Business

Legal Report 2021 – a year like no other

NatWest

Foreword

The UK legal sector continues to be hugely important within NatWest. We have a long and proud history of supporting legal firms throughout the UK, helping them to develop successful and sustainable businesses.

I am delighted to present our eighth edition of the NatWest Legal Report. My thanks go to Robert Mowbray for his contribution to its ongoing production and development. I am also incredibly grateful to all the firms who have contributed and provided insights that will help others within our sector during these challenging times.

The report focuses on firms operating at the SME level across England, Scotland and Wales. Comparing the financial performance of local and national peers has resulted in surprising and highly valuable insights. Firms can use these findings to target areas of improvement, with the aim of enhancing profitability and management of working capital.

This edition differs from its predecessors because it is important for us to fully understand how the legal sector performed and how firms behaved during the pandemic. With this in mind, we have included a future-proof checklist, which we hope will give you a useful framework to help navigate challenges and leverage new opportunities to pivot, innovate and grow your business.

It is encouraging that the legal sector has shown remarkable resilience, with many firms even demonstrating a growth in profitability at a time when many other sectors have experienced significant downturns.

A few key points from the report

Fees

- The median reduction in fees per fee earner was 12% during the pandemic compared with the same period in the previous year. This shows the immediate impact on the sector when the economy was closed down during lockdown.
- The median fall in fees per equity partner in the period was 8%.
- Of the 40 firms in the survey, 11 recorded an increase in fee income compared with the previous period, which shows the varying degrees to which firms were impacted over the last year.

Profits

- The median profit per equity partner increased during the pandemic to an annual figure of £168,000 from £158,000 in the previous year. This represents an increase of 6% in the median profit despite a significant fall in fee income.
- The increase in profit per equity partner is explained by a reduction in expenses. Many firms made use of the furlough scheme and the median amount received by a firm for furlough equated to 5% of fee income. Without this assistance, many firms would have struggled and more people would have been made redundant.
- Median profit as a percentage of fee income increased from 18% to 24% because expenses were reduced by more than the decline in fee income.

Lock-up

- Median lock-up days increased from 146 days in 2019 to 172 days in 2020 – an increase of 26 days.
- The main movement in lock-up days was an increase in WIP days from the previous period of 17 days to 103 days. Debtor days increased by a smaller amount, which shows that firms didn't have serious problems collecting bills once issued.
- The deterioration in cashflow caused through higher levels of lock-up could have caused cashflow problems for firms if it had not been for changes introduced by the UK Government to allow deferred tax payments and the provision of additional emergency funding.

Finance

- Bank balances at the end of the 2020 period were substantially higher than at the end of the 2019 period. The median figure in 2020 was £542,000, compared with £63,000 in 2019.
- The median bank loan taken under the Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce Back Loan Scheme (BBLS) was £50,000. Just over half of firms made use of such loans.
- Nearly all firms deferred their VAT payment for the March-June 2020 quarter and just under half of firms deferred the income tax payments for partners due on 31st July 2020. Most firms also deferred profit distributions to partners.

Based on our overall findings, we are cautiously optimistic for the year ahead. I hope that you will find it an uplifting read.

David Weaver
Head of Professional Services

Introduction and key findings

Introduction

At the beginning of 2020, most news coverage was around Brexit, with the UK finally leaving the EU on 31st January 2020 and entering a transitional period until the end of 2020. All businesses, including legal businesses, were rightly focused on the economic impact of such a major change.

However, things quickly changed and we'll probably all look back on 2020 in years to come as the year of the pandemic. When the pandemic hit, all businesses had to change rapidly and substantially just to survive.

The legal sector, which had perhaps been sceptical about the effectiveness of remote working pre-pandemic, now had to make it work. A change that would have taken many years to embed organically was forced upon it virtually overnight.

Firms also had to adapt to substantial changes in demand for their services. Some legal services, such as employment, saw an immediate spike when the crisis began. Others, such as residential conveyancing, suffered a short-term collapse followed by a boom as restrictions were eased. It became clear that firms would have to be able to rapidly evolve to take advantage of dynamic market conditions – not just once but on a regular basis. This report looks into some of these trends in more depth and investigates what the future could hold.

This is the eighth year of the report. We were keen to produce something different than in previous years. To understand what really happened to the legal sector when the pandemic struck, we compared a period of pre-pandemic trading with the same period during the pandemic. The survey therefore comes from firms with year ends from March-June and we're comparing the first 6 months of their 2020-2021 financial year with the same 6-month period in the previous year.

While the median annual fees of UK law firms are around £3m, the firms engaged in the survey were deliberately larger with median annual fees of around £5m, as we needed firms that would have accurate management information available at the half-year stage. We also recognised that, while the pandemic was running, only larger firms would be likely to have available resources to help with the collection of the data for the survey.

The report is based on contributions from 40 firms. The information is broken down into several regions as there is a significant difference in the performance of law firms across the UK. The report also analyses the performance and thoughts of firms of different sizes. Care should be taken when looking at the figures regionally as there are only a few firms in each region. The regional information is best viewed as a tool to provide a feel for the overall range of data seen across all firms.

It became clear that firms would have to be able to rapidly evolve to take advantage of dynamic market conditions – not just once but on a regular basis.

Table 1 shows an analysis of the firms in the survey by region and by size.

The survey has divided the firms into 2 sizes of firm. Those with annual fees of less than £5 million are described as 'small', while those with fees of more than £5 million are classified as 'large'.

The tables contain an extra line of data for the 'very large' firms, being those with annual fees in excess of £10 million.

The results for these very large firms have also been included in the figures for 'large' firms.

Table 1 – firms by size	Small	Large	Total
South-east	4	4	8
Midlands and East	5	5	10
North	5	4	9
South-west and Wales	3	5	8
Scotland	3	2	5
Total	**20**	**20**	**40**
Very large firms			13

Table 2 shows the split of firms taking part in the survey by constitution. There are 27 LLPs compared with just 3 partnerships, 2 sole traders and 8 companies. This demonstrates that a substantial majority of larger traditional partnerships have now become either LLPs or companies. It's perhaps surprising that there are any partnerships remaining, given that virtually all new firms choose to establish themselves as either a company or an LLP.

There is an increasing need to regularly reflect on whether they have the most appropriate business structure in place to meet customer needs. One of the firms in the survey was due to become an LLP in May 2020. The greater protection that came from being an LLP was more fully appreciated once lockdown began.

It's perhaps surprising that there are any partnerships remaining, given that virtually all new firms choose to establish themselves as either a company or an LLP.

Table 2 – firms by constitution	Partnership	LLP	Company	Sole practitioner	Total
South-east	1	5	0	2	8
Midlands and East	1	4	5	0	10
North	1	6	2	0	9
South-west and Wales	0	8	0	0	8
Scotland	0	4	1	0	5
Total	**3**	**27**	**8**	**2**	**40**
Very large firms	0	9	3	1	13

Key findings

A summary of the main discoveries from the report.

- The legal sector suffered a short-term hit to fee income following the lockdown in March 2020 but most areas bounced back quickly once remote working settled down.
- Firms acted calmly and were able to take their time making decisions because of the rapid introduction of the furlough scheme. If firms had panicked and made large numbers of fee earners redundant at the start, they would have struggled to meet the increase in demand when it returned.
- Firms won't necessarily look to reduce office space in the medium term but they will be able to accommodate more people with remote working becoming normal. It will be interesting to see how offices are used in the future and for what activities – this may result in the need for some office space to be reconfigured.
- Firms coped well with remote working once the necessary additional hardware was obtained. While clearly both firms and employees would like to see people back in the office, there has been a permanent shift in working practices and firms will find it difficult to operate in future if they require staff to work in the office full-time. Without contact between people in the office, the culture of firms is in danger of being eroded. Firms were able to reduce expenses by greater amounts because of the furlough scheme and the drop in many expenses including office utilities, travel and business development activities.
- Profits generally increased during the pandemic compared with the previous year despite the drop in fee income. This is a startling outcome and not something that would have been expected when lockdown began.
- Government emergency funding was taken up by some firms but the majority were able to remain solvent by deferring VAT and income tax payments, cancelling non-essential expenses and delaying partner profit distributions. Firms are now carrying higher cash balances than normal and there is therefore more of an opportunity to invest when opportunities arise.

