

The Law Society *of British Columbia*



2012 Fees and Budgets ***Improving Regulation***

Presentation to:
Benchers
July 15, 2011



2012 Overview

- The Finance Committee reviewed and considered budgets for General Fund, Special Compensation Fund and the Lawyers Insurance Fund at three meetings in May and June
- Executive Committee reviewed the overall fee proposal at its July meeting
- Overall mandatory fee increase of 3.1%
- Law Society portion of General Fund Fee increased by \$104, relating mainly to staff market based salary adjustments, enhanced regulation department and hearing panel membership expansion
- Special Compensation Fund assessment reduced from \$5 to \$1
- Lawyers Insurance Fund assessment remains at \$1,750
- Trust Administration Fee remains at \$10
- CanLII contribution increased from \$32.25 to \$34.71
- LAP increased by \$4 to \$60
- No change in Advocate, Federation of Law Societies or Courthouse Library of BC fees or Pro Bono percentage



2012 Fee Recommendations

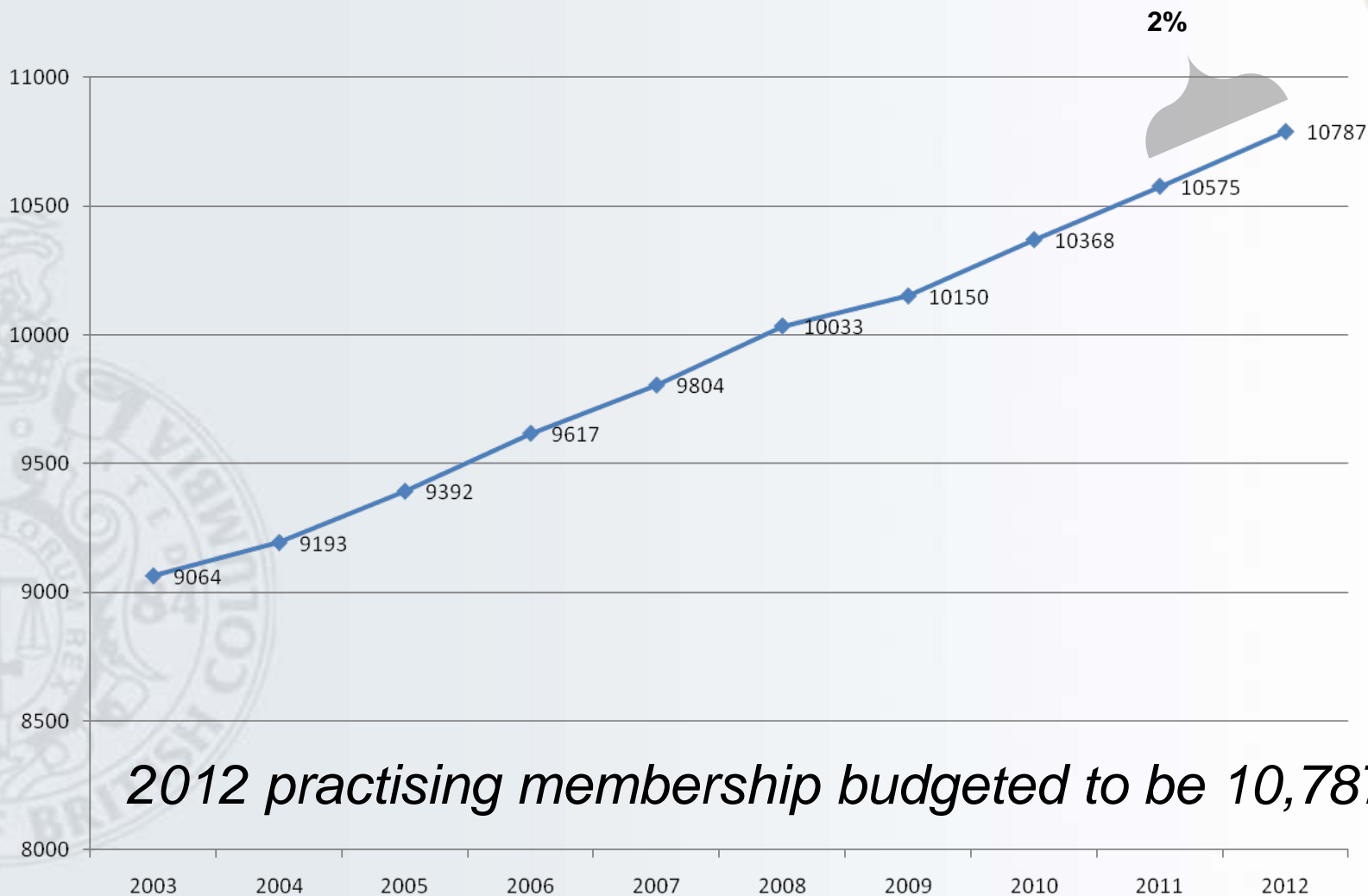
| | 2012 | 2011 | Difference | % |
|--|--------------------|--------------------|------------------|-------------|
| General Fund Fee – Law Society portion | \$ 1,503.17 | \$ 1,399.04 | \$ 104.13 | 7.4% |
| Federation of Law Societies | \$ 20.00 | \$ 20.00 | \$ - | - |
| CanLII | \$ 34.71 | \$ 32.25 | \$ 2.46 | 7.6% |
| Pro Bono Contribution | \$ 15.03 | \$ 14.35 | \$ 0.68 | 4.8% |
| Law Society Fee | \$ 1,572.91 | \$ 1,465.64 | \$ 107.27 | 7.3% |
| CLBC Fee | \$ 180.00 | \$ 180.00 | \$ - | - |
| LAP Fee | \$ 60.00 | \$ 56.00 | \$ 4.00 | 7.1% |
| Advocate Subscription | \$ 27.50 | \$ 27.50 | \$ - | - |
| Total Practice Fee | \$ 1,840.41 | \$ 1,729.14 | \$ 111.27 | 6.4% |
| Special Fund Assessment | \$ 1.00 | \$ 5.00 | \$ (4.00) | |
| Total Practice Fee and Special Fund | \$ 1,841.41 | \$ 1,734.14 | \$ 107.27 | 6.2% |
| Insurance Assessment | \$ 1,750.00 | \$ 1,750.00 | \$ - | - |
| Total Mandatory Fee (excluding taxes) | \$ 3,591.41 | \$ 3,484.14 | \$ 107.27 | 3.1% |



