

The law firm of tomorrow – and how to get there

6 May 2014
Newcastle

This briefing qualifies for 4 hours CPD – Authorisation Ref: EKQ/ARWA

Clarion

RBS
The Royal Bank of Scotland Group

Rekoop
More time

360 Legal Group

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Conversation between a lawyer and a banker - 3



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Conversation between a lawyer and a banker - 1



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Agenda

1.00pm	- Initial strategic thoughts	Andy Poole, Armstrong Watson
1.25pm	- Planning the strategy	Viv Williams, 360 Legal
1.55pm	- The financial position of the firm	Alice Pratt, Clarion Solicitors
2.25pm	- Break	
2.55pm	- Finance and banking considerations of the chosen strategies	Mike Holloway, RBS
3.25pm	- Financial planning considerations of the chosen strategies	Andrew Kilby, Armstrong Watson
3.50pm	- Break	
4.20pm	- Monitoring the firm in order to make strategic decisions	Alan Conway, Rekoop
4.40pm	- How the firm can reduce costs and increase efficiency	Andrew McAulay, Clarion Solicitors
5.05pm	- Conclusions – strategies to adopt	Andy Poole, Armstrong Watson
5.45pm	- Buffet	
6.30pm	- Survey results	
7.00pm	- Close	

Conversation between a lawyer and a banker - 2



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Initial strategic thoughts

Andy Poole
Legal Sector Partner
Armstrong Watson

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Initial strategic thoughts

Agenda

- Overview of the case study law firm
- Issues
- Initial strategic thoughts

Profit and loss account	2014	2013
	£'000	£'000
Income		
Fee income	2,560	2,534
Bank deposit interest	10	8
Other income	4	4
	<hr/>	<hr/>
	2,574	2,546
Expenditure		
Employee costs	1,024	1,270
Premises costs	248	245
Admin costs	70	77
Advertising	21	13
Legal and professional	10	8
PfII	280	270
Referral fees	95	25
Bad debts	74	62
Depreciation	19	19
Bank charges and interest	103	93
	<hr/>	<hr/>
	1,744	2,082
Profit	<hr/>	<hr/>
	630	464

Overview of the case study law firm

- Eight equity partner firm in the North-East
- Unlimited liability partnership
- High street practice
- Two offices – one large and one small
- £2.5m fee income
- 43 employees

Balance Sheet	2014	2013
	£'000	£'000
Fixed assets	174	190
Current assets		
Debtors	489	458
WIP	530	500
	<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

Overview of the case study law firm

- Mix of work types with exposure to personal injury and private client
- Four partners aged 60 or over
- Three younger salaried partners
- Bulk conveyancing and bulk personal injury departments run down

Balance Sheet	2014	2013
	£'000	£'000
Represented by:		
Current accounts	233	88
Capital accounts	400	400
	<hr/>	<hr/>
	633	488
Contingent items removed from WIP for UITF40	510	480

Overview of the case study law firm

What are the issues?

Overview of the case study law firm

Issues

- Exposure to the bank - £400k
- Increasing lock-up
- Old WIP, disbursements and debtors
- Not able to withdraw profits
- Partners approaching retirement
- Not attractive to merger partners
- Expensive unused office space
- Personal injury reform

Key performance indicators	Case study firm	Benchmark
Profitability		
Fee income per equity partner	£320,000	£340,946
Net profit %	24.6%	31.2%
Staff costs / fee income	40.0%	37.4%
Premises costs / fee income	9.7%	3.8%
Advertising costs / fee income	4.5%	1.0%
Pll / fee income	10.9%	2.8%
Bad debts / fee income	2.9%	1.3%
Cash flow		
Debtor days	70 days	49 days
WIP days	148 days	77 days
Lock up days	218 days	126 days

Source: Armstrong Watson benchmarking database

Initial strategic thoughts

- Efficient 'lean' processes
- Cash collection
- Forecasting
- Succession planning
- Merger?
- Premises
- Sell the personal injury cases?
- ABS?
- Management information – KPIs
- Business structure – incorporate?