Fees

Fees

When lockdown was announced, the expectation for most firms was that fee income would fall. Given that the main expenses are heavily fixed, it would be difficult for firms to adjust their cost base quickly. Consequently, many firms would have expected to see a rapid deterioration in profitability.

The even greater short-term issue might have been that while expenses, particularly salary and property costs, would continue to be incurred, receipts from clients could have slowed down rapidly as everyone tried to hold on to cash and liquidity. This could have resulted in many law firms becoming insolvent. The report analyses what happened and how government intervention has helped to prevent more serious outcomes from materialising.

Of the 40 firms in the survey, only 11 saw fee income (in total) increase from 2019 to 2020. 28 firms saw a fall in fee income and 1 saw no change.

Table 3 shows fee income earned per equity partner for the first half of the 2020/21 accounting year.

It can also be seen that small firms had a median of £290,000 and large firms had an unsurprisingly higher median of £506,000. The very large firms had a median of £966,000.

Median fees per equity partner across all firms were £372,000, which would equate to annual fees of £744,000.

The lower quartile figure was £271,000 and the upper quartile figure was £646,000, illustrating the wide range of figures that can be seen across the market.

It can also be seen that small firms had a median of £290,000 and large firms had an unsurprisingly higher median of £506,000. The very large firms had a median of £966,000.

In normal times, firms would have expected to see this figure rising from the previous year with natural growth.

Table 3 – fees per equity partner 2020 for 6 months (£'000)

	Small			Large			Total		
	LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
South-east							306	404	859
Midlands and East							254	318	503
North							401	586	1,167
South-west and Wales							206	357	404
Scotland							270	328	441
Total	**224**	**290**	**421**	**353**	**506**	**1,145**	**271**	**372**	**646**
Very large firms							392	966	1,408

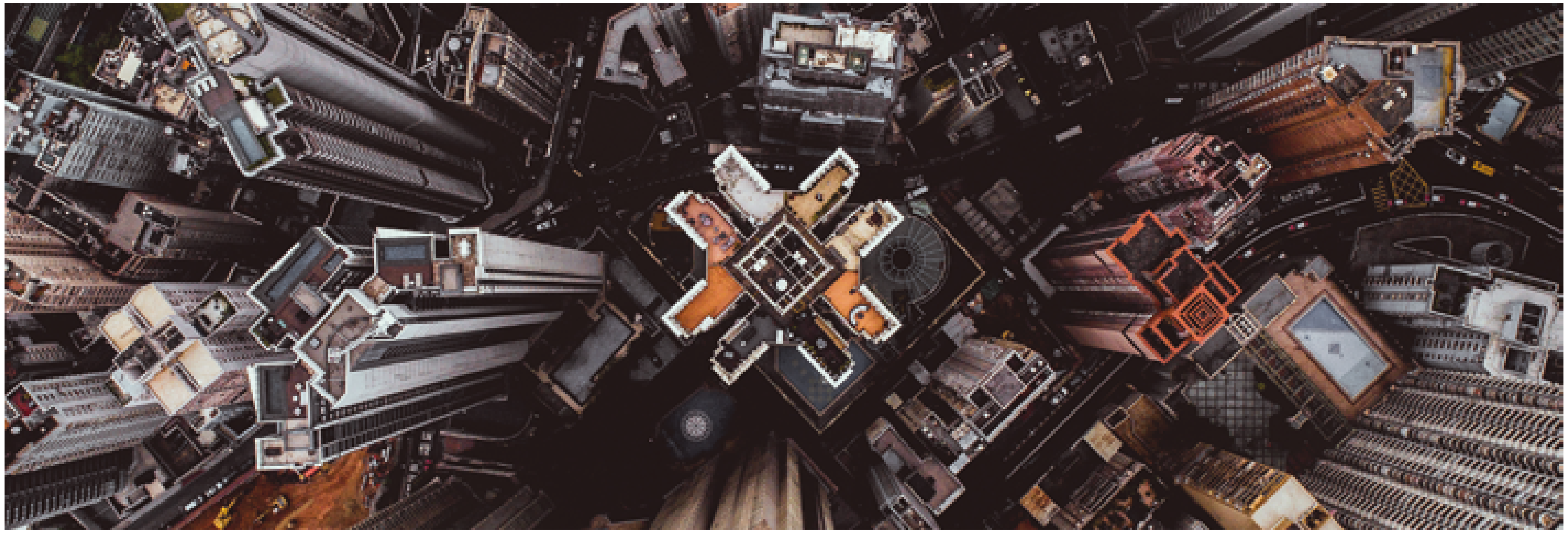


Table 4 shows the same information for the equivalent period in 2019. The median figure in total was £404,000 so there was a drop of £32,000 in 2020, equating to a drop of 8%. The drop in fees for small firms was greater at 13%, while large firms saw a small 1% increase. Rather surprisingly, the very large firms saw an increase in 2020 of 12%.

These figures immediately highlight just how differently various firms were affected by what happened. Clearly, where fee income levels fell, if costs could not be cut then profits would fall and cashflows would experience greater pressure.

Table 4 – fees per equity partner 2019 for 6 months (£'000)

	Small			Large			Total		
	LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
South-east							331	446	887
Midlands and East							277	381	564
North							475	598	1,286
South-west and Wales							234	306	462
Scotland							383	385	504
Total	**231**	**333**	**479**	**377**	**502**	**1,185**	**294**	**404**	**674**
Very large firms							476	865	1,471

Most firms provide a range of legal services and these different income streams were affected in different ways over the last year. Managing partners were asked to comment on practice areas that had done well and practice areas that had suffered since the pandemic struck.

The 4 areas most adversely affected have been company commercial, residential conveyancing, crime and personal injury **(figure 1)**. Residential conveyancing has been easily the best performing area but family, dispute resolution and personal injury have also seen expansion **(figure 2)**.

It's interesting to see residential conveyancing scoring highly in both tables. When lockdown started, residential conveyancing almost stopped overnight but, once lockdown was eased, there was an explosion of work in many parts of the country as so many people now wanted to move. Stamp duty holidays further boosted this trend. These findings illustrate that firms can reduce risk by offering a diverse range of services to weather disruption and change.

Several firms commented on how, in the first lockdown, much contentious work suffered as courts were closed. As the country learned to work in a lockdown, things improved in the subsequent lockdowns with courts remaining open. It was surprising that employment work was not one of the biggest beneficiaries of the lockdown. It almost certainly would have been if the furlough scheme hadn't been introduced quickly.

The 4 areas most adversely affected have been company commercial, residential conveyancing, crime and personal injury.

Figure 1 - Which practice area has struggled most since the pandemic struck?

