

# Legal Sector Pulse Survey Results

April 2022

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Accountants, Business & Financial Advisers

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# Introduction

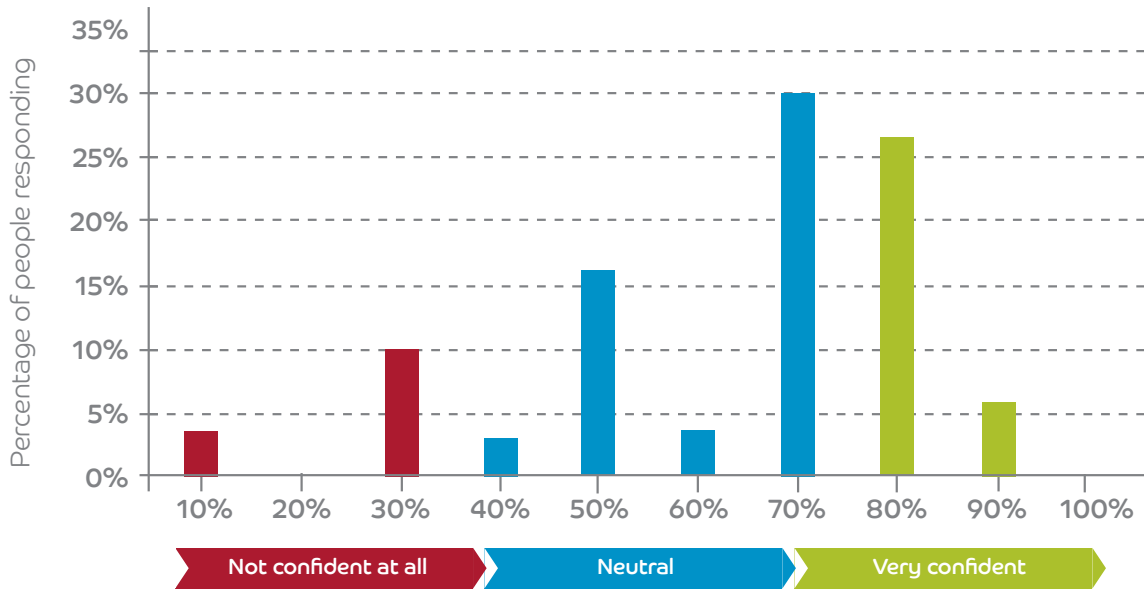
The legal profession remains in a period of change, in many ways accelerated by the Covid pandemic. There are uncertainties as to the impact of the changes within the sector, and also the influences from the wider economy.

With that in mind, we are continuing our legal sector confidence pulse surveys, with our April survey being the third in our quarterly series.

