circuits and is, accordingly, the preferred option for allocating the PCF.

8. Alternative Options

We set out here for completeness the possible alternatives we have considered, but which are not recommended. However, if a significant majority prefers one or more of these to an income-based solution, the Bar Council would factor that into its deliberations.

<u>Allocation by numbers of years practised</u>. Assuming that we preserve the existing year groupings and the QC level, changing the existing bands from years of Call to one based upon the numbers of years practised (see below) is relatively straightforward in both administrative and programming terms.

Self Employed Bar and Employed Bar	
QC	
Junior (Practising for 13 Years and over)	
Junior ((Practising for 8 to 12 Years)	
Junior ((Practising for 5 to 7 Years)	
Junior ((Practising for 3 to 4 Years)	
Junior (Practising for 1 to 2 Years)	

However, there will be a lead time and some software contractors' costs associated with any such change. It probably would not be regarded as a material change to raising the PCF and should not, therefore require a separate formal submission to the LSB.

A further change that should be coincidentally considered is to amend the fee paid by those of 1 to 4 years Call which is generally recognised to be set too low. A modest increase in the basic fee to £100 is proposed as part of the income option. That should equally apply to this option.

The disadvantages of these two changes to the status quo are:

- It would perpetuate the linkage between seniority in practice and the level of fee charged and, therefore, not address the key question of affordability.
- The debate as to whether the self-employed and employed Bar should pay the same level of PCF remains unresolved.
- While not exclusively the case, this approach still favours younger members at the expense of older members and may no longer be appropriate in equalities terms.

• It will increase the PCF cost for the most junior members of the Bar on entry to the profession at a point where the majority are carrying significant academic training debt.

The advantages of this alternative to the status quo are:

- This change would address the equalities impact on those practitioners who have taken a career break or who start to practise sometime after being called. (See equalities impact assessment below).
- It begins to address problem associated with the wide perception that the PCF paid by those in the 1-4 years of Call is disproportionately low.
- It perpetuates with minimal change a tried and tested system that despite the anomalies (which are addressed through the lower income PCF waiver arrangements) allows more senior practitioners to support those more junior without prejudicing the confidentiality of individual fee income.
- We have invested heavily in IT software that supports the present banding arrangements. These changes can be implemented at relatively minimal cost and will have the marked benefit of simplifying the system as there will be fewer bands.
- It maintains for the majority the differentiated PCF paid by the employed bar as compared to the self-employed Bar.
- There is unlikely to be a need to deal with the Legal Services Board (LSB) over a regulatory rule change. The latter is an unwelcome distraction for staff already heavily burdened by a series of coincident additional initiatives including the introduction of the regulatory standards framework and reducing the Bar Council's footprint in Celcon House.

Equalities Impact Assessment

Allocating the PCF by numbers of years practised rather than year of call will favour those who take career breaks. A higher proportion of women than men take career breaks and this initiative may contribute to the Bar Council's equalities objective of greater retention of women practitioners.

Anonymised data obtained from the Bar Mutual Indemnity Fund (BMIF) indicates that there is a higher proportion of women and Black, Asian, Minority and Ethnic (BAME) practitioners amongst the less well remunerated members of the profession as compared to their % representation in the practising profession as a whole. This option does not address this problem and consequently the current PCF waiver arrangements for low fee earners would have to be maintained.

The Bar Barometer 2012 indicates that over the previous 5 years the overall numbers of males obtaining pupillage is slightly higher than females (1204 v 1127). This is the group most likely to be affected by the increase in the lowest core fee from the current £80 to £100. The ethnic profile for those who obtained pupillage in the same period indicates that there is a higher percentage of BAME circa 16% in 1-4 years of Call group as compared to the 11% in the profession as a whole. Consequently, the proposed minimum fee of £100 will have a minor adverse diversity impact

<u>Bar Council Majority View</u>. The above option addresses some of the problems associated with the present system of PCF allocation by year of Call, simplifies the bandings and sets the minim fee at a more appropriate level. However, it does not address the key concern that seniority in the profession is not a sufficiently accurate indicator of earnings and affordability. As it would perpetuate anomalies and inequities, PCF allocation by numbers of years practised is not the majority of the Bar Council's preferred option.

9. Outline Timetable

Consultation Period from mid-June to end July (6 weeks)

BSB/Bar Council consideration of interim survey results/decision on PCF Allocation methodology - Thursday 12 September/ Saturday 21 September 2013.

Drafting application to LSB for regulatory change June - September.

LSB consider application (minimum 28 working days) 16 September - 24 October

Bar Council approves 2014/15 budget and PCF charges – 26 October

Website consultation with profession 28 October – 28 November

Submission of Bar Council 2014/15 budget and PCF proposals to LSB for approval – 20 December

LSB approval (if given) – 31 January 2014

Authorisation to Practise renewal 2014/15 opens – 14 February 2014

In parallel the Bar Council will have to take at risk the circa £50k cost associated with developing the requisite software changes to Barrister Connect and the core database as this has a lead time of 6 months and must be commenced in June 2013.

10. Questions and Responding

In the accompanying survey, (please see link in the email), the following four key questions are posed:

<u>Question 1</u>. Do you wish to maintain the present arrangements for allocating the PCF as based solely upon year of Call?

<u>Question 2.</u> Do you support the introduction of an income based model, as outlined above, as the means of future allocation of the PCF?

<u>Question 3.</u> Do you support a change from bandings by years of Call to banding by numbers of years practised?

Question 4. Do you support a minimum PCF of £100?

In addition to the PCF questions you are requested to ensure you also complete the monitoring questions as that will allow us better to understand the different constituency responses and add to our equality impact analysis.

The responses will be analysed by the BSB Research Team and the consequent report will be provided to the BSB and Bar Council in September and subsequently posted on the Bar Council website.

The survey will close on 31 July 2013.

Thank you for reading this report and taking part in the survey.

Stephen Collier **Treasurer** June 2013