

Legal Sector Pulse Survey Results

January 2022

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Accountants, Business & Financial Advisers

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Introduction

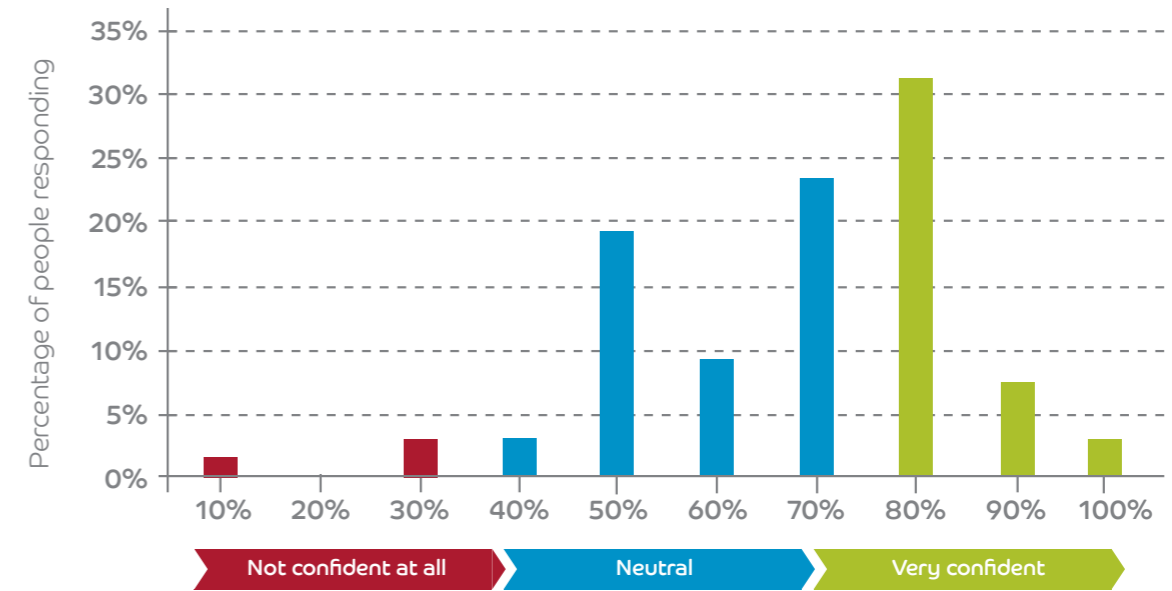
The legal profession remains in a period of change, in many ways accelerated by the Covid pandemic. There are uncertainties as to the impact of the changes within the sector, and also the influences from the wider economy.

With that in mind, we are continuing our legal sector confidence pulse surveys, with our January 2022 survey being the second in a new quarterly series.