## Executive Summary

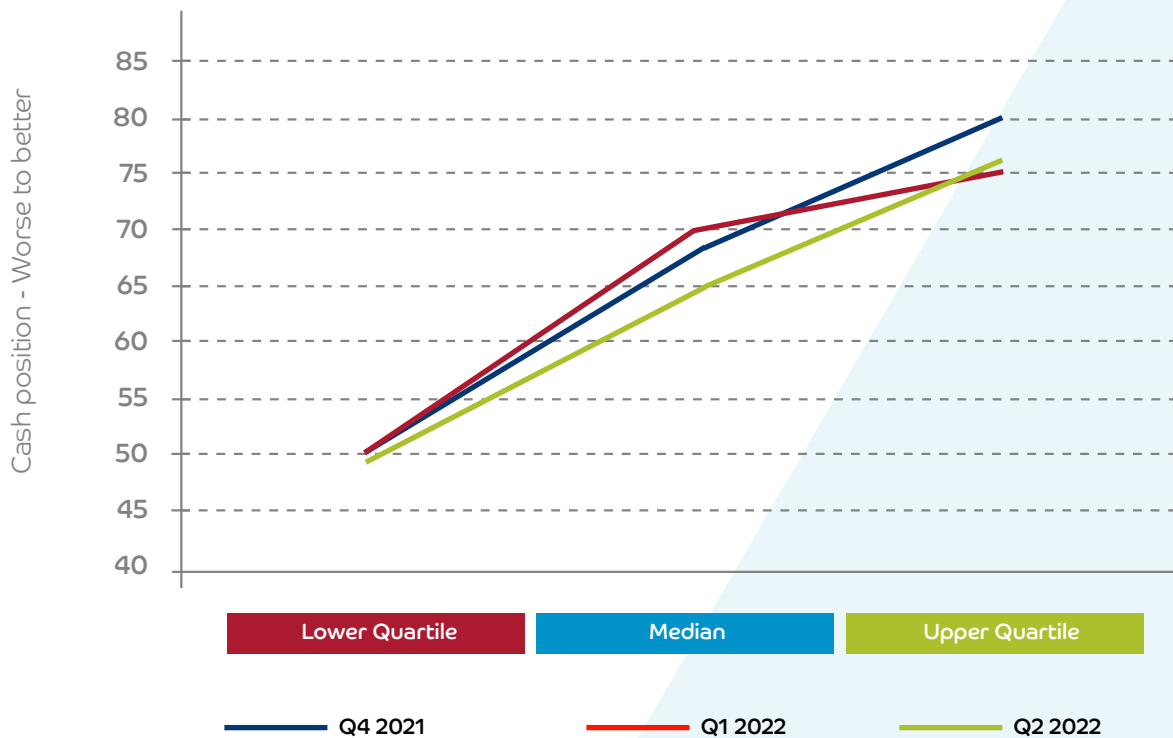
The UK economy faces new challenges. The worst of the Covid pandemic may be behind us but now we face a period of high inflation, caused in part by the war in the Ukraine. Overall confidence levels in the performance of law firms is holding up. However, looking to the future there is uncertainty regarding fees levels and cost control, making law firms more risk averse when considering future acquisitions.

# 1 | How confident are you of the performance level of law firms over the next 12 months?

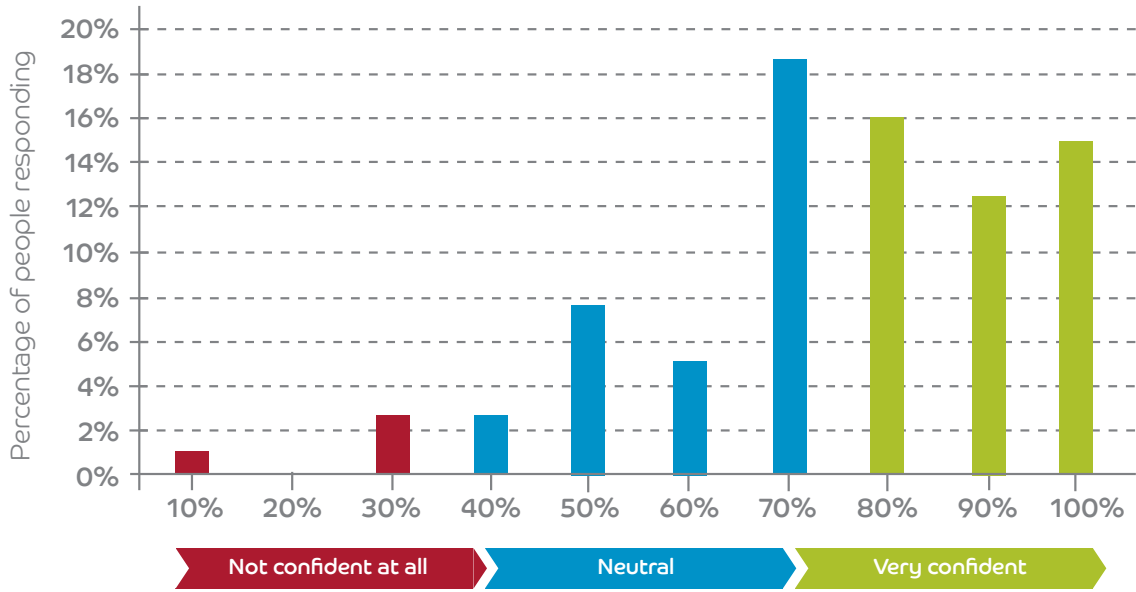


Overall confidence is much the same as in the previous quartile. However there is a slight decline in those firms being very confident about their performance in the next 12 months. This is interesting as it does not match individual's satisfaction with their own firm's results. This is a complete turn around from the last quarter's results.

