



Law Society of Scotland

Annual report and financial statements for the year ended 31 October 2016

Review of financial year

Overview

The Society reports a surplus of income over expenditure from normal activities (prior to the actuarial charge to the Society's closed final salary pension scheme) of £33,000 for the financial year ended 31 October 2016 (2015, as restated under FRS 102, surplus £3,000).

The actuarial charge in respect of the scheme was £1,495,000 (2015 – £240,000), giving a total recognised deficit for the year of £1,462,000 (2015 – recognised gain of £2,898,000, inclusive of the gain on sale of heritable property).

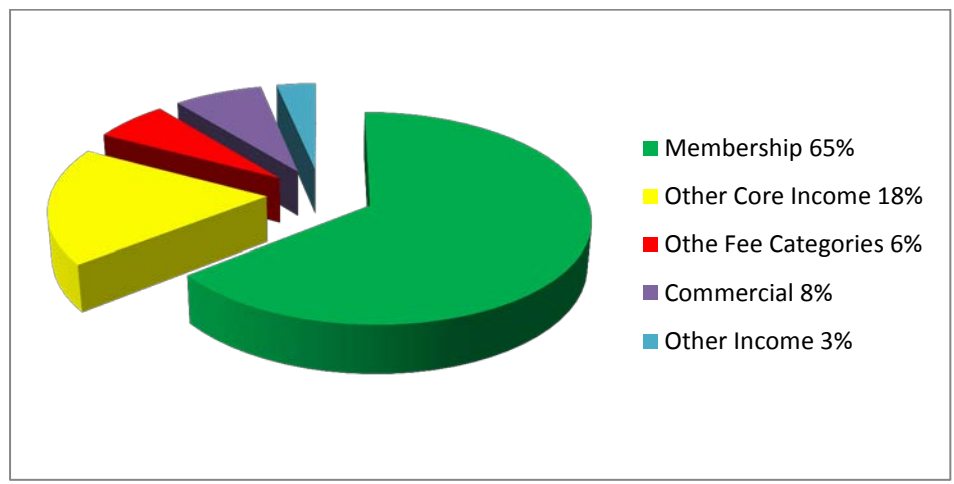
Pension debt & actuarial charge

The Society is responsible for a defined benefit pension scheme which was closed to future accrual from 1 May 2010. The most recent full actuarial valuation was carried out at 31 March 2013 by a qualified actuary, independent of the scheme's sponsoring employer. The next triennial valuation date is 31 March 2016.

The overall deficit shown by this valuation was £2 million. A deficit recovery repayment plan has been agreed with the scheme trustees which is scheduled for repayment over a seven year period. In previous years this debt has not been incorporated within liabilities on the balance sheet as the valuation assumptions for accounting purposes, provided by an independent actuary, produced an accounting surplus. However, changes to bond yields following the EU referendum have produced an accounting deficit of £1.267m. As a result there is an actuarial charge in the income & expenditure account this year to reflect this.

Income

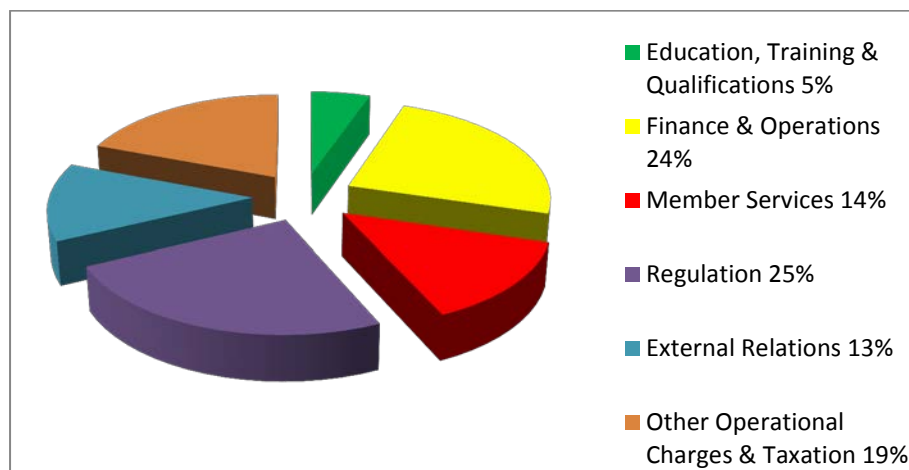
The Society's income in the year amounted to £10.99 million, an increase of 7.3% from last year. Income sources were as follows:



Review of financial year (ctd.)

Expenditure

The Society's expenditure (excluding actuarial charge to closed pension scheme) was £10.96 million, an increase of 7.0% from last year mainly as a result of the premises move. Expenditure was split as follows:



Reserves

In 2015 the Finance Committee reviewed the Society's reserves policy in light of the move from owned to leased office premises. The reserves policy is to hold between three and six months' average expenditure. Reserves for this purpose are defined as net current assets plus realisable investments, less pension scheme deficit (from the most recent valuation less recovery plan payments made subsequently).

At 31 October 2016 this figure amounted to £3.3 million, which is between three and four months' average expenditure. The committee regards this level as satisfactory.

Fixed assets

Following the sale of heritable property, leasehold improvements were carried out in the new premises in 2015 and 2016 and are amortised over the length of the lease.

Investments

Investments are now stated at market value with the exception of the Society's subsidiary company's 20% shareholding in Legal Post (Scotland) Limited, which is accounted for as an associate using the cost model. The shares were acquired for £20 in 2000. Following a takeover the shareholding was sold after the year-end for a consideration of £261,585 which will be accounted for in the 2016/17 financial statements. As part of its review of the Society's reserves during the year, the Finance Committee approved a further transfer from cash to listed investments of £500,000 during the year.