2012 General Fund Overview

- Zero based budgeting process, full management participation
- Deliver core regulatory programs and meet KPMs
- Continued support of Law Society Strategic Plan and Priorities, including \$75,000 Bencher committee contingency budget
- Focused investment in regulatory mandate and related programs
- Practising membership increases by 2% from 2011 projection to 10,787 members
- Full implementation of Bencher approved 2011 Regulatory staffing plan and hearing panel membership
- General Fund reserve \$5.3 million (excluding TAF and capital allocation) at December 2010, reasonable levels for cash management
- Over the last five years (2008 – 2012), the General Fund practice fee has increased an average of only 3% per year (excluding forensic accounting transfer)

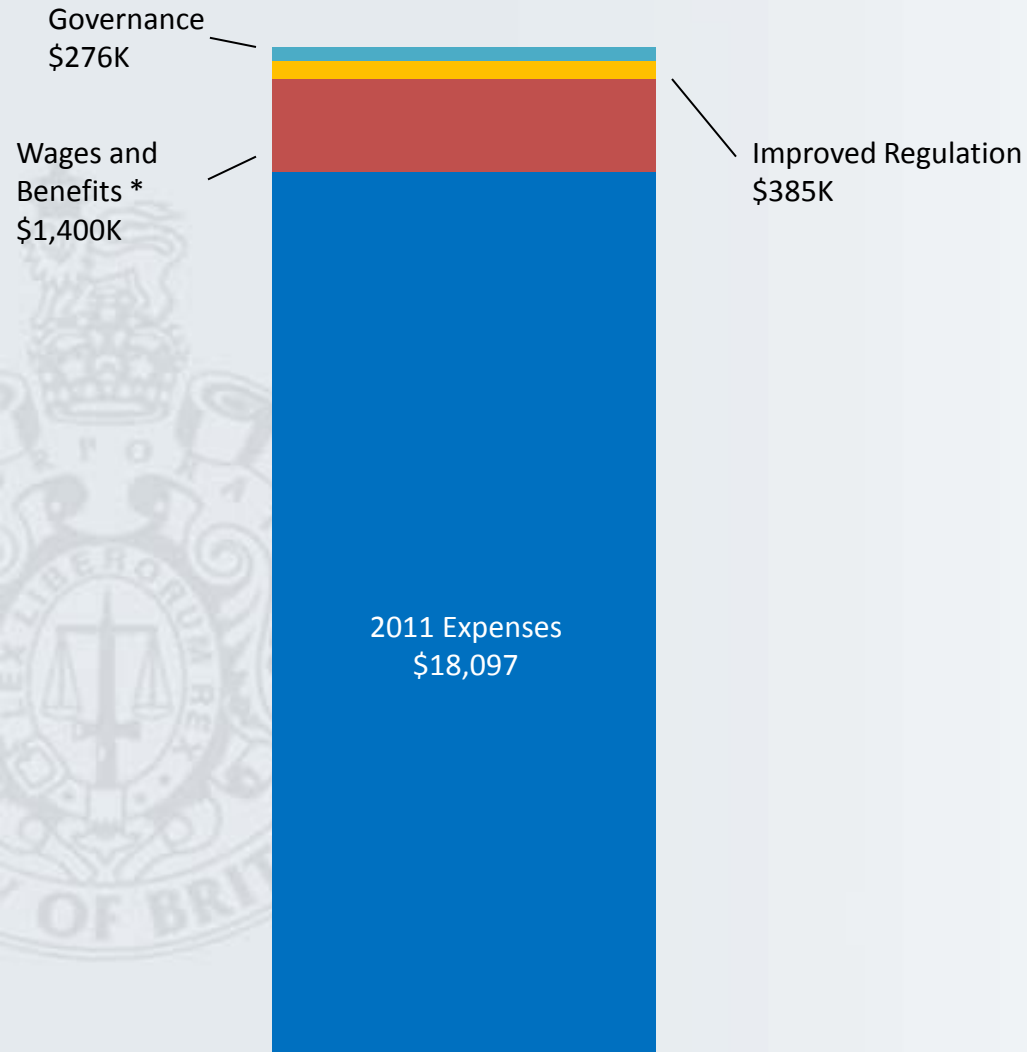
Practising Membership Projection



2012 practising membership budgeted to be 10,787



Components of Operating Expense Increase (‘000’s)



* Includes \$200K of internal cost allocation changes, not an expense increase



Market Compensation and Benefits

- The Executive Limitations require that “the Executive Director must establish current compensation and benefits consistent with the geographic or professional market for the skills employed”
- Law Society aims to maintain compensation at the 50th percentile (P50) for comparable positions in this marketplace
- 2012 salary adjustment year based on bi-annual market salary benchmarking for non-union staff
- Salary costs includes 2011/2012 collective agreement salary increases, which are consistent with increases for non-union staff
- Staff salary costs are 70% of general fund expenses



Improved Regulation

- Goals are to significantly reduce timelines and ensure effective investigations and disciplinary actions
- Benchers approved regulation staffing plan included in 2012 budget
- Enhanced intake processes to provide efficiencies
- Reduced file loads to allow for faster turnaround
- Significant changes in investigative techniques including interviewing lawyers and witnesses