## Performance confidence trend tracker

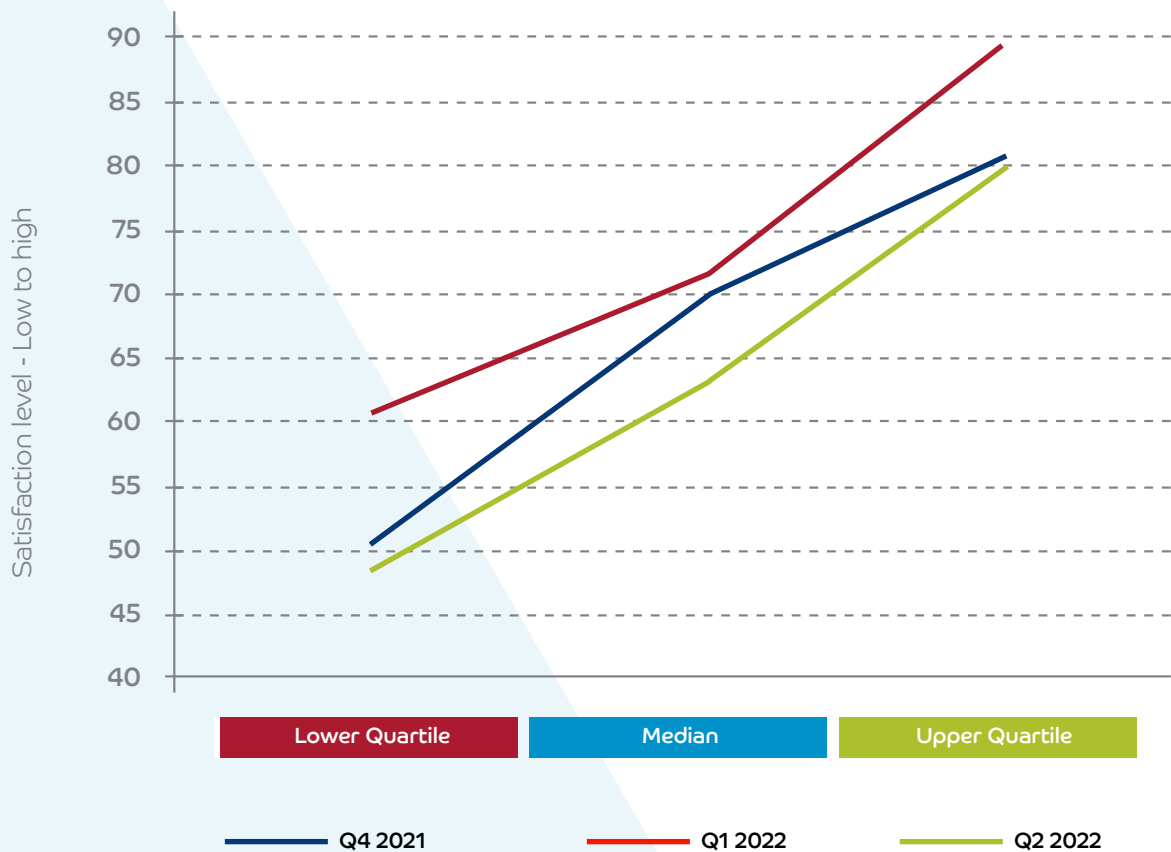


## 2 | How satisfied are you with the current results of your law firm?

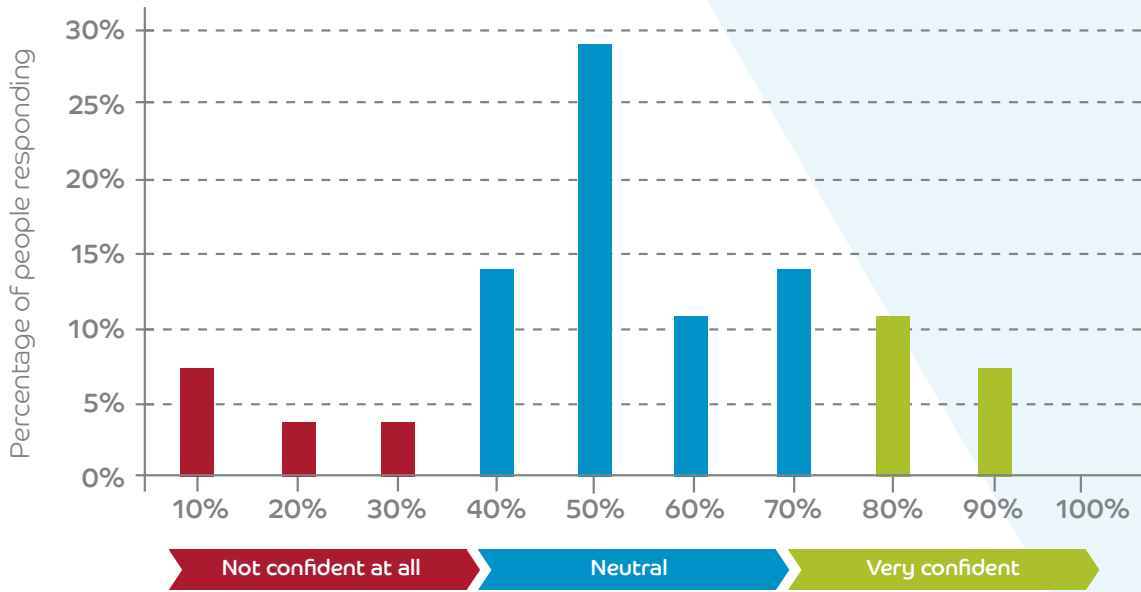


There has been a marked decrease in satisfaction levels of individual's own firms results. This is not surprising when one considers the inflationary effect on underlying costs.