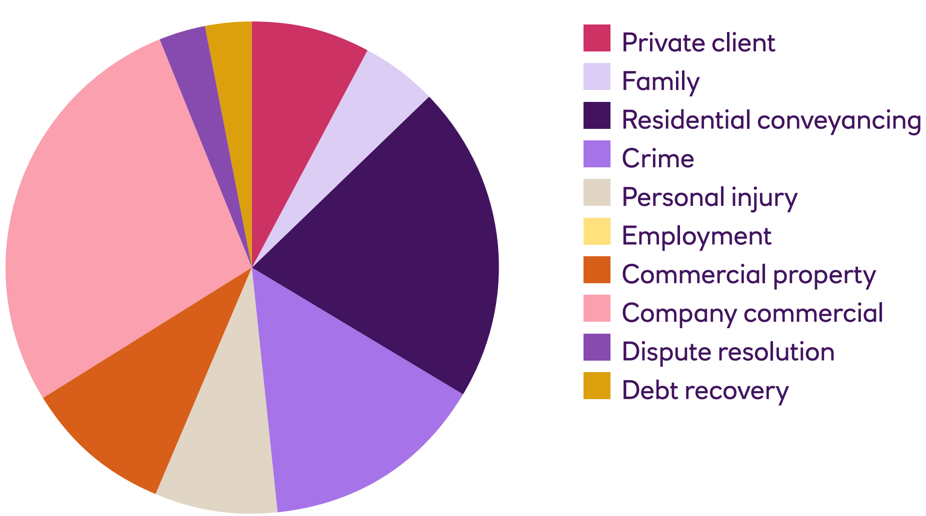
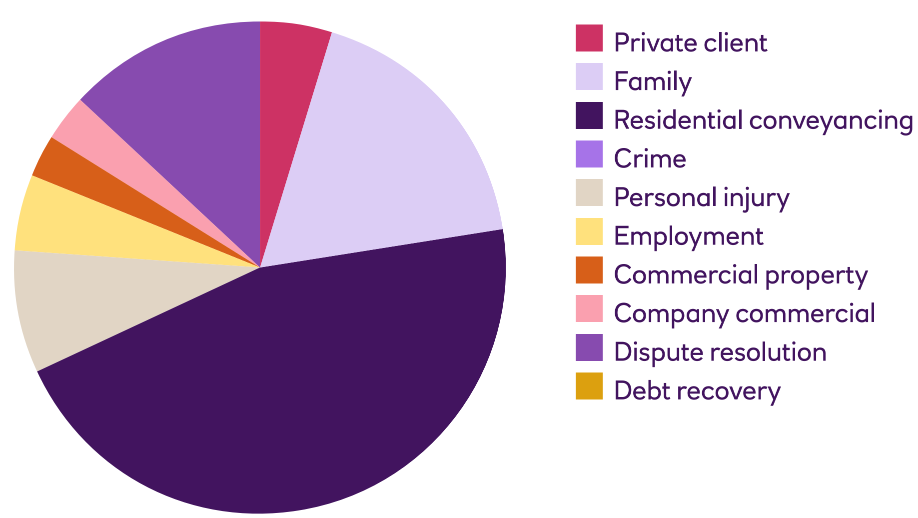


Figure 2 - which practice area has done best since the pandemic struck?

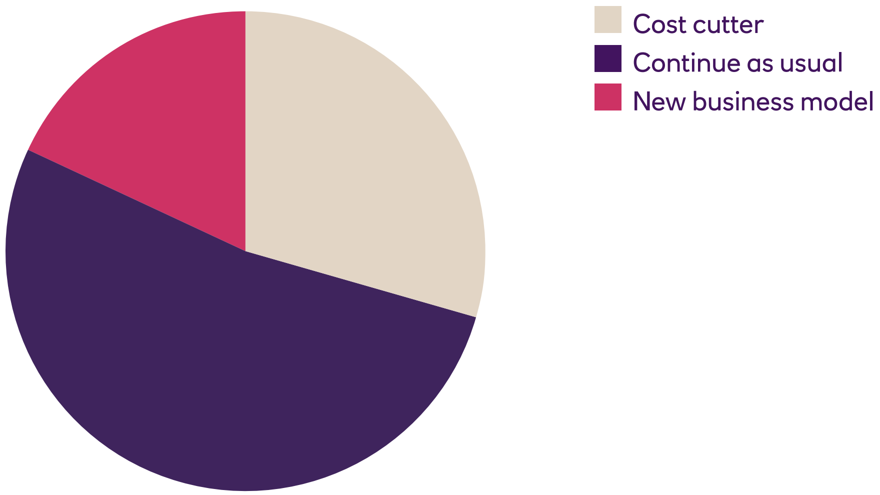


When fees fell, how did law firms react?

We asked firms to describe their response and 53% said that they remained calm and continued as usual. Many firm leaders could remember the financial crash and they knew that they needed to act quickly and decisively but that they should not be too cautious or they would miss out on the bounce back. Some 30% of firms decided to cut costs and 17% seized the opportunity and embraced a new business model **(figure 3)**.

Several firms commented on how short the interruption to income for certain practice areas was, with most firms saying that income bounced back quickly within 4 to 6 weeks.

Figure 3 - which label best describes your firm's response to the pandemic?



There was certainly a recognition that if redundancies had been made hastily, it would have been difficult to service the demand when it quickly returned. Indeed, some firms found themselves trying to recruit more staff fairly quickly and there are plenty of examples of firms struggling to find good family and conveyancing solicitors.

It's always interesting to also calculate fee income levels by fee earner. When fee income levels drop, firms might reduce the number of fee earners to maintain a healthy level of fee income per fee earner. Equally, as fee income rises, a firm might have to recruit additional fee earners to be able to cope with the higher volumes of work.

Table 5 shows fees per fee earner in 2020 during the pandemic for a 6-month period. The median figure in total of £60,000 equates to annual fees of £120,000 per fee earner.

The table shows the range of figures seen around this median figure and shows clearly that smaller firms will usually bill less per fee earner than might be expected in large firms.

Table 5 - fees per fee earner 2020 for 6 months (£'000)

	Small			Large			Total		
	LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
South-east							66	83	182
Midlands and East							46	51	56
North							54	68	80
South-west and Wales							52	63	76
Scotland							53	54	69
Total	**47**	**55**	**66**	**54**	**67**	**77**	**51**	**60**	**75**
Very large firms							56	65	77

Table 6 shows the equivalent figures for the same period in 2019. The median figure in 2019 was £67,000 so the drop to £60,000 in 2020 equates to a fall of £7,000 or 12%. This suggests that firms didn't lose fee earners immediately following the slowdown.

This will be explored later in more detail but the furlough scheme introduced by the UK Government encouraged all businesses to keep on the vast majority of staff even if they didn't initially have enough work to do so.

Table 6 - fees per fee earner 2019 for 6 months (£'000)

	Small			Large			Total		
	LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
South-east							67	99	149
Midlands and East							54	58	65
North							58	73	85
South-west and Wales							53	63	76
Scotland							57	77	83
Total	**57**	**70**	**86**	**55**	**65**	**82**	**56**	**67**	**84**
Very large firms							56	65	81

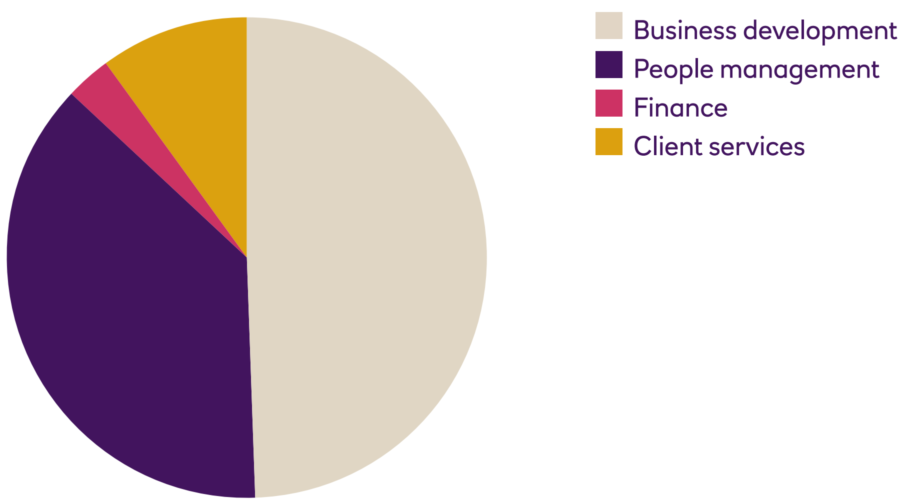
Our survey asked managing partners which aspect of the management of their firm was most impacted by the pandemic. It's interesting to see that finance and client services were the 2 areas that were least impacted (**figure 4**).