Executive Summary

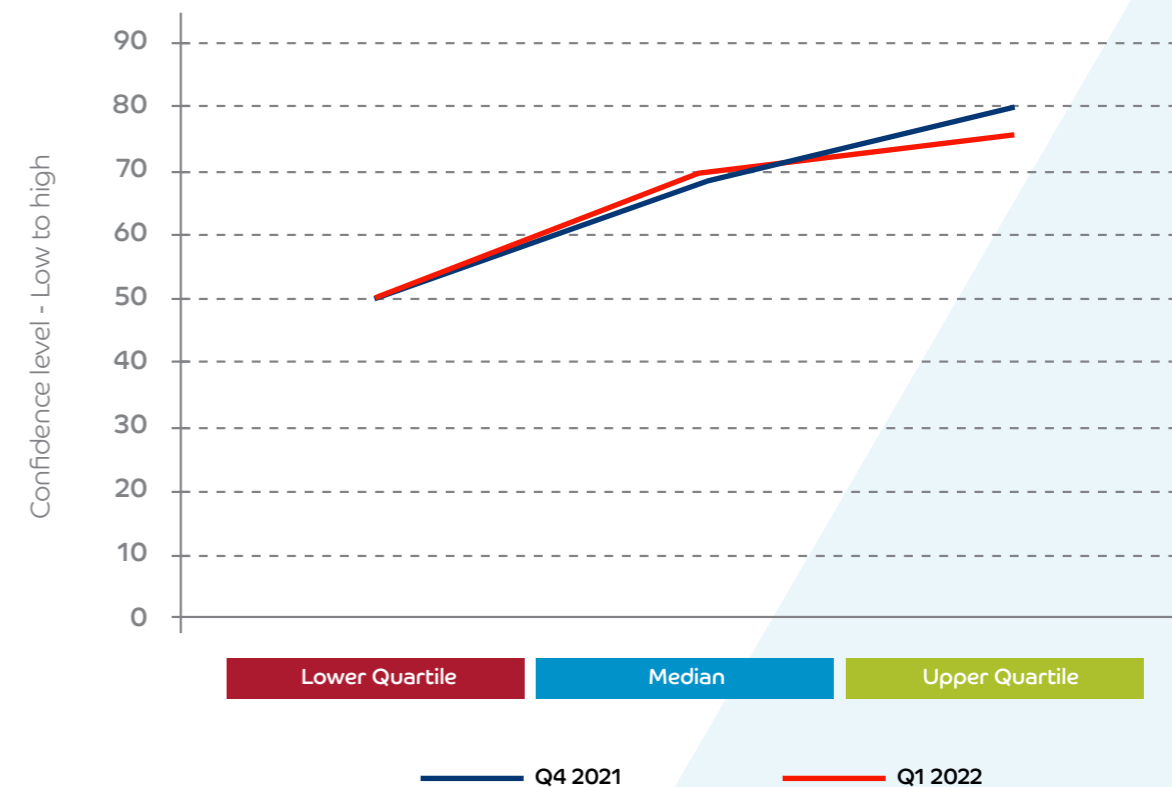
Despite the current flux, law firms continue to perform well, with issues not being around generating work, but more about how to get the work done. Resource/retention/recruitment/productivity are all key issues right now, and this is reflected in the responses to this quarter's survey. Cash positions also appear to be lower than in the previous quarter, and perhaps that is why confidence overall has dropped a little in the past three months, despite continued demand for services.

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

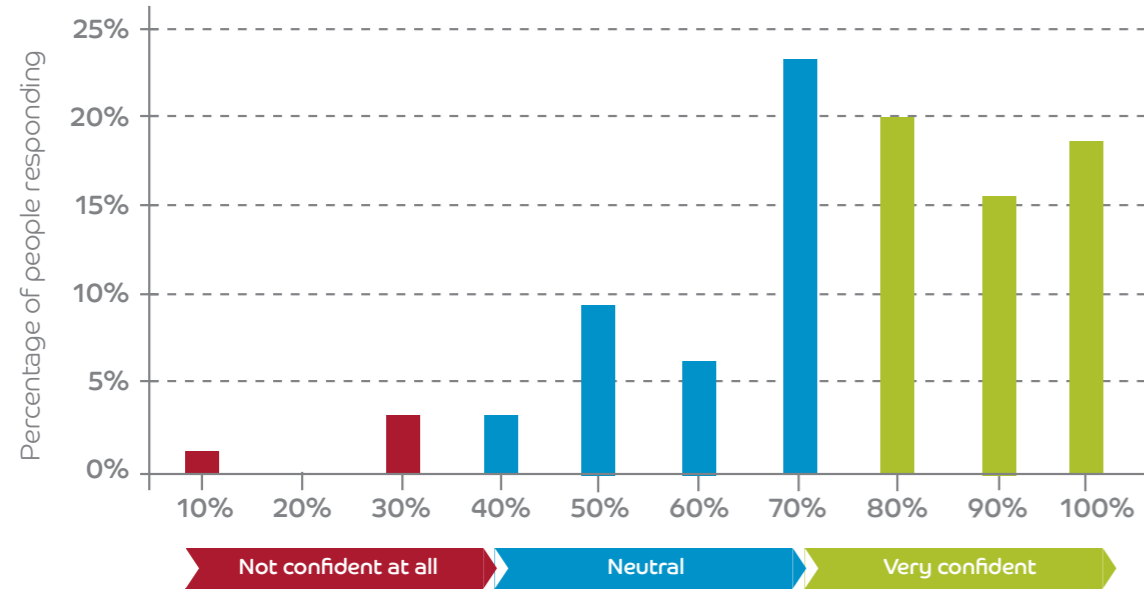


Whilst respondents to our survey in January remain relatively confident about the performance, overall confidence is down slightly compared to the last quarter, whereas satisfaction levels are slightly higher overall. This may be due to firms beginning to be able to predict more effectively their performance as we start to move away from the pandemic and the challenges that it brought.