### Results satisfaction trend tracker

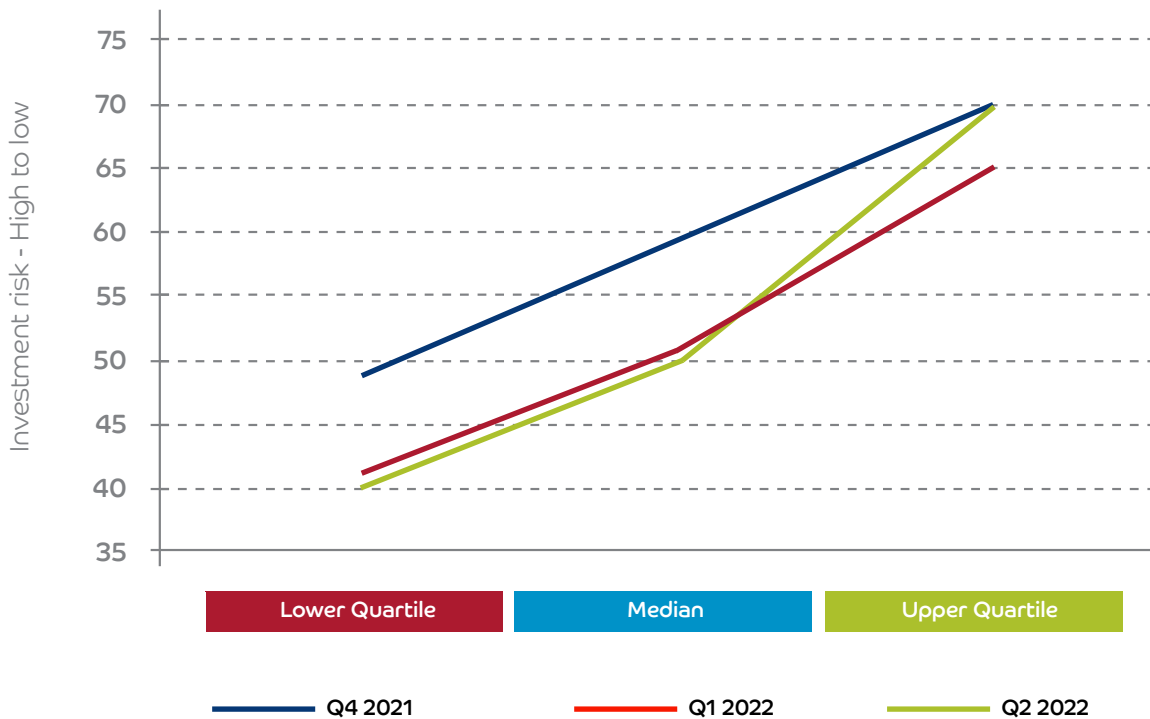


### 3 | How risky would you currently rate an investment as an owner in a law firm?

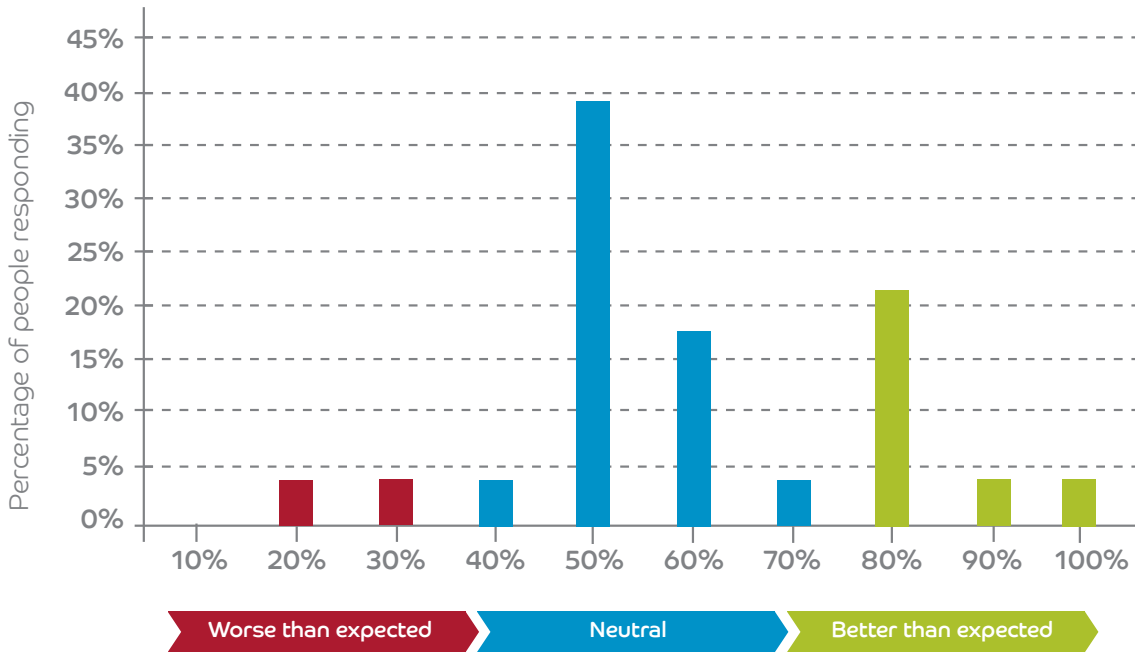


After a short period where owners considered that the risk in having an investment in a law firm was reducing, now we see a turnaround. The perceived risk has returned to that of December 2021. This could be predicted when one looks at the overall economy. Not only will law firms be hit with higher costs, their clients will be struggling too which will inevitably put pressure on fee levels that law firms can charge. Also law firms are prime targets for cybercrime because of the sensitive information they hold as well as large amounts of client monies. In order to counter this threat law firms have no alternative but to invest large amounts in new sophisticated and expensive IT systems.