While homeworking had been discussed for years, it was a relief to most firms to find that client service levels could be maintained with remote working. This should encourage firms to continue working in this way in the future.

The 2 areas that were more problematic were people management and business development. Many trainees will have found the experience and learning in their first few months very different to what they might have previously expected.

Developing people quickly when they're working remotely is challenging and firms have had to think again about the development and supervision of their employees.

Figure 4 - Which aspect of your business has been most impacted by the pandemic?



Business development has been badly impacted because many of the traditional activities couldn't be undertaken. Firms have had to rethink and there has been more reliance on developing websites, creating more online knowledge and education, and trying to encourage lawyers to meet clients and potential clients through video portals.

Client engagement activities were replaced by the tools available – the phone, the ability to write content and social media. Firms have had to be creative when it comes to ideas for events and networking to counter video conferencing fatigue.

The positive impact of this is that most firms have commented on how much less they have spent on business development activities. While this may have supported cashflow in the short term, the activity needs to resume as otherwise fee income levels will almost certainly start to fall.

Some managing partners have commented on how the lack of face-to-face meetings has resulted in less creativity and innovation around business development. When firms return to their offices, at least for some of the time, perhaps business development is often better done in collaboration with colleagues.

Profitability

Profit

Rising fee income levels provide opportunities for higher levels of profit. However, there is no certainty of increasing profit with higher fees and there can obviously be a decline in profits if the increase in fees is more than offset by an increase in expenses.

A common measure for law firm profitability is profit per equity partner (PEP). **Table 7** shows that the median figure for the 6-month period in 2020 across all firms was £84,000, which equates to £168,000 for a year. The median figure drops to £59,000 in small firms and rises to £129,000 in large firms. In the very large firms, the figure is even higher at £227,000.

Table 8 shows that, for the same period in 2019, the median PEP figure was £79,000. In 2020, this increased to £84,000, a 6% increase.

Table 7 – profit per equity partner 2020 for 6 months (£'000)

	Small			Large			Total		
	LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
South-east							90	131	407
Midlands and East							45	68	121
North							60	79	227
South-west and Wales							58	74	88
Scotland							49	131	207
Total	**28**	**59**	**86**	**74**	**129**	**279**	**58**	**84**	**161**
Very large firms							69	227	378

Table 8 – profit per equity partner 2019 for 6 months (£'000)

	Small			Large			Total		
	LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
South-east							64	112	320
Midlands and East							53	79	126
North							64	109	170
South-west and Wales							42	52	71
Scotland							48	153	219
Total	**36**	**54**	**87**	**61**	**135**	**229**	**50**	**79**	**157**
Very large firms							80	198	271

In other words, despite median fees falling, as discussed previously, there has been an increase in median PEP, indicating that there must have been an even greater reduction in expenses. This is a startling outcome. The legal profession has been hit by a once in many lifetimes event and has performed better than in the previous period.

This shows government interventions have helped the vast majority of firms to protect their businesses and secure employment for the future. Many firms commented on how the rapid announcement of the furlough scheme on 20th March 2020 allowed firms time to plan their best route through the crisis.

Without this scheme (together with tax deferrals and government-backed loan schemes), many firms would have been more cautious and there would have been more redundancies.

Firms also implemented their own self-help measures, including a curtailing of non-critical spend, reduction in contractors and deferral of partner remuneration. A modest level of redundancies has been seen across the sector, albeit typically this has represented more an acceleration of action firms were going to take in any case in terms of releasing underperforming staff.

Another way of understanding the impact of the crisis is to look at equity partner profit as a percentage of fee income. The figures for 2020 are seen in **table 9** and the figures for 2019 are seen in **table 10**. Despite falling fee income, median profit as a percentage of fees increased from 18% to 24%.

Table 9 – profit as a percentage of fees 2020

	Small			Large			Total		
	LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
South-east							29%	40%	48%
Midlands and East							16%	22%	31%
North							13%	16%	17%
South-west and Wales							17%	24%	28%
Scotland							27%	30%	30%
Total	**15%**	**18%**	**32%**	**18%**	**25%**	**29%**	**16%**	**24%**	**32%**
Very large firms							18%	21%	29%

Table 10 – profit as a percentage of fees 2019

	Small			Large			Total		
	LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
South-east							17%	29%	37%
Midlands and East							15%	22%	31%
North							11%	14%	16%
South-west and Wales							15%	16%	21%
Scotland							23%	24%	30%
Total	**14%**	**20%**	**27%**	**14%**	**18%**	**27%**	**14%**	**18%**	**27%**
Very large firms							15%	19%	23%

Which expenses were reduced?

The biggest expenses for most firms are salaries, property costs, IT and professional indemnity insurance. Salaries in total might represent anything from 30% to 60% of fee income, depending upon the nature of a firm. Like in other sectors, most firms didn't need to make mass redundancies as, if people didn't have work to do, they could be put on furlough. There were a few redundancies, particularly where new employees didn't qualify for the furlough scheme.

Did most firms make use of the UK Government's furlough scheme?

Table 11 shows that most firms surveyed did and that the total median amount received over the 6-month period was £132,000. This clearly subsidised the salary bill in most firms quite considerably.

Table 12 shows the furlough received as a percentage of fee income for the 6-month period. The median figure is 5%, with a lower quartile figure of 2% and an upper quartile figure of 9%. It's interesting to compare the median figure of 5% with the median fall in fees per equity partner seen earlier of 8%, which highlights that over half of the fall in fee income was covered by the reduction in salary costs through the furlough scheme.

Table 11 – furlough received 2020 for 6 months (£'000)

	Small			Large			Total		
	LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
South-east							65	103	112
Midlands and East							64	249	346
North							21	141	168
South-west and Wales							58	108	366
Scotland							209	217	344
Total	**26**	**104**	**166**	**103**	**225**	**344**	**46**	**132**	**321**
Very large firms							200	312	369

Table 12 – furlough as percentage of fees 2020

	Small			Large			Total		
	LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
South-east							1%	4%	5%
Midlands and East							3%	6%	10%
North							1%	4%	7%
South-west and Wales							2%	4%	8%
Scotland							5%	5%	22%
Total	**3%**	**6%**	**11%**	**2%**	**4%**	**5%**	**2%**	**5%**	**9%**
Very large firms							2%	4%	5%

Firms were asked about any plans they might have made to repay furlough monies **(figure 5)**. Given that when these funds were paid, they were done so as a grant and there is no obligation for such funds to be repaid.

Other sectors that have done well over the last year, and some large professional firms, have faced public pressure to repay furlough monies received.

Firms will have found it harder to reduce property costs over the period, although there will have been savings on utility bills when offices were closed. Many firms faced a sharp rise in professional indemnity premiums in 2021, which would have hit profitability **(figure 6)**.

Many firms also commented on the need to spend additional sums early on in lockdown so that everyone had the necessary IT infrastructure to be able to work remotely. A part of this expenditure will have been capitalised and will only appear fully as an expense in later years.

Figure 5 – how likely is it that you will repay furlough money received to HMRC?