Performance confidence trend tracker

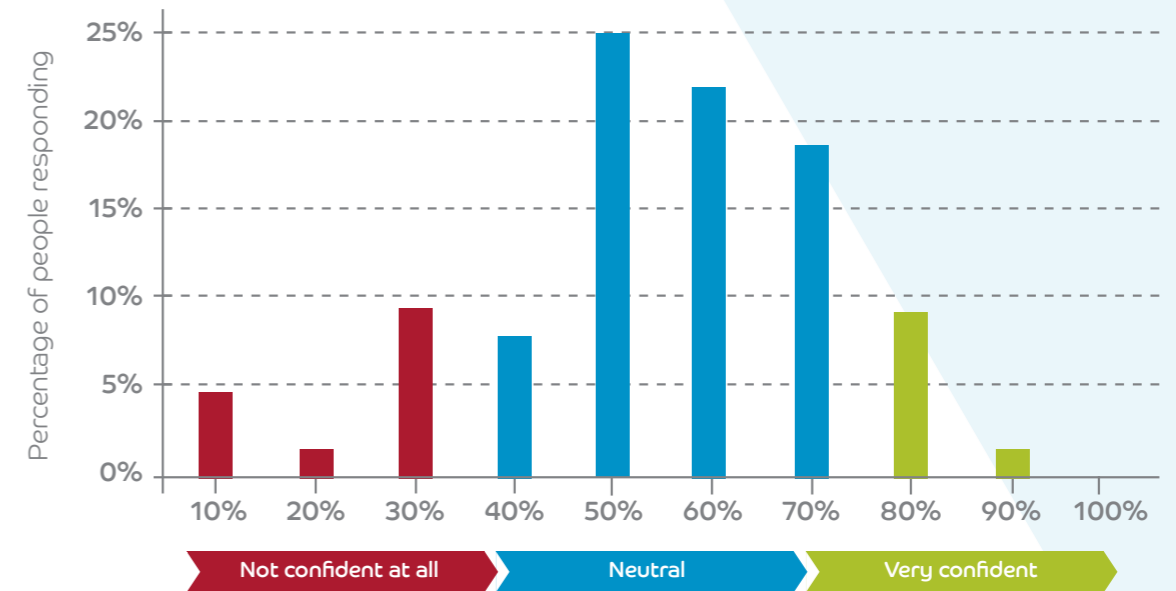


2 | How satisfied are you with the current results of your law firm?