### Investment risk trend tracker

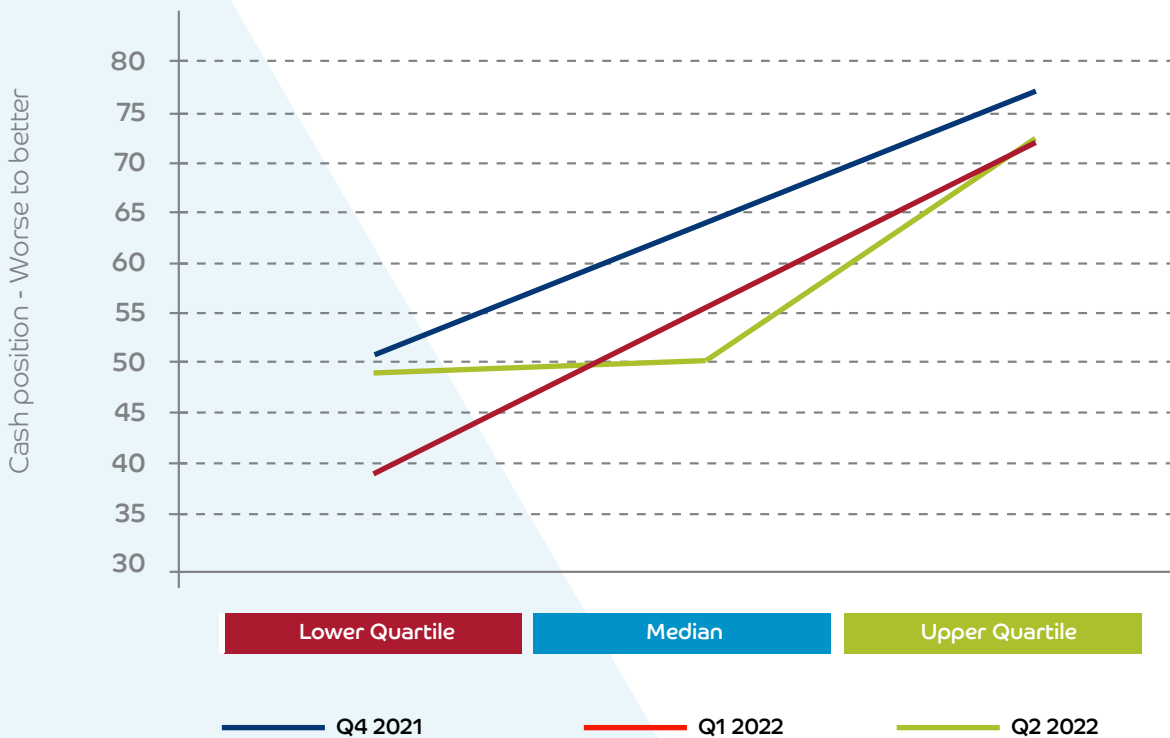


#### 4 | How would you describe your firm's current cash position?

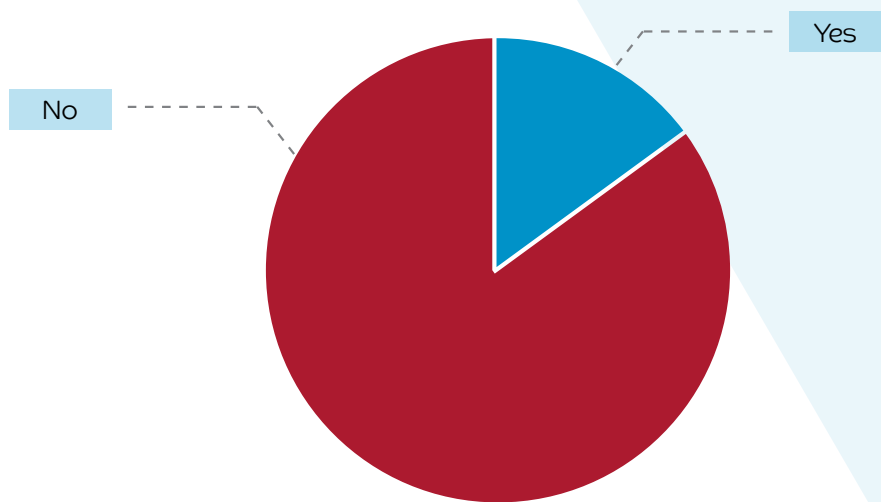


The cash position trend tracker ends up at about the same place as the last quarter. However there are more firms with a worse than expected current cash position. This reflects the challenges faced by law firms. At the forefront are the costs involved in recruiting and retaining staff. Without the correct staff levels fees cannot be generated and profitability falls. The challenge for law firm owners is to be creative in introducing initiatives that help staff without impacting on chargeable hours. For example the introduction of summer hours working.