Review of financial year (ctd.)

Cash

Cash balances at the year-end were £10.7 million. Of this sum, subscription income received in advance of 1 November 2016 was £7.7 million.

Annual report

The Society's annual report includes the president's introduction, chief executive's overview of the year, sections measuring progress made against the corporate plan, a report on governance arrangements, the accounts of the Guarantee Fund and a summary of work on equality and diversity. It is available on the Society's website.

The Society remains committed to achieving continual improvement in its financial performance through:

- achieving efficiencies and cost savings across the business
- improved financial forecasting
- growth of non-subscription incomes
- maintenance of reserves at an appropriate level
- managing historic final salary pension scheme liabilities through close liaison with the scheme's trustees

Key risks

The Society carries out ongoing monitoring and management of the risks it faces. Risks are also considered for each activity within the Society's strategic objectives and annual plan. The risk register is reviewed monthly by the Society's executive team and subject to additional scrutiny by the Audit Committee, Board and internal auditors. Key risks include:

- remaining liability on the closed final salary pension scheme and exposure to market risk
- legislative change and risk of changes to current regulatory functions
- events which may compromise the Society's ability to act as an effective regulator
- competitive pressures through alternative business structures and the future economic health of the profession
- failure to deliver the Society's strategic objectives

The effectiveness of controls to mitigate each of those risks is continually monitored by the senior leadership team and reported to Audit Committee and Board quarterly.

Financial year 2016/17

The budget approved by the Council for 2016/17 left the cost of the practising certificate unchanged at £550. The retention fee and non-practising member fee also remained unchanged at £100 and £200 respectively.

John Mulholland
Treasurer

3 March 2017

Statement of the Council's responsibilities

The constitution of the Society requires the Council to prepare accounts for each financial year. In preparing those accounts, the Council has undertaken to:

- select suitable accounting policies and apply them consistently
- make suitable judgments and estimates that are reasonable and prudent
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the accounts
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Society will continue in business

The Council has considered the position for the next 12 months and concluded the use of the going concern basis of accounting is appropriate because there are no material uncertainties related to events or conditions that may cast doubt about the ability of the Society to continue as a going concern.

The Council has overall responsibility to prepare annual financial statements for each financial year, which give a true and fair view of the state of affairs of the Society and of the surplus or deficit for that period.

The Council has delegated to the Board its responsibility for the day-to-day operations, including:

- keeping adequate accounting records, which disclose with reasonable accuracy the financial position of the Society
- safeguarding its assets
- taking reasonable steps for the prevention and detection of fraud and other irregularities

The Council is responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in Scotland governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

Finance Committee – Convener's report

Committee members

John Mulholland (Convener and Treasurer)
Suzanne Dawson
Graham Matthews
David Newton
David Preston
Mark Sim
Ken Tudhope (Executive Director of Finance & Operations; Secretary to the committee)

Governance and financial control

The Treasurer chairs the Finance Committee which meets four times a year, as well as taking between-meeting decisions remotely. The aim of the Finance Committee is to ensure that annually the Society meets its corporate objectives supported by the effective and efficient use of finances and resources.

Finance Committee – Convener’s report (ctd.)

In order to achieve this, the Finance Committee will:

- review and finalise the annual budget, in consultation with the Board, Audit Committee and senior management team, for presentation to the Council
- review and, where appropriate, put forward proposals for the alteration of practising certificate fees and subscription levels and bandings
- review the monthly management accounts and make appropriate recommendations
- prepare the Society’s annual accounts and, subject to scrutiny by the Audit Committee and audited by the external auditors, approve them for submission to the Council
- keep under review the level and nature of the Society’s own banking arrangements, investments, borrowings and insurance cover (excluding that relating to insurance of the profession) and take action where necessary or desirable
- determine financial controls and propose innovations in financial management
- maintain a register of key risks in relation to finance and resources
- set policy and supervise the procurement process of the Society, including approving the individual award of contracts above a certain threshold amount, as set by the Finance Committee
- provide advice on any other matters referred to it by the Board, Audit Committee, senior leadership team, or Council

Financial strategy

The financial strategy of the Society is to:

- ensure best value for members’ subscriptions. Best value means value for money can be achieved and demonstrated.
- provide financial resources to support the corporate plan. Consideration will be given to the cost and timing of components within the corporate plan and the departmental plans that are developed so that it is clear when resources will need to be made available. Prioritisation for financial resources takes place to ensure the most important objectives are achieved. All budget holders receive monthly income and expenditure accounts for their cost centres to enable performance against budget to be continuously monitored.
- maintain reserves at an acceptable level. An acceptable level has been determined to be the equivalent of at least three average months’ expenditure.

Overview

In financial terms this was a challenging year for the Society with the move to Atria One in December 2015 and the sale of Drumsheugh Gardens concluded in January 2016. We planned for an operating deficit and the Society’s overall performance finished within the budgeted position prior to actuarial adjustments.

Looking ahead, principal member fee levels were frozen and a break-even budget is targeted for 2016/17. We continue to seek stability in fee levels, whilst prudently managing expenditure and monitoring budgets to enable the Society to meet its strategic goals.

Following the sale of Drumsheugh Gardens, further sums were invested to provide a platform for future income and capital growth and the Society benefited from a considerable increase in market value of investments during the year.

John Mulholland
Convener and Treasurer

3 March 2017

Audit Committee – Convener’s report

Committee members

Liam McCabe (Convener)
Simon Brown
Abigail Clark
Amanda Millar
Sara Scott
Richard Spilsbury
Eileen Sumpter
David Cullen (Secretary)

Governance and membership

The committee’s membership benefited from the appointment of one new member – Abigail Clark – who joined at the beginning of the year. Abigail is a very experienced Chartered Accountant who currently works in a senior role for a global investment manager. Her extensive accountancy background is in both public practice and in various industries.