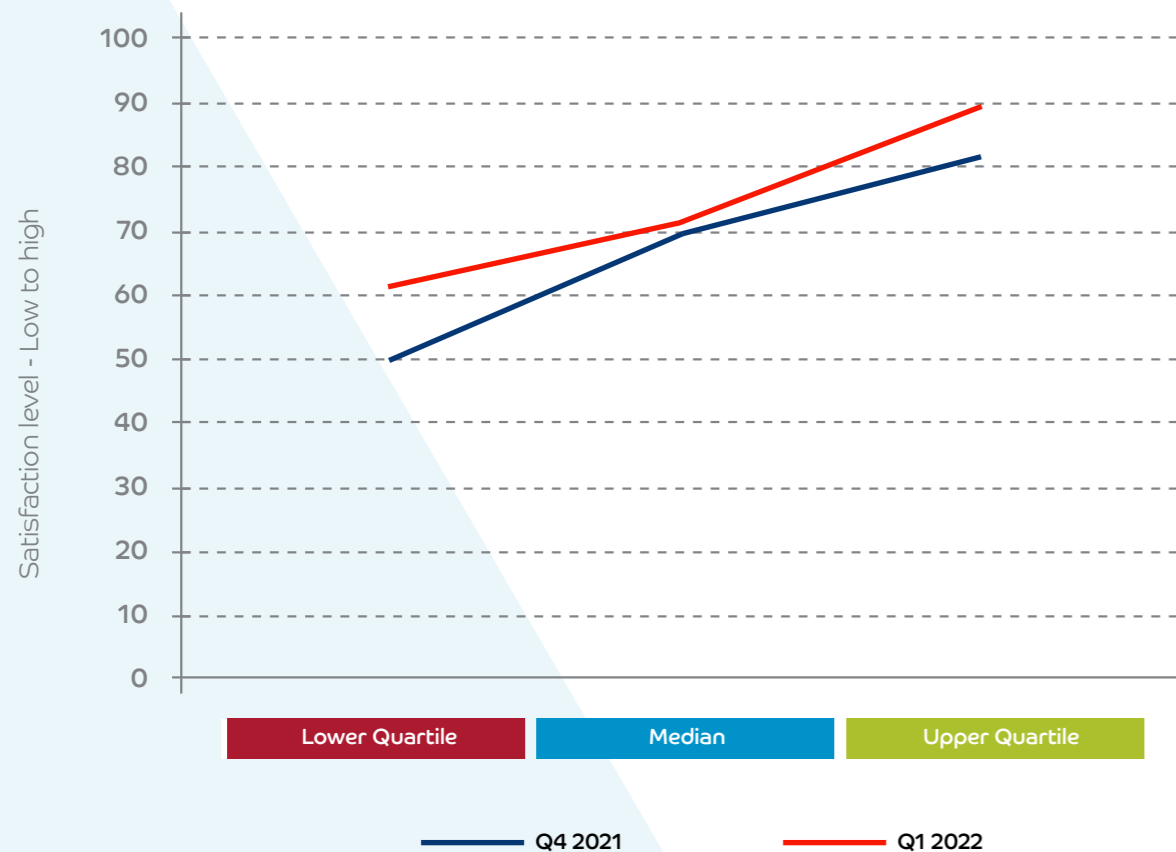
Confidence in the sector appears to be holding steady, although confidence in individual's own firms appears to be higher and rising further from last quarter – it remains interesting to see that respondents continue to rate the performance of their own firm above that of the market.

