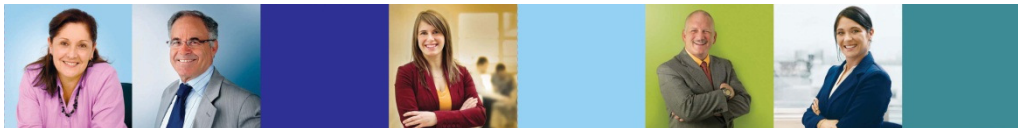


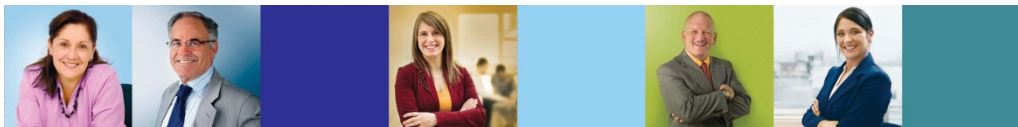
# Understanding Finance in Law Firms

Monday 7 April 2014



# Understanding finance in law firms

9.30am	-	SRA Accounts Rules 2011
12.30pm	-	Lunch (full day delegates)
1.30pm	-	Understanding finance in law firms
4.30pm	-	Close



# SRA Accounts Rules 2011 Update

Andy Poole  
Legal Sector Partner  
Armstrong Watson

This briefing qualifies for 3 hours CPD – Authorisation Ref: EKQ/ARWA



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# SRA Accounts Rules 2011

## Introduction

- Breaches?
- Clean Reports?



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# SRA Accounts Rules 2011

## Introduction

- SRA view:
  - One third of reports contain breaches
  - Shockingly low
  - Breaches do not lead to visits
  - Don't like clean reports
    - Can't be that good
    - Doubt on accountant



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# SRA Accounts Rules 2011

## Introduction

- Our view:
  - Not here to snoop on you!
  - Help firms to improve



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# SRA Accounts Rules 2011

## Content

- SAR 2011 overview
- Quiz
- Changes to the rules
- Common breaches
- Questions
- Interactive
- Course material
- Timing



# SRA Accounts Rules 2011

- 52 rules – additional rules and re-numbering
- SRA guidelines – accounting procedures and systems



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# Rule 1 - Principles

- Keep client money safe
- Keep client money separate
- Maintain proper accounting records



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# Rule 2 - Interpretation

- “Disbursements”
- “Without delay”
- “Manager”
- “COFA”



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- Rule 3 – Geographical scope
- Rule 4 – Persons governed
- Rule 5 – Persons exempt
- Rule 6 – Principals' responsibility (+COFA)
- Rule 7 – Duty to remedy breaches



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**Rule 8 – Liquidators, trustees in bankruptcy,  
Court of Protection deputies and  
trustees of occupational pension  
schemes**

**Rule 9 – Joint accounts**

**Rule 10 – Operation of a client's own account  
(not client money)**

**Rule 11 – Firm's rights**

**Inform accounts department**

**Appendix 1 and 2**



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# Quiz 1 (1 to 11)



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# Rule 12 – Categories of money

- Office money
- Client money
- Out of Scope money
  - MDP non-regulated activity



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# Rule 12 – Examples

- Disbursements
- Client money
  - Payments on account
  - SDLT
  - TT Fees
  - Land registry registration fees
  - Commissions/financial benefit?



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# Rule 12 – Examples

- Office money
  - interest on general client accounts
  - payments for fees
  - agreed fees
  - amounts earmarked for costs
  - LAA regular payments
  - solicitors' own matters





# Rule 13 – Client accounts

- General
- Separate designated
- Bank/building society branch in England / Wales
- “Client” must be in the title
- Name of firm must be in the title
- Instantly accessible – unless client instructs



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# Rule 14 – Use of a client account

- Receipts paid in without delay
- Only client money and trust money unless:
  - To open/maintain an account
  - Advances from the solicitor
  - Money to replace amounts withdrawn in breach of the rules
  - Sums in lieu of interest
- Wood and Burdett (case 8669/2002)



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# Rule 15 – Client money withheld from client account on client instructions

- Payment on account of costs?
- No blanket agreement
- In writing



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# Rule 16 – Other client money withheld from client account

- Received and paid on without delay
- Unpaid professional disbursements
- SRA authorisation
- Trust – Trustees' powers



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# Quiz 2 (12 to 16)



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# Rule 17 – Receipt and transfer of costs

- Place office money in office account  
Place client money in client account  
Place out of scope money in office account  
Follow Rule 18 for mixed receipts
- Receipt of office money plus unpaid professional disbursement
  - place in office account and pay disbursements within two working days



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# Rule 17 – Receipt and transfer of costs (cont.)

- Place entire sum in client account and transfer any office money out within 14 days
- Issue bill before transferring amounts for fees from client to office
- Once a bill has been issued, monies earmarked for costs must be transferred within 14 days



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# Rule 18 – Mixed receipts

- Pay into client account without delay and transfer any office money out within 14 days



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# Rule 19 – Payments to Legal Aid Practitioners

1. Non regular payments
  - Pay into client unless:
    - costs plus unpaid professional disbursements
    - may pay into office and pay disbursement or transfer its amount into client within 14 days
    - advance costs may be paid to office if confirmed by LAA in writing



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# Rule 19 – Payments to Legal Aid Practitioners (cont.)

## 2. Regular payments

- Must now be paid to office
- Within 28 days of submitting report to LAA:
  - pay any unpaid professional disbursements
  - transfer that amount to client account



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# Rule 19 – Payments to Legal Aid Practitioners (cont.)

## 3. Payments from a third party

- Third party payment into client
- Sum representing LAA payments into client
- Balance to solicitor into office within 14 days of report to LAA
- Keep balance to LAA in client until notified by LAA then transfer within 14 days to office



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# Rule 20 – Withdrawals from a client account

## Client Money

- Properly required
- Paid into the account in breach of the rules
- Authorised by the SRA
  - all necessary steps taken
  - reporting accountant
  - pay to charity and obtain indemnity



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# Revised Rule 20 – 14 July 2008

- Self certification
- Residual balances <£50
- Reasonable attempts to identify the owner
- Adequate attempts to return it, unless costs of doing so are excessive
- Pay the amounts to a charity
  - Obtain an indemnity?
- Record the steps taken
- Central register



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# Revised Rule 20 – 14 July 2008 (cont.)

- Residual balances >£50
- Apply to SRA as before



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# Revised Rule 14 – 14 July 2008

- Self certification: additional controls
- Client money must now be returned to the client promptly
- Inform client in writing if holding client money after conclusion of the matter
- Write to client every 12 months



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# Rule 20 – Withdrawals from a client account (cont.)

## Office money

- Amounts paid in to open the account
- Payment of costs Rules 17 and 18



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# Rule 20 – Withdrawals from a client account (cont.)

## Overdrawn client accounts

- 20.6 – withdrawals not to exceed amount held in a general client account for the client
- 20.7 – except if sufficient funds held in a separate designated account and a transfer is made immediately
- 20.8 – money held for a client in a separate designated client account can only be used for that client



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# Rule 20 – Withdrawals from a client account (cont.)

## Overdrawn client accounts (cont.)

- 20.9 – a client bank account must not be overdrawn except:
  - Trustee makes necessary payments before assets are realised
  - Sole practitioner dies and accounts are frozen
- 20 note (v) – use discretion in drawing a cheque against uncleared funds



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# Quiz 3 (17 to 20)



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# Rule 21 – Authority for client account withdrawals

Authorised and signed by:

- ~~Qualified solicitor~~
  - ~~Fellow of the Institute of Legal Executives~~
  - ~~Registered foreign lawyer “manager”~~
  - ~~“Manager”~~
- 
- An appropriate person in accordance with the firm’s procedures
  - Not:
    - Non-manager owner
    - Non-employee owner
  - Can authorise electronically subject to appropriate safeguards



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# Rule 22 – Interest

- Written policy and agreement
- No distinction between separate, designated and general
- No guidance on amounts and durations
- In practice...