#### Cash position trend tracker



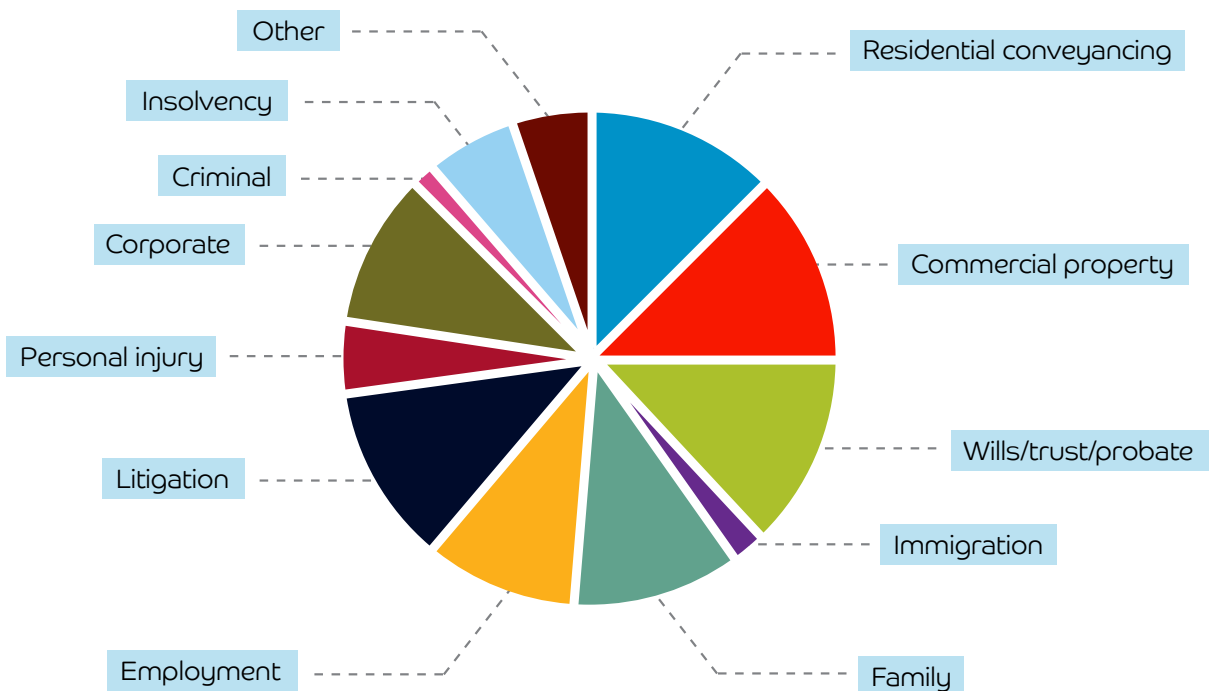
## 5 | Are you actively considering acquisitions as a strategy?