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

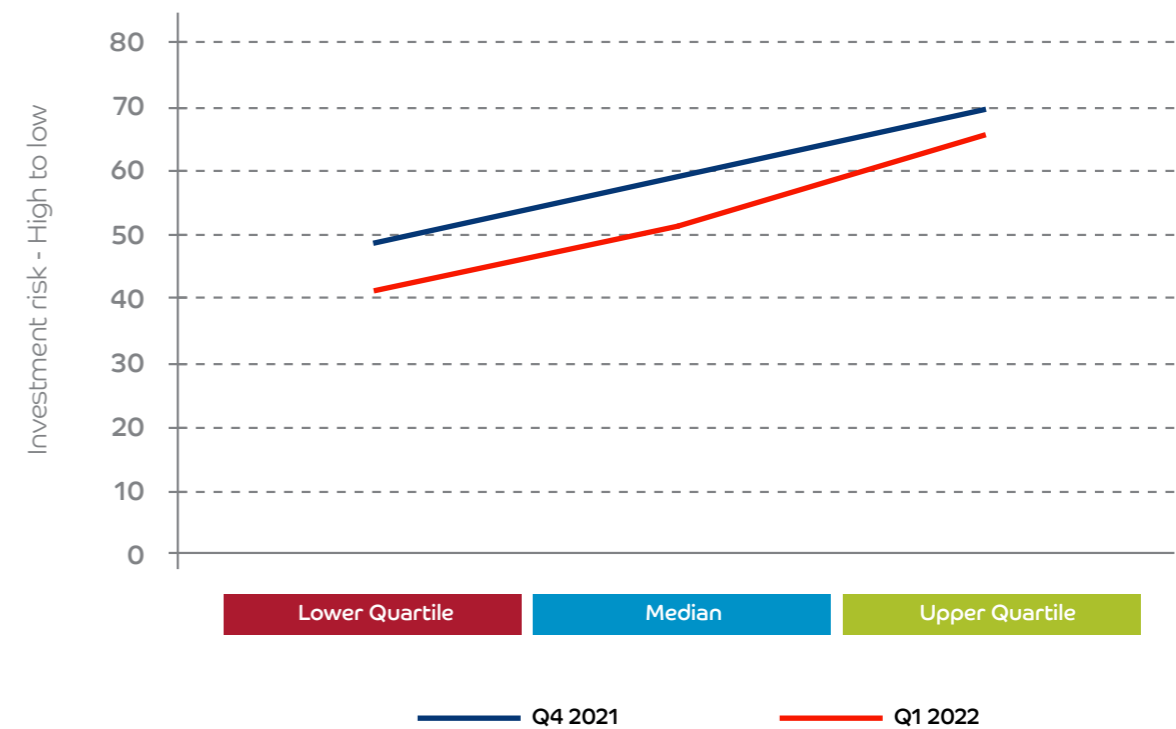


When it comes to rating the risk of investments in a law firm, it appears that each of the lower quartile, median and upper quartile results are nearly 10% lower than last quarter – one to watch in future quarters to see if that trend continues. Perhaps the reason for that is that responses on current cash levels held are also 10-15% lower than the previous quarter.