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# Rule 23 – Amount of interest to pay

- Unlikely to be as high as that obtainable by the client depositing those funds
- “Fair and reasonable”



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Rule 24 – Interest on stakeholder money

Rule 25 – Contracting out



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**Rule 26 – SRA guidelines for accounting procedures and systems**

**Rule 27 – Transfers between clients**

**Rule 28 – Executor, trustee or nominee companies**



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# Rule 29 – Accounting records which must be kept

- 29.1 – Accounting records properly written up at all times to show:
  - client money held, received or paid
  - office money relating to any client
- 29.2 – Separate client ledger for each client



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# Rule 29 – Accounting records which must be kept (cont.)

- 29.9 – The current balance on each client ledger must be readily ascertainable
- 29.12 – Reconciliations to be made at every month end
  - bank statements to cash book
  - cash book to total on client ledger
  - prepare a reconciliation statement
  - hard copy or saved electronic copy statements



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# Rule 29 – Accounting records which must be kept (cont.)

- 29.15 – Central record or file copies of all bills raised
- 29.17 – Retain all records for at least six years from the date of last entry



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# Rule 29 – Accounting records which must be kept (cont.)

- 29.18 – Paid cheques to be retained for at least two years

- original form
- digital image of front and back

Or:

- written arrangement with the bank that they will retain the cheques in compliance with this rule



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Rule 30 – Client's own accounts

Rule 31 – Production of records

Rule 32 – Accountant's reports

Rule 33 – Accounting periods

Rule 34 – Who can make accountant's reports

Rule 35 – Accountant's duties



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**Rule 36 – Change of accountant**

**Rule 37 – Place of examination**

**Rule 38 – Provision of details of bank accounts**

**Rule 39 – Test procedures**

**Rule 40 – Departures from the guidelines**

**Rule 41 – Matters outside the accountant's reports**



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Rule 42 – Privileged documents

Rule 43 – Checklist

Rule 44 – Accountant's reports

Rule 45 – More than one office

Rule 46 – Waivers

Rule 47 to 52 – Overseas practices



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# Quiz 4 (21 to 52)



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# Recent rule changes

2008 - 2009

- 14 July 2008
  - Residual balances
    - Rules 22 and 15 (now 20 and 14)
- 31 March 2009
  - Controlled trusts
    - Rules 8 and 18 repealed
  - LDPs/Managers
    - Rule 23 (no longer relevant)
  - Interest certificates
    - Rule 28 repealed



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# Current rule changes

- 6 October 2011
  - Interest
    - Rules 22 and 23
  - Electronic signatures
    - Rule 21
  - Electronic statements
    - Rule 29.12
  - COFA
    - Rule 6
  - Overseas practice rules
    - Rules 47 to 52



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# Common breaches

- 12.7 (b) - bank interest credited to a general client account
- 12.2 (c) - money held in an office account for unpaid professional disbursements
- 13.3 – client money paid into a bank account that does not contain the word “client” in the title



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## Common breaches (cont.)

- 14.1 – receipts not banked without delay
- 14.3 – not returning client money promptly
- 17.3 - money earmarked for costs not transferred from client to office within 14 days
- 20.2 – improperly clearing old client ledger balances
- 20.6 or 20.7 – overdrawn client accounts



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## Common breaches (cont.)

- 29.12 – not all client accounts included in reconciliations
- 29.18 – missing paid cheques and no written agreement



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# Quiz 5 (Summary)



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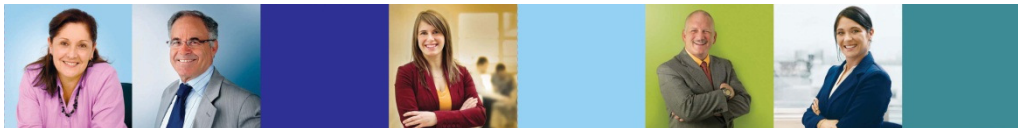


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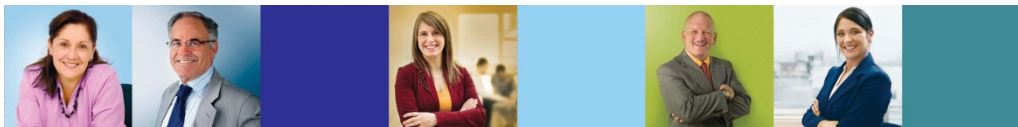
# Understanding Finance in Law Firms

Monday 7 April 2014



# Understanding finance in law firms

1.30pm	- Andy Poole
2.15pm	- Peter Scott
3.00pm	- Break
3.15pm	- Peter Scott
4.30pm	- Close



# Financial stability

Andy Poole  
Legal Sector Partner  
Armstrong Watson

This briefing qualifies for 3 hours CPD – Authorisation Ref: EKQ/ARWA



# Benchmarks

	2011	2012	2013
Fee income per fee earner			
Profit per equity partner			
Break even point per fee earner			
WIP days			
Debtor days			
Borrowings per equity partner			

Source: LMS Financial Benchmarking Surveys



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# Driving cash flow and profitability to ensure financial stability

## Agenda

- SRA risk indicators
- Key performance indicators
- Benchmarks
- Financial analysis, reporting and forecasting
- Key points to improve cash flow and profitability



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# SRA Risk Indicators

Samantha Barrass, SRA Executive Director:

“Unlike the banks, failing law firms won’t be bailed out by the tax payer. Instead, any costly interventions necessary to safeguard clients will be met by all of you here today; firms run responsibly, diligently and effectively picking up the tab for those that aren’t”



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# SRA Indicators of financial instability

## Key Indicators

- Drawings exceeding profits
- Borrowing exceeding net assets
- Borrowing over a certain level

## Impact Assessment

- RAG rating
  - Red - Two or more indicators
  - Amber – One indicator
  - Green – No indicators
- Impact score



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# SRA Risk Indicators

Samantha Barrass, SRA Executive Director:

“What we are seeing is how well the firm is run, their ability to spot and manage early warning signs, their financial management, their approach to risk taking and their willingness to engage and co-operate with us having a major bearing on whether they succeed or fail”



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# SRA Indicators of financial instability

## “Bad behaviours”

- Payments made to partners irrespective of cash in the bank
- All net profits drawn with no reserve pot retained
- Short term borrowings to fund partners' tax
- VAT received used as cash received, resulting in borrowings to fund VAT due to HMRC
- Heavy dependence on high overdraft borrowings
- Partners capital injection is 100% borrowed
- Partners out of touch with office account bank balances
- “Problem, what problem?”



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# SRA Indicators of financial instability

## “Good behaviours”

- Drawings are linked to cash collection targets and do not exceed net profits
- Provision is made to fund partners' tax from income received
- A capital element is retained from profit, and a capital reserve account built up
- Premises costs are contained
- All partners regularly receive full financial information including office account bank balances
- Profitability levels are tested and unprofitable work is dropped



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# SRA Risk Indicators

Samantha Barrass, SRA Executive Director:

“What we are seeing is how well the firm is run, their ability to spot and manage early warning signs, their financial management, their approach to risk taking and their willingness to engage and co-operate with us having a major bearing on whether they succeed or fail”



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# Spot and manage early warning signs

"Bad behaviours"	Result	Cause	Driver
Payments made to partners irrespective of cash in the bank			
All net profits drawn with no reserve pot retained			
Short term borrowings to fund partners' tax			
VAT received used as cash received, resulting in borrowings to fund VAT due to HMRC			
Heavy dependence on high overdraft borrowings			
Partners capital injection is 100% borrowed			
Partners out of touch with office account bank balances			
"Problem, what problem?"			