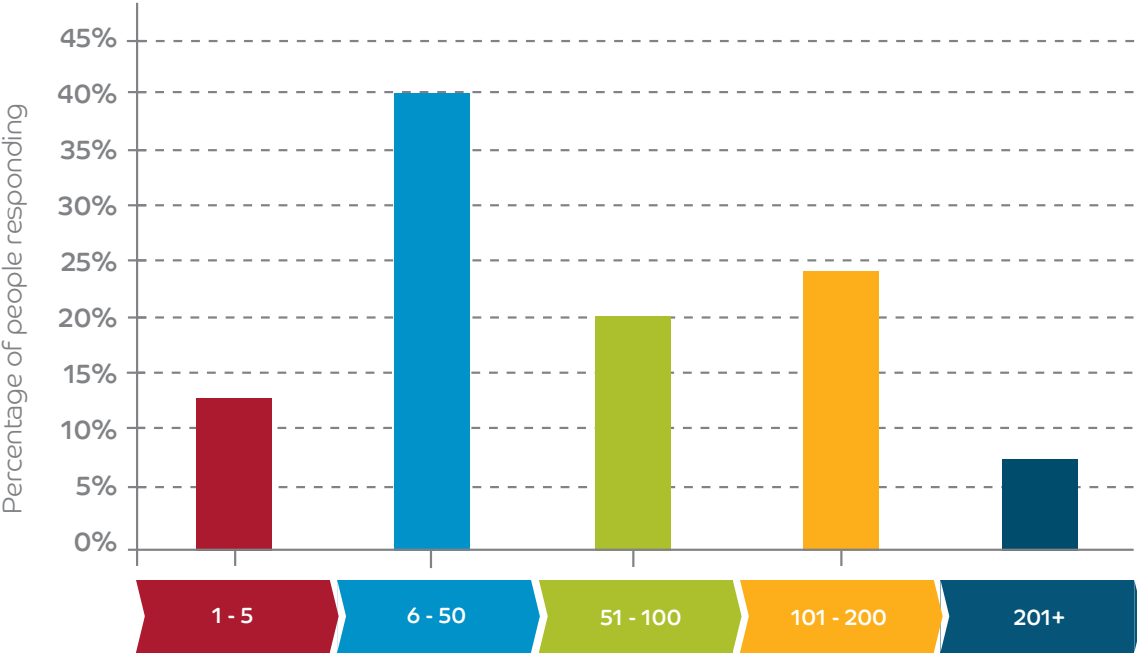
This quarter's focus is on having acquisitions as a strategy. The overwhelming answer is no. That is not surprising when one considers the economic uncertainties that the country faces. For example the UK could be looking at inflation rates of 10% by the end of the year. Other major uncertainties exist such as the effect of the war in the Ukraine and the knock on increases in energy costs. Also one has to consider the size of the firms in this survey. Less than 10% employ 200+ employees. There would obviously be more risk for a smaller firm to acquire and integrate a new acquisition.

Perhaps it could be suggested that contributors are feeling more like selling than acquiring? In the next quarter's survey we will ask that very question. Our own experience also suggests that despite the feeling of respondents here, there is an established bank of law firm acquirers that continue to be very active, and there seems to be no signs of the current market consolidation slowing.

## 6 | Which service types does your firm provide?



7 | How many people does your firm employ?





# Armstrong Watson Legal Sector Services

We have a team that focus exclusively in acting for lawyers. That knowledge allows us to concentrate on improving the business of law and efficiently complete compliance requirements.

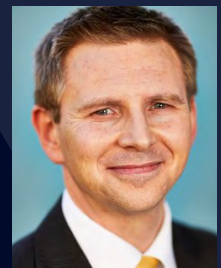
We help lawyers in a way that others don't, providing a range of bespoke services alongside the typical accountancy services like audit, tax and Solicitors Regulation Authority (SRA) Accounts Rules, these include:

- alternative business structure applications
- benchmarking
- strategic business advice
- incorporations and LLP conversions
- outsourced financial director services
- law firm mergers and acquisitions

We are proud to be the Law Society's preferred provider of accountancy services and founder members of Law Firm Ambition, a resource for law firms, featuring advice and insights from the industry's foremost experts.

Our pro-activity stands us apart from other accountancy firms, generating our track record of providing solutions to law firms.

Find the full list of specialist services on our Armstrong Watson website.



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# Armstrong Watson Restructuring and Insolvency Services

Identifying issues and taking appropriate action at the earliest opportunity can make a significant difference to the longevity of your business. The Restructuring & Insolvency team work with clients and stakeholders to understand and overcome those challenges. All the partners are Licensed Insolvency Practitioners, however our view is that a formal insolvency process is just one of the potential solutions and we will look at all the options with the client to identify what is most suitable in the circumstances.

With regards to the legal sector, we have experience in dealing with the Legal Aid Agency and the SRA (both without the need for an intervention and after one) and we are able to utilise our colleagues in the Legal Sector team to ensure that any merger/acquisition, or managed wind-down, is carried out in line with the requirements for the SRA.



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