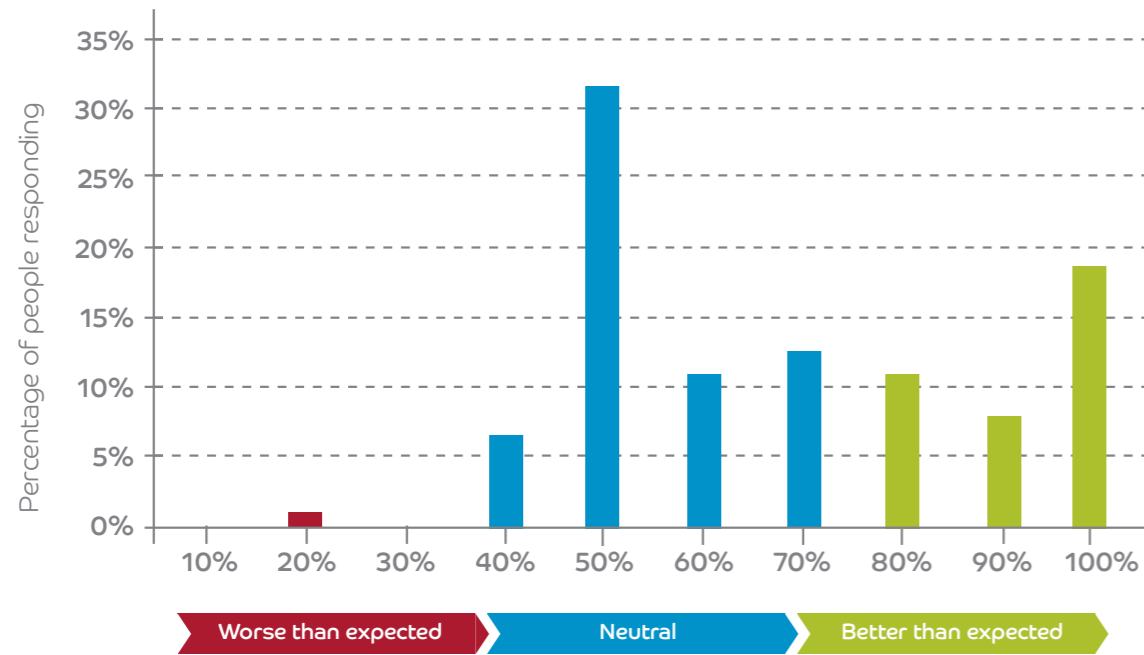
Results satisfaction trend tracker



Investment risk trend tracker

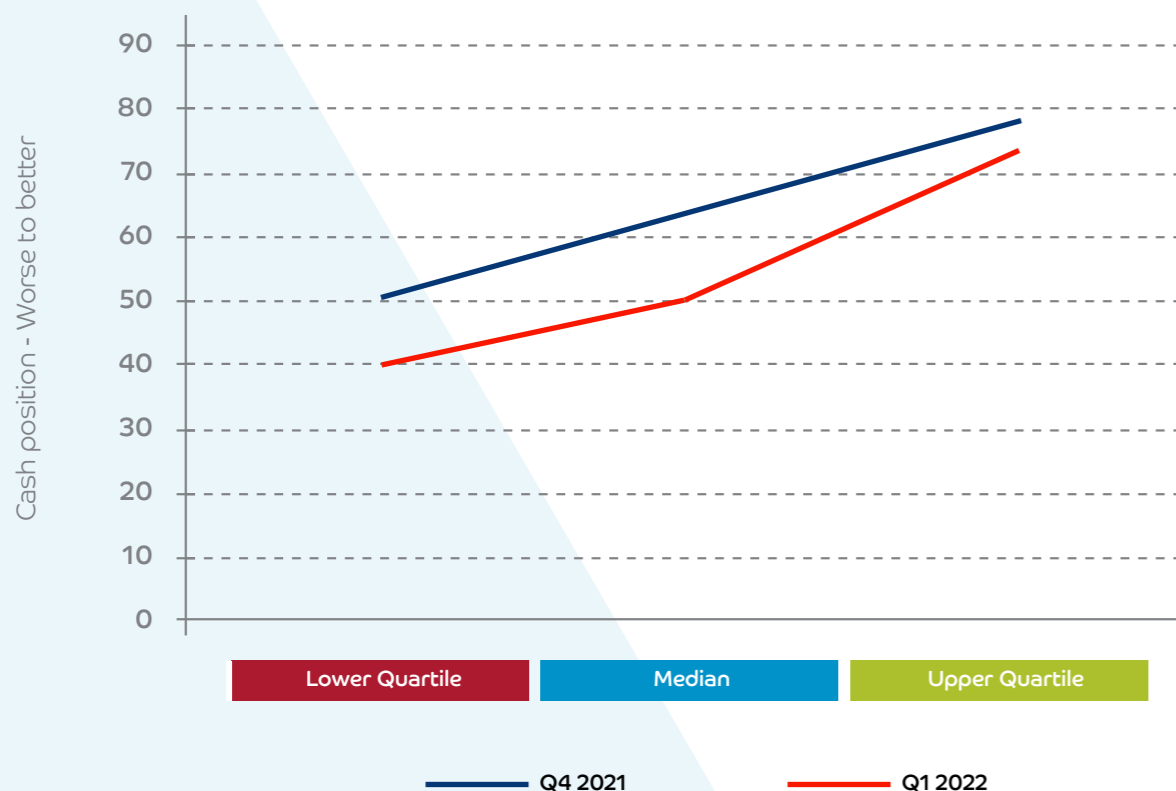


4 | How would you describe your firm's current cash position?



It remains to be seen whether the respondents' opinion on their cash position will improve over time as the economy settles down after the pandemic. Many partners had to meet their Self-Assessment payments in the last quarter which might impact on their feelings, and we cannot avoid commenting on the increase in utility bills and the proposed National Insurance Contributions hike in April 2022 which will no doubt be adding pressure to firms' cash flow positions. When you also consider the increasing costs of professional indemnity insurance and the issues around staff retention (see below), it is not surprising that respondents' confidence levels in their cash position have declined.

Cash position trend tracker



This quarter's focus

5 | How easy do you find it to retain staff?



This quarter's focus appears to have been on staff retention and the challenges being faced by law firms in the current climate. The "Great Resignation," as it has become known, is causing problems for most employers, and the issues within the legal sector have been well-documented. The responses in our survey unsurprisingly reflect the wider challenges and we will look at these in more depth here whilst also looking at what the respondents felt were helping them to deal with the competitive market.

Remuneration levels are an issue

Many of our respondents cite salary inflation as a concern, with several people commenting that managing expectations is becoming difficult when competitors are offering "unrealistic" packages and benefits, with that impacting on the firm's ability to remain competitive. However, it is not one-sided, with several respondents advising that whilst they may offer good salaries, staff are looking for additional benefits, not just high wages, which is allowing them to be slightly more competitive when looking at retaining or hiring staff.

Remote- and flexible-working feature highly

It will not come as a surprise that firms are finding that their staff are being approached by firms from further afield. If there is one thing that the Covid-19 pandemic has taught us, it is that working wholly from an office does not have to be the norm. There has been an increase in firms offering remote working as an additional benefit, whereas pre-pandemic, those jobs were less common. This gives individuals outside of the bigger cities an opportunity to work for the firms located in the city centres without the need for them to move nearer. In the short term, this type of opportunity will continue to be a challenge for the firms who have relied on their teams living outside of the bigger cities, however it remains to be seen whether this will continue over the long term.