- Increase in external counsel fees included in 2012 budget to improve timelines, backfill vacancies, deal with conflicts, reflect increased rates and provide expertise where required

Employee Recognition and Performance Management

The Law Society
of British Columbia



- Current employee recognition program funding does not provide material recognition of high performance
- P50 compensation philosophy does not provide differential compensation for high performing individuals
- Current maximum employee recognition available ranges from \$500 for extra effort to \$2,000 for leading a strategic project across the Law Society
- Goal of the program is to recognize, motivate, retain and reward high performance of Law Society, departments and individuals
- 2012 budget provides for increased employee recognition funding
- Enhanced program will include more meaningful monetary recognition tied to concrete results and objective measurement of high performance of Law Society, departments and individuals



Governance

- In accordance with Bencher decisions regarding public and non-Bencher participation hearing panels, adjustments have been made to the 2012 budget
- 2012 budget includes travel, per diems and training costs associated with lawyer and non-lawyer participation in hearing panels
- 2012 budget includes costs for Aboriginal mentoring project and governance review



Savings

- Electronic distribution of Benchers Bulletin and Members Manual provides \$155,000 in savings through reduction in print and distribution costs
 - Half the lawyers now receiving Law Society publications do so electronically
 - Inherent subsidy of print publications by portion of membership
 - Members who want print copies will pay a fee expected to be in the range of \$25 to \$35 annually for each publication
 - Practice fee as presented would need to be increased \$15 if this initiative is not implemented
- Savings in paper supplies, file storage and stationery through staff driven 'green' initiatives
- Reduction in forensic accounting costs through better trust accounting compliance
- Travel savings related to reducing Benchers meetings from ten to nine per year

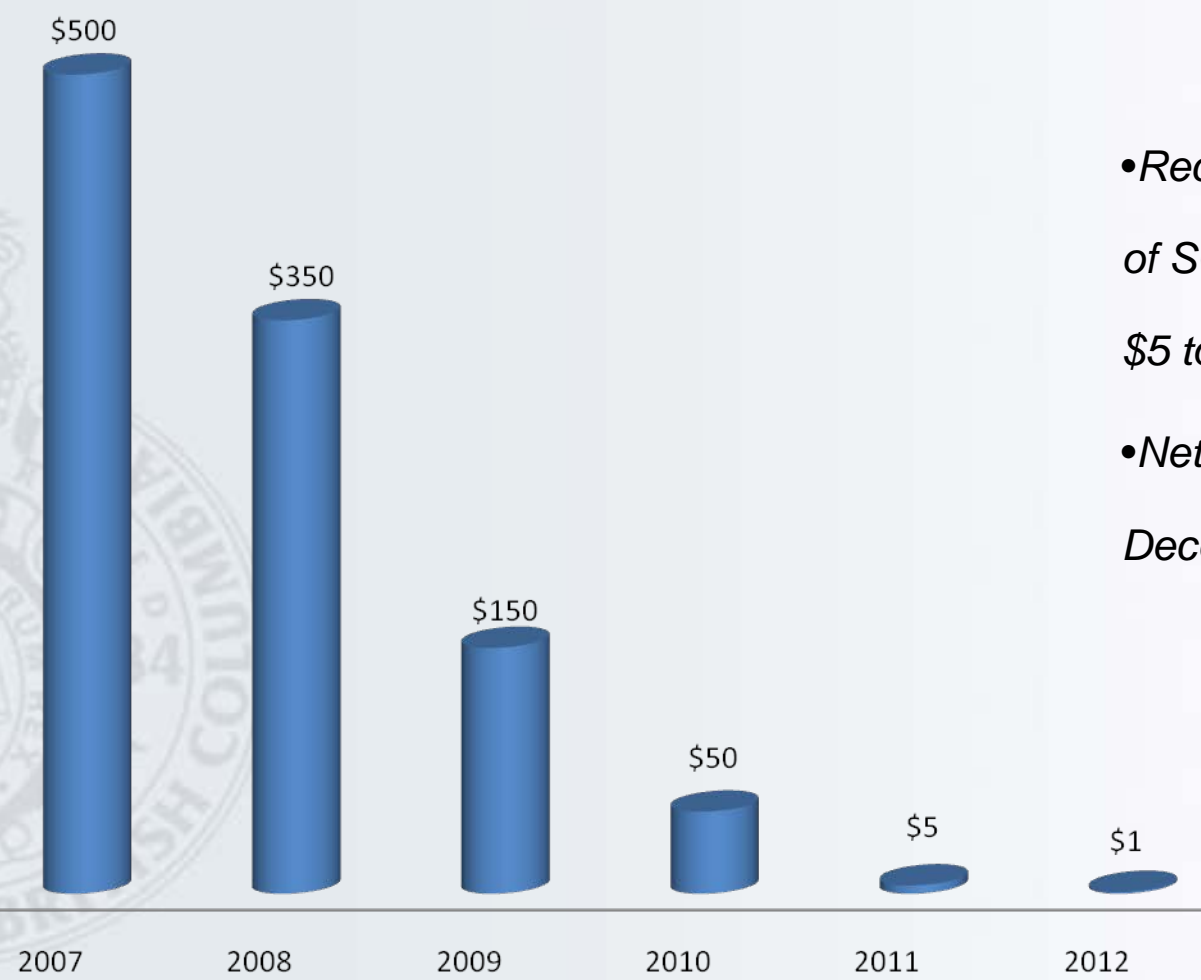


TAF Budget and Projections

| | Revenue | | | Total Expense | Total | Net Inc (Def) | Cumulative TAF Reserve |
|--------------------|---------|----------|--------------|---------------|------------|---------------|------------------------|
| | Matters | Rate | Total | | | | |
| 2010 Actual | 236,486 | \$ 10.00 | \$ 2,364,862 | \$ 2,269,989 | \$ 94,873 | \$ 221,683 | |
| 2011 Budget | 250,000 | \$ 10.00 | \$ 2,500,000 | \$ 2,393,644 | \$ 106,356 | \$ 328,039 | |
| 2012 Budget | 250,000 | \$ 10.00 | \$ 2,500,000 | \$ 2,468,301 | \$ 31,699 | \$ 359,738 | |

- Trust assurance program funded by \$10 TAF
- TAF revenue currently \$2.4 million
- No use of TAF reserve required in 2010
- TAF reserve at minimal levels
- No use of reserve expected in 2011 and 2012
- Assume TAF transaction levels relatively stable

Decrease 2012 SCF Assessment



- *Recommend \$4 reduction of SCF assessment from \$5 to \$1* for 2012*
- *Net asset balance at December 2010 - \$830,000*

* Nominal fee and reserve required by the Legal Profession Act

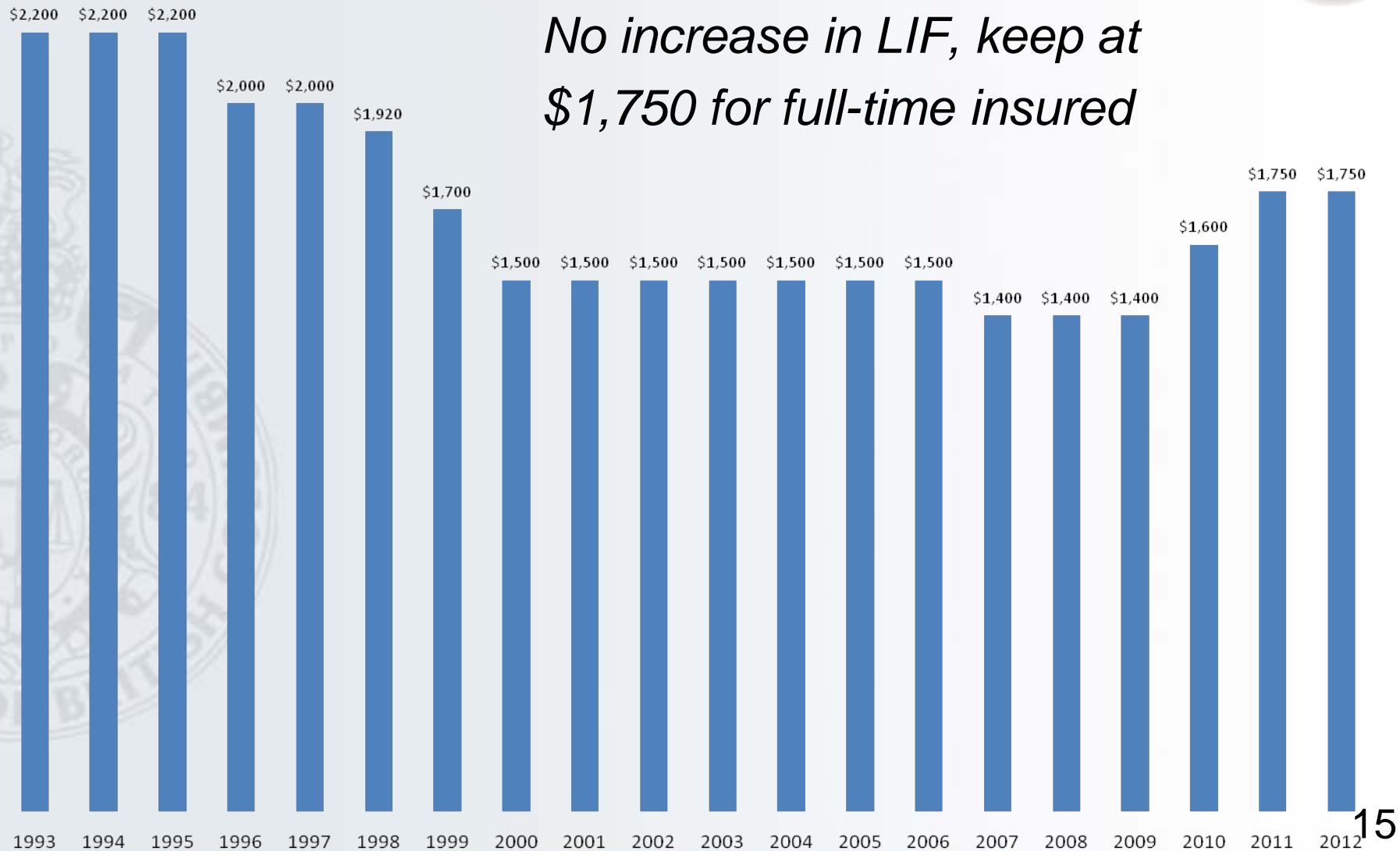


2012 LIF Assumptions

- Claims frequency in 2009 and 2010 is increased from 2008 by 12% due to recession. Frequency for 2011 trending similar
- Claims severity has increased from \$17m in 2009 to \$22m in 2010 and is expected to level off
- During 2010, long term investment portfolio recovered from 2008 market downturn, assume 6% return for 2012
- New operating expenses include market-based salary adjustments, one staff, provision for “stop-loss” coverage
- LIF reserve at December 31, 2010, \$45 million
- Recommend LIF assessment remain at \$1,750

2012 LIF assessment

No increase in LIF, keep at \$1,750 for full-time insured





RESOLUTIONS



General Fund

Be it resolved that:

The Benchers recommend to the members at the 2011 Annual General Meeting a practice fee of \$1,840.41 commencing January 1, 2012, consisting of the following amounts:

| | |
|-----------------------------|--------------|
| General Fund | \$1,503.17 |
| Federation of Law Societies | 20.00 |
| CanLII | 34.71 |
| Pro Bono Contribution | 15.03 |
| CLBC | 180.00 |
| LAP | 60.00 |
| Advocate | <u>27.50</u> |
| Practice Fee | \$1,840.41 |

Lawyers Insurance Fund

Be it resolved that:

- the insurance fee for 2012 pursuant to section 30(3) of the Legal Profession Act be fixed at \$1,750;
- the part-time insurance fee for 2012 pursuant to Rule 3-22(2) be fixed at \$875; and
- the insurance surcharge for 2012 pursuant to Rule 3-26(2) be fixed at \$1,000.

Special Fund



Be it resolved that the Special Compensation Fund Assessment for 2012 be set at \$1.00.



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APPENDICES



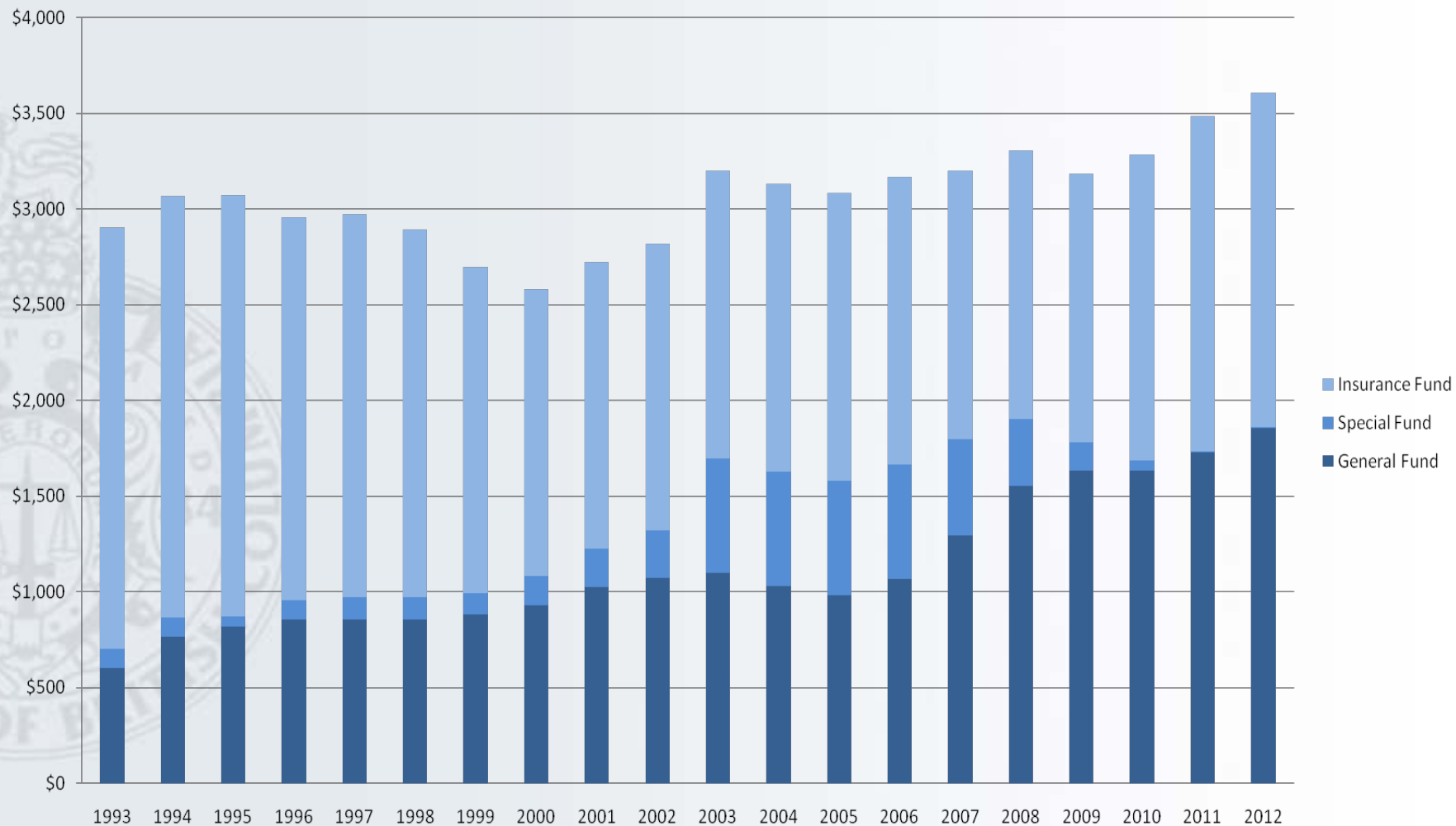
Mandatory Fee Comparison (Full Time Practising Insured Lawyer)

- 2012 LSBC practice fee compared to 2011 LSUC and LSA practice fees, adjusted by 3%
- 2011 LSUC practice fee increased to reflect \$2.5 million contribution from reserve (\$71 per member)





Total Fee Comparison Year Over Year





THE LAW SOCIETY OF BRITISH COLUMBIA
DRAFT OPERATING BUDGET (excluding capital/depreciation)
For the Year ended December 31, 2012
GENERAL FUND SUMMARY

| | 2012 Budget | 2011 Budget | 2010 Actual | 2012B vs 2011B Variance | % | 2012 Budget FTEs | 2011 Budget FTEs | Approved FTE | New FTE |
|--|-------------------|-------------------|-------------------|-------------------------------|--------------|------------------------|------------------------|-----------------|-------------|
| GENERAL FUND REVENUES | | | | | | | | | |
| Membership fees | 15,513,134 | 14,153,145 | 12,971,989 | | | | | | |
| PLTC and enrolment fees | 1,002,250 | 937,500 | 1,010,802 | | | | | | |
| Electronic filing revenue | 750,000 | 568,300 | 606,931 | | | | | | |
| Interest income | 345,250 | 375,000 | 315,036 | | | | | | |
| Other revenue | 1,245,518 | 1,097,544 | 1,379,492 | | | | | | |
| TOTAL GENERAL FUND REVENUES | 18,856,152 | 17,131,489 | 16,284,251 | 1,724,663 | 10.1% | | | | |
| GENERAL FUND EXPENSES | | | | | | | | | |
| Benchers Governance | 1,647,117 | 1,554,866 | 1,404,006 | | | 0.15 | 0.15 | - | - |
| Corporate Services | 3,223,311 | 2,832,157 | 2,646,519 | | | 22.50 | 22.50 | - | - |
| Credentials & Practice | 3,429,232 | 3,266,832 | 3,100,870 | | | 34.16 | 32.16 | - | 2.00 * |
| Executive Services | 1,881,424 | 1,885,982 | 1,821,174 | | | 19.85 | 19.85 | - | - |
| Policy and Legal Services | 1,866,777 | 1,665,115 | 1,529,672 | | | 10.30 | 10.50 | (0.20) | - |
| Regulation | 7,701,872 | 6,892,502 | 6,475,709 | | | 59.40 | 55.00 | 4.40 | - |
| TOTAL GENERAL FUND EXPENSES | 19,749,733 | 18,097,454 | 16,977,950 | 1,652,279 | 9.1% | 146.36 | 140.16 | 4.20 | 2.00 |
| GENERAL FUND NET CONTRIBUTION | (893,581) | (965,965) | (693,699) | 72,384 | | 146.36 | 140.16 | 4.20 | 2.00 |
| Net Building (845 Cambie) Income (1) | 893,580 | 960,702 | 712,578 | (67,122) | | 2.00 | 2.00 | - | - |
| GENERAL FUND NET CONTRIBUTION (Inc Bldg) | (0) | (5,263) | 18,879 | 5,263 | | 148.36 | 142.16 | 4.20 | 2.00 |
| Trust Assurance Program | | | | | | | | | |
| Trust Administration Fee Revenue | 2,500,000 | 2,500,000 | 2,364,862 | - | 0.0% | | | | |
| Trust Administration Department | 2,468,301 | 2,393,644 | 2,269,989 | 74,657 | 3.1% | | | | |
| Net Trust Assurance Program | 31,699 | 106,356 | 94,873 | (74,657) | | 17.60 | 17.60 | - | - |
| TOTAL NET GENERAL FUND & TAP CONTRIBUTION | 31,699 | 101,093 | 113,752 | (69,394) | | | | | |

Notes:

(1) This line represents the profit of operating the building at 845 Cambie.

* 1 - Credentials / Practice Standards
1 - Summer Law Student Program



2012 Capital Expenditures

- 2012 capital expenditures part of the 10 year capital plan
- \$176 capital allocation is included in the Practice Fee
(includes 845 Cambie building loan repayment)
- No change required

Operations

| | |
|---|------------------|
| Computer hardware, software and phone replacement | \$315,000 |
| Equipment, furniture and fixtures replacement | \$98,000 |
| Workspace Improvements – 6/7/8 Reception areas | \$405,000 |
| Workspace Improvements – Other | \$200,000 |
| <hr/> | |
| Building maintenance – Emergency power upgrade, lighting upgrades, parking garage, parking elevator) | <u>\$830,000</u> |
| Total | \$1,848,000 |

845 Cambie St.



The Law Society of British Columbia - Special Compensation Fund
Statement of Revenue and Expense
For the Year ended December 31, 2012

| | 2012 | 2011 | 2012B vs |
|---------------------------------|------------------|------------------|-----------------|
| | Budget | Budget | 2011B |
| | | | Variance |
| Revenue | | | |
| Annual assessment | 10,787 | 52,500 | |
| Recoveries | - | 250,000 | |
| | <u>10,787</u> | <u>302,500</u> | (291,713) |
| Expense | | | |
| Audit | 9,000 | 9,000 | |
| Claim and costs | 538,000 | - | |
| Counsel and forensic audit fees | 40,000 | 70,000 | |
| Miscellaneous | 1,000 | 1,000 | |
| | <u>588,000</u> | <u>80,000</u> | 508,000 |
| Net contribution | (577,213) | 222,500 | (799,713) |
| Net assets - Beginning of year | <u>1,052,856</u> | <u>830,356</u> | |
| Net assets - End of year | <u>475,643</u> | <u>1,052,856</u> | |



The Law Society of British Columbia - Lawyers Insurance Fund

Consolidated Statement of Revenue and Expense

For the Year ended December 31, 2012

| | 2012 | 2011 | 2012/2011 | | 2012 | 2011 | |
|--|--------------------|--------------------|------------------|--------------|--------------|--------------|-------------|
| | Budget | Budget | Budget | % | Budget | Budget | FTE |
| | | | Variance | | FTEs | FTEs | Change |
| Revenue | | | | | | | |
| Annual assessment | 13,601,650 | 13,292,078 | | | | | |
| Investment income, 2012 includes FV adjustments | 6,207,270 | 1,000,000 | | | | | |
| Other income | 62,000 | 35,000 | | | | | |
| | <u>19,870,920</u> | <u>14,327,078</u> | <u>5,543,842</u> | <u>38.7%</u> | | | |
| Insurance Expense | | | | | | | |
| Actuaries, consultants and investment brokers' fees | 421,080 | 482,080 | | | | | |
| Allocated office rent | 147,395 | 148,102 | | | | | |
| Contribution to program and administration costs of General Fund | 1,568,901 | 1,525,765 | | | | | |
| Legal | 20,000 | 20,000 | | | | | |
| Office | 947,138 | 640,837 | | | | | |
| Premium taxes | 12,367 | 12,259 | | | | | |
| Actuarial provision for claim payments | 14,812,660 | 14,314,000 | | | | | |
| Provision for ULAE | 53,000 | 200,000 | | | | | |
| Salaries, wages and benefits | 2,755,440 | 2,469,634 | | | | | |
| | <u>20,737,981</u> | <u>19,812,677</u> | <u>925,304</u> | <u>4.7%</u> | | | |
| Loss Prevention Expense | | | | | | | |
| Contribution to co-sponsored program costs of General Fund | 701,366 | 710,840 | | | | | |
| Total Expense | <u>21,439,347</u> | <u>20,523,517</u> | <u>915,830</u> | <u>4.5%</u> | | | |
| Net Contribution | <u>(1,568,427)</u> | <u>(6,196,439)</u> | <u>4,628,012</u> | | <u>23.25</u> | <u>22.05</u> | <u>1.20</u> |



Capital Costs – 10 year plan

| | TOTAL | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--|-------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| INFORMATION TECHNOLOGY | | | | | | | | | | | |
| Computer Hardware | 1,713,500 | 197,365 | 117,040 | 148,465 | 120,690 | 279,940 | 170,000 | 170,000 | 170,000 | 170,000 | 170,000 |
| Computer Software | 1,004,900 | 107,300 | 29,600 | 146,000 | 85,000 | 137,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| System Upgrades | - | - | - | - | - | - | - | - | - | - | - |
| Phone System | 355,000 | 10,500 | 10,500 | 10,500 | 10,500 | 260,500 | 10,500 | 10,500 | 10,500 | 10,500 | 10,500 |
| OPERATIONS | | | | | | | | | | | |
| Equipment, Furniture & Fixtures | 1,604,450 | 98,450 | 195,000 | 135,000 | 135,000 | 205,000 | 135,000 | 135,000 | 208,000 | 208,000 | 150,000 |
| Subtotal | 4,677,850 | 413,615 | 352,140 | 439,965 | 351,190 | 882,440 | 415,500 | 415,500 | 488,500 | 488,500 | 430,500 |
| 845 BUILDING | | | | | | | | | | | |
| Base Building/Tenant Improvements | 5,368,320 | 830,500 | 321,900 | 944,443 | 396,585 | 206,354 | 423,784 | 447,319 | 597,436 | 600,000 | 600,000 |
| Workspace Improvements | 4,217,500 | 604,500 | 640,000 | 343,000 | 860,000 | 345,000 | 225,000 | 300,000 | 300,000 | 300,000 | 300,000 |
| Subtotal | 9,585,820 | 1,435,000 | 961,900 | 1,287,443 | 1,256,585 | 551,354 | 648,784 | 747,319 | 897,436 | 900,000 | 900,000 |
| TOTAL CAPITAL PLAN - 845 Cambie | 14,263,670 | 1,848,615 | 1,314,040 | 1,727,408 | 1,607,775 | 1,433,794 | 1,064,284 | 1,162,819 | 1,385,936 | 1,388,500 | 1,330,500 |

| | | | | | | | | | | |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Number of members (FTEs) | 10,787 | 10,837 | 10,887 | 10,937 | 10,987 | 11,037 | 11,087 | 11,137 | 11,187 | 11,237 |
| Capital Levy | 176 | 176 | 176 | 176 | 176 | 176 | 176 | 176 | 176 | 176 |
| Remainder from prior yrs available | 0 | (450,103) | (356,831) | (668,127) | (850,990) | (851,071) | (472,843) | (184,350) | (110,174) | (29,762) |
| Current Year AFB Collection | 1,898,512 | 1,907,312 | 1,916,112 | 1,924,912 | 1,933,712 | 1,942,512 | 1,951,312 | 1,960,112 | 1,968,912 | 1,977,712 |
| Total Capital Levy Available | 1,898,512 | 1,457,209 | 1,559,281 | 1,256,786 | 1,082,723 | 1,091,441 | 1,478,469 | 1,775,762 | 1,858,738 | 1,947,950 |
| \$500,000 building loan repayment | (500,000) | (500,000) | (500,000) | (500,000) | (500,000) | (500,000) | (500,000) | (500,000) | (500,000) | (500,000) |
| Capital expenditures as above | (1,848,615) | (1,314,040) | (1,727,408) | (1,607,775) | (1,433,794) | (1,064,284) | (1,162,819) | (1,385,936) | (1,388,500) | (1,330,500) |
| Cumulative Over/(Under) funded | (450,103) | (356,831) | (668,127) | (850,990) | (851,071) | (472,843) | (184,350) | (110,174) | (29,762) | 117,450 |

Capital loan of \$1 million authorized