

Legal Sector Pulse Survey Results

November 2021

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A track record of providing solutions to the legal profession



Introduction

In common with other sectors, the legal profession has had an 'interesting' time in the past 18 months and there is likely to be a great deal of flux still to come. It is with this in mind that we have recognised that a quarterly legal sector 'pulse' survey would help law firms with their strategic planning.

This report analyses the responses to the October 2021 survey. Trends will also be monitored and reported as further surveys are conducted in future quarters.

Executive Summary

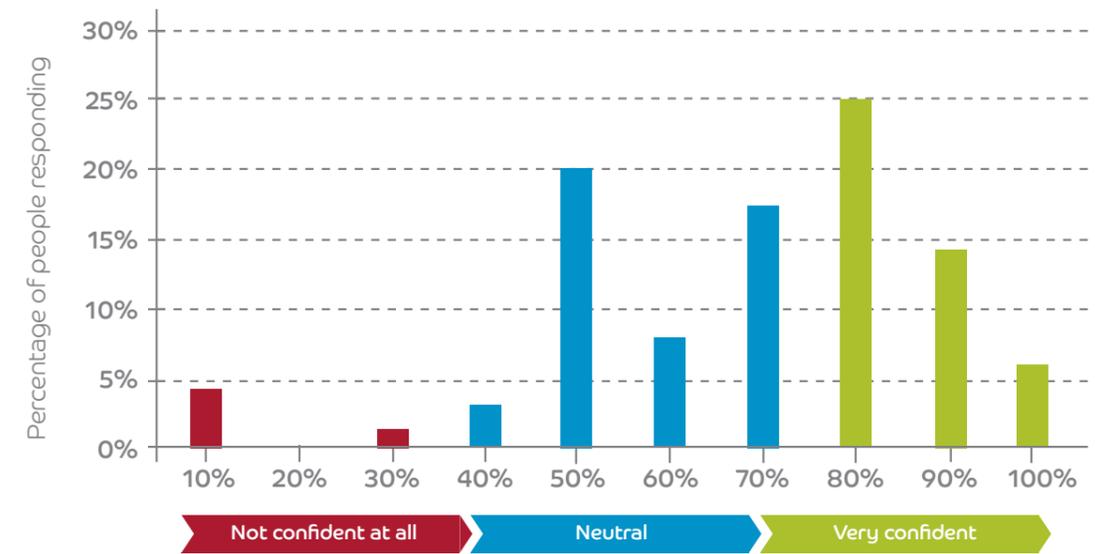
Law firms are currently performing very well, with most concerns not around financial under-performance but more around resources required to keep up with demand.

Short-term finances and confidence remain high, although there is a concern around the longer-term position, particularly as government support is withdrawn. As furlough support has been stopped, there are potential future impacts on the wider economy which could reduce future demand. The stamp duty exemption window has now also ended, which may be a relief to some conveyancers given the pressure they have been under, although reduce demand is likely to adversely impact profit generation.

Firms are also concerned about the hardening PII market, and insurers are worried about potential future claims driven by remote working and also high pressure work volumes.

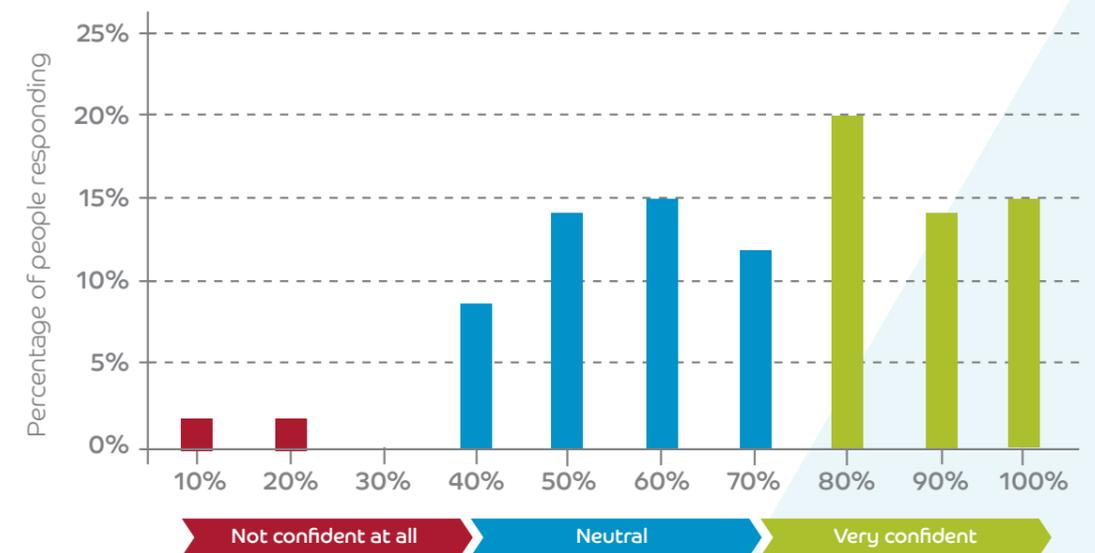
For those that are concerned about their future, the following book published by the [Law Society](#) may be of assistance.

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



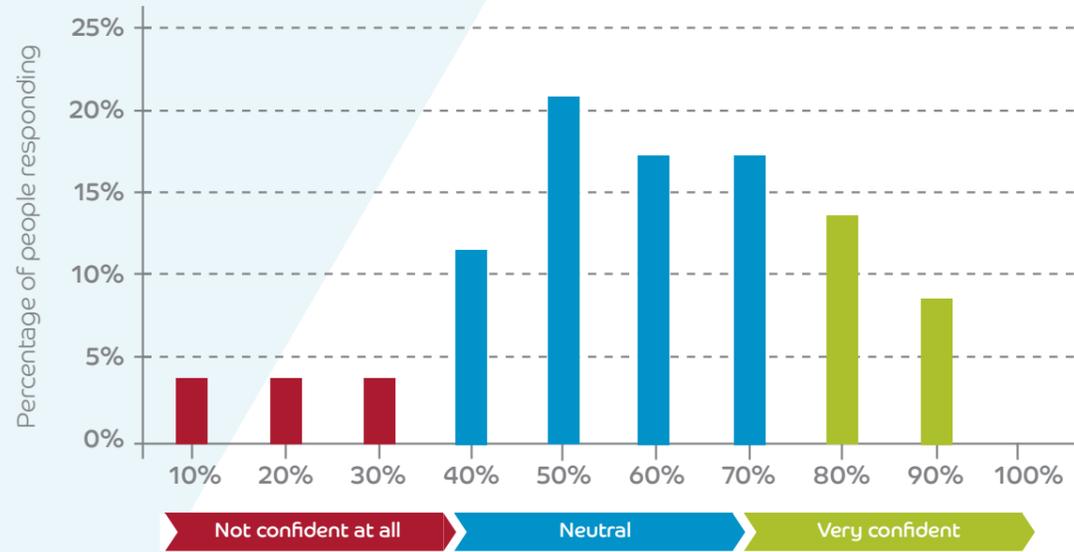
The majority of respondents are either neutral or very confident about the performance of law firms over the next 12 months, with the majority of those most confident being in law firms that have less than 50 employees. Interestingly, the most confident in the survey did not have a residential conveyancing offering, whereas those with the least confidence had both residential conveyancing and commercial property as services. This perhaps reflects the uncertainty around social mobility over the coming 12 months, as the stamp duty relaxations come to an end and the Bank of England refuse to rule out an interest rate rise.

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



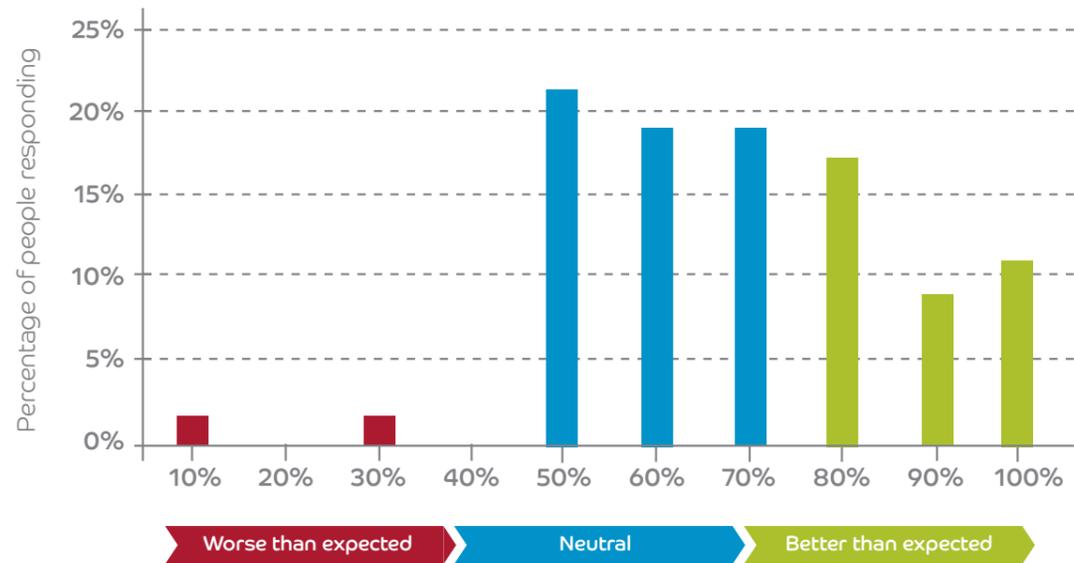
An overwhelming majority have responded positively to this question, which demonstrates that law firms have been able to manage their expectations over the last 12 months. The size of the firm does not seem to have any correlation between the level of satisfaction (or lack of) and nor does the services offered, which perhaps is surprising given that certain services have been impeded by Government support measures.

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



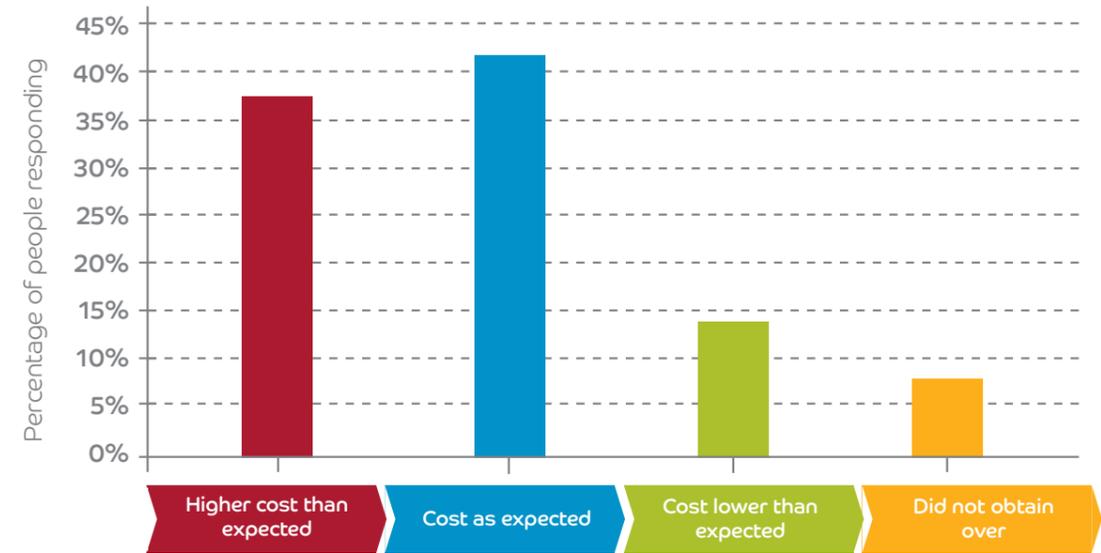
Given the results from the first two questions it is not surprising to see that over 70% of respondents still see investment in a law firm as relatively low risk. There is a good spread across the various services being offered, without any real trends surfacing, although those firms who have in excess of 100 staff members do see the investment, on the whole, as less risky than firms with smaller teams. This suggests that the risk profile is not necessarily related to services, but rather the ability to continue to generate fee income, given the lower risk for the bigger firms.

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



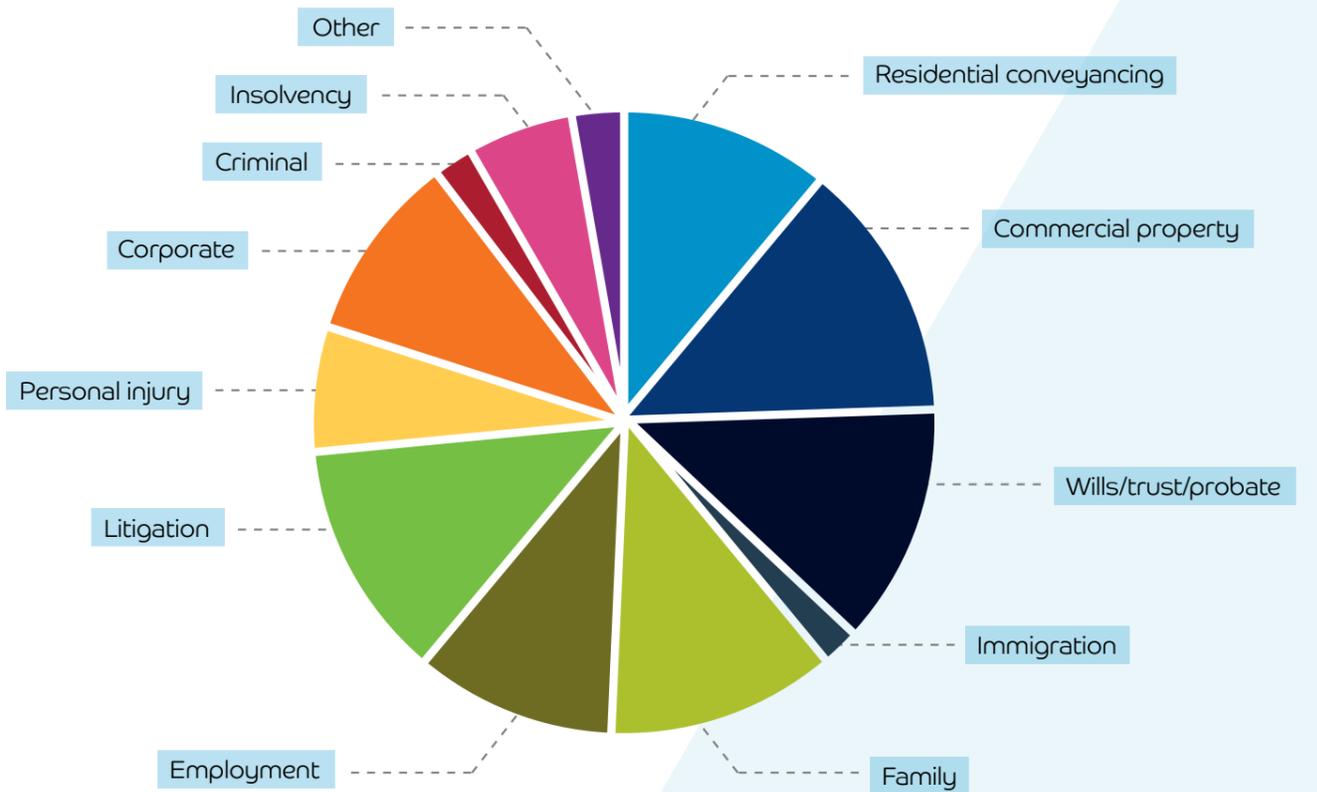
The Government's support measures have seen businesses being able to access cash at unprecedented rates, whilst also allowing them to defer liabilities for a period (such as VAT and rental obligations), which has resulted in most businesses being cash-rich. The responses to this question illustrate that the legal sector is no different from other sectors in this respect. However, this is likely only to be a temporary state, and law firms must ensure that they continue to manage their costs and realise their WIP in a timely manner.

5 | Was your PII renewal:

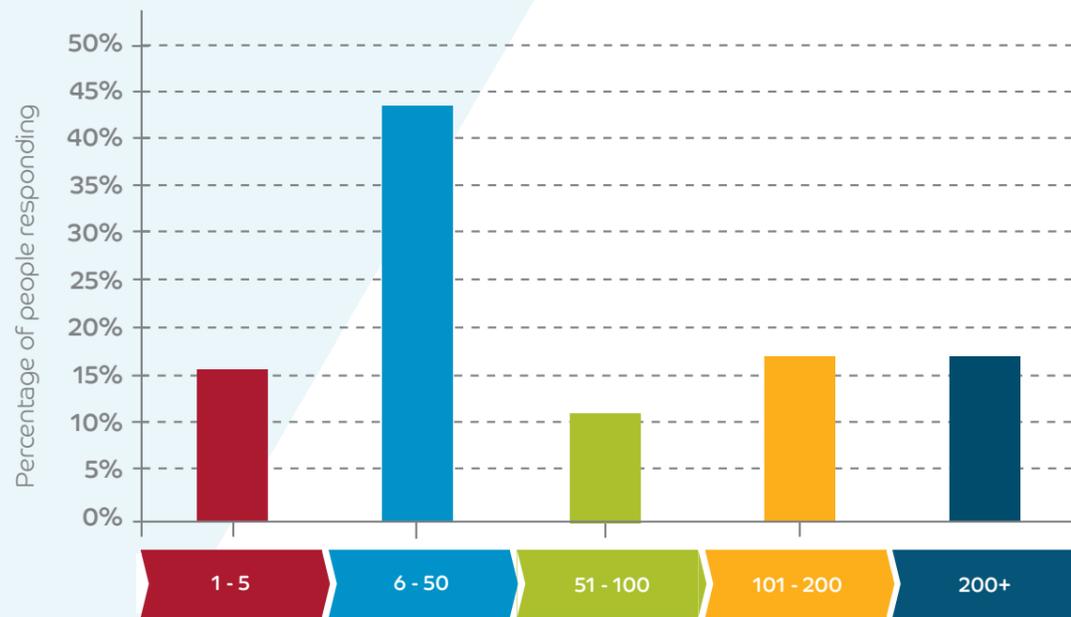


PII costs are a continual concern for professional services firms, with the costs increasing across all sectors. There is a concern amongst insurers that a move to remote working and disruption caused by Covid-19 may result in an increase in claims for professional negligence. Only 16% of respondents advised that their PII renewal costs were lower than expected, with a further 39% advising that the cost was as expected, although it may be that these respondents were being more prudent in their expectations, rather than there being no increase at all.

6 | Which service types does your firm provide?



7 | How many people does your firm employ?



The responses received varied but the trends were not specific to certain services nor were they aligned to the number of employees. This suggests that firms face their own specific challenges and that no firm is immune to difficulties or increased risk, regardless of size or breadth of service.

Conclusion

The survey responses suggest that there are no hard and fast rules as to which type of law firm is more likely to be sensitive to the changing economic landscape. Firms of different sizes are experiencing challenges which are affecting confidence, and a higher number of fee earners does not necessarily correlate with higher confidence. It would therefore seem appropriate to reinforce the advice that we are providing to businesses in many sectors at present – keep forward planning and if there are potential difficulties on the horizon, make sure that you are proactive in dealing with these.

With the increase in demand for staff resulting in higher wage costs and the planned increase in National Insurance Contributions in April next year, together with the restrictions on landlords lifting at the end of March, there is likely to be further pressure on cashflow. Being mindful of the ability to generate sufficient income and convert work in progress to cash continues to be a necessary focus into 2022, and firms should be mindful of these proposed increases when looking at their budgets for the next year.

Armstrong Watson Legal Sector Services

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- 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.

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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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