The respondents who are not facing these issues are generally already offering some degree of flexible working, with some hybrid working thrown in. This does tell us, therefore, that firms who are willing to offer flexible or hybrid working, at least in the short to medium term, will likely have a better ability to retain staff than those who want a full time return to the office.

A strong culture is important

Relationships feature strongly in the responses where they have been answered in a positive way. This includes staff feeling like they are part of the team, being able to do rewarding work in good conditions, with good prospects. Interestingly, there are several respondents who comment upon the loyalty (or lack thereof) of their staff which would suggest that the experience of these firms has not been a positive one. These less positive comments generally coincide with a feeling that staff leave due to being offered higher salaries, however the responses overall suggest that where there is a strong, underlying relationship, then staff retention does not seem to be as much of an issue.

Work/life balance, flexible working, and job satisfaction all appear to be important in staff retention based on the comments received.

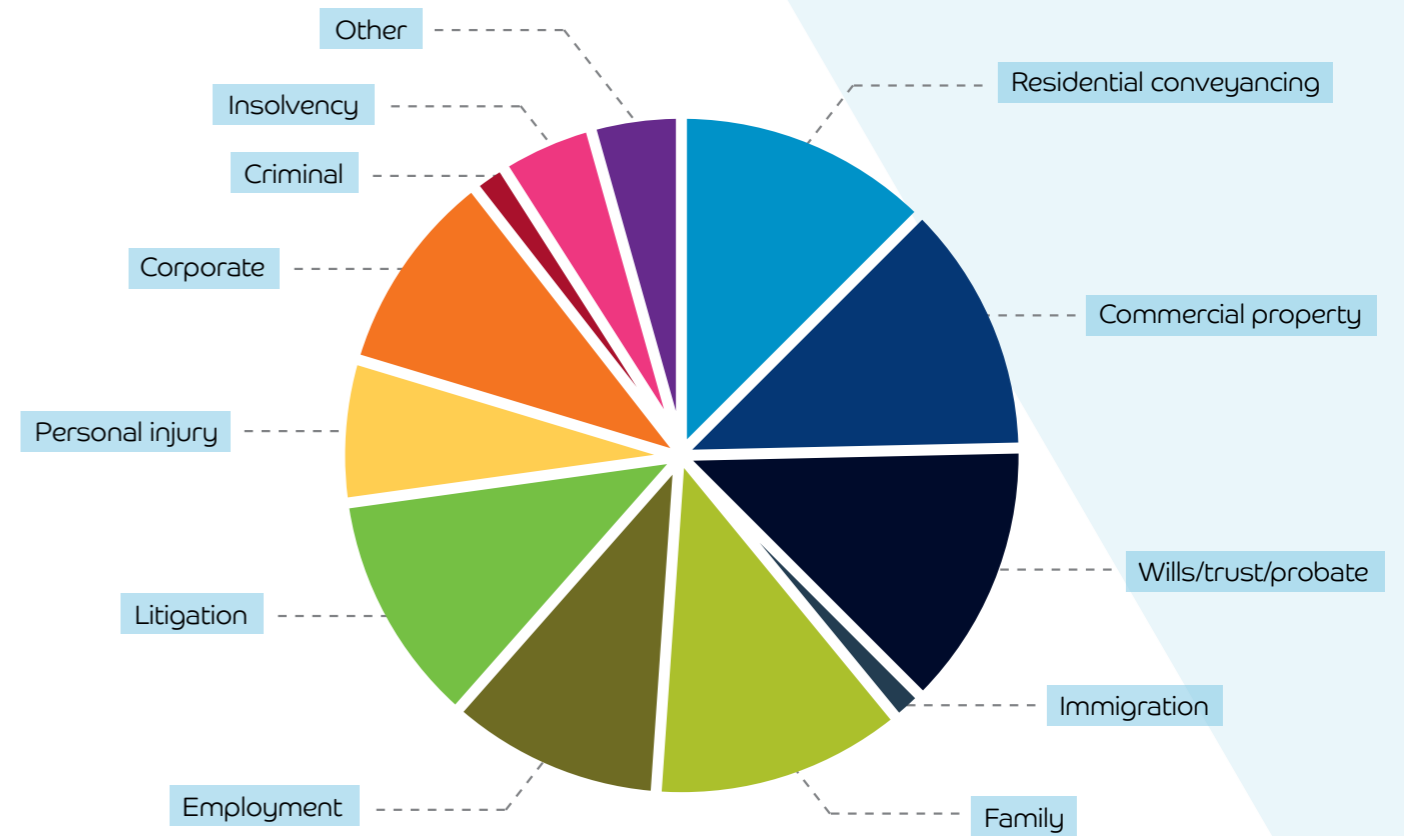
Managing costs... and risks

Whilst firms may be keen to offer roles to prospective team members on a remote basis, they will need to be mindful of the risks that are inherent with this strategy. Included with the risks will be the ability to manage and control cases remotely whilst adhering to the relevant legislation, something which has already impacted upon the cost of professional indemnity insurance and will continue to do so.

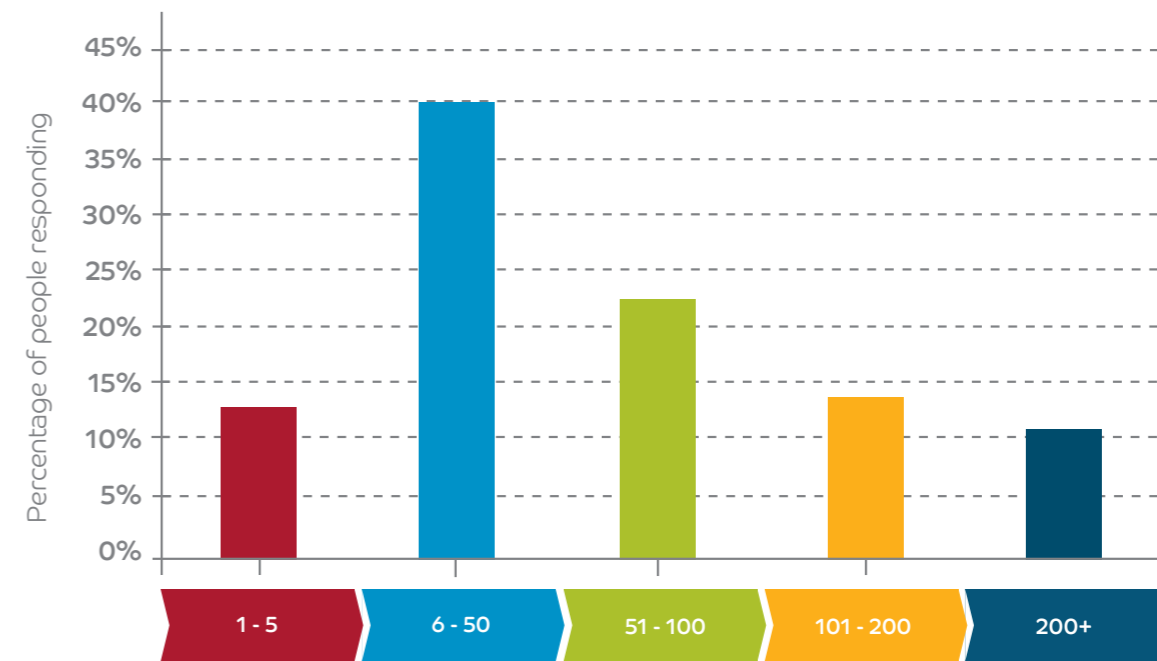
Increasing staff pay to encourage loyalty is also not without its own risks. Any counter offers need to be considered and proportionate otherwise the firm's cash will be adversely impacted, especially given the proposed increase to National Insurance in the coming months. There may be other ways to enhance the employee experience and it will most likely vary from person to person. Most importantly, focusing on pay makes the nature of the relationship transactional, which reduces the employee's emotional involvement thus potentially reducing their loyalty.

In addition, it is well-known that the cost of hiring new staff (as opposed to retaining and developing existing staff) in both time and money can be disproportionate compared to the outcome. Focusing on developing relationships will help with loyalty concerns and go some way towards retaining staff.

6 | Which service types does your firm provide?



7 | How many people does your firm employ?



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- benchmarking
- strategic business advice
- incorporations and LLP conversions
- outsourced financial director services
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Armstrong Watson Restructuring and Insolvency Services

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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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