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# Spot and manage early warning signs

## Key performance indicators

- Average fee income per fee earner by department
- Gross profit percentage by department
- Utilisation percentage by fee earner
- Recovery rates by fee earner
- Debtor days by department
- WIP days by department
- Lock up days by department



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Profit and loss account	2014	2013
	£'000	£'000
<b>Income</b>		
Fee income	2,560	2,534
Bank deposit interest	10	8
Other income	4	4
	<hr/>	<hr/>
	2,574	2,546
<b>Expenditure</b>		
Employee costs	1,024	1,270
Premises costs	248	245
Admin costs	70	77
Advertising	21	13
Legal and professional	10	8
PII	280	270
Referral fees	95	25
Bad debts	74	62
Depreciation	19	19
Bank charges and interest	103	93
	<hr/>	<hr/>
	1,944	2,082
<b>Profit</b>	<hr/>	<hr/>
	630	464



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Balance Sheet	2014	2013
	£'000	£'000
Fixed assets	174	190
Current assets		
Debtors	447	419
WIP	530	500
Prepayments	42	39
	<hr/>	<hr/>
	1,019	958
Current liabilities		
Bank loans and overdrafts	400	465
Accruals	30	32
Purchase ledger	28	30
OTSS	102	133
	<hr/>	<hr/>
	560	660
Net current assets	459	298
Net assets	633	488



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## Balance Sheet

2014

2013

£'000

£'000

### Represented by:

Current accounts

233

88

Capital accounts

400

400

---

633

---

488

Contingent items removed from WIP for UITF40

510

480



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# KPIs

	2014	2013
Debtor Days	64 days	60 days
WIP days	148 days	141 days
Lock-up days	212 days	201 days



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# Spot and manage early warning signs

## Key performance indicators

- Average fee income per fee earner by department
- Gross profit percentage by department
- Utilisation percentage by fee earner
- Recovery rates by fee earner
- Debtor days by department
- WIP days by department
- Lock up days by department



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# Benchmarks

Fee income

Chargeable hours per fee earner per annum

	Hours
All firm sizes	1,068
Small	1,115
Large	958

Source: Armstrong Watson benchmarking database



# Benchmarks

## Profitability

Recovered rate per hour

£/Hour

All firm sizes

136

Small

119

Large

151

Source: Armstrong Watson benchmarking database



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# Benchmarks

## Profitability

Net profit percentage

%

All firm sizes

30

Small

29

Large

36

Source: Armstrong Watson benchmarking database



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# Benchmarks

## Profitability

Profit per equity partner

€

All firm sizes

91,000

Small

78,000

Large

139,000

Source: Armstrong Watson benchmarking database



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# Impact

## How to increase profitability

Gearing	2.5
Hours	1,068
Recovered rate/hour	136
Profit margin	30%
Profit per equity partner	



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# Impact

## How to increase profitability

What would the profit per equity partners be if the recovery rate increases by 10%?

Gearing	2.5
Hours	1,068
Recovered rate/hour	150
Profit margin	30%
Profit per equity partner	



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# Impact

## How to increase profitability

What would the profit per equity partner be if the hours and recovery rate both increase by 10%?

Gearing	2.5
Hours	1,175
Recovered rate/hour	150
Profit margin	30%
Profit per equity partner	



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# Impact

## Case study: summary

- Increase any of the factors by 10% and the profit per equity partner will increase by 10%
- Increase all by 10% and profit per equity partner increases by over 40%
- Key = utilisation and recovery



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# Benchmarks

Cash flow

WIP days

Days

All firm sizes

99

Small

85

Large

124

Source: Armstrong Watson benchmarking database



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# Benchmarks

Cash flow

Debtor days

Days

All firm sizes

68

Small

58

Large

99

Source: Armstrong Watson benchmarking database



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# Impact

## Case study: how to increase your bank balances

	Target	AW
Fee income	£1,000,000	£1,000,000
Overdraft	£(200,000)	£(200,000)
WIP days	54	99
Debtor days	50	68



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# Impact

## Case study: how to increase your bank balances

- What would bank balance be if the WIP days and debtor days reduced to target?

WIP days	99 – 54	=	45 days improvement
Debtor days	68 – 50	=	18 days improvement
			63



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# Impact

## Case study: summary

- Billing one day earlier reduces your overdraft by  $1/365 \times \text{fee income}$
- Collecting debts one day earlier reduces your overdraft by  $1/365 \times \text{fee income}$
- Key = WIP days and debtor days



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# Financial analysis, reporting and forecasting

## Reporting

- Base on KPIs
- Easy to understand
- Relevant to the firm and decisions to be made by the firm
- Relevant to the individuals
  - what they can control
- Assess and reward people based on
  - what they can control
  - what they can measure
  - what is important to the firm



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# Financial analysis, reporting and forecasting

## Forecasting

- Base on KPIs
- By department
- Three year forecast updated annually
  - Integrated profit and loss, balance sheet and cash flow
  - Cash flow is the result of the interaction between the profit and loss account and the balance sheet
- Three month rolling cash flow



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# Key points to improve cash flow and profitability

- Base on KPIs

## Utilisation

- Time record in all departments – as matters progress
- Time sheets to be submitted by a certain time point
- Set minimum time to be on all timesheets
- Person responsible for checking timesheets have been submitted
- Heads of department to monitor utilisation rates for their department and justify to the partners or make appropriate decisions
- Monitor fee earner fee income multiples of salary



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# Key points to improve cash flow and profitability

- Base on KPIs

## Recovery

- Record all time
- Monthly review by fee earner of recoverable WIP
- Write off irrecoverable WIP monthly
- Bill promptly on completion
- Monitor recoveries on each bill or on a monthly basis by fee earner
- Partner approval for all under-recoveries of more than 10%
- Partner approval for any direct WIP write-offs
- Stop acting in unprofitable work types
- Stop acting for unprofitable clients
- Use of cost draftsmen
- Abort fees



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# Key points to improve cash flow and profitability

- Base on KPIs

## WIP days

- Time record in all departments – as matters progress
- Weekly review by fee earner of recoverable WIP
- Write off irrecoverable WIP monthly
- Bill on account
- Bill promptly on completion
- Ensure all associated WIP is written off when a bill is raised
- Concentrate in two areas
  - Log jam
  - Easy wins
- Accounts department to review aged WIP prints



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# Key points to improve cash flow and profitability

- Base on KPIs

## Debtor days

- Payments on account
- Bill on account
- Bill promptly on completion
- Automatic transfers from the client account?
- Daily reviews for amounts to transfer from the client account
- Transfers for disbursements
- Unpaid professional disbursements
- Don't wait for client approval!
- Empowered credit control
- Credit control to review aged debtors
- Stop work!



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# Questions

- What questions do you have?