The committee’s reporting procedure remained the same as in previous years. The full committee minute is reported to the Society’s Board, with a one page summary report of each committee meeting being given to the Society’s Council. The committee convener also formally reports on the committee’s work at the annual general meeting of the Society. The secretary to the committee is the Society’s registrar.

Responsibilities

The work of the committee is to review and report on the Society’s arrangements for audit, internal control and risk management. The committee oversees the work of the Society’s internal and external auditors. With the benefit of its consideration the work of the auditors the committee comments and make recommendations on the effectiveness in practice of the Society’s financial policies and procedures, management controls and its arrangements to identify and manage risk.

In this context the committee reviews the following at each of its meetings:

- progress by the Society against its corporate plan objectives especially in relation to their financial impact on the Society
- the Society’s risk register with emphasis on changes in the risk profile and actions taken to mitigate risk

Through that regular review the committee will question the actions and judgements of the Society’s senior leadership team, Board and office bearers in relation to the Society’s financial stewardship, safeguarding of the Society’s assets and the extent to which the Society achieves best value.

The committee oversee the Society’s relations with the external auditors. To this end it receives and comments on the Society’s annual financial statements prior to their approval by Council and receives the report from the Society’s external auditors on their work in forming their opinion on the financial statements.

Audit Committee – Convener’s report (ctd.)

The committee also commissions and oversees the delivery of an agreed programme of work from its appointed internal auditors. It will also follow up to ensure that recommendations contained in internal audit reports are implemented within a reasonable timeframe.

The committee will from time to time carry out reviews into or report on ad hoc matters as it may consider appropriate or as it is requested to do by Council or the Society’s office bearers.

Overview

The committee met on five occasions this year. The work of the committee should be seen within the context of the Society’s overall approach to good governance as the committee plays a key role in holding the Society’s office bearers, Council and senior leadership team to account for the management of risk and the effective operation of all risk management systems. To this end the committee can report that the internal audit system (by an external firm of accountants) completed its second full year of operation. A total of five internal audits were carried out in the year. The internal auditors’ reviews covered the following areas of the Society’s operations:

- Data protection
- Income collection and credit control
- Personnel and payroll
- Purchase, payments and procurement
- Travel expense

The committee was satisfied with the overall conclusion of the internal auditors which was that the Society does have adequate and effective risk management controls and governance processes in place to achieve its long term objectives.

The committee concluded its work in relation to the internal review of the regulatory systems following an investigation into a case involving a former solicitor. The committee’s involvement in its risk assessment work for the project has resulted in a number of planned improvements to the Society’s regulatory processes – all of which are now in place.

The committee reviews the principal risk register of the Society at each meeting to ensure appropriate and timely risk management actions are taken to mitigate such risks. The committee also reviews the performance of the Society’s auditors in terms of their performance, cost and independence. An overhaul of the principal risk register was carried out to ensure that the principal risks identified are better married to the Society’s five year strategy. As part of this exercise a separate risk register was drawn up following the UK’s decision to withdraw from the European Union.

I conclude my report by thanking all committee members for their contributions over the course of this year.

Liam McCabe
Convener

25 January 2017

Independent auditors' report to the members of the Law Society of Scotland

We have audited the accounts of the Law Society of Scotland for the year ended 31 October 2016, which comprise the income and expenditure account, the statement of other comprehensive income, the statement of changes in equity, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Society's members, as a body, in accordance with relevant legal and regulatory requirements. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Council and auditors

As explained more fully in the statement of Council's responsibilities set out on page 5, the Council is responsible for the preparation of accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) ethical standards for auditors.

Scope of the audit of the accounts

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council; and the overall presentation of the accounts. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion the accounts:

- give a true and fair view of the state of the Society's affairs as at 31 October 2016 and of its surplus for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where we are required to report to you if, in our opinion:

- the information given in the annual report is inconsistent in any material respect with the accounts; or
- proper accounting records have not been kept; or
- the accounts are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Henderson Loggie

Chartered Accountants and Statutory Auditors

Edinburgh, Eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

3rd March 2017

Group income and expenditure account

for the year ended 31 October 2016

	Note	2016 £000	Restated 2015 £000
INCOME			
Membership	2	7,081	6,847
Other Core Income	3	2,010	1,602
Other Fee Categories	4	701	834
Commercial	5	832	882
Other Income	6	366	79
Total Income		10,990	10,244
EXPENDITURE			
Education, Training & Qualifications	7	587	493
Finance & Operations	8	2,660	2,767
Member Services	9	1,490	1,746
Regulation	10	2,701	2,446
External Relations	11	1,413	1,269
Other Operational Charges	12	2,025	1,499
Corporation Tax	14	81	21
Total Expenditure		10,957	10,241
(Deficit)/Surplus for the year		33	3
Gain on Disposal of Heritable Property		-	3,614
Corporation tax on gain on Sale		-	(479)
		-	3,135
Overall Surplus for year		33	3,138
Other Comprehensive Income			
Surplus for the financial year		33	3,138
Actuarial movement in defined benefit pension scheme		(1,495)	(240)
Total recognised (losses)/gains for the financial year		(1,462)	2,898
Statement of changes in equity			
Opening reserves		7,668	4,770
Closing reserves		6,206	7,668

