



The Law Society of
Upper Canada

Barreau
du Haut-Canada

Report to Convocation October 26, 2006

Finance and Audit Committee

Committee Members
Derry Millar, Chair
Beth Symes, Vice-Chair
Brad Wright, Vice-Chair
Abdul Chahbar
Andrew Coffey
Marshall Crowe
Holly Harris
Ross Murray
Alan Silverstein
Gerald Swaye

Purposes of Report: Decision and Information

Prepared by the Finance Department
Wendy Tysall,
Chief Financial Officer – 416-947-3322

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COMMITTEE PROCESS

1. The Finance and Audit Committee (“the Committee”) met on October 12, 2006. Committee members in attendance were: Derry Millar (c.), Beth Symes (v.c.), Brad Wright (v.c.) Abdul Chahbar, Marshall Crowe, Holly Harris, Ross Murray, Alan Silverstein, Gerald Swaye. Abe Feinstein also attended.
2. Michelle Strom and Akhil Wagh of LawPro attended. Suzan Hebditch from LibraryCo Inc. attended. Staff attending were Malcolm Heins, Wendy Tysall, Fred Grady and Andrew Cawse.

FOR DECISION

**2007 DRAFT LAW SOCIETY BUDGET
and
LIBRARYCO INC. 2007 BUDGET**

Motion

3. **That Convocation approve the Law Society budget for 2007 and the amount of the annual fee for the year at \$1,601.**

Motion

4. **That Convocation approve the LibraryCo Inc. budget for 2007. LibraryCo's 2007 budget is part of this Report (in camera document).**
5. The draft Law Society budget for 2007 is submitted under separate cover in two books. The Summary book is a public document providing an overview of the Society's budget in its major functional categories with summarized staffing, revenue and expense information. The Detail book (in camera) provides a detailed, divisional breakdown of staffing numbers, revenue analysis and expense breakdown, comparing 2006 budgeted and projected numbers with the draft 2007 budget. Departmental narratives are also included describing operations and performance.

Summary

6. The budget proposes an increase in the annual membership fee of \$92 from \$1,509 to \$1,601. When combined with the \$100 reduction in the base LAWPRO insurance levy, the total cost to practising members will decline by \$8 from 2006.

	2007	2006
General membership	\$1,102	\$1,015
Lawyers Fund for Client Compensation	200	200
LibraryCo	224	219

Capital	75	75
Total	<u>\$1,601</u>	<u>\$1,509</u>

7. The primary factors driving the proposed fee increase are:
 - a) The Regulatory Division's continued need for additional resources,
 - b) Implementation of practice reviews and sole practitioner supports approved by Convocation in 2006,
 - c) The competitive employment market for professional staff,
 - d) Positioning the Society's electronic infrastructure to support the anticipated regulation of paralegals.

8. The growth in annual membership, estimated at 1,000, will increase the total full fee paying equivalent membership to 32,000. The membership has increased almost 36% in the last 10 years from 23,500 in 1997.

Revenues

9. The Errors and Omissions Insurance Fund investment income is budgeted to increase by \$250,000 to \$3.25 million in 2007.

10. The Licensing Process fee of \$2,750 represents an increase in fees of \$150 per student from the previous academic period. The member subsidy has been maintained at \$32 per member. CLE revenues are budgeted to increase by 5% from the 2006 budget, in line with projected actual CLE revenues in 2006.

Expenses

11. The budget request for Professional Regulation increases to approximately \$14.6 million from \$12.7 million in 2006. The increase is attributable to a number of factors including:

- Staffing level increases for mortgage fraud investigations and prosecutions,
 - Additional staff for Complaints Resolution,
 - Additional funds for outside counsel to support the increasingly complex investigations and prosecutions,
 - Salary merit and market adjustments.
12. We are providing approximately \$2 million in the 2007 draft budget to deal with a variety of compensation related issues. These include standard merit based adjustments, performance bonuses, adjustment to our base pay ranges to reflect the movement of pay scales in the external market place and internal equity issues related to equal compensation for jobs rated of equal value.
 13. New initiatives approved by Convocation will be implemented in 2007. Practice management reviews and support for sole practitioners and small firms will add 3.5 and 1.5 positions respectively. Another new initiative is aimed at the retention of women in private practice budgeted at \$120,000 for 2007.
 14. Funding for the Great Library at \$2.8 million is essentially unchanged from 2006 with an additional \$850,000 allocated for CanLII. Total library spending, including CanLII and LibraryCo, amounts to \$10.8 million in 2007 (\$9.8 million in 2006).
 15. The Society's general contingency account has been reduced from \$1.2 million to \$600,000.
 16. No allowance has been made for the funding of paralegals. Upon the passage of Bill 14, Access to Justice Act, a separate budget will be developed for paralegal regulation to be funded by paralegals.

Unrestricted Fund Surplus

17. The 2007 budget proposes that \$500,000 of the Unrestricted Fund surplus accumulated in prior years be applied to reduce the annual membership levy (2006: \$1 million). The use of this surplus results in a \$16 reduction in the member fee.

Working Capital Reserve

18. The Working Capital Reserve remains at \$7.9 million. The reserve was established in 2000 by policy of Convocation. The reserve policy provides for the maintenance of a balance of up to two months of operating expenses. The current balance is less than two months expenses based on the expenditure levels in this draft budget. Any unrestricted fund surplus not used to reduce the 2007 member fee could be added to the Working Capital Reserve.

Capital

19. The capital levy of \$75 per member has been unchanged for eight years. The levy is tracked in the Capital Allocation Fund and is intended to ensure adequate funding is available to meet the capital requirements of the Law Society.
20. Funding in the amount of \$1.3 million for facilities projects and funding in the amount of \$1.1 million for information systems projects, is included in this budget.

Lawyers Fund for Client Compensation

21. The member levy for 2007 of \$200 is unchanged from 2006. The budget for 2007 proposes to retain the allowance for claims at \$2.7 million. This level of claims experience is consistent with average claims levels over the past ten years. The Compensation Fund Committee supports maintaining the levy at \$200.

LibraryCo Inc.

22. The “Proposed 2007 Budget for LibraryCo” submitted by LibraryCo is attached requesting funding of \$7,164,200 or \$224 per member compared to the 2006 approved funding of \$6,801,231 or \$219 per member. The budget is to be approved by Convocation as required by the Unanimous Shareholders Agreement for LibraryCo Inc.
23. It is based on a continuation of the existing business model and does not address potential developments such as changes arising from the Integration Task Force recommendations. The Finance & Audit Committee reviewed the budget and recommends its approval by Convocation.

Budget Process

24. the Law Society’s budget process involves a series of rotational operational reviews where the mandate for the selected area is defined, and resources to meet that mandate are assessed.
25. A meeting for all benchers was held on September 13, 2006 to discuss the preliminary 2007 budget and to review possible options. There have been no significant changes in the budget since that date. The budget was reviewed by the Finance & Audit Committee on October 12, 2006. The Committee recommends Convocation approve the budget.

Organization of Budget Materials

26. To assist the reader in reviewing the materials, a brief explanation of how the materials are presented and organized follows.
27. The materials are presented in two books:
 - 2007 Draft Budget Summary
 - 2007 Draft Budget Detail

28. The 2007 Draft Budget Summary contains an overview of the 2007 Budget. In addition, it presents high-level financial information on the Society's operations divided into two major categories:
- 2007 vs 2006 Comparative Summaries
The 2007 vs 2006 Comparative Summaries present summary budget comparisons by function/department between the two years and projected actual for 2006.
 - 2007 Budget Summaries
The 2007 Budget Summaries present summary budgets in major functional categories employing the full cost allocation method. The Society adopted full cost allocation budgeting in 1999 to reflect the true cost of its various programs.
29. In addition to allocated administrative costs, the costs of the Spot Audit program, and a portion of the costs of the Investigations and Discipline departments are allocated to the Lawyers Fund for Client Compensation. This has been a consistent practice even before the adoption of full cost allocation.
30. The 2007 Draft Budget Detail book contains detailed line budget information for 2007 with 2006 approved budget and projected 2006 operating results.