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# Summary

## Key points

- Small changes can have a big difference
- Four factors to concentrate on:
  - Utilisation
  - Recovery
  - WIP days
  - Debtor days
- Use KPIs to drive the firm in the right direction



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**Financial management in a law firm –  
understanding what is required to drive strong  
cash flow and to ensure compliance**

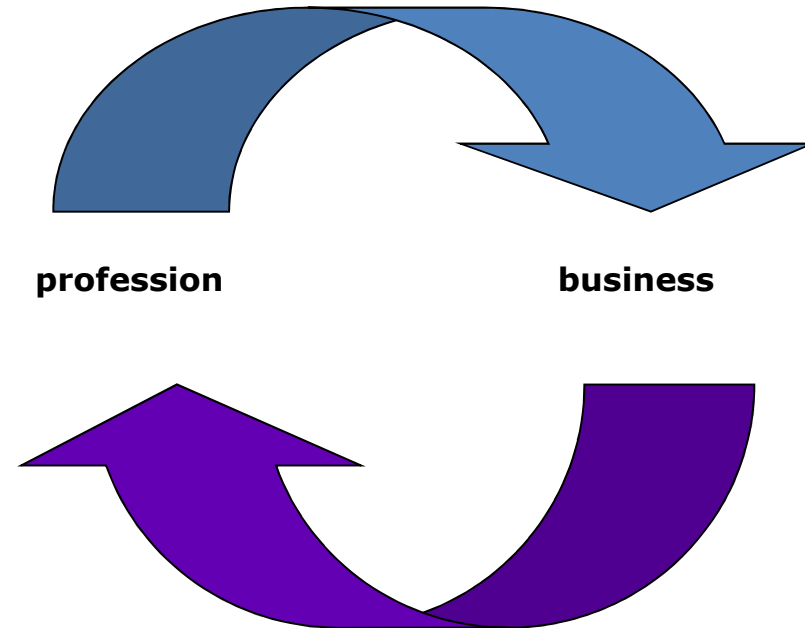
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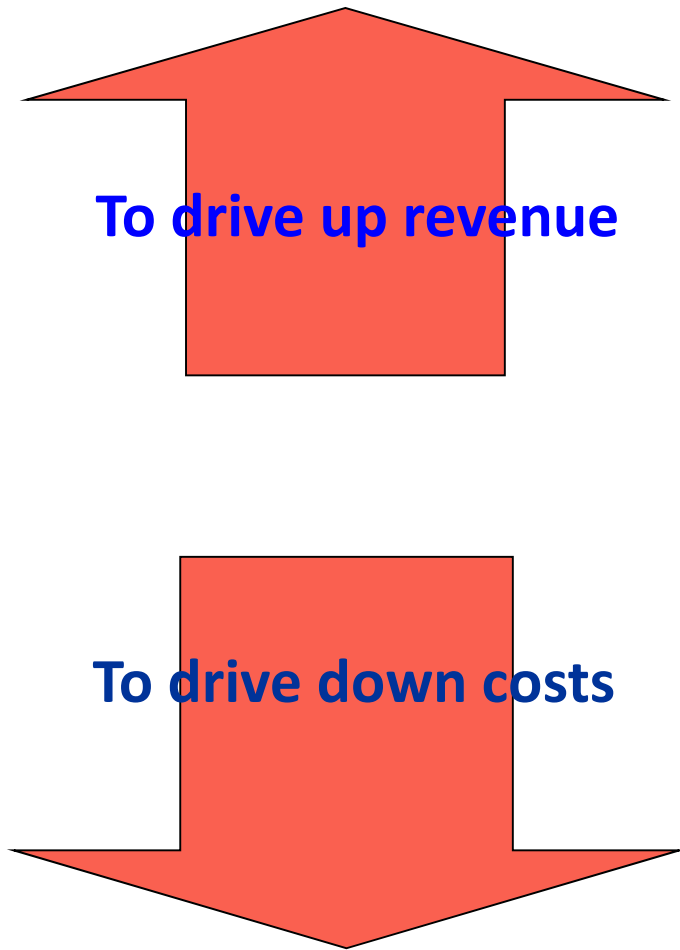


# In reality has sound financial management ever not been mandatory?

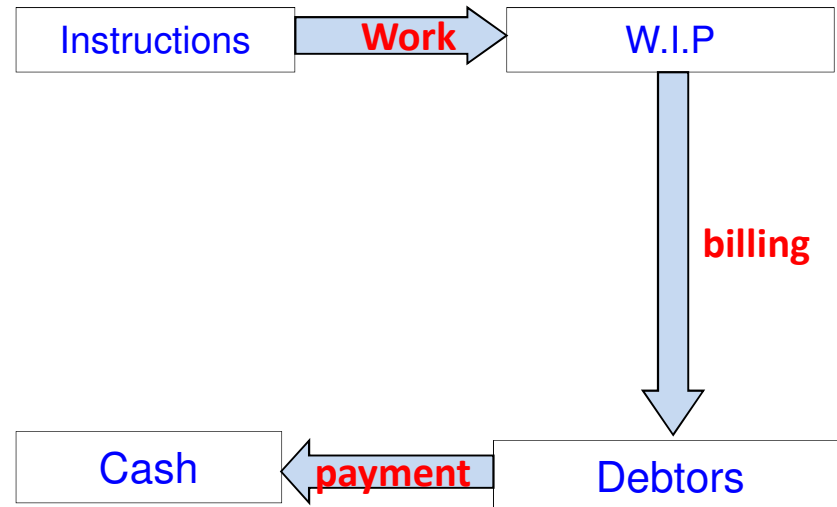
- Solicitors are **in business** as well as being members of a profession
- Businesses should always be prudently financially managed
- But for some, being a lawyer has taken priority over being a businessman



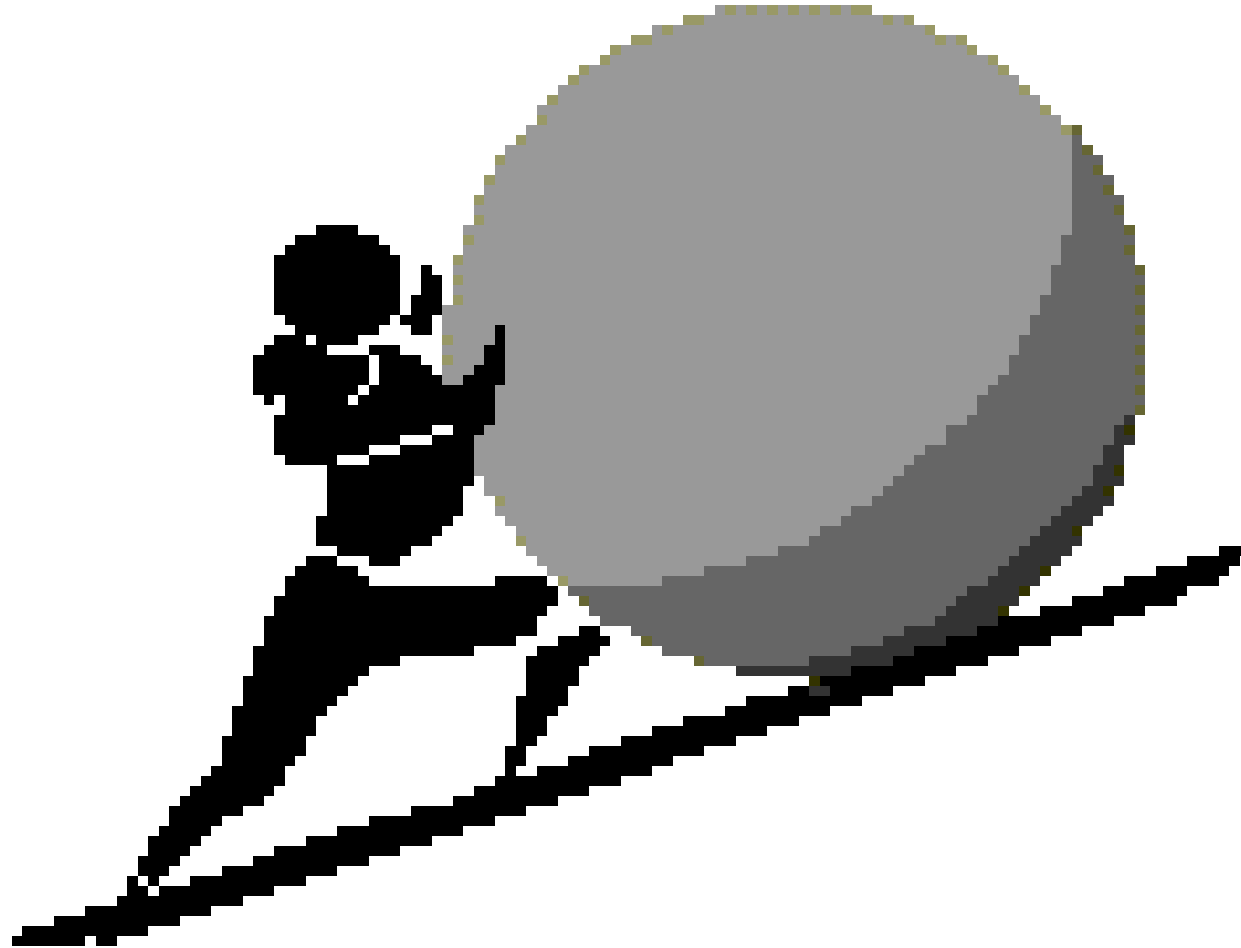
# Flabby law firms are failing .....



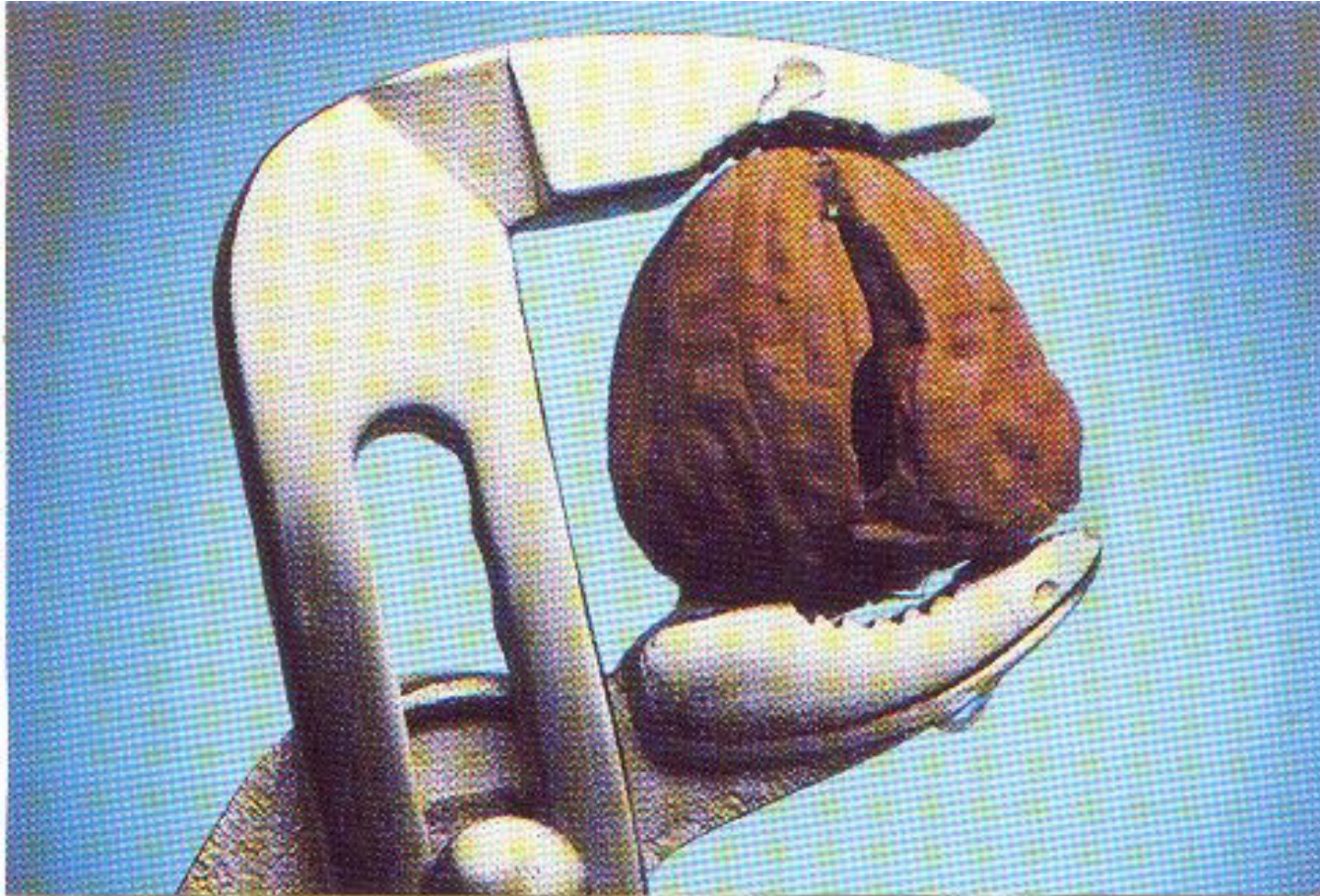
## To drive cash flow



Instead of feeling like this



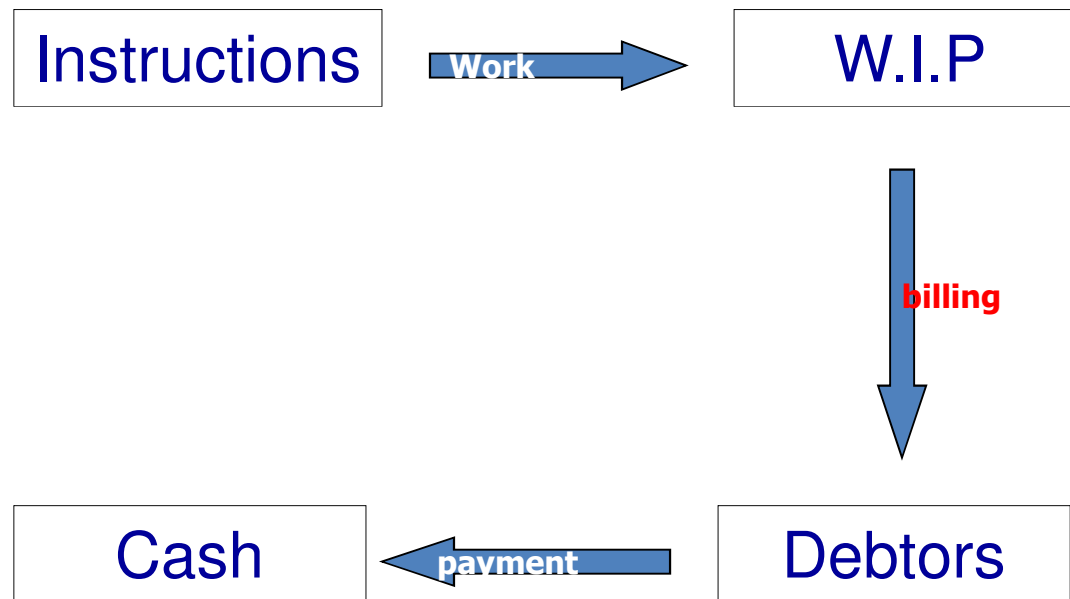
# Put the **squeeze** on your business



# The scope of our session today

- Take control of your cash management
- Understanding what is required if you are to run your business in accordance with 'sound financial principles'
- Identifying and dealing with law firms' financial stability challenges

# Take control of your cash management – cash is king



# **Strong cash flow is just the tip of the iceberg**



# **You can unlock the log jams preventing good cash flow by better management of:**

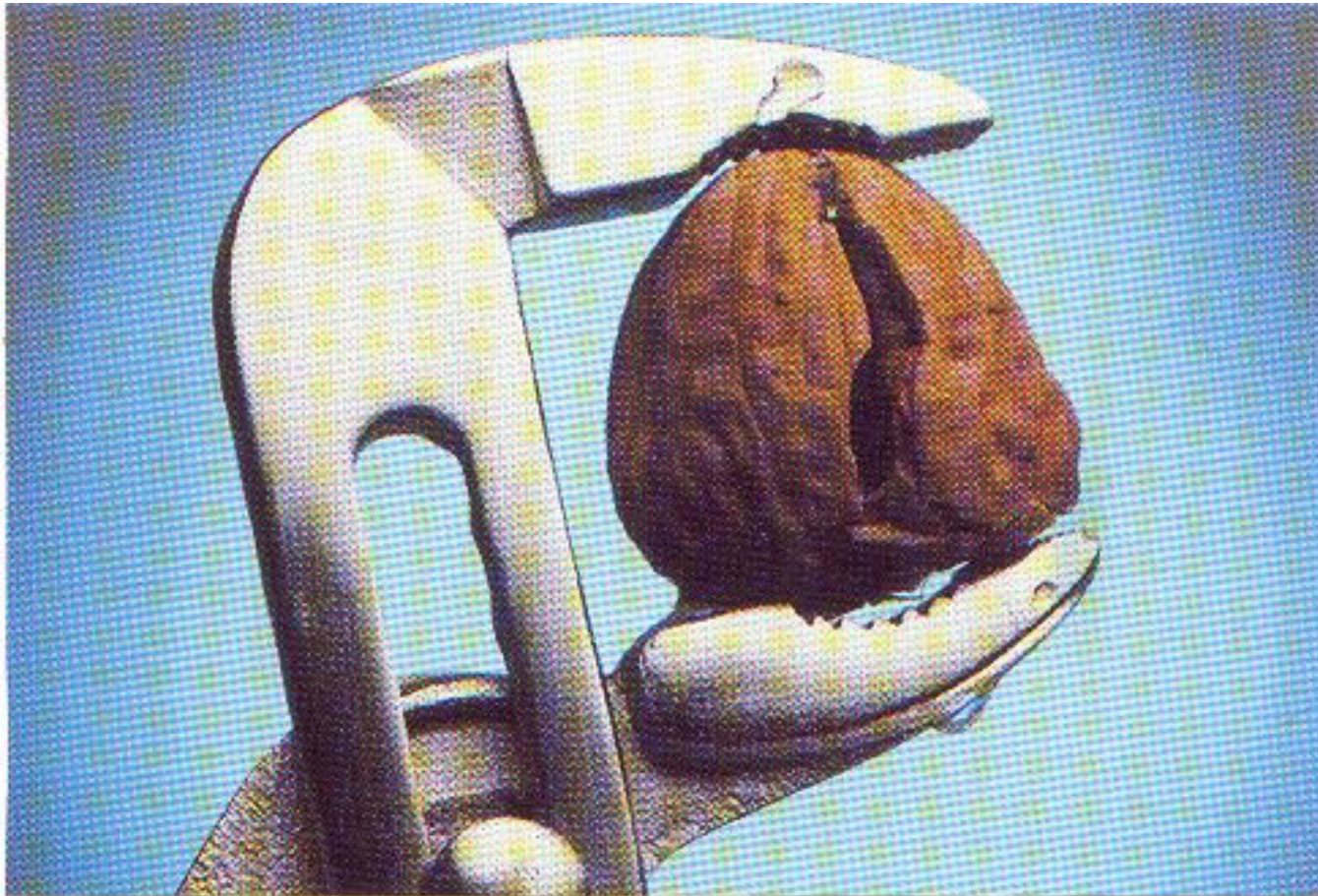
Your client relationships

Your people

Yourselves



Put the **squeeze** on every part of your business



Your **'lock-up'** (the amount your firm has invested in your clients) is a **RISK**

**"lock-up"** (*work done not paid for*)

=

- WIP
- Unbilled / unpaid disbursements
- Unpaid bills

How good are your clients as an investment?

How **old** is your “lock up”?

**Your aged WIP?** (the older your WIP the less likely it will be billed)

**Your aged Debtors?** (the older your debtors the less likely they will be paid)

How much of your lock up is **‘at risk’**?

Lock up is a

**RISK**

which needs to be *managed*

How are you risk managing your lock up?

## Where to start?

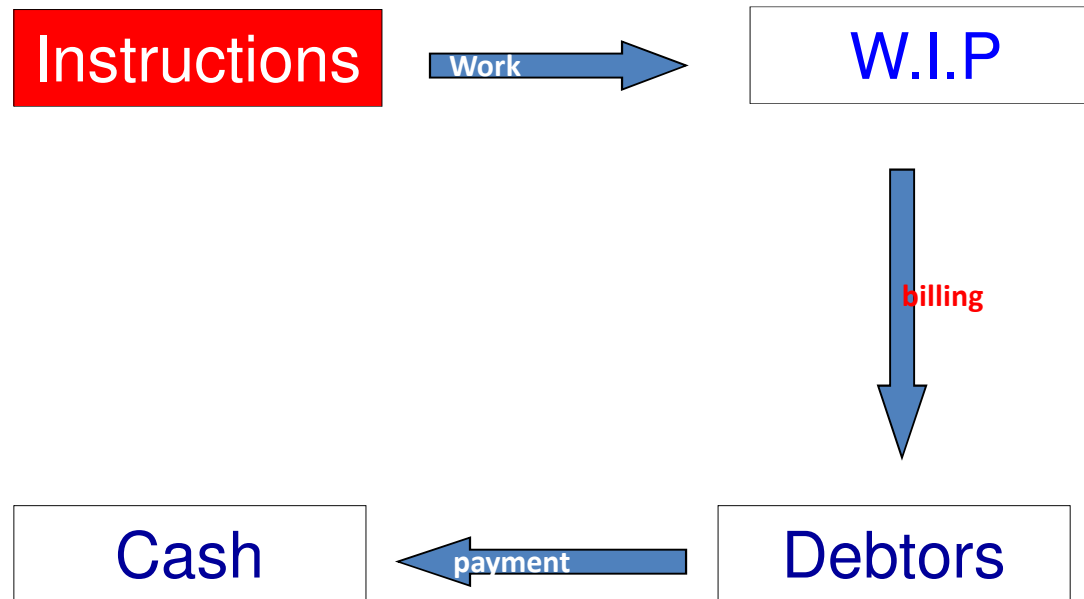
- Work smarter, not harder - do the basics better
- Partners' capital should not be used to support financial under performance
- Reduce the amount you have 'invested' in your clients
- Focus on each stage of the cash generation process

# **How to get to grips with cash management?**

Analysis is key

Diagnosis of the causes of slow cash generation will point to solutions

# Taking instructions

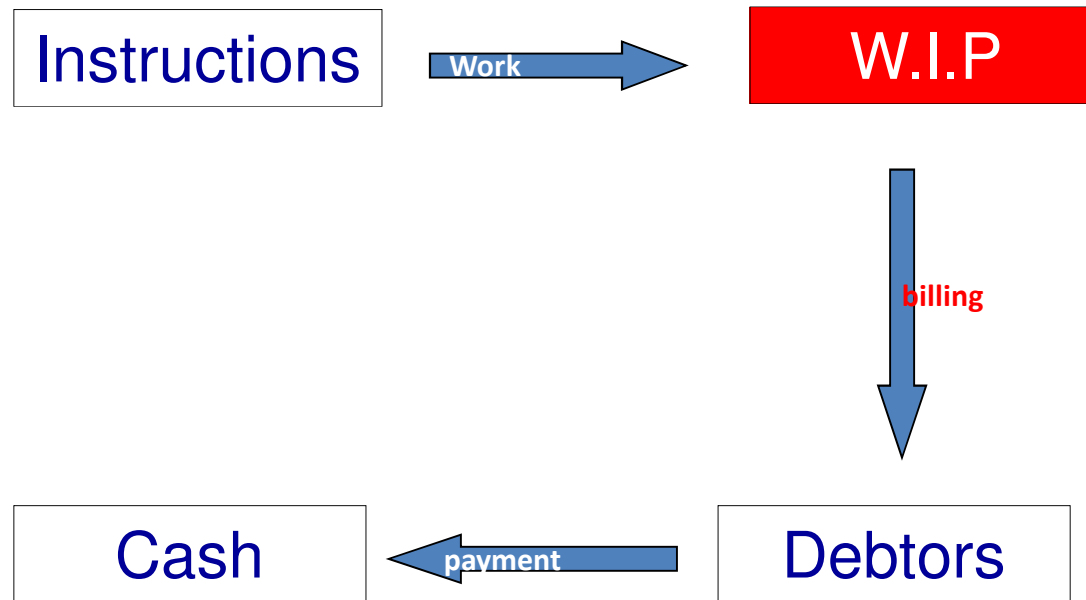


# Taking instructions = risk management

- You are providing clients with credit, but you are not trained or being paid to take credit risk
- Client vetting / credit checks
- Money on account
- Disbursements
- Credit limits
- Interim / frequency of billing
- Payment terms
- What else should you put in your Terms of Engagement?



# How you manage your WIP is a reflection of how well you manage your clients



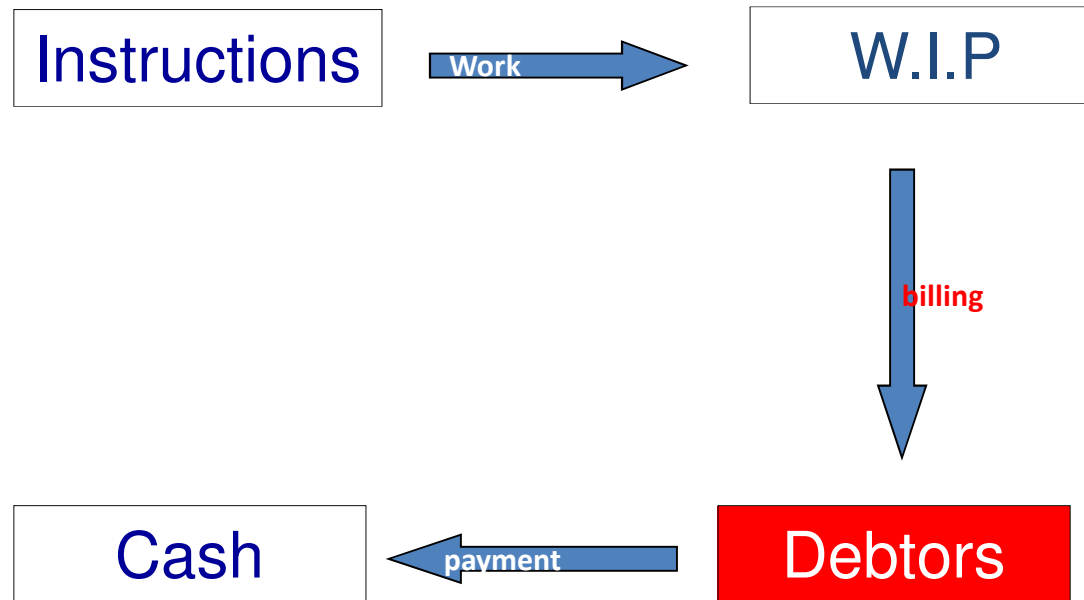
Are you a squirrel?



## Your WIP management?

- Do you agree with clients to monthly / interim bill?
- Do you always agree bills with clients before delivering them?
- How much of your existing WIP can be billed **NOW**?
- Will 100% of your WIP be billed?
- Do you consistently meet your **WIP targets** / billing targets?

# How you manage your debtors is a reflection of how well you manage your clients



## Your debtors management?

- The age profile of your debtors?
- Can you say 100% of your debtors will be paid?
- When did you last speak to a client about payment of a bill?
- How are you using the firm's credit control systems to assist you?
- Do you have **cash collection targets** linked to payments to partners?

# Put in place a cash generation programme

- Set minimum acceptable balance
  - *e.g. £100k headroom to avoid o/d*
- Simplify cash flow
  - *all figures to be gross (inc. VAT etc)*
- Each month calculate cash needed to cover all outgoings for next 3 months (*including partners' drawings and distributions*)
- Calculate and broadcast weekly cash collection targets

## Cash generation (2)

- Report weekly on cash collection
- Plan billing targets to generate cash to pay major outgoings  
*(November bills to pay January tax)*
- Recognise consequences of deviations  
*+/- £25k per week = +/- £325 per quarter*
- Payments to partners to depend on cash collection

# Cash collection targets (1)

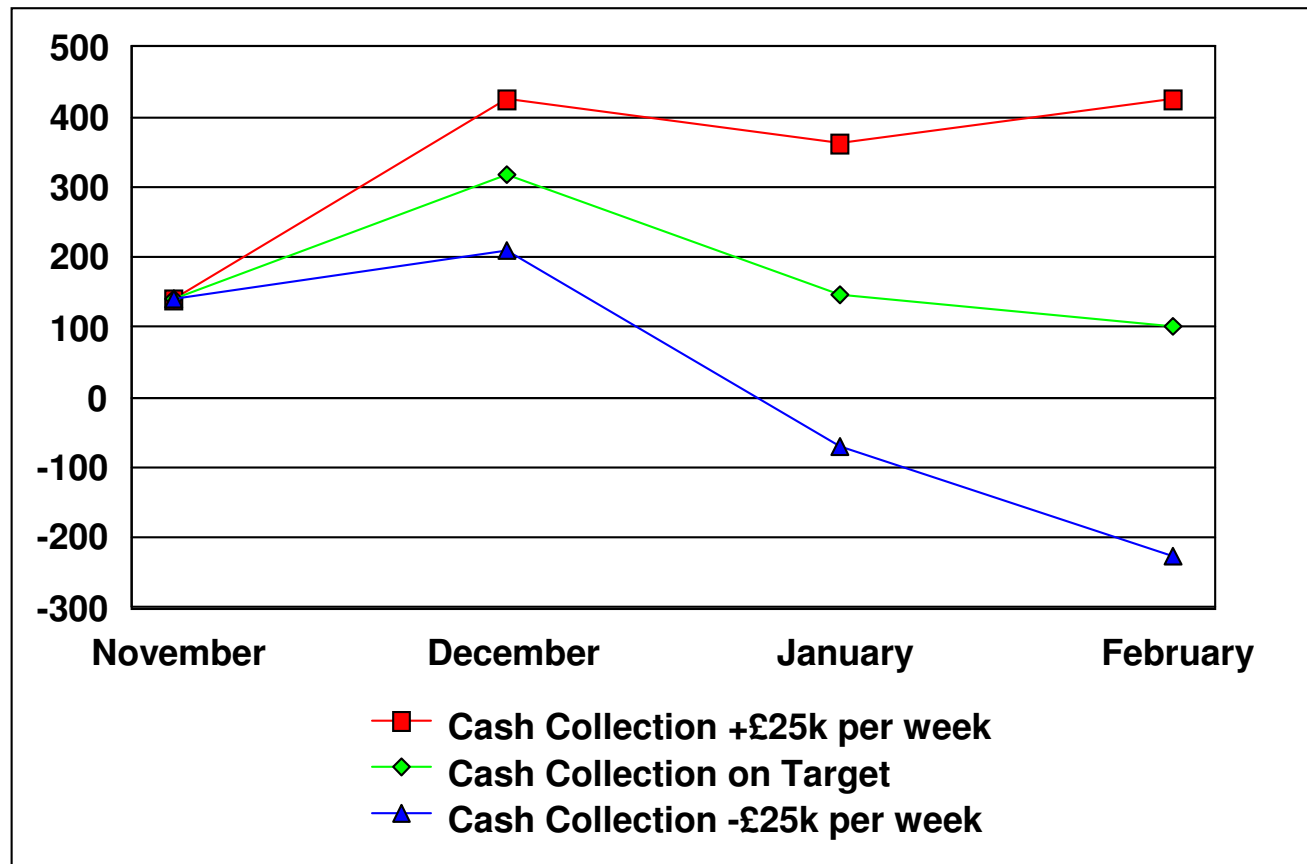
		<i>Forecast</i>		
	<i>December</i>	<i>January</i>	<i>February</i>	<b>TOTAL</b>
	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<b>£000s</b>
Balance b/f	139.2	100.0	100.0	<b>£139.2</b>
Interest Received / (paid)	67.0	-6.0	-6.0	55.0
General Expenditure (inc VAT)	-600.0	-475.0	-475.0	-1,550.0
Capital Costs (inc VAT)	-12.0	-12.0	-12.0	-36.0
Tax Paid		-400.0		-400.0
VAT Paid			-275.0	-275.0
Monthly Drawings	-65.0	-65.0	-65.0	-195.0
Distributions	-40.0	-40.0	-40.0	-120.0
Balance before receipts from bills	-510.8	-898.0	-773.0	<b>-£2,381.8</b>
<b>Total cash required from bills</b>	<b>610.8</b>	<b>998.0</b>	<b>873.0</b>	<b>£2,481.8</b>
Minimum Balance c/f	100.0	100.0	100.0	<b>£100.0</b>
<b>Total cash required per week</b>	<b>141.0</b>	<b>230.3</b>	<b>201.5</b>	<b>£190.9</b>
			<b>TARGET</b>	<b>£190.0</b>



## Cash collection targets (2)

December 2000 - February 2001							
	Expected	Bills	Bills				
	Bills + VAT	0-60	60+			3 month	WEEKLY
Collect next quarter	50%	75%	100%	TOTAL	TARGET	TARGET	TARGET
IP/IT	91,000	69,000	14,000	174,000	164,000	13,000	
Employment	254,000	207,000	104,000	565,000	533,000	41,000	
Litigation	287,000	165,000	129,000	581,000	549,000	42,000	
Debt Collection	48,000	4,000	1,000	53,000	50,000	4,000	
Company	263,000	106,000	96,000	465,000	439,000	34,000	
Property DJC	145,000	81,000	26,000	252,000	238,000	18,000	
Property CFW	143,000	77,000	51,000	271,000	256,000	20,000	
Planning	52,000	67,000	23,000	142,000	134,000	10,000	
Private Client	37,000	25,000	6,000	68,000	64,000	5,000	
Res Conveyancing	40,000	5,000		45,000	42,000	3,000	
	1,360,000	806,000	450,000	2,616,000	2,469,000	190,000	

# Effect of £25k per week variance



What do 'leading edge' firms do?

(See case studies)

## Your new lock-up targets

- WIP – no more than [ ] days average?
- Debtors – no more than [ ] days average?
- Lock-up – [ ] days maximum?

If everyone in your firm reduced their lock up by 30 days  
how much working capital would be freed up for your firm?

**Your action plan to reduce your lock up?**

**What should law firms be prioritising if they are to build sound financial management?**

**1. First and foremost – ensure your partners understand and observe **Accountability****

“We have no room for those who put their own personal agenda ahead of the interests of the clients or the office”

*David Maister’s “Predictive package”*

# “Heavyweight gorilla”



“You can’t manage me.  
I’m a big biller!”



**“Do own thing”**

“That’s a great idea...  
...for the rest of you”



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## **2. Ensure you have the best possible financial expertise available**

- Your FD?
- Does your managing partner 'do finance'?
- Your credit control function?
- Use of external advice when appropriate?

# Your finance group infrastructure?

- Structure / headcount
- Credit controllers / revenue managers
- Credit control / cash management procedures
- Billing and collection policies
- Systems

**Is your team performing?**

### 3. Measure and report what matters

- ❑ *“Information is a source of learning. But unless it is organised, processed and available to the right people in a format for decision making, it is a burden, not a benefit.”*

William Pollard

- ❑ **Avoid Financial Information Overload - KEEP IT SIMPLE**

# What is the purpose of providing your people with financial information?

To provide clear information to those running the business to enable them to:

- Know what is happening / will happen in the business
- Make decisions based on sound knowledge
- Manage **performance**
- Take effective **action**

# Are you measuring what matters?

Do you produce financial data or information?

Do you / your people use the financial information you produce?

If not then why measure it / report it?

Do you measure things which do not need to be measured in order to run your business –

- More effectively?
- More profitably?
- To generate more cash?

## **How are you measuring and reporting?**

- Real time or historical information?
- Hard copy or on-line?
- Frequency of reporting?
- Who needs what?

# Your key performance indicators?

## Test your KPIs

- Why do we produce this information?
- Does it tell us what we need to know about our business?
- What does it not tell us about our business?
- Do we ever use this information?
- If not then why do we produce it?

**NB** – inaccurate reports destroy credibility



## 4. Put in place financial education and training

*“I don't have a clue about the financial reports I receive”*

Would a financial education programme for your partners and fee earners help them to achieve desired outcomes?

**NB** – training is a good way to demonstrate compliance

# Putting SRA “financial stability” into context

Extracts from a speech of 18 April 2013 by Samantha Barrass , Executive director SRA

- ❑ *“We expect firms to report **financial concerns** to us as soon as they become apparent, and to engage and cooperate with us fully.”*
  
- ❑ *“We will not tolerate the reckless trading of firms into insolvency and where this happens we will pursue enforcement action under Principle 8, including referral to the Solicitors Disciplinary Tribunal where appropriate.”*

# Understanding the financial stability requirements of the SRA Handbook

**SRA Principle 8** requires you to

‘run your business or carry out your role in the business **effectively** and in accordance with proper governance and sound financial and risk management principles’

Are you?

# Chapter 7 of the SRA Code of Conduct requires that....

**Outcome (7.2)** you have effective systems and controls in place to achieve and comply with all the *Principles*, rules and outcomes and other requirements of the Handbook

**Outcome (7.4)** you maintain systems and controls for monitoring the financial stability of your firm ... and take steps to address issues identified”

Do you have **effective** systems and controls in place for monitoring your financial stability?

**Acting in the following ways may tend to show that you have achieved the outcomes in chapter 7**

**Indicative behaviour (7.2)** – controlling budgets, expenditure and cash flow

**Indicative behaviour (7.3)** – identifying and monitoring financial risks including ..... credit risks and exposure

How are you doing this?

# Financial monitoring and reporting

## Chapter 10 – Code of Conduct

**Outcome (10.3)** you notify the SRA promptly of any material changes to relevant information about you including serious financial difficulty ....

**Indicative behaviour (10.3)** – notifying the SRA promptly of any **indicators** of serious financial difficulty, such as inability to pay your professional indemnity insurance premium, or rent or salaries, or breach of bank covenants

## If in financial difficulty - notify or seek advice first?

*'...your first port of call may be your assigned member of our Supervision team. They will talk through your problems from a regulatory perspective and consider what can be done. Bear in mind that the SRA's concern is to protect clients and the wider public interest and **we cannot provide legal or financial advice**'*

– 'Financial stability' note on SRA website

Should a firm's *first port of call* be to the SRA or to an accountant who may be able to turn matters around?

## Further notification requirements under chapter 10

Acting in the following ways may tend to show you have achieved these outcomes ...

**Indicative behaviour (10.4)** – notifying the SRA promptly when you become aware that your business may not be financially viable to continue trading as **a going concern**, for example because of difficult trading conditions, poor cash flow, increasing overheads, loss of managers or employees and / or loss of sources of revenue.

Notify or take advice first?



## **An extract from a 'going concern' statement in the accounts of a law firm LLP**

***After making enquiries, the management team has a reasonable expectation that the LLP has adequate resources to continue in operational existence for a period of no less than 12 months from the date of signing the financial statements. Accordingly, we continue to adopt the going concern basis in preparing the annual report and financial statements”***

# **If you take advice then establish an 'audit trail'**

***“If you cannot demonstrate compliance we may take regulatory action”***

**Take appropriate advice, act on it and document it**

Any questions?

# Peter Scott

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