Balance sheet – Group

as at 31 October 2016

Fixed Assets			
Leasehold improvements	15.1	1,312	1,288
Furniture and Equipment	15.1	803	626
Investments	15.2	2,399	1,819
		<u>4,514</u>	<u>3,733</u>
Debtors: amounts falling due after more than one year	16	-	1,250
Current Assets			
Cash in Hand and at Bank	21.2	10,727	8,481
Debtors	16	2,249	3,662
		<u>12,976</u>	<u>12,143</u>
Creditors: amounts falling due within one year *	17	(9,990)	(8,792)
Provisions	18	(27)	(666)
Net Current Assets		<u>2,959</u>	<u>2,685</u>
Net assets excluding pension liability		7,473	7,668
Defined Benefit Scheme - pension liability		<u>(1,267)</u>	-
Net assets including pension liability		<u>6,206</u>	<u>7,668</u>
Represented by:-			
Capital Account	19	<u>6,206</u>	<u>7,668</u>

Approved by the Council of the Law Society of Scotland on 3rd March 2017

Eilidh Wiseman, President

Balance sheet – Society

as at 31 October 2016

	Note	2016 £000	Restated 2015 £000
Fixed Assets			
Leasehold improvements	15.1	1,312	1,288
Furniture and Equipment	15.1	803	626
Investments	15.2	2,317	1,819
		<u>4,432</u>	<u>3,733</u>
Debtors: amounts falling due after more than one year	16	-	1,250
Current Assets			
Cash in Hand and at Bank	21.2	10,462	8,189
Debtors	16	2,253	3,679
		<u>12,715</u>	<u>11,868</u>
Creditors: amounts falling due within one year	17	(9,965)	(8,770)
Provisions	18	(27)	(682)
Net Current Assets		<u>2,722</u>	<u>2,416</u>
Net assets excluding pension liability		7,155	7,399
Defined Benefit Scheme - pension liability		(1,267)	-
Net assets including pension liability		<u>5,888</u>	<u>7,399</u>
Represented by:-			
Capital Account	19	<u>5,888</u>	<u>7,399</u>

Group cash flow statement

for the year ended 31 October 2016

	Note	2016 £000	Restated 2015 £000
Net cash generated from operating activities	21	3,044	4,087
Cash flows from investing activities			
Interest and dividends received		130	140
Payments to acquire investments		(657)	(1,902)
Receipts from sale of investments		290	234
Payments to acquire tangible fixed assets		(798)	(2,615)
Increase in cash during the year		2,246	1,472
Net funds at the start of the year		8,481	7,009
Net funds at the end of the year		10,727	8,481

Notes to the financial statements

for the year ended 31 October 2016

Note 1 - Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

Basis of preparation

The financial statements have been prepared in accordance with accounting standards including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland". The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

This is the first year in which the financial statements have prepared under FRS102. Refer to note 19 for an explanation of the transition.

The financial statements are prepared in £ sterling.

The Council considers it appropriate to prepare the financial statements on a going concern basis. In reaching this view we have reviewed the number of members paying subscriptions and the level of reserves available should there be any unforeseen events.

Basis of consolidation

The consolidated accounts include the accounts of the Society and its subsidiary undertaking, The Law Society of Scotland Services Limited, made up to 31 October 2016.

Leasehold improvements

Leasehold improvements are depreciated over the length of the lease.

Tangible fixed assets

Tangible fixed assets are measured at cost less accumulated depreciation.

Depreciation is calculated to write off the cost of items over their estimated useful lives as follows:

Office machinery	three to five years
Office equipment	three to ten years
Office fixtures and furniture	five to ten years
Motor cars	four years

Investments

Investments comprise investments in quoted and unquoted equity instruments which are measured at fair value where this can be measured reliably. Where fair value cannot be measured reliably then the investment is carried at cost less impairment. Changes in fair value are recognised in income and expenditure. The group also has one associate for which the cost model has been adopted.

Debtors

Debtors are recognised at the settlement amount due. Prepayments are valued at the amount prepaid.

Notes to the financial statements

for the year ended 31 October 2016

Note 1 - Accounting policies (continued)

Cash

Cash at bank and in hand includes cash and short term highly liquid investments with a short maturity of three months or less from the date of acquisition or opening of the deposit or similar.

Creditors

Creditors and provisions are recognised where the Society has a present obligation resulting from a past event that will probably result in a transfer of funds to a third party and the amount due to settle the obligation can be measured or estimated reliably. Creditors and provisions are normally recognised at their settlement amount.

Pension scheme - defined benefit pension scheme

The Society operates a pension scheme providing benefits based on final pensionable pay (closed to new members from 30 June 2003 and closed to future accrual from 1 May 2010). The assets of the scheme are held separately from those of the Society.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between other income for interest received and, other comprehensive income for actuarial gains and losses.

Employee benefits

The Society contributes to a group personal pension plan on behalf of certain employees. The assets of this scheme are held separately from those of the Society in an independently administered fund. The amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period. Other short term employee benefits are recognized as an expense in the period in which they are incurred.

Provision for liabilities

Where the Society requests the court to appoint an external judicial factor, the Society has a contractual obligation to meet any shortfall where the estate under administration is insufficient to meet the commission payable to the judicial factor as fixed by the Accountant of Court. A provision for liabilities and charges is recognised in accordance with Financial Reporting Standard 102. In cases where the judicial factor is internal and additional costs require to be incurred in order to carry out the work, a provision is also made. During the administration of an estate, the provision is adjusted based on the best available information.

Income recognition

The Society recognises all categories of income in the period to which they relate. Membership income received which relates to future periods is held on the balance sheet as fees in advance.

Expenditure

Expenditure is recognised on an accruals basis as a liability is incurred which is as soon as there is a legal or constructive obligation committing the Society to the expenditure. Running costs include travel, accommodation, legal fees, professional subscriptions, and other direct costs where applicable.