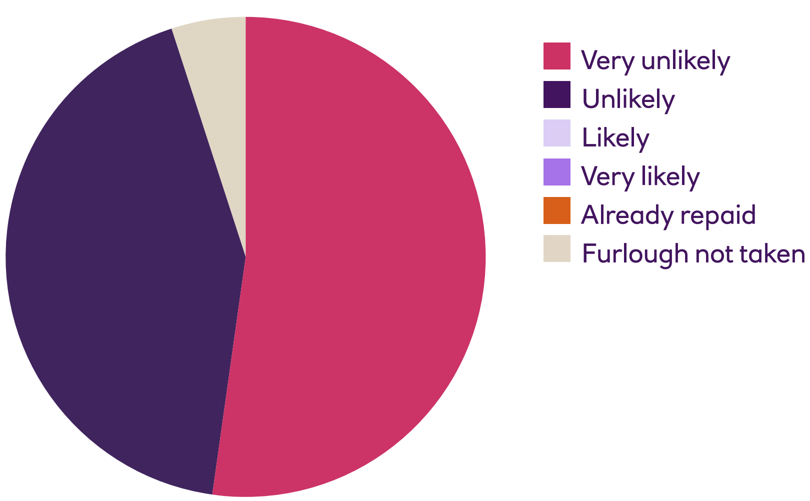
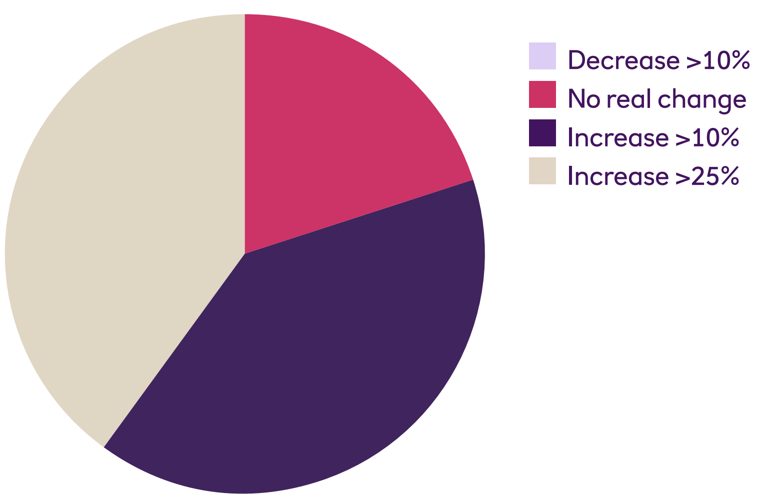


Figure 6 – what was the change to your PI premium at the 2020 renewal?



We asked managing partners to tell us what the most important issue for clients of the firm had been during the pandemic, with regard to services being provided **(figure 7)**.

The results are interesting and perhaps surprising. We might have expected, given the environment during the pandemic, that clients would have become even more demanding on fees and budgets.

However, this doesn't seem to have been the experience of most firms. Clients were primarily focused on the quality of work and speed of delivery. Hopefully, this lesson can be learned and more firms can appreciate in future that, where service levels and speed of delivery meet or exceed client expectations, clients will often accept higher fees.

One managing partner gave an example of how the fees charged for a residential conveyance increased from £1,000 to £2,500 as demand increased and even these price increases failed to reduce demand as clients raced to complete property purchases before the end of the stamp duty holiday.

While there has been continued investment in IT during the period, criminals have become increasingly sophisticated in their cyber-attacks on firms. This remains a substantial risk in most firms and further investment in both infrastructure and training will clearly be required.

The incidence of cyber-attack or fraud in firms over the previous 12 months is still high at 38% and is unlikely to fall soon **(figure 8)**.

Figure 7 – what have clients focused on most during the pandemic?

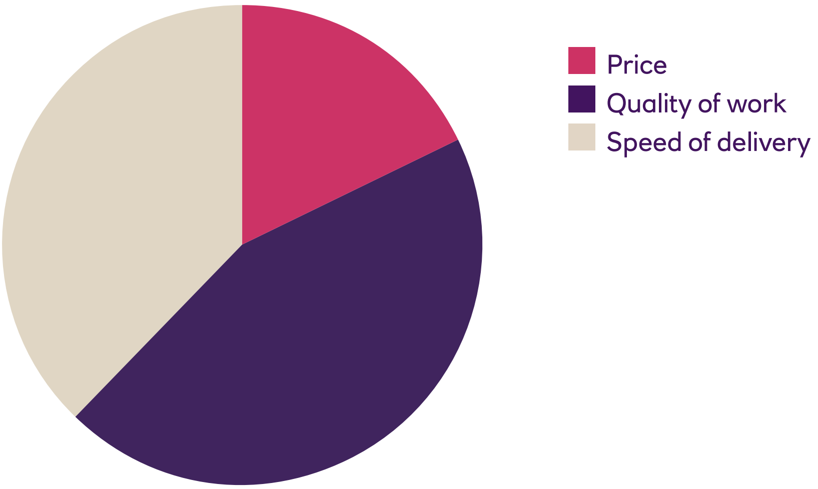
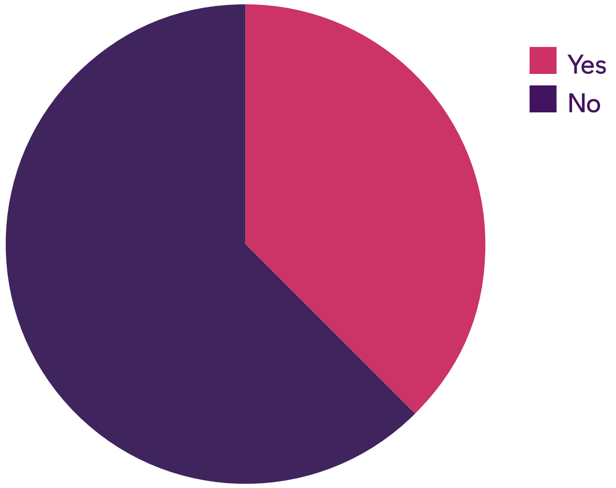


Figure 8 – have you experienced a cyber-attack or fraud attempt within the last 12 months?



Staffing structure in law firms is always an important topic and it's interesting to reflect on changes that might have happened during the pandemic. The danger was that firms might have to make staff redundant, which could lead to a large increase in unemployment, hence furlough was introduced.

The raw data shows that, of the 40 firms taking part in the survey, 16 firms had more fee earners 6 months into the current year than they did at the same point a year previously. In normal times you might expect slightly more than half of firms to be increasing the number of fee earners. The figure is below half but not by that much. This is further evidence of the effectiveness of the furlough scheme.

A measure to explore team structures regularly discussed is gearing, this being total fee earners in a firm divided by the number of equity partners. A higher number means that a partner can bill more through their team as they have greater capacity. A problem only arises when there is a fall in income and there is insufficient work to keep everybody busy and profitable.

Table 13 shows that the median figure for gearing in 2020 was 6.38 and **table 14** shows that the equivalent figure in 2019 was 6.40, showing that there was virtually no change and team sizes remained static.

Table 13 – gearing (total fee earners per equity partner) 2020

	Small			**Large**			**Total**		
	LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
South-east							4.09	5.76	7.79
Midlands and East							4.80	6.22	10.09
North							6.69	11.07	17.46
South-west and Wales							4.05	5.87	6.78
Scotland							5.00	6.23	6.38
Total	**4.19**	**4.45**	**6.44**	**6.10**	**7.37**	**14.81**	**4.46**	**6.38**	**8.82**
Very large firms							6.82	14.19	24.21

Table 14 – gearing (total fee earners per equity partner) 2019

	Small			**Large**			**Total**		
	LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
London and south-east							3.96	5.42	7.75
Midlands and East							4.65	6.20	11.52
North							6.65	10.25	17.78
South-west and Wales							3.99	5.84	6.61
Scotland							5.00	5.98	6.69
Total	**3.68**	**4.30**	**6.10**	**6.20**	**7.00**	**14.29**	**4.38**	**6.40**	**7.98**
Very large firms							6.50	12.88	25.88

Firms can have a mix of equity partners with other fixed share or salaried partners. **Table 15** shows that, in 2020, 53% of partners were equity partners. **Table 16** shows that this figure fell from 60% in 2019 – a significant change.

There are a few possible explanations for this movement. Every year there will be equity partners leaving and retiring from firms.

Firms looking to recruit or promote new equity partners will have found this harder in the current year and may well have deferred the appointment of equity partners and effectively have replaced them with more non-equity partners. it will be interesting to see if this movement reverses in future years.

Table 15 – equity partners as percentage of total partners 2020

	Small			Large			Total		
	LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
South-east							38%	51%	74%
Midlands and East							44%	61%	94%
North							21%	36%	52%
South-west and Wales							49%	54%	62%
Scotland							57%	60%	62%
Total	**55%**	**69%**	**100%**	**29%**	**45%**	**56%**	**42%**	**53%**	**70%**
Very large firms							21%	35%	46%

Table 16 – equity partners as percentage of total partners 2019

	Small			Large			Total		
	LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
South-east							39%	53%	75%
Midlands and East							43%	60%	94%
North							22%	41%	68%
South-west and Wales							54%	61%	65%
Scotland							59%	60%	71%
Total	**63%**	**75%**	**100%**	**35%**	**47%**	**61%**	**44%**	**60%**	**71%**
Very large firms							22%	42%	46%

Table 17 shows that the percentage of staff who were fee earners in 2020 was 52%. **Table 18** shows that the figure was the same in 2019. Why is this interesting? When lockdown started, the immediate focus was on helping fee earners to remain productive but there was also the issue of whether or not staff employed in business support roles could still perform their roles.

Some areas of business support, such as IT, saw a massive spike in demand for their time as lawyers grappled with the best way of working remotely.

However, someone who had covered reception or who had organised catering within an office would have seen a rapid decline in demand for their service. Without the furlough scheme, many roles would have been made redundant quickly.

As offices open up again, decisions will need to be made about the types and numbers of people needed. While the mix of business support staff does look set to change, it will be interesting to see if there is an overall change in the number of business support staff in both the short and medium term.

Table 17 – fee earners as percentage of total headcount 2020

	Small			Large			Total		
	LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
South-east							54%	66%	77%
Midlands and East							46%	49%	57%
North							45%	53%	57%
South-west and Wales							41%	50%	59%
Scotland							43%	52%	58%
Total	**46%**	**49%**	**55%**	**45%**	**55%**	**63%**	**45%**	**52%**	**63%**
Very large firms							54%	61%	68%

Table 18 – fee earners as percentage of total headcount 2019

	Small			Large			Total		
	LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
South-east							53%	61%	70%
Midlands and East							42%	48%	52%
North							43%	47%	55%
South-west and Wales							40%	51%	59%
Scotland							40%	52%	57%
Total	**40%**	**47%**	**55%**	**45%**	**53%**	**61%**	**44%**	**52%**	**60%**
Very large firms							52%	54%	60%

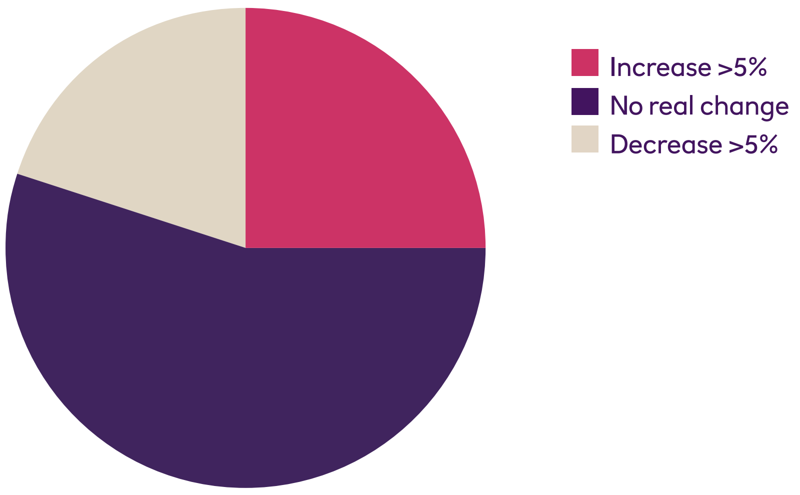
What about productivity?

Primarily because of furlough, employment levels have been maintained. But what happened to productivity? We asked firms what their experience had been with regard to the recording of chargeable hours per lawyer **(figure 9)**. Some 55% of firms have seen no real change while another 25% saw an increase of over 5%.

One of the things that made firms nervous previously about the adoption of homeworking was a fear that productivity would fall. The evidence from this research shows that there has been little change, despite the fact that the experiment has been undertaken, while the economy generally has seen the biggest decline in output for more than 200 years.

Perhaps the forced experiment can now give firms confidence that productivity is less likely to drop simply because of homeworking. Fee earners have often commented that they find it easier to record all of their time when working from home because there aren't all of the distractions that come from working in a busy office.

Figure 9 – has the pandemic resulted in a change in chargeable hours recorded per lawyer?



While most employees now welcome the opportunity to go back to the office for at least a few days each week, most staff would like the ability to work remotely for some of the week as it's greener, reduces commuting time and saves on commuting costs.

When managing partners were asked to comment on the greatest improvement during lockdown, it was interesting to see how many commented on greater trust within the firm. All firms were forced into lockdown but this was an invaluable lesson and demonstrates that people can be trusted to work remotely.

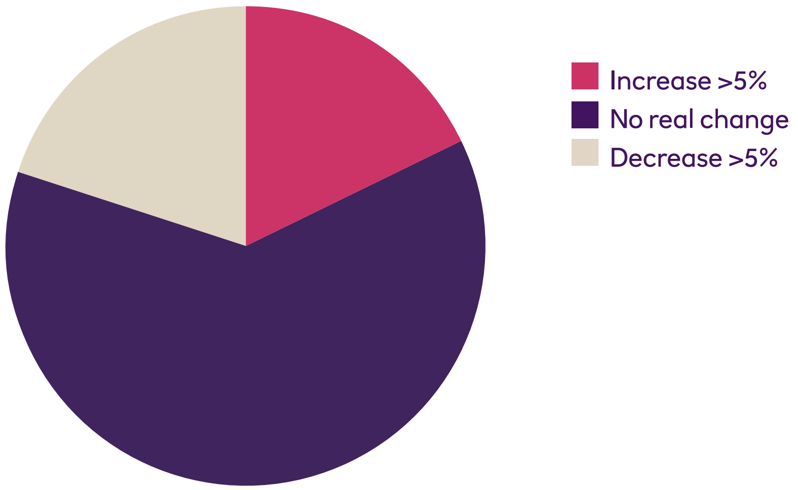
It's also interesting to hear that many fee earners say that most of their fee earning in future will be done from home and that coming to the office might be more for staff collaboration, innovation and business development activities.

> When managing partners were asked to comment on the greatest improvement during lockdown, it was interesting to see how many commented on greater trust within the firm.

Firms were also asked to comment on changes to productivity per hour worked during the pandemic, with long periods of homeworking. It can be seen that, in total, there was a very slight drop **(figure 10)**. It will be interesting to ask this question again in the future. The UK economy generally has been struggling to boost productivity over the last decade and that has been an issue in the legal sector too.

If you're optimistic, the slight drop in productivity could be explained by the initial disruption caused when we first entered lockdown. But as time passes, work levels have picked up again and as people become more accustomed to homeworking, we may see that productivity increases as there may be fewer distractions at home than in the office, once we're confident that schools will be open every day.

Figure 10 – has the pandemic resulted in a change in productivity per hour worked?

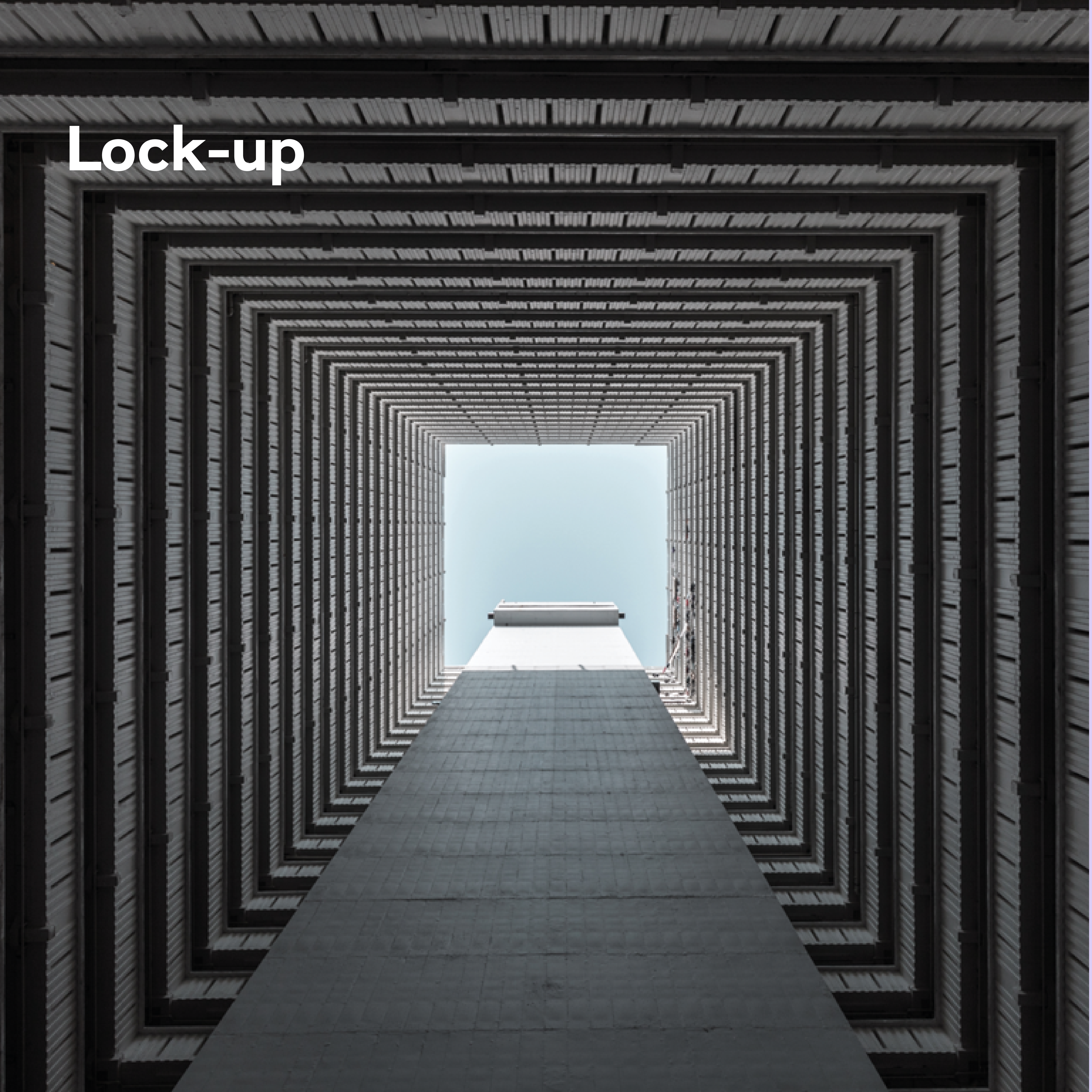


Reduced commuting time also means that there is greater productive capacity without increasing the length of the working day. Given that many fee earners comment on how they struggle to work from 9am to 5pm, allowing more flexibility over when people work should deliver positive outcomes.

The third lockdown, after Christmas, has clearly been the hardest for firms to manage and there has been greater concern over the well-being and mental health of staff. Firms have invested heavily in well-being and resilience training, and have tried to ensure that more time is spent by supervisors checking in with their teams.

One firm was conscious that some staff hadn't had a day off for 9 months and so had a compulsory well-being day for everyone. The benefits of better staff engagement and welfare have been clear to everyone. This has definitely contributed to the view that levels of trust within firms are now higher than before the pandemic. It will be important to maintain such investments in future.

The third lockdown, after Christmas, has clearly been the hardest for firms to manage and there has been greater concern over the well-being and mental health of staff.



Lock-up

Lock-up

The moment the pandemic struck, the biggest short-term risk for any business, including law firms, was that of insolvency. Most businesses don't carry large cash reserves. Given that most businesses have some significant fixed costs, any reduction in income levels could lead quickly to a cash crisis and subsequent insolvency.

Going into the pandemic, the legal sector wasn't in the strongest position given that, historically, firms had allowed an average of about 120 days' credit to clients from the point when an hour of time was recorded to the point when cash was received for that hour. In other words, at the start of the pandemic, a firm was typically owed about 4 months of fee income by clients.

Law firms refer to this credit being given to clients as lock-up. Once lockdown started, everyone knew that income levels might drop quickly and that survival meant having enough cash available to pay the bills as they became due.

Clients might therefore hesitate to pay professional firms until they knew that they were safe. Law firms, already short of cash, must now have wondered how long they could survive without government support.

Table 19 shows that median WIP days at the end of the 2020 period stood at 103 days. **Table 20** (see next page) shows that the equivalent figure a year earlier was 86 days, meaning that in 2020 WIP days had slipped by 17 days. It's interesting to note that in small firms the increase was significantly higher at 37 days, while in large firms the figure had fallen by 1 day.

A possible explanation for this is that smaller firms were less prepared for homeworking and while such firms were still able to support clients, perhaps less focus was placed on billing. It could also be that smaller firms immediately devoted efforts to ensuring that they would be able to receive some of the government funding that became available.

The moment the pandemic struck, the biggest short-term risk for any business, including law firms, was that of insolvency.

Table 19 – WIP days 2020

	Small			Large			Total		
	UQ	Median	LQ	UQ	Median	LQ	UQ	Median	LQ
South-east							33	65	133
Midlands and East							90	135	205
North							76	128	279
South-west and Wales							53	93	119
Scotland							60	74	204
Total	**71**	**123**	**215**	**51**	**87**	**159**	**58**	**103**	**192**
Very large firms							56	85	142

Table 20 – WIP days 2019

	Small			Large			Total		
	UQ	Median	LQ	UQ	Median	LQ	UQ	Median	LQ
London and south-east							44	52	116
Midlands and East							89	108	160
North							71	110	154
South-west and Wales							57	77	93
Scotland							47	56	142
Total	**54**	**86**	**145**	**46**	**88**	**158**	**47**	**86**	**150**
Very large firms							36	79	108

Table 21 considers debtor days at the end of the 2020 period, while **table 22** (see next page) looks at the same figures from the 2019 period. It's interesting to see that in 2020, debtor days had only deteriorated by 3 days, far smaller than the deterioration in WIP days.

In 2019, both small and large firms had 43 debtor days. In 2020, this had increased to 54 days in small firms and 44 days in large firms.

Table 21 – debtor days 2020

	Small			Large			Total		
	UQ	Median	LQ	UQ	Median	LQ	UQ	Median	LQ
South-east							33	77	89
Midlands and East							26	32	44
North							44	50	60
South-west and Wales							40	69	108
Scotland							38	79	104
Total	**27**	**54**	**88**	**35**	**44**	**78**	**32**	**46**	**83**
Very large firms							36	44	68

Table 22 – debtor days 2019

	Small			Large			Total		
	UQ	Median	LQ	UQ	Median	LQ	UQ	Median	LQ
South-east							37	44	77
Midlands and East							32	36	38
North							39	49	74
South-west & Wales							33	64	87
Scotland							39	65	77
Total	**34**	**43**	**74**	**34**	**43**	**67**	**34**	**43**	**74**
Very large firms							35	47	73

There is an argument that debtor days and WIP days in isolation don't really matter. Having zero WIP days might look good but if there are 200 debtor days then, in total performance, it's still poor.

The real measure of interest is therefore total lock-up days. **Table 23** shows the figures at the end of the 2020 period and **table 24** (see next page) shows the corresponding figures at the end of the 2019 period.

The median figure increased by 26 days, or about a month, to 172 days in the year of 2020. An increase of a month in lock-up days equates to a firm having a 12th of a year's fee income less cash in the bank account, which could clearly be problematic.

It's also interesting to see that at the upper quartile position the figure worsened by only 13 days to 120 days while, at the lower quartile point the figure worsened by 49 days to 248 days. This illustrates that some firms managed their cashflow during 2020 better than others.

One managing partner said that they thought cashflow would worsen in lockdown and they therefore encouraged universal monthly billing and cash upfront on all files, which had never been done previously. There were still some files where this couldn't be done as the client wouldn't have any cash until an asset sale completed but it was apparently easier to implement than had been thought before the pandemic. It's hoped that because the pandemic has run for so long these behaviours will now be natural behaviours and fee earners won't revert to their old ways of allowing huge credit periods.

Table 23 – total lock-up days 2020

	Small			Large			Total		
	UQ	Median	LQ	UQ	Median	LQ	UQ	Median	LQ
South-east							92	164	203
Midlands and East							130	178	233
North							142	203	290
South-west and Wales							129	172	209
Scotland							102	150	308
Total	**144**	**197**	**291**	**110**	**153**	**213**	**120**	**172**	**248**
Very large firms							122	150	203

Table 24 – total lock-up days 2019									
	Small			Large			Total		
	UQ	Median	LQ	UQ	Median	LQ	UQ	Median	LQ
South-east							81	161	204
Midlands and East							126	146	192
North							124	159	221
South-west and Wales							110	151	175
Scotland							86	128	220
Total	**112**	**159**	**193**	**106**	**145**	**206**	**107**	**146**	**199**
Very large firms							116	135	164

While we've seen that profitability improved through the furlough scheme and the tightening of expenditure control, the sudden worsening of cashflow could have resulted in many more insolvencies if it hadn't been for the provision of emergency finance, which is discussed in the next section.

Finance

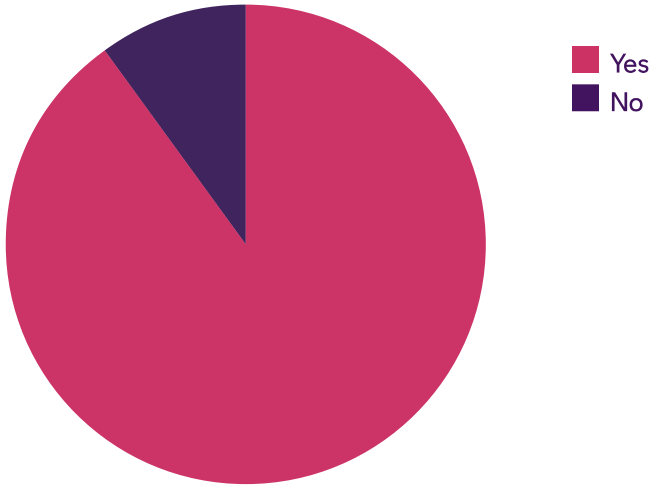
Finance

Well-managed firms are always aware of just how quickly a cash crisis can develop when large bills such as rent payments, quarterly VAT payments and partner income tax payments fall due. In normal times, a shortage of cash can often be dealt with by holding back on the payment of other suppliers, deferring payments to partners or by arranging short-term loans and overdrafts.

When the economy was hit by a pandemic and there was the threat of a deep recession, some creative approaches were needed. Most of the people we spoke to said that they remained calm. A couple of firms commented on how reporting accountants appeared to have less faith in law firms when finalising law firm accounts, with particular concerns over whether firms were going concerns or not.

Financial advisers have often recommended that individuals build up an emergency cash fund so that they would be all right if there was a sudden hit to their incomes.

Figure 11 – did you defer your March to June 2020 VAT liability to 2021?



The financial adviser might suggest a holding of 3 months' expenses as a target figure as this should cover most short-term emergencies, such as a period of unemployment or sickness.

Perhaps all businesses, including law firms, should now think this way. There are many reasons why a firm might have a short-term disruption to income - the loss of a key client or clients, a cyber-attack or even a global pandemic.

So, if a firm with fee income of £5 million has expenses of £3.6 million and makes a profit of £1.4 million, how much does it need in an emergency cash fund? This is for the partners to decide, based on their attitude to risk, but if they want to cover the next 3 months of expenses then the emergency cash fund or capacity in their facility with the bank needs to be £900,000.

The UK Government allowed businesses to defer VAT payments due before 30th June 2020 as an immediate help to cashflow. A large majority of firms made use of this scheme, which provided some breathing space for firms to consider what other steps would be necessary to stabilise cashflow **(figure 11)**.

The financial adviser might suggest a holding of 3 months' expenses as a target figure as this should cover most short-term emergencies such as a period of unemployment or sickness.

The UK Government also allowed the self-employed to defer income tax payments due on 31st July 2020 until 31st January 2021. Firms made use of this facility **(figure 12)**. There were 2 things that led to this being less popular than the VAT deferment. Firstly, the liability is a personal liability for the partners and so firms often felt that they should settle this liability for the partners as a priority. Secondly, as the payment was due after the VAT payment, firms had more time to consider their cashflows before needing to decide whether or not to defer these payments.

Given that a business fails when it runs out of money, the bank balance gives a first impression of how close a firm might be to insolvency. **Table 25** shows that at the end of the 2020 period, the median bank balance was £542,000, with a lower quartile figure of £314,000 and an upper quartile figure of £1,266,000. Unsurprisingly, small firms had a lower median figure of £305,000 and large firms had a median £1,041,000. This shows a fairly healthy position after many months of the pandemic, with very few firms being overdrawn.

Figure 12 – did you defer the July 2020 income tax payments for partners to January 2021?

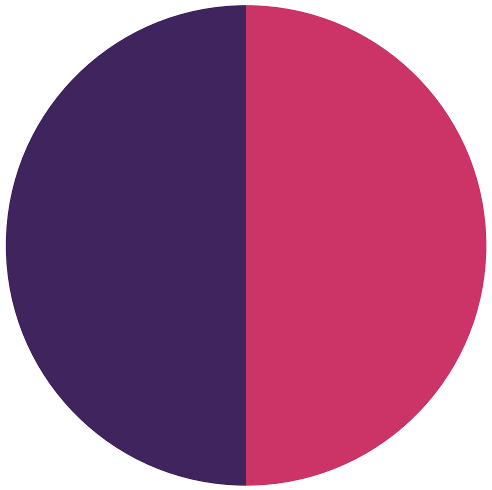


Table 25 – period-end bank balance 2020 for 6 months (£'000)

	Small			Large			Total		
	LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
South-east							518	597	1,034
Midlands and East							96	406	968
North							113	306	503
South-west and Wales							388	1,155	1,753
Scotland							558	928	1,332
Total	**104**	**305**	**454**	**523**	**1,041**	**1,791**	**314**	**542**	**1,266**
Very large firms							868	1,681	2,669

Table 26 shows the same figures from 2019. At that point, the median bank balance was £63,000, with an upper quartile figure of £483,000 and a lower quartile figure of a £400,000 overdraft.

The figures in 2019 are the figures more normally seen and show that, during the pandemic, firms were able to improve cashflow significantly.

Table 26 – period-end bank balance 2019 for 6 months (£'000)

	Small			Large			Total		
	LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
South-east							-910	398	1,869
Midlands and East							-349	-62	235
North							-520	-9	100
South-west and Wales							-173	86	512
Scotland							372	498	1,390
Total	**-62**	**63**	**228**	**-558**	**163**	**630**	**-400**	**63**	**483**
Very large firms							-556	387	681

A key question for all firms to consider is how much cash is required to remain safely solvent. It was explained earlier that a firm with a fee income of £5 million might sensibly need to carry a cash balance of £900,000 so that they could cover the expenses of the firm for the next 3 months. This would equate to having a cash balance of 18% of annual fee income.

Table 27 calculates the cash held (net of any overdrafts) as a percentage of fee income for the 6-month period. The median figure of 22% of 6 months' fee income equates to 11% of annual fee income.

It can be seen that firms were, therefore, holding a median amount of nