Solicitors Regulation Authority

Solicitors Indemnity Fund Annual Report and Financial Statements For the Year ended 31 October 2024

June 2025

Purpose and principal activities of the fund

The Solicitors Indemnity Fund (SIF) is a statutory fund established in 1987 governed by the Solicitors' Indemnity Rules 1987 as amended from time to time. The Rules are presently made under sections 37, 79 and 80 of the Solicitors Act 1974, section 9 of the Administration of Justice Act 1985, and paragraph 19 of Schedule 11 of the Legal Services Act 2007, with the approval of the Legal Services Board under paragraph 19 of Schedule 4 to the Legal Services Act 2007. The Rules are now also known as the SRA Indemnity Rules.

The Fund provided indemnity in respect of the practices of solicitors, recognised bodies and registered foreign lawyers carried on wholly or in part in England and Wales until 31 August 2000, when the Council of The Law Society decided to require firms to purchase indemnity insurance in the open market. The Fund therefore went into run-off from 1 September 2000. This means that the Fund is still liable for claims relating to events that arose prior to this date.

The Council of The Law Society determined that from 1 September 2007 the Fund would also provide cover for new claims and settle the associated liabilities arising from firms insured in the open market which have ceased without successor subsequent to 1 September 2000 and where the requisite six-year run-off period provided by their last market insurer or the Assigned Risks Pool has elapsed. The Assigned Risks Pool (ARP) is a temporary insurance scheme for businesses that cannot get professional indemnity insurance (PII) on the open market.

This indemnity cover for expired run off claims, also referred to as 'post six-year run off claims', commenced on 1 September 2007 and ended on 30 September 2020, but was subsequently extended by an additional year to 30 September 2021. During 2021 this cover was extended further to cover claims to 30 September 2022 and during 2022 it was extended further again to cover claims to 30 September 2023. From 1 October 2023 the Solicitors Regulation Authority took control of the Fund and the cover was extended further with no specified end date for claims to be notified.

The purpose of the Fund is to manage:

- the ongoing notified claims arising from the pre-1 September 2000 period ('historic claims') and settle the associated liabilities arising. The number of notified cases has been decreasing as cases meet their statutory limitation periods and the number of claims outstanding has been decreasing as claims have been concluded.
- new claims arising from 1 September 2000 against practices that had ceased without successor prior to 1 September 2000 based on the work they delivered prior to that date and settle the associated liabilities arising ('historic claims').
- new claims and settle the associated liabilities arising from firms insured in the open market and which have ceased without successor subsequent to 1 September 2000 and where the requisite six-year run-off period provided by their last market insurer or the Assigned Risks Pool has elapsed ('post six-year run off claims').
- the claim recoveries, and any interest due on those recoveries, that have materialised as a result of a previous claim settlement.

The Fund holds an investment portfolio to fund the settlement of net liabilities on claims and the cost of handling those claims.

Administration of the fund

On 1 October 2023 the management and administration of SIF transferred from Solicitors Indemnity Fund Limited (SIFL) to Solicitors Regulation Authority Limited ('SRA'). From this point the SRA held, managed and administered the Fund, and the Directors of SRA have been responsible for the governance of SIF. SRA directly administers all of the assets and liabilities of SIF. In the prior year, up until 30 September 2023, Solicitors Indemnity Fund Limited (SIFL) held, managed and administered the Solicitors Indemnity Fund (the 'Fund'), and the Directors of SIFL were responsible for the governance of the Fund.

Download: Solicitors Indemnity Fund Limited annual report and financial statement for the Year ended 31 October 2024 (PDF 31 pages, 396KB) [https://guidance.sra.org.uk/globalassets/documents/sra/research/sif-limited-oct-2024.pdf]
Open all [#]

Report of the directors of the administering company

Directors

The Directors of the SRA during and subsequent to the financial year were:

- Anna Bradley – Chair
- Ann Harrison
- Paul Loft (until 31 December 2024)
- Selina Ullah (until 31 December 2024)
- Elizabeth Smart

- Vikas Shah
- Lisa Mayhew
- Nicola Williams
- Claire Bassett
- Rob McWilliam
- Claudio Pollack (from 1 January 2025)
- Simon Millhouse (from 1 January 2025)

Principal risks and uncertainties

The Fund's business carries significant uncertainties, and the financial statements include significant judgements around claims costs and provisions, based on past historic experience and known circumstances. The principal risks from the Fund's indemnity operations arise from fluctuations in the timing, frequency and severity of claims compared to expectation and inadequate reserving.

In addition, the Fund is exposed to financial risks arising from the fluctuation in the returns on the investments it holds.

Risk management (considering indemnity risk, credit risk, market risk and liquidity risk) is discussed in Note 4 to the financial statements.

Understanding the Fund’s financial statements

Under the accounting policies, the most significant items in the Statement of Comprehensive Income represent the movement in the year on the valuation of investments and provisions. The focus of the Fund's financial statements is therefore its balance sheet.

The impact of the accounting policies on the Statement of Comprehensive Income is that the expenditure disclosed as claims costs and claims handling costs represents the movement on provisions for the long term cost of claims and handling them, and not an accruals based cost in the financial year, in the manner that is usual in most financial statements.

Balance sheet review

The Fund's net assets have increased by £0.1m compared to the prior year. The most important balance sheet movements are a £3.4m increase in the value of investments to £30.7m (2023: £27.3m) and a £3.1m increase in the value of claims provisions to £11m (2023: £7.9m).

The Fund's investments increased in value by 12% which was positive after a 3% reduction in the prior year. As in the prior year, approximately 5% of the value of investments was held in short term managed funds, in order to meet working capital requirements.

The Fund provides for both known claims and claims that are as yet unknown. It also provides for the estimated future cost of handling those claims.

As at 31 October 2024, there were 60 open cases (2023: 97) a net decrease of 37 in the year.

Provision has been made within claims incurred but not reported ('IBNR') for the total estimated future liabilities arising from the post six-year run off claims. This is estimated using external actuarial advice, based on all available information at that time including historic trends and recent development and amounts to £4.4 million (2023: £3.8 million). Further information is provided in Note 12.

The claims handling cost provision represents our estimate of the future costs that will be borne over the next ten years to handle the claims we receive, discounted into today's money value. The provision value increased by £2.7m to £4.6m (2023: £1.9m) due to taking into account the higher levels of costs with third party panel solicitors than had been previously expected. We will keep the level of third party costs under review during 2024/25 with an ambition to reduce these as the year progresses.

The claims provision represents our estimate of the future costs to settle claims we have received already and those we will receive in future.

Working capital of debtors and cash less creditors was £0.4m (2023: £0.5m). SIF owed the SRA £1.5m at 31 October 2024 (2023: £nil), with this related to payments made by the SRA during the year on behalf of the Fund and a recharge of costs incurred by the SRA in managing the Fund.

Results for the year

The Fund made an operating deficit of £4.0 million (2023: £0.5 million surplus) and a surplus of £4.1m on interest and investment movements (2023: £0.1m loss), leading to an overall surplus before tax for the year of £0.1 million (2023: £0.4 million). There was no tax charge for the year (2023: £0 charge), giving a net surplus for the year of £0.1 million (2023: £0.4 million).

The Fund's operating results are expected to fluctuate as they are based on the development of claims and indemnity recoveries which may differ materially from year to year. Movements on interest and investments may also change significantly from year to year.

The operating deficit arose mainly due to significantly increased claims handling costs of £3.0 million (2023: £0.7 million), which was due to an increase in the value of the claims handling provision, explained in the balance sheet review. The cost of claims was £0.7 million which represented the impact of an increase in the claims provision. The nature of the claims provision is explained in the balance sheet review.

Unrealised gains on the value of the investment portfolio amounted to £3.5 million (2023: £0.1m). Interest and dividends generated from the investment portfolio resulted in income of £0.6 million (2023: £0.5 million).

Claims payments during the year

Claims payments, net of indemnity claim recoveries, totalled £0.4million (2023: £0.5million), and claims handling payments, during the year totalled £0.4 million (2023: £0.4 million). Amounts recoverable from insurers were nil (2023: £nil).

Investment strategy

The Fund's investment strategy is to hold a varied and diversified portfolio to maximise returns at an acceptable level of risk. The Fund holds an investment portfolio consisting of equities, sovereign and investment grade bonds and other securities and cash. This provides the Fund with a constant income from investment. There remains volatility in the underlying value of the funds within the portfolio, which is accounted for as either an unrecognised loss or gain in the Statement of Comprehensive Income. Further details are provided in Note 6.

Interest on indemnity claim recoveries

The Fund is entitled to interest on certain indemnity claim recoveries. Where the legal right to interest exists, the interest can be accurately calculated and there is a reasonable expectation of recovery, the interest receivable has been recognised within these financial statements as a receivable item within Debtors. Further details are provided in Note 10.

Management of the Fund's activities

The activities of the fund are managed by Solicitors Regulation Authority Ltd, which has charged the Fund £90k for this service during the year.

Going concern

As a result of volatility in the value of investments and provisions, it is desirable that the Fund's total assets less current liabilities substantially exceed the value of provisions.

The Fund's total assets less current liabilities at 31 October 2024 represented 2.8 times the value of provisions (2023: 3.5 times). This decrease follows an increase in provision which had a greater impact on this solvency ratio than the material increase in the value of investments over the year.

The total assets less current liabilities multiple of provisions is at a positive level, giving substantial confidence in the going concern status of the Fund at the date of signing these financial statements. The Directors’ forecasts to May 2026 also indicate that the Fund will be able to maintain liquidity and solvency and will therefore be able to continue to operate as a going concern.

Consolidation of financial statements

The financial statements of the Fund are consolidated with the financial statements of the SRA as at 31 October 2024 based on an assessment by the SRA that the Fund should be a consolidated part of the SRA's group due to the SRA's control of the Fund. Copies of the SRA's financial statements can be obtained from The Cube, 199 Wharfside St, Birmingham B1 1RN.

The Directors are responsible, on behalf of the Fund, for preparing the financial statements for the Fund for each financial year. The Directors are responsible for preparing the financial statements in accordance with United Kingdom Accounting Standards, of which FRS 102 is the applicable Financial Reporting Standard.

Statement of directors responsibilities

The Directors are responsible, on behalf of the Fund, for preparing the financial statements for the Fund for each financial year. The Directors are responsible for preparing the financial statements in accordance with United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Fund and of the surplus or deficit for the Fund that year.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Fund will continue in business.

The Directors are also responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time, the financial transactions and the assets and liabilities of the Fund. They are further responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' confirmations

In the case of each director in office at the date the Directors' report is approved, the following applies:

- so far as the Directors are aware, there is no relevant audit information of which the Fund's auditors are unaware; and
- the Directors have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Fund's auditors are aware of that information.

Approved on behalf of Solicitors Regulation Authority Limited

Anna Bradley
Chair
12 May 2025

Independent auditors' report to the directors of solicitors regulation authority limited (as administrator of solicitors indemnity fund)

Opinion on the non-statutory financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Fund's affairs as at 31 October 2024 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

We have audited the non-statutory financial statements (the 'financial statements') of Solicitors Indemnity Fund ('the Fund') for the year ended 31 October 2024 which comprise the Statement of Comprehensive Income, the Balance Sheet, Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Non -compliance with laws and regulations

Based on:

- Our understanding of the Fund
- Discussion with management and those charged with governance
- Obtaining an understanding of the Fund policies and procedures regarding compliance with laws and regulations; and
- Inspecting board minutes

We considered the significant laws and regulations to be the Financial Reporting Standard 102 applicable in the UK and Republic of Ireland

The Fund is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be data protection.

Our procedures in respect of the above included:

- Review of minutes of meetings of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of any correspondence with tax authorities for an instances of non-compliance with laws and regulations;
- Review of financial statement disclosures and agreeing to supporting documentation; and
- Review of legal expenditure accounts to understand the nature of expenditure to understand the nature of expenditure incurred.

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Fund policies and procedures relating to
    - Detecting and responding to the risks of fraud; and
    - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meetings of those charged with governance for any known or suspected instances of fraud;
- Discussion among the engagement team as to how and where fraud might occur in the financial statements;
- Performing analytical procedures to identify and unusual or unexpected relationships that may indicate risks of material misstatement due to fraud.

Based on our risk assessment, we considered the areas most susceptible to fraud to be provisions and management override of controls.

Our procedures in respect of the above included:

- Testing a sample of journal entries throughout the year, which met a defined risk criteria, by agreeing to supporting documentation; and
- Assessing significant estimates made by management for bias such as provisions.

We also communicated relevant identified laws and regulations and potential fraud risks to engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website [https://www.frc.org.uk/auditorsresponsibilities] .

This description forms part of our auditor's report.

Use of our report

This report is made solely to the Directors of the Solicitors Regulation Authority (SRA) (as administrator of the Fund). Our audit work has been undertaken so that we might state to the Directors of the SRA those matters we are required to state to them in an auditor's 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 Directors of the SRA for our audit work, for this report, or for the opinions we have formed.

Kyla Bellingall (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
BDO LLP
Chartered Accountants
Birmingham
United Kingdom

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Statement of comprehensive income for the year ended 31 October 2024

Expenditure	Note	2024 £'000	2023 £'000
Claims (costs) / credit	12	(673)	2,397
Claims handling costs	12	(3,046)	(668)
Indemnity recoveries / (costs)		521	(85)

Administrative Expenses	5	(534)	(808)
Finance Cost (net unwinding of discount)		(263)	(335)
Operating (deficit) / surplus		**(3,995)**	**501**
Realised losses on investments	6	(6)	(96)
Unrealised gains on investments	6	3,472	138
Interest and dividends from investments	7	582	476
Interest cost / (credit) on indemnity claim recoveries		213	(447)
Investment expenses		(132)	(148)
Total interest and investment movements		**4,129**	**(79)**
Surplus for the year		**134**	**422**
Total comprehensive income for the year		**134**	**422**

The notes on pages 16 to 31 form part of these financial statements.

Balance sheet as at 31 October 2024

	Note	31 Oct 2024 £'000	31 Oct 2023 £'000
Fixed Assets:			
Investments		29,213	25,910
Current assets:			
Investments	9	1,488	1,403
Debtors	10	958	689
Cash and Bank		986	329
Total current assets		3,432	2,421
Current liabilities			
Creditors	11	(1,561)	(496)
Total assets less current liabilities		31,084	27,835
Reserves for Indemnity Provisions:			
Provisions	12	(10,988)	(7,873)
Net Assets		20,096	19,962
Retained Surplus		20,096	19,962

Approved on behalf of Solicitors Indemnity Fund

Anna Bradley
Chair

On behalf of Solicitors Regulatory Authority Limited, in its capacity as administrator of the Fund.

The notes on pages 16 to 31 form part of these financial statements.

Statement of changes in equity for the year ended 31 October 2024

	Retained surplus £'000	Total £'000
Balance at 31 October 2022	19,540	19,540
Surplus for the year	422	422
Balance at 31 October 2023	19,962	19,962
Surplus for the year	134	134
Balance at 31 October 2024	20,096	20,096

The notes on pages 16 to 31 form part of these financial statements.

Notes to the financial statements for the year ended 31 October 2024

1. General information

The Solicitors Indemnity Fund is a statutory fund established within the United Kingdom in 1987 governed by the Solicitors' Indemnity Rules 1987 as amended from time to time as outlined in the Directors' report. The principal office where the Solicitors Indemnity Fund is administered is 199 Wharfside St, Birmingham B1 1RN, United Kingdom.

2. Statement of compliance

The financial statements of the Solicitors Indemnity Fund have been prepared in compliance with United Kingdom Accounting Standards, comprising Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102').

Due to the nature of the Fund it is not required to comply with the Companies Act 2006 and as such these are non-statutory financial statements. However, the Fund has complied with those elements of the Companies Act relevant to the financial statements that the Directors believe are necessary to enable the financial statements to give a true and fair view.

3. Summary of significant accounting policies

The most significant accounting policies adopted by the Fund are described below and these have been applied consistently to all the years presented, unless otherwise stated.

(a) Basis of preparation

The Fund continues to prepare its financial statements in accordance with UK Accounting Standards and it is a special purpose entity as defined within section 9.10 of FRS 102.

The financial statements are presented in sterling (£) and are rounded to the nearest thousand (£000).

FRS 102 allows a qualifying entity certain disclosure exemptions. The Fund has taken advantage of the following exemptions from the requirement to prepare a statement of cash flows as required by paragraph 3.17(d) of FRS 102.

Following the decision of the Council of The Law Society in June 1999 to move to market insurance, the Fund went into run-off on 1 September 2000.

Some of the assets and liabilities of the Fund are held in the name of SRA for the benefit of the Fund. This includes the investments of the Fund which are held by the SRA but in the name of the Fund, and the bank balances which are also held by SRA. These assets, as well as assets and liabilities arising from contracts held on behalf of the Fund, are included within the balance sheet of the Fund and not within the balance sheet of the SRA

This is consistent with how the financial statements have been prepared in previous years.

£000's	**SRA**	**SIF**	**Total**
Investments	30,701	-	30,701
Debtors	-	958	958
Cash and bank	986	-	986
Total Assets	31,687	958	32,645
Provisions	-	(10,988)	(10,988)
Creditors	(91)	(1,470)	(1,561)
Total Liabilities	**(91)**	**(12,458)**	**(12,549)**
Net Assets	**31,596**	**(11,500)**	**20,096**

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3 (q).

(b) Going concern

The Directors have considered the current economic climate, alongside the Fund's principal risks, and have determined there is no material uncertainty that casts significant doubt upon the Fund's ability to continue as a going concern.

The Directors regularly monitor liquidity and solvency using stress and scenario testing to support their conclusions on going concern. The Directors' forecasts up to 31 October 2026 indicate that the Fund will be able to maintain liquidity and solvency and so the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

(c) Basis of accounting

The financial statements are prepared under the historical cost convention with the exception of financial assets which are at fair value through profit or loss that are measured at fair value (note e).

(d) Valuation of investments

Investments, comprising listed securities, are valued at their market value at the balance sheet date on a portfolio basis. Realised gains or losses represent the difference between net sale proceeds and purchase price. Investments are measured at fair value.

Changes in fair value are recognised in the Statement of Comprehensive Income. The fair value of investments is obtained at the balance sheet date based on net asset values readily available from a stock exchange, investment manager or pricing service.

Investments intended to be held on a continuing basis for long term growth are recognised as fixed asset investments. Investments that may be required to fund ongoing activities within the next 12 months are recognised as current asset investments.

(e) Interest from investments and interest from indemnity claim recoveries

Income from the various investment portfolios is remitted throughout the year but is accounted for on an accruals basis. Interest from indemnity claim recoveries is recognised when it can be reliably measured and there is a reasonable expectation of recovery.

(f) Contributions

Contributions are accounted for on the accruals basis.

(g) Insurance recoveries

Insurance recoveries are accounted for as and when receipt becomes due based on the liability being incurred.

(h) Claims costs

Claims costs recognised each year comprise claims handling costs including the costs of panel solicitors, damages paid out, and other costs net of indemnity recoveries. Claims costs are accounted for when incurred and indemnity recoveries are recognised at the point they can be reliably measured and there is a reasonable expectation of recovery.

(i) Claims provisions

Estimation techniques are used to determine the gross claims provision which represents the estimated outstanding liabilities relating to all indemnity years. Ultimate claim settlements are estimated by the use of statistical projections of historical data, together with case-by-case reviews of notified losses, and are based on information available at the time the estimates are made. There is uncertainty as to the quantum of the ultimate settlement of the liabilities which is inherent in the process of estimating, such that, in the normal course of events, unforeseen or unexpected future developments could cause the ultimate cost of settling the outstanding liabilities to differ from that currently estimated. Any differences between provisions and subsequent settlements are dealt with in later accounting periods as actual costs and non-insurance recoveries are known. Claims provisions include the estimated future costs of panel solicitors and claims handling costs, including a proportion of overheads.

Claims provisions are included at a discounted rate representing the present value of the amount expected to be required to settle the obligation.

(j) Insurance provisions

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

(k) Indemnity recoveries provisions

Indemnity recoveries are recognised at the point at which they can be measured and there is a reasonable expectation of recovery. In practise this means when the Fund is notified of entitlement to amounts.

Assessment is made of the likelihood of recovery and subsequent provision made if required.

The Fund does not make provision for other potential future indemnity recoveries due to the uncertainty of whether any amounts can be recovered.

(l) Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

(m) Financial instruments

The Directors have chosen to adopt the recognition and measurement criteria of Sections 11 and 12 of FRS 102 in respect of financial instruments.

Investments, comprising listed securities are valued at their market value at the balance sheet date on a portfolio basis. Realised gains or losses represent the difference between net sale proceeds and purchase price. Investments are measured at fair value. Changes in fair value are recognised in the Statement of Comprehensive Income. The fair value of investments is obtained at the balance sheet date based on net asset values readily available from a stock exchange, investment manager or pricing service.

Financial assets

Basic financial assets, including trade and other debtors and cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the Statement of Comprehensive Income.

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is the normal transaction price.

Financial instruments (continued)

Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the Statement of Comprehensive Income.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities

Basic financial liabilities including trade and other creditors are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

The Fund does not hold or issue derivative financial instruments.

Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Fair value estimation

Financial instruments carried at fair value can be categorised by the following valuation methods:

Level 1 Quoted prices in an active market

Level 2 Recent transactions in an identical asset if there is an unavailability of quoted prices

Level 3 Use of a valuation technique if there is no active market or other transactions which are a good estimate of fair value.

The Fund's investments are all categorised as level 1.

(n) Related party transactions

The Fund discloses transactions with related parties. Transactions with the SRA are disclosed in note 14.

(o) Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Note 12 provides a breakdown of the provisions.

Sources of estimation uncertainty

The Fund makes estimates and assumptions concerning the future. The resulting accounting estimates may differ to actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are addressed below.

The ultimate liability arising from claims

The estimation of the ultimate liability arising from claims under indemnity contracts is the Fund's most critical accounting estimate. The Fund's Provisions at year-end total £11 million (2023: £7.9 million) and consist of three components: case reserves, claims incurred but not reported ('IBNR') and a claims handling costs provision.

Case reserves are estimated on a case-by-case basis by claims handlers and, where deemed necessary and appropriate, further opinions are sought from third party solicitors. Further information is provided in note 4a i.

Indemnity claim recoveries reduce the cost of claims and are only recognised where there is a reasonable expectation of recovery. This is practically when the Fund is notified of entitlement to amounts and so subject to a lesser degree of uncertainty then case reserves. Further information is provided in note 4a iv.

External actuaries estimate IBNR using standard actuarial claims projection techniques on a triennial basis or when deemed appropriate. The most recent full projection was prepared in 2023 for the 2023 financial year end. For the 2024 year end this was reviewed to consider experience over the prior 12 months. Such methods extrapolate the development of paid and incurred claims, indemnity recoveries from third parties, average cost per claim and expected loss ratios. The main assumption underlying these techniques is that past claims development experience is used to project ultimate claims costs. To the extent that the ultimate cost is different from the estimate, where experience is better or worse than what was assumed, the surplus or deficit will be credited or charged through the Statement of Comprehensive Income in future years. Further information is provided in note 4a ii.

Direct claims handling costs are recognised to the extent they can be separately identified as specifically relating to claims handling expected to be incurred due to known claims and IBNR cases. Further information is provided in note 4a iii.

4. Risk management

The process of governance and risk management is addressed through a framework of policies and procedures as documented within the administering company's corporate risk register. Risk management policies are developed by the Directors and executives taking into account the size and nature of the organisation. The Directors are responsible for satisfying themselves that a proper internal control framework exists within the Fund to manage financial risks and that adequate controls are in place and operate effectively.

a) Indemnity Risk

The principal risks from the Fund's indemnity operations arise from fluctuations in the timing, frequency and severity of claims compared to expectation for known claims (claims reserves and expected indemnity claim recoveries) and future claims (IBNR). These reserve risks are considered in turn.

i) Claims Reserves

These provisions are for all known cases and are notified on a claims made and circumstances notified basis and fall within an indemnity year. Reserve estimates are made by specialist claims experts and panel solicitors of the likely damages and potential costs involved in settling the claim, as well as any expected indemnity recoveries to be made. These reserves are revised on a regular basis based on updated information as the claims progress. These provisions are sensitive to changes in the complexity of the case and the potential outcome and therefore cost of damages changing. Therefore there is a risk that known claims may have been inadequately provided for or there may be a deterioration in the claim leading to adverse development.

Claims reserves are made up of all outstanding claims relating to the pre-1 September 2000 operational period and include claims made and circumstances notified against practices that had ceased without successor since 1 September 2000 but only in respect of those firms that had ceased prior, on, or before 31 August 2000. The claims reserves also include for all the claims arising from the post six-year run off protection provided by the Fund.

This protection relates to claims made against firms that had ceased without successor on or after 1 September 2000 and after a lapse of the six-year run off cover provided by the prior market participating insurer. The development of the historic claims are almost complete and there remain a small number of cases left to resolve. The majority of claims reserves in value and volume relate to the post six-year run off protection provided.

The table below sets out the split of claims reserves by historic claims and post six-year run off claims:

	31 October 2024 £000	31 October 2023 £000
Historic claims	567	754
Post six-year run off claims	1,471	1,476
	2,038	2,230

ii) Claims incurred but not reported (IBNR)

These claims arise where the event that triggers a claim has already happened i.e. an act of negligence has occurred at some time in the past but is presently unknown to the Fund because it has not been reported. When disclosed to the Fund it would still be subject to any statutory limitation provisions applying. An actuarial projection is made of this provision. The principal assumption underlying the actuarially calculated liability estimate is that the future claims development will follow a similar pattern to past claims development experience. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example, one-off occurrence, changes in market factors such as public attitude to claiming, recession, cessation of firms and other market conditions.

Judgement is further used to assess the extent to which external factors such as judicial decision and government legislation affect the estimates. Conveyancing claims make up the majority of claims by value and volume within the IBNR provision and are the single largest risk type by category.

Actuarial reviews are carried out on a triennial basis or when deemed necessary. The latest full actuarial review was undertaken in 2023, with an interim review of unpaid claims reserves conducted in 2024. The SRA have chosen to select the 'best estimate' reserve, which represents the most reasonable estimate in the opinion of the Directors, taking into consideration the advice of professional advisors. Directors assess movements to determine an appropriate reserve in the intervening periods. The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Fund, where more information about the claim event is generally available.

iii) Claims handling costs

Provision is made for all future costs that will be incurred in the direct management and administration of claims. There are a number of steps that need to be followed before settlement of any claim. Claims made are assessed for their validity, negotiated and then settled. These procedures carry administrative and operational costs for the Fund. Estimates are made of all future costs of the Fund and an analysis is carried out to assess the extent to which these costs are directly attributable to claims handling.

iv) Expected indemnity claim recoveries and interest on claims recoveries

Indemnity recoveries and interest are only recognised once there is a reasonable expectation of the recovery being received and this is reserved at the net anticipated recovery value. Indemnity claim recoveries and interest relate almost entirely to historic claims and generally relate to assignments and charges obtained against third party assets as a consequence of an underlying claim settlement.

The recovery reserves are subject to periodic review for changes in circumstances, such as changes to underlying asset values and adjustments are made if required.

The progress of indemnity claims recoveries is monitored by the operational team responsible for managing them within SRA. The SRA actively seek to crystallise any potential future recovery at the earliest time whilst being mindful of the sensitivities that surround any given claim.

v) Sensitivity analysis

There is a wide range of possible outcomes in assessing claim provisions due to the uncertainty associated in estimating ultimate claims liabilities.

For known claim reserves and indemnity recoveries estimates, a range of outcomes are identified and a best estimate of the claims settlement or recovery value is used to raise a claim reserve or expected claim recovery.

For all actuarial projections, the final outcome will depend on the actual development of claims which in turn relies on the appropriateness of the historical data to predict the likely development of claims by type. Unforeseen changes may affect the suitability of that data and would be expected to have an impact on the accuracy of the results and increased uncertainty in the projections. Such changes could include unexpected claims inflation, shocks to the global economy, deep recession or a house market crash, changes in legislation or the emergence of new types of claim.

An estimate is made of future claims handling costs for both type of reserves. Estimates are made annually of all future costs of the Fund and an annual analysis is carried out to assess the extent to which these costs are directly attributable to claims handling and the proportion relevant to known claims and IBNR.

Sensitivity analysis is provided by the actuarial forecasts, which provide differing outcomes of the IBNR provision for post six year run off claims. In prior years, the Directors of SIFL who then administered the Fund took a prudent approach when selecting the level of reserving for these financial statements and the SRA have selected the best estimate approach based on the actuarial analysis.

The directors of SIFL secured an Insurance Agreement ('IA') in 2020 that limits the Fund's exposure to IBNR risk on the post six-year run off book of business to 30 September 2020, in as much as any deterioration in that book of business above what is estimated and provided for is covered by the IA up to an additional £11.6 million. This is significantly higher than the best estimate of payments in respect of these claims.

In 2021 SIFL entered into a supplementary Insurance Agreement to insure the Fund's claim liabilities for the one year extension to post six-year run off claims to 30 September 2021. The supplemental Insurance Agreement provides protection in excess of £1.7 million and up to a maximum of £4.3 million, which is also in excess of the best estimate of claims payments. These insurance policies were transferred to the SRA in 2023.

Should the reserves of the Fund not be considered sufficient to provide for expected future claims, a levy would be raised from firms of solicitors to provide additional security.

j) Credit, market and liquidity risk

Credit risk is the risk a counterparty will be unable to pay amounts in full when due. Market risk is the risk of fluctuations in the net asset value of investments due to the volatility or level of financial variables impacting the value of the Fund's investment portfolio. Liquidity risk is the risk that cash may not be available to pay obligations when due.

The Fund's primary financial risk, and exposure to the above risks, is that proceeds from financial assets are not sufficient to meet its claims settlement obligations due under the run-off of its indemnity business. The investment portfolio is a key component in ensuring income generated is available to contribute towards payment of claims and operating expenses. Should costs exceed the returns on investments in the long term, a levy would be raised from firms of solicitors to ensure the long term stability of the fund.

The Directors have set an investment policy, within the Board's risk appetite as identified by the corporate risk register and has retained the services of an independent investment manager under specific mandates to administer the Fund's investments.

The investment policy is to hold between 80% and 200% of the forecast payments for the following twelve months as working capital, with the balance to be held as long-term investments for maximising returns. Working capital is invested in cash or short term investments such as gilts, money market liquid funds or similar cash like instruments. Long term investments are held as equities, investment grade bonds and other securities.

The investment manager produces periodic investment reports to explain movements in the investment mix and performance against benchmark indices. These reports are considered regularly, and contact is maintained throughout the year with the investment manager. Meetings take place quarterly to discuss the performance and appropriateness of the investment portfolio given the Directors' risk appetite.

The Board has considered plausible adverse scenarios, including for example geopolitical risks, which could impact the value of investments and ultimately the solvency of the Fund. The Board is content that the investment strategy adopted remains appropriate in light of current circumstances. Following the decision of the SRA to take control of the Fund and remove the deadline for claims to be notified, the longer-term investment strategy will be considered by the SRA Board.

5. Surplus before taxation

Surplus before taxation is stated after charging audit fees of £76k (2023: £76k) in respect of the audit of the financial statements. There were no non-audit services paid to the auditors in either year.

6. Gains and losses on investments

	2024 £000	**2023 £000**
Net realised losses	(6)	(96)
Net unrealised gains	3,472	138
	3,466	42

7. Interest and dividends from investments

	2024 £000	**2023 £000**
Interest from fixed asset investments	262	476

Dividend received	318	-
Interest received	2	-
	582	476

8. Taxation

There is an unrecognised deferred tax asset at 31 October 2024 of £458k (2023: £485,000). This relates to tax losses available for carry forward to future periods without time limits of £2,267k (2023: £2,399,000), and to other deductible timing differences of £23k (2023: £28,000). Given the uncertainty in the Fund's future profitability, the Directors do not consider it appropriate to recognise a deferred tax asset for these items, as their utilisation is uncertain.

9. Investments

	31 October 2024 £000	31 October 2023 £000
Long term managed investment fund	29,213	25,910
Short term investments	1,488	1,403
	30,701	27,313

The managed fund comprises equities, investment grade bonds and other securities. The historic cost of investments is £27.1m (2023: £27.2m).

10. Debtors

	31 October 2024 £000	31 October 2023 £000
VAT recoverable	-	40
Expected indemnity claim recoveries	449	349
Interest on indemnity claim recoveries receivable	456	242
Other debtors	53	58
	958	689

Interest on indemnity claim recoveries receivable includes £0.5 million (2023: £0.2 million) falling due after more than year. The expected recoveries from indemnity claims arising from charges on properties include £0.4 million (2023: £0.3 million), which falls due after more than one year. All other amounts are considered to be due recoverable within one year.

Recoveries are only recognised when management and external advisors believe there is a reasonable expectation of recovery and are discounted on the same basis as claims provisions.

The movement in the claim recoveries include receipts of £433k and finance costs due to the unwind of discount of £12k (2023: £69k and £17k respectively).

As explained in Note 13 there are some additional assets over which the Fund has some title or claim, which may lead to potential future recovery. However, there is such uncertainty over the timing and amount of any recovery that no estimate can be made of the value of the asset.

11. Creditors

	31 October 2024 £000	31 October 2023 £000
Accruals and deferred income	91	358
Tax and social security payable	-	28
Payable to the SRA Limited	1,470	-
Other creditors	-	110
	1,561	496

12. Provisions

The claims provisions are made in accordance with the accounting policies and as explained in the report of the Directors of the administering company and note 4, they carry a significant level of judgement and rely on estimation techniques based on experience and available information.

	Claims Reserves £000	IBNR £000	Claims handling costs £000	Total Gross £000
At 31 October 2022	**4,472**	**4,071**	**1,513**	**10,056**
Movement in Statement of Comprehensive Income				
Reserves decrease	(1,985)	(412)	668	(1,729)
Finance cost (discount unwind)	198	103	51	352
Paid	(455)	-	(351)	(806)
At 31 October 2023	**2,230**	**3,762**	**1,881**	**7,873**

Movement in Statement of Comprehensive Income				
Reserves increase	174	499	3,046	**3,719**
Finance cost (discount unwind)	77	133	66	**276**
Paid	(448)	0	(437)	**(880)**
At 31 October 2024	**2,038**	**4,394**	**4,556**	**10,988**

The total claims cost recognised on the Statement of Comprehensive Income of £673k (2023: £2,397k) comprises of the claims reserves increase of £174k (2023: £1,985k) and IBNR reserve increase of £499k (2023: £412k). The prior year statement of comprehensive income has been adjusted to provide additional disclosure to distinguish between claims and claims handling costs.

Gross claims reserves – Provision is made for known cases. Estimates are made by specialist claims experts and panel solicitors of the likely damages and potential costs involved in settling the claim, as well as any expected indemnity recoveries to be made. These estimates are revised on a regular basis based on updated information as the claims progress. These provisions are sensitive to changes in the complexity of the case and the potential outcome and therefore cost of damages changing. The settlement of reserves is dependent on the specific circumstances of the individual claim and can vary significantly case by case.

a. Incurred but not reported (IBNR) – An estimate is made of those cases where the event that triggers a claim has already happened i.e. an act of negligence has occurred at some time in the past but is presently unknown to the Fund because it has not been reported. When disclosed to the Fund it would still be subject to any statutory limitation provisions applying. An actuarial projection is made of this provision periodically. The risk exposure of all IBNR claims reduces over time as cases reach their primary or statutory limitation period.
b. Claims handling costs - These costs are recognised to the extent they can be separately identified as specifically relating to claims handling expected to be incurred due to known claims and IBNR cases. The year-end provision for claims handling costs of £4,556k (2023: £1,881k) relates to handling claims within the gross claims reserves and IBNR. There are additional costs which will be incurred in the administration and management of the Fund. However, in accordance with UK Accounting Standards these have not been provided for.

13. Contingent gains and losses

There are some assets over which the Fund has some title or claim which may lead to potential future recoveries. These potential assets are not recognised as part of the provisions for indemnity recoveries as, in the opinion of the Directors, they are so uncertain that they cannot be practically measured and hence no estimate is included here.

14. Related party transactions

All administrative expenditure and other payments were paid by the SRA as the contracting entity on behalf of the Fund, and this is repayable to the SRA, as well as a recharge of £90k by the SRA Limited to the Fund for the cost of running the Fund. The amounts payable by SIF to the SRA are disclosed in note 11 and amount to £1,470k (2023: £nil).

15. Ultimate controlling party

The financial statements of the Fund are consolidated in the financial statements of the Solicitors Regulation Authority Limited.

In the opinion of the Directors the ultimate controlling party is the Council of The Law Society by virtue of it being the sole member of the SRA, which controls the Fund. Copies of The Law Society's financial statements can be obtained from The Law Society, Law Society Hall, 113 Chancery Lane, London, WC2A 1PL. Consolidated financial statements including the Fund are prepared by The SRA and the Law Society.