Taxation

The Society is liable for corporation tax on interest and dividends, chargeable investment gains and publication royalty payments. Full provision is made for corporation tax on assessable income

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2016

2016 2015
£000 £000

Note 2 - Membership

Practising certificate fees	5,958	5,830
Membership fees	49	53
Retention fees	1,074	964
	7,081	6,847

Note 3 - Other core income

Accounts fees from members	1,435	1,422
Judicial factor commission	408	22
Inspection fees	26	20
SSDT costs recovered	141	138
	2,010	1,602

Note 4 - Other fee categories

Retention fees - non-members	255	228
Registered foreign lawyers	181	242
Financial services	-	69
Examination & admissions	167	125
Other income (paralegals, notaries, incorporations)	98	170
Licensed provider income	-	-
	701	834

Note 5 – Commercial

Annual conference	57	55
Update incl. rights of audience	335	345
Sponsorship/business development	68	50
Service provider scheme	21	21
Journal	247	295
Publications	104	116
	832	882

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2016

	2016	Restated
	£000	2015
		£000

Note 6 - Other Income

Interest & dividends received	139	161
Realised investment gains / (losses)	(15)	11
Unrealised investment gains / (losses)	228	(93)
Other income	14	-
	<u>366</u>	<u>79</u>

Note 7 - Education, Training & Qualifications

Employment costs	452	340
Travel and catering	34	52
Fees and remuneration	52	46
Diversity running costs	12	18
General expenditure	37	37
	<u>587</u>	<u>493</u>

Note 8 - Finance & Operations

Note 8 - Finance & Operations

Council etc.

Travel & catering	35	32
Training	15	36
AGM & SGM	1	2
President, vice-president compensation	114	120
Other	58	50
	<u>223</u>	<u>240</u>

Board

Travel, training and catering	5	6
Board compensation	21	18
	<u>26</u>	<u>24</u>

Corporate Office

Employment costs	332	384
Travel and catering	23	21
Professional fees	11	37
	<u>366</u>	<u>442</u>

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2016

2016 2015
£000 £000

Note 8 - Finance & Operations (ctd.)

Registrars

Employment costs	346	379
Conveners' compensation	6	40
Travel and catering	7	8
Registrars' fees	13	32
Smartcard costs	55	34
Paralegals	7	2
General expenses	27	24
	461	519

Finance, IT & Central Operations

Finance employment costs	208	217
IT employment costs	279	254
Central operations employment costs	294	284
Facilities - printing & photocopying	43	41
Conveners' compensation	5	5
IT repairs & maintenance	292	230
Disaster recovery	3	5
Administration - postage costs	146	153
Administration - telephone costs	41	24
Administration - general costs	80	50
Overhead recovery - SLAB, SSGF	(100)	(72)
Finance - running costs	41	36
	1,332	1,227

Human Resources

HR employment costs	85	143
Advertising and recruitment costs	13	19
Staff training	73	51
Other operational costs	81	102
	252	315

Total Finance & Operations

2,660 **2,767**

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2016

	2016	2015
	£000	£000
Note 9 - Member Services		
Employment costs	332	359
Employment costs - professional practice	222	250
Conveners' compensation	43	65
Annual conference	49	46
IHLG events	-	7
ABA & CBA	5	12
IBA	17	9
CCBE	35	21
Commonwealth Law	2	27
Professional support - travel & catering	62	33
Professional support - other expenses	37	53
Professional practice - running costs	16	69
	820	951
Commercial		
Employment costs	176	173
Business development costs	13	7
Events	206	301
Journal - production and distribution costs	237	261
Journal - commission	38	48
Publications	-	5
	670	795
Total Member Services	1,490	1,746

Note 10 - Regulation

Employment costs	239	178
Employment costs - complaints investigation	588	548
Employment costs - financial compliance & interventions	926	892
Conveners' compensation	25	45
SSDT expenditure	610	428
Regulation - travel and catering	22	25
Regulation - other expenses	34	29
Licensed providers	22	2
Judicial factor costs	235	244
Other financial compliance costs	-	55
Total regulation	2,701	2,446

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2016

2016 2015
£000 £000

Note 11 - External relations

Employment costs	819	729
Society stakeholder engagement	136	97
Corporate comms - advert, monitoring, photo & marketing	177	172
Corporate comms - other expenses	100	94
External relations - travel costs	26	26
External relations - other costs	41	58
Brussels office	114	93
Total external relations	1,413	1,269

Note 12 – Other operational charges

VAT non recoverable	480	549
Property rent, rates and service charges	798	257
Other property costs	195	281
Audit fees	40	30
Professional fees	19	19
Pension scheme fees	133	79
Depreciation	360	262
(Gain)/loss on sale of fixed assets	-	22
	2,025	1,499

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2016

2016 2015
£000 £000

Note 13 - Analysis of commercial activity

a) The Journal

Income (note 5)	247	295
Expenditure	(275)	(308)
Deficit for period	<u>(28)</u>	<u>(13)</u>

b) Publications

Income (note 5)	104	116
Expenditure (note 9)	-	(5)
Surplus for period	<u>104</u>	<u>111</u>

c) Events & sponsorship

Income - events (note 5)	335	345
- sponsorship (note 5)	68	50
Expenditure - events	(206)	(233)
Surplus for period	<u>197</u>	<u>162</u>

d) Annual conference & in-house lawyer events

Income – delegate fees & sponsorship (note 5)	57	55
Expenditure (note 9)	(49)	(53)
Surplus for period	<u>8</u>	<u>2</u>

e) Service provider scheme:

Income (note 5)	21	21
Expenditure	-	(7)
Surplus for period	<u>21</u>	<u>14</u>

f) Staff costs (note 9)

(176) (173)

Overall surplus for year

126 103

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2016

Restated
2016
2015
£000 £000

Note 14 – Corporation tax

Current corporation tax charge	81	21
Movement in deferred tax provision	(43)	19
	38	40
Reconciliation:		
Surplus for the year before tax	114	24
Corporation taxation at 20% (2015 – 20.4%)	23	5
Income not subject to corporation tax	(2,160)	(2,051)
Expenditure not allowable for corporation tax	2,175	2,087
Small companies relief	-	(1)
	38	40

The majority of the Society's income (and related expenditure) is not subject to corporation tax.

14.2 Corporation tax on gain on disposal of heritable property	-	479
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This represents the tax charge for the gain on disposal of Drumsheugh Gardens after deducting original cost/1982 valuation, indexation relief and deduction of direct costs.

Note 15 - Fixed assets

15.1 Tangible fixed assets (Group and Society):

	Leasehold improvements £000	Office furniture & equipment £000	Total £000
Cost			
At 1 November 2015	1,288	3,344	4,632
Additions	104	457	561
Disposals	-	(3)	(3)
At 31 October 2016	1,392	3,798	5,190
Depreciation			
At 1 November 2015	-	2,718	2,718
Charge for year	80	280	360
On disposals	-	(3)	(3)
At 31 October 2016	80	2,995	3,075
Net book value 31 October 2016	1,312	803	2,115
<i>Net book value 31 October 2015</i>	<i>1,288</i>	<i>626</i>	<i>1,914</i>

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2016

Note 15 - Fixed assets (continued)

15.2 Investments:	Group	Society		
	£000	£000		
Cost or Market value				
At 1 November 2015	1,819	1,819		
Additions	657	575		
Disposal proceeds	(290)	(290)		
Realised (loss) on disposals	(15)	(15)		
Unrealised gains	228	228		
At 31 October 2016	2,399	2,317		
<i>Comprises:</i>	Group	Society	Restated	Restated
	2016	2016	Group	Society
	£000	£000	2015	2015
Listed investments	2,317	2,317	£000	£000
Unlisted investments	82	-	1,819	1,819
	2,399	2,317	1,819	1,819

At 31 October 2016 and 31 October 2015 the group had a 20% interest in the ordinary shares of The Legal Post (Scotland) Limited which is incorporated in the United Kingdom. The interest is held at cost of £20 and the group received dividends of £64,000 in the year. At 31 October 2016 the group had a 10% interest in the ordinary shares of Altis Legal Limited which is incorporated in the United Kingdom. The interest is held at cost of £82,500.

15.3 Gain on sale of property	2016	2015
	£000	£000
Property sales price	-	4,250
Book cost of assets sold	-	(587)
Professional fees	-	(49)
	-	3,614

Note 16 - Debtors

Due within one year:

	Group	Society	Group	Restated
	2016	2016	2015	Society
	£000	£000	£000	£000
Trade debtors	221	221	268	268
Other debtors	1,416	1,420	3,212	3,213
Prepayments	612	612	182	182
Deferred tax asset	-	-	-	16
	2,249	2,253	3,662	3,679
Due after more than one year:				
Other debtors*	-	-	1,250	1,250

*represents the final instalment of sale proceeds from the Society's heritable property.

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2016

	Group	Society	Restated Group	Restated Society
	2016	2016	2015	2015
	£000	£000	£000	£000

Note 17 - Creditors: amounts falling due within one year

Fees in advance	7,762	7,762	6,451	6,451
Trade creditors	794	794	662	662
Corporation tax	49	37	520	520
Other taxation and social security	161	161	117	117
Other creditors	500	487	724	702
Accruals	142	142	214	214
Deferred income	582	582	104	104
	9,990	9,965	8,792	8,770

Note 18 - Provisions

Leasehold improvements	-	-	682	682
Deferred tax	79	27	36	-
	79	27	718	682

Note 19 - Transition to FRS102

This is the first year that the Society has presented its results under FRS102. The last financial statements under the old UK GAAP were for the year ended 31 October 2015. The date of transition to FRS102 was 1 November 2014. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 October 2015 and the total equity as at 1 November 2014 and 31 October 2015 between UK GAAP as previously reported and FRS102.

	£000
<i>Restated Income & Expenditure account for the year ended 31 October 2015:</i>	
Total comprehensive income as previously reported	2,972
Investment revaluation*	(93)
Deferred tax on investment revaluation	19
Restated total comprehensive income	<u>2,898</u>

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2016

Note 19 - Transition to FRS102 (continued)

	Group 2015 £000	Society 2015 £000	Group 2014 £000	Society 2014 £000
<i>Restated Balance Sheet</i>				
Capital Account as previously reported	7,730	7,461	4,758	4,525
Investment revaluation*	(78)	(78)	15	15
Deferred tax impact of adjustments	16	16	(3)	(3)
Restated Capital Account under FRS102	<u>7,668</u>	<u>7,399</u>	<u>4,770</u>	<u>4,537</u>

* FRS102 requires listed investments to be held at market value. Previously listed investments were held at cost. This has resulted in the revalued amounts above.

Note 20 – Pension Schemes

20.1 Defined contribution pension scheme

The Society operates a group personal pension on behalf of certain employees. The pension cost charge for the year in respect of those employees represents contributions payable by the Society to the scheme and amounted to £385,000 (2015: £395,000). Contributions outstanding at 31 October 2016 amounted to £46,000, being contributions for the month of October 2016.

20.2 Defined benefit pension scheme

The Law Society of Scotland operates a defined benefit pension arrangement called the The Law Society of Scotland Staff Retirement Benefits Scheme. The Scheme provides benefits based on final salary and length of service on retirement, leaving service or death.

The Scheme is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the Scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process the Society must agree with the trustees of the Scheme the contributions to be paid to address any shortfall against the Statutory Funding Objective.

The most recent comprehensive actuarial valuation of the Scheme was carried out as at 31 March 2013

The Society expects to contribute £219,000 to the scheme during the year to 31 October 2017.

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2016

Note 20 – Pension Schemes (continued)

The principal assumptions used to calculate scheme liabilities include:	31 October 2016	31 October 2015
Discount rate	3.00% pa	4.10% pa
Inflation assumption (RPI)	3.70% pa	3.50% pa
Inflation assumption (CPI)	3.00% pa	2.80% pa
Pension increases – CPI limited to 5%	3.00% pa	2.80% pa
Pension increases – CPI limited to 3%	2.60% pa	2.50% pa
Pension increases – CPI limited to 2.5%	2.30% pa	2.20% pa
Revaluation in deferment	3.00% pa	2.80% pa
Post retirement mortality assumption	110% of S1Px _A , projected with CMI 2012 - long term rate of improvement 1.5% pa	110% of S1Px _A , projected with CMI 2012 - long term rate of improvement 1.5% pa
Tax free cash	Members are assumed to convert 25% of their pension into cash at retirement	Members are assumed to convert 25% of their pension into cash at retirement

Assets

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

Asset category	31 October 2016
Equities	51%
Bonds	33%
Cash	Less than 1%
Other assets	16%
Total	100%

The return on the assets over the period was £867,000

The assets do not include any investment in the group.

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2016

Note 20 – Pension Schemes (continued)

Amounts recognised in the Balance Sheet at 31 October 2016	Value at 31 October 2016	Value at 31 October 2015
Fair value of assets	£6,776,000	£6,252,000
Present value of funded obligations	(£8,043,000)	(£6,132,000)
(Deficit)/surplus	(£1,267,000)	£120,000
Impact of asset ceiling	£0	£0
Net defined benefit (liability)/asset at 31 October 2016	(£1,267,000)	£120,000

Amounts recognised in the Profit & Loss account over the year	31 October 2016	31 October 2015
Current service cost	£0	£0
Interest on liabilities	£240,000	£228,000
Interest on assets	(£249,000)	(£249,000)
Past service cost	£0	£0
Settlement cost	£0	£0
Total	(£9,000)	(£21,000)

Remeasurements over the year	31 October 2016	31 October 2015
Loss (gain) on scheme assets in excess of interest	(£618,000)	(£59,000)
Experience losses (gains) on liabilities	£322,000	£54,000
Losses (gains) from changes to demographic assumptions	£0	£0
Losses (gains) from changes to financial assumptions	£1,911,000	£525,000
Changes in effect of asset ceiling	£0	£0
Total remeasurements	£1,615,000	£520,000

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2016

Note 20 – Pension Schemes (continued)

Reconciliation of assets and Defined Benefit Obligation

The change in the assets over the period was:

	31 October 2016	31 October 2015
Fair value of assets at the beginning of the period	£6,252,000	£6,188,000
Interest on assets	£249,000	£249,000
Society contributions	£219,000	£219,000
Contributions by scheme participants	£0	£0
Benefits paid	(£562,000)	(£463,000)
Change due to settlements	£0	£0
Return on plan assets less interest	£618,000	£59,000
Fair value of assets at the end of the period	£6,776,000	£6,252,000

The change in the Defined Benefit Obligation over the period was:

	31 October 2016	31 October 2015
Defined benefit obligation at the beginning of the period	£6,132,000	£5,788,000
Current service cost	£0	£0
Contributions by scheme participants	£0	£0
Past service cost	£0	£0
Interest cost	£240,000	£228,000
Benefits paid	(£562,000)	(£463,000)
Change due to settlements	£0	£0
Experience (gain)/loss on defined benefit obligation	£322,000	£54,000
Changes to demographic assumptions	£0	£0
Changes to financial assumptions	£1,911,000	£525,000
Defined Benefit Obligation at the end of the period	£8,043,000	£6,132,000

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2016

Note 21 - Cash flow statement

Reconciliation of surplus to net cash inflow from operating activities

	2016	2015
	£000	£000
(Deficit)/surplus for the year	33	3
Interest and dividends receivable	(139)	(161)
Taxation charge	81	21
Depreciation charges	360	262
Loss/(gain) on sale of fixed assets and investments	(213)	104
Costs associated with disposal of heritable property	-	(49)
Pension scheme - contributions	(219)	(219)
Change in debtors	2,663	80
Change in creditors & provisions	1,030	4,098
Cash from operations	3,596	4,139
Taxes paid	(552)	(52)
Net cash generated from operating activities	<u>3,044</u>	<u>4,087</u>

Note 22 – Related party transactions

22.1 Scottish Solicitors' Guarantee Fund

Members of the Client Protection Fund Committee, which oversees the Scottish Solicitors' Guarantee Fund, are also members of the Council of the Law Society of Scotland. At the year-end, a balance of £307,055 (2015 - £465,933) was due to the Scottish Solicitors' Guarantee Fund, which included subscriptions received before the year-end for the 2016/17 subscription year. During the year overheads of £100,300 were charged from the Law Society of Scotland to the Guarantee Fund (2015 - £70,529).

22.2 Scottish Solicitors' Benevolent Fund

Three trustees of the Scottish Solicitors' Benevolent Fund are also members of the Council of the Law Society of Scotland. Two trustees of the Scottish Solicitors' Benevolent Fund are employees of the Law Society of Scotland. At the year-end, a balance of £10,015 (2015 - £6,629) was due to the Law Society of Scotland.

22.3 The Law Society of Scotland Services Limited

The above company is a wholly owned subsidiary of the Society. At the year-end the company held a 20% shareholding in Legal Post (Scotland) Limited which is accounted for as an associate using the cost model. The shares were acquired for £20 in 2000. Following a takeover the shareholding was sold after the year-end for a consideration of £261,585 which will be accounted for in the 2016/17 financial statements. At the year-end a balance of £3,804 was due to (2015 - £1,390 due to) the Law Society of Scotland. The Law Society of Scotland Services Limited post-tax profit for the year to 31 October 2015 was £49,386 (2015 - £36,334). During the year the Society purchased services from Legal Post (Scotland) Limited amounting to £109,845 (2015 - £114,228).

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2016

Note 22 – Related party transactions

22.4 Legal services

Some Council members are partners of firms instructed by the Law Society of Scotland to provide legal services to the Society. Firms of solicitors are appointed to the Society's panel after a competitive tendering process. None of the office bearers' firms provided any services to the Society in the year.

22.5 LawCare

During the year the Society paid £20,400 (2015 - £21,150) to LawCare, a registered charity, for pastoral care services. An employee of the Society is a director of LawCare.

22.6 Pritchard Educational Trust

During the year the Society paid £210 (2015 - £10,225) to the Pritchard Educational Trust, a registered charity. The Society's president and vice president are trustees. £20,435 was due from the trust at the year-end (2015; £20,225).

22.7 Law Society of Scotland Educational Foundation

During the year the Society established Law Society of Scotland Educational Foundation, a registered charity. Three staff members are trustees.

Note 23 - Committee convener allowances

	2016
	£
Regulatory committee	7,500
Admission committee	5,000
Appeal & reviews committee	7,500
Civil aid quality assurance committee	7,500
Client protection fund committee	7,500
Complaints committee	5,000
Education & training (standards setting) committee	5,000
Practicing certificate committee	5,000
Professional conduct sub committee 1	7,500
Professional conduct sub committee 2	7,500
Rules, waivers & guidance committee	7,500
Access to justice committee	7,500
Civil justice committee	2,500
Criminal law committee	7,500
Equality & diversity committee	2,500
Finance committee	5,000
In-house lawyers committee	7,500
Insurance committee	7,500
Civil legal aid committee	7,500

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2016

Criminal legal aid committee	7,500
Professional practice committee	5,000
Property law committee	7,500
Public policy committee	7,500
Remuneration committee	2,500

Note 24 - Employment costs

	2016	2015
	£000	£000
<i>24.1 By operational area:</i>		
Education, training & qualifications	452	340
Finance & operations	1,544	1,661
Member services	730	782
Regulation	1,753	1,618
External relations	819	729
	<u>5,298</u>	<u>5,130</u>
<i>24.2 By item:</i>		
Gross payroll	4,461	4,287
Employer's national insurance	452	441
Employer's pension contributions	385	402
	<u>5,298</u>	<u>5,130</u>
Staff practising certificates	17	23
	<u>5,315</u>	<u>5,153</u>

The CEO's package was £ 196,242 (2015 - £188,964).

The rest of the senior leadership team comprises the executive directors of the following five areas: education, training & qualifications; external relations; finance & operations; member services and regulation. The total gross remuneration including pension contributions was £437,125 (2015 - £413,764).

Note 25 – External auditors' remuneration

	2016	2015
	£000	£000
Group external audit fees	19	19
Other accounting and tax services	5	-
	<u>24</u>	<u>19</u>

Notes to the Financial Statements (ctd.)

for the year ended 31 October 2016

Note 26 - Contingent liabilities

In appointments of external Judicial Factors, the Society has an obligation to meet any shortfall where the estate under administration is insufficient to meet the commission payable to the Judicial Factors as fixed by the Accountant of Court. In cases where a potential shortfall is identified a provision representing the best available estimate of the liability is made within the accounts. However, the Society may also have a liability in other cases where a Judicial Factor has been appointed but it is not possible to quantify the liability at the balance sheet date. The existence of these liabilities depends on the funds collected by the Judicial Factor in the administration of the estate and the Society may receive a refund or have to make further payments.

Note 27 - Secured assets

In 2014 the Society assigned security over a specific bank account through a Scots Law Pledge to the Trustees of the Staff Retirement Benefits Scheme. The sum secured is £1m. The security becomes enforceable if the Society defaults on its annual repayment obligations, and remains effective until the next triennial valuation is agreed.

Debtors (note 16) include £1.25m due from the purchaser of the Society's former heritable property at Drumsheugh Gardens. There is a Guarantee from the parent company as well as a standard security over the entire property in respect of the deferred payment. This standard security is postponed to the security granted by the purchaser to its main lender, and there is a ranking agreement in place with the purchaser and lender for the balance of the purchase price.

Note 28 - Commitments under Operating Leases

At 31st October the Society had the following minimum payments under a non-cancellable operating lease:

	Group 2016 £000	Society 2016 £000	Group 2015 £000	Society 2015 £000
Land and Buildings:				
Within 1 year	-	-	-	-
Within 2 to 5 years	1,567	1,567	929	929
In 5 years or more	5,603	5,603	6,241	6,241
	<u>7,170</u>	<u>7,170</u>	<u>7,170</u>	<u>7,170</u>

Operating lease payments represent total rentals in respect of the Society's office premises at Atria One, Morrison Street Edinburgh from 1st November 2016 until the expiry date of the lease, 16th August 2029. Renewal options exist on 17th August 2020 and 17th August 2025. The figures exclude any irrecoverable VAT, which will vary from year to year depending on income sources.