KPIs

	2014	2013
Debtor Days	70 days	66 days
WIP days	148 days	141 days
Lock-up days	218 days	207 days

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

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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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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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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Spot and manage early warning signs

Key performance indicators

- Average fee income per fee earner by department
- Gross profit percentage by department
- Matter starts
- 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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Structure review

Incorporate?

- Liability
 - Claims
 - Insolvency
- Tax
 - Undrawn profits
 - Ongoing tax savings
 - Goodwill
- Succession planning
- Mergers

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Planning the strategy

Viv Williams
360 Legal Group



Initial strategic thoughts

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'More than 1,000 small legal practices go under'

Begbies Trainer, September 2013

'1 in 3 firms in financial difficulty'

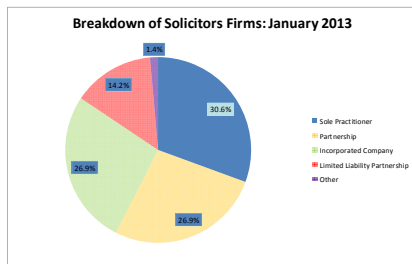
PWC, October 2013

'Number of law firms dips to new low'

SRA, October 2013



Overview

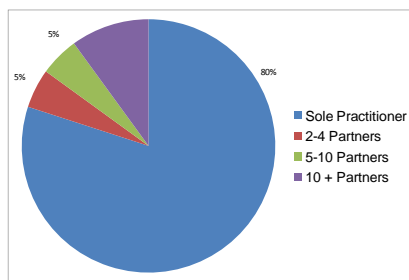


Financial Stability

- Recent Events
 - Cobbetts
 - Atteys
 - Blakemores
 - Challinors
 - Harris Cartier
 - Davenport Lyons
- The cost of intervention



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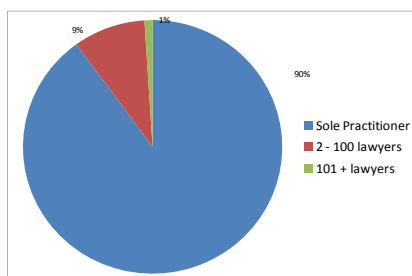


Rule 8

- You must 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



US solicitors 2012
460,349 firms and 412,786 Sole Practitioners



The challenges

- Partnership model unfit for purpose
- Age of partners
- PII – historic issues
- Lockup and cash collection
- Not merger ready
- Office space
- Marketing and networking
- Inconsistent recording of time



Survival Tactics

- Corporate structure and governance
- Buying goodwill
- Agree an exit strategy for 50% of the Partners
- Prepare for merger/acquisition
- Realising the WIP and debtors
- Layering finance



Practical Solutions

- The true value of time
- Fixed fees do not mean 'cheap'
- Reducing risk by cloud technology
- Review of people and places



Practical Solutions

- Using Rule 8 as your strategy
- Building the value of the 'solicitor' brand
- Each department as a profit centre
- Charge, bill and collect
- Value pricing
- Setting a credit control policy
- Reducing lockup
- Managing the bank

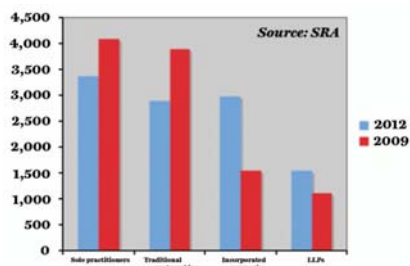


Retaining independence...

- Developing services to meet clients needs.
- Growth of the CEO and Non-Executive Director
- Survival of the fittest – people and services
- Developing a value strategy
- External help



Snapshot of a changing profession



Questions?



Viv Williams
360 Legal Group

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Avoiding Financial Distress

Effect of Financial Distress

- Delay in drawings
- Intervention
- Insolvency
 - Corporate
 - Liquidation
 - Administration
 - CVA
 - Personal
 - Bankruptcy/IVA
 - Loss of Practising Certificate



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The Financial Position of the Firm

Alice Pratt
Corporate Recovery Partner



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Avoiding Financial Distress

Key Performance Indicators

- Total Debtors £489,000 - Up by £31,000 on last year
- WIP Days 148 days
- Debtor Days 70 days
- Profit Margin 25%



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Avoiding Financial Distress



Halliwells



MANCHES

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Avoiding Financial Distress INTERNAL FACTORS

Best Practice

- Recorded hours per fee earner 1,198
- WIP Lock up 26 days
- Debtor Days 27 days
- Profit Margin 33%



NB: Source: NATWEST 2013 Financial Benchmarking Report - Law Firms

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Introduction

- Internal Factors
- External Factors
- What to do?

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Internal Factors

Cash Flow Management

- EXPENDITURE
 - Rent
 - Staff costs
- Supplier Contracts
- Banking Charges



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Cash is King!!



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Internal Factors

Personnel

Retention of Staff

- Effect of loss of key personnel
 - Loss of clients
 - Loss of specialism
 - Loss of focus
- Succession Planning
- Recruitment costs
- Redundancy/Retirement costs



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Internal Factors

Cash Flow Management

- INWARDS FACTORS
- WIP Lock Up
- Disbursement Costs
- Credit Control



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Internal Factors

Management Issues

- Lack of focused Management policy
- Lack of direction
- Decision making
 - Investment?
 - Mergers?
 - Successor Practice issues



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External Factors

• Competition

- New entrants into market
 - Alternative Business Structures
 - New firms coming into area



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What to do?

- Sufficient Management information
- Key Performance Indicators
- Business Development
 - Focused approach
 - Know your strengths
 - Add value



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External Factors

Clients

- Loss of Clients
 - Insolvency

Bank Support

- Cost
- Access



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What to do?

- Robust Credit Control
 - Indicators of WIP Levels/Debtor days
- Efficient Systems
- IT Systems
 - Allows more efficient working
- Allocation of Work
 - Right level doing right work



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External Factors

- Legal Aid cut for number of areas of law
- Ability to get/cost of Indemnity Insurance
- Commoditisation of product/fixed fee

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What to do?

Cultural Change

- Up front about fees
- Obtaining payment on account
- Monthly billing
- Shorter credit terms

Time Recording

- Ensure maximum recovery
- Proper costing of matters
- Clear guidance as to time recording process



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Questions?

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Finance and banking considerations of the chosen strategies

Mike Holloway MBA
Relationship Director, Royal Bank of Scotland

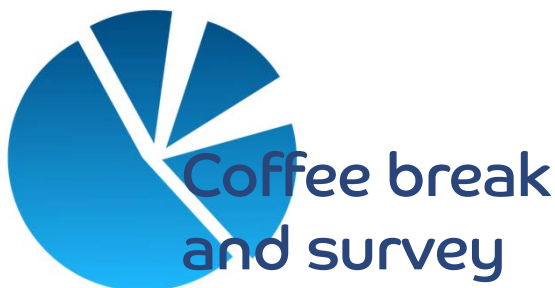
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- An effective relationship between equity and debt and an appreciation of how a shift in the mix of fee income impacts on funding requirements
- The implications of partners' exit
- The importance of profit retention
- Financial performance and generating cash
- The value of working capital assets and bank security
- Production of comprehensive and timely financial information and forecasts



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Changes in the mix of fee income

- Reduction in conveyancing work and interest income from client account balances
- Shift in the PI market post "Jackson" – wider use of Portal and lower fixed recoverable costs across areas of PI other than RTA
- Impact of current and projected mix of fee income on Office O/D usage and headroom available within O/D facility limit – and implications for repayment of term debt

2014 – total debt £400k v Net Assets £633k – gearing looks ok?

However:

- How much unbillable WIP/Disbursements?
- How much of aged debt over 120 days is REALLY collectable?
- How much “real” value could be attributed to Contingent WIP?
- Tied up with unbillable disbursements?
- Track record of settling cases and realisation rate?
- Therefore, what is the REAL Net Assets figure?

Financial Performance and Generating Cash

- It is not just about profit but it is just about cash
- Implications of working capital movement and management of lock up (or lack of it)
 - Unbillable WIP and disbursements
 - 120 day debtors
 - Partners unwilling “credit controllers”
 - Targeting of fee earners – importance of cash collection
- Implications of expenditure on fixed assets – including property, F&F, IT/Infrastructure
- Partners’ Drawings (including tax) v cash and not profit
- Demonstrating ability to repay from cash – implications for funding structure – O/D v Loans

Implications of Partner Exit

- 4 out of the 8 EPs are aged 60 or older. How much of an issue?
- Are there plans? What does the partnership agreement say about paying back capital and current accounts (and share of contingent WIP)? Could “managed” over-drawing of profits have helped?
- What are the implications for funding structure and ability to repay existing debt? Can the firm afford to pay the partners back? How does this feature in forecasts?
- Sources of additional capital:
 - Remaining equity partners – feasibility and appetite?
 - Potential new partners – credentials, appetite for risk, access to capital

Bank Security

- Traditional partnership – unlimited joint and several liability
 - Partners’ assets/liabilities key – though direct security often required
 - “Notional” relationship between borrowing and assets of the firm
- New World/New Models
 - Key for lenders to understand the risk and to mitigate as required
- Limited Liability models
 - Requirement for personal recourse
 - Not a substitute for capital i.e. not either/or
 - Milestones For release
 - Attitude of new partners – where capital and PGs required
- Debenture – LLP or Limited Company
 - Charge over the assets of the firm – comfort to the bank – or not?

The importance of profit retention

- The importance of profit retention
- Tax regimes and partnership models have not encouraged partners to retain profit BUT
- Is it ever right for all profit to be withdrawn. Consider this firm:
 - Question marks over ability to repay
 - Changes in fee income mix in uncertain markets
 - The thing about income and expenditure is – most expenditure is predictable and known whereas....
 - Most income isn’t
 - Need for headroom in working capital funding lines – if the partners don’t provide this, it will need to be provided by other funders
 - Access to funding?

Outline Value of Debenture:

- Total Value of WIP including Contingent
 - £1.040m @ say 30% £312k
- Total Value – current assets
(Assume £389k Debtors/£100k Unpaid Disbs)
 - £0.389m @ say 50% £245k
 - £0.100m @ say 30% £ 30k
- Going concern value v realisable value
- Total “value” of the Debenture £587k v Bank £400k
- No problem?
- Is a Debenture lend appropriate here without recourse to the Members/Directors?

Consider this

- Unbillable WIP and disbursements – how much? Can we really attribute security value to this element?
- 120 day debtors – are these really going to turn into cash? Does this represent good security?
- How much credibility does the WIP have if time recording is “not consistent”
- What is the realisation rate for WIP? How can we form any view of WIP value without a sense of the proportion actually billed?
- How can the bank lend safely against debtors – when the partners are reluctant credit controllers?

Questions?

Financial Information and Financial Monitoring

- Business Plan – financial and non financial elements
- Financial forecasts – and assumptions – for all key review meetings with the bank
- Make your case – set out your requirements and demonstrate the need for them and your ability to repay
- Monthly management account package – timely and relevant. Compare actual to forecast performance. Explain the variances
- Aged analysis of outstanding bills..... and WIP
- Realisation and Utilisation rates?

The law firm of tomorrow – and how to get there

Mike Holloway MBA
Relationship Director
RBS England & Wales
North East Region

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The owners of the (successful) law firm of tomorrow will:

- Understand and create an effective relationship between borrowing and capital – and be alive to the implications for that relationship of changes in their business mix;
- Have a profit retention strategy which is an integral part of meeting the funding needs of their business;
- Have an open and active relationship with their bank within which the forecasting and measuring of financial performance is critical and through which future funding requirements are anticipated and supported;
- Understand the importance of cash and therefore the need for effective management of lock up. They will ensure that their primary financing lines have sufficient headroom.

Financial Planning Considerations of the Chosen Strategies

Andrew Kilby, Managing Director
Armstrong Watson Financial Planning & Wealth Management

Financial Planning Considerations of the Chosen Strategies

- Structure and succession
- Premises
- Other planning considerations

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Partner/Shareholder

- Legal agreement
- Basis of valuation
- Supporting life/critical illness cover

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EMERGENCY
EXIT

Key Employee

- Identify who are "key"
- Financial impact of their loss?
- Over how long?

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Structure and Succession

How will the business cope with the unplanned exit of:

- A partner/shareholder?
- A key employee?

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Owner →
← Renter

Premises

- Lease
- Purchase personally
- Purchase via pension

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Auto Enrolment

- Staging date – 1 August 2015
- Plan for implementation
- Manage cash flow implications

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Purchase via pension

- Joint ownership possible but who?
- Existing pension monies for purchase
- Borrow up to 50% of net pension value
- Commercial rent
- Offset rent against tax
- Growth in property value tax free

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Other considerations

Individual financial position of partners:

- Building personal assets
- Repaying debt
- Protecting family
- Retirement options

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AUTO ENROLMENT

Pensions + Cashflow + Administration = *Headache!*

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Monitoring the firm in order to make strategic decisions

Regulatory Information

Armstrong Watson Financial Planning Limited is authorised and regulated by the Financial Conduct Authority. Firm reference number 542122. Registered as a limited company in England and Wales No. 7208672. Armstrong Watson Financial Planning & Wealth Management is a trading name of Armstrong Watson Financial Planning Limited. Registered Office: 15 Victoria Place, Carlisle, CA1 1EW

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The Law Firm of Today...
Doesn't really understand its Operation



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- Too much WIP
- Excessive debtor days – 120!
- Frequent Write offs
- Inaccurate Fee Quotes
- "Client Care"?



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ANY QUESTIONS?
THANK YOU

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Technology:
Provide the right tools to enable the fee earner to capture an accurate and comprehensive account of their activity.

&


Training:
Implement a policy & process which is supported by the right training – eliminate the awkwardness in discussing bills with the client:

This begins with capturing ALL time

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How the firm can increase costs recovery and efficiency

Andrew McAulay
Costs Lawyer and Head of Costs & Litigation Funding



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REKOOP TIME OUT by Dirk

"I KNOW THERE'LL BE ANOTHER BUS ALONG IN A MINUTE... BUT TRUST ME, WE REALLY WANT TO TAKE THIS ONE."

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Process and Efficiency

- Entering a world where process is going to be integral to what you do
- Good process = efficiency
- Good process and efficiency = more cash and quicker



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Quick Question!

- What is your experience of turnaround from a Costs Lawyer or Law Costs Draftsman?
- 7 days? 28 days? 3 months?
- We will come back to this later!



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In-House or Externally

Pro's	In-House	Externally	Pro's
<ul style="list-style-type: none"> • In the office • More accessible • Can help with broader queries • Can get involved with day to day issues 		<ul style="list-style-type: none"> • Pay as you go service • No salary or NI costs • No sick pay • You can typically demand more i.e. quicker turnaround 	
Con's	In-House	Externally	Con's
<ul style="list-style-type: none"> • Difficult to recruit • Permanent salary & NI costs • Paying if off sick 		<ul style="list-style-type: none"> • Not embedded in the firms values • Not in the office full time 	

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Key aspects of the Case Study

- Inconsistent approach to Time Recording – is all time being captured?
 - Volume work
 - Slow Bill and Costs Negotiation turnaround times (60 + 160 = 220 days in total)
 - No-win no fee work - therefore high amount of lock-up WIP
 - 38% - significant part of the practice. Reliance on this income
 - Employ someone part time through a personal relationship
- **What changes are required?**

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Size of the Prize



- Cash
 - More cash and quicker. 116 days on average quicker
- Costs Savings
 - More process driven with greater efficiency. Investment in technology will result in quick savings
- Relationship with the Bank
 - Greater scope for increased lending and support in tough climates
- Staff Engagement
 - Lawyers hit their billing targets. Lawyers are 100% focused on legal work

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Law Firm of Tomorrow

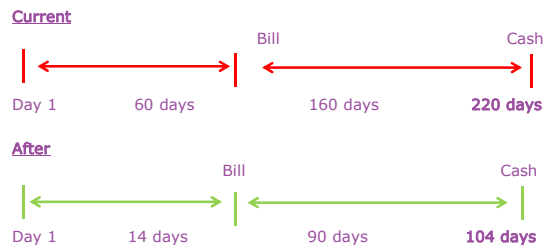
- Retainers are set up correctly and efficiently
- Time captured consistently across the practice. Captured daily with narrative descriptions compulsory
- The costs recovery process should be treated as high priority. The firm should have a dedicated in-house team or a relationship with an external firm
- Bills of Costs should be prepared within 14 days with the only exception for large assignments
- Costs claims should settle on average within 90 days
- The costs recovery process should be done 'electronically' where possible



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Size of the Prize continued.....



- **Cash hitting the bank 116 days quicker per file**

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The Real Benefits

Adding Value...

Managing partner

- More money (quicker) for strategic investment

FD

- Enhance cash flow
- Enhance recovery
- Minimise write offs

lawyer

- Meet performance targets
- Help own team to grow
- Focus on core legal work

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Real Case Study No. 2 - Before

- Specialist Personal Injury and Clinical Negligence firm
- High volume Fast Track and Multi-Track work
- Average turnaround for Bills of Costs of 65 days
- Poor time capture and retainer set up
- Lawyers dealt with costs negotiations and on average took 90 days to settle
- Cash hitting the bank = 155 days

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Real Case Study No.1 - Before

- Top 150 law firm with volume Court of Protection work
- Poor time recording and file management
- No interim billing arrangements in place
- Long standing relationship with law costs draftsman
- Average of 90 days for Bills of Costs to be prepared
- Average of 30 days to send the Bill for assessment to the Court
- Average of 45 days before the costs were assessed and the cash hit the bank
- The whole process took on average 165 days = 5 ½ months

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Real Case Study No. 2 - After

- Bills of Costs now prepared in 14 days
- Retainer precedents in place
- Better time capture
- Costs Negotiations dealt with by costs lawyer with average time to settle of 60 days
- Cash hitting the bank = 74 days (81 days quicker)

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Real Case Study No. 1 - After

- Improved time recording and file management through training and investment in new time recording system
- Average turnaround for Bills of Costs of 14 days.
- Interim billing system in place
- Weekly Financial Reporting in place which supervisor monitors daily
- All files are sent to the Court for assessment within 7 days of receipt
- Average of 66 days for costs to be assessed and cash hitting the bank. 99 days quicker!
- The firm now earns more money on each file and receives the money quicker. This has helped the firm to invest and grow

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Any Questions??????



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The issues

- Exposure to the bank - £400k
- Increasing lock-up
- Old WIP, disbursements and debtors
- Not able to withdraw profits
- Partners approaching retirement
- Not attractive to merger partners
- Expensive unused office space
- Personal injury reform

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Conclusions – strategies to adopt

Andy Poole
 Legal Sector Partner
 Armstrong Watson

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Overview of the suggested strategies

- Efficient 'lean' processes
- Cash collection
- Forecasting
- Succession planning
- Merger?
- Premises
- Sell the personal injury cases?
- ABS?
- Management information – KPIs
- Business structure – incorporate?

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Conclusions – strategies to adopt

Agenda

- Reminder of the issues
- Overview of the suggested strategies
- Conclusions

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Management information

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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Management information 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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Management information Impact

How to increase cash flow

	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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Management information 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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Management information Impact

How to increase cash flow

- 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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Management information Impact

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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Management information Impact

Summary

- Billing one day earlier reduces your overdraft by $1/365 \times$ fee income
- Collecting debts one day earlier reduces your overdraft by $1/365 \times$ 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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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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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

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

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

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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Incorporation – matters to consider

- SRA process
- Timing
- Incorporation tasks
- Shareholders' agreement
- Remuneration planning
- Tax
- Goodwill

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Summary – key points

- Premises
- Focus on core areas of the business
- Drop unprofitable work
- Growth? Niche? Diversify?
- Management information - KPIs
- Forecasting
- Business structure
- Succession planning
- Grooming the business for sale

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Overview of the suggested strategies

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- Succession planning
- Merger?
- Premises
- Sell the personal injury cases?
- Management information – KPIs
- Business structure – incorporate?

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Questions

What questions do you have?

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Buffet
Resume at 6.30pm

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Survey Results

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**The law firm of tomorrow –
and how to get there**

6 May 2014
Newcastle

This briefing qualifies for 4 hours CPD – Authorisation Ref: EKQ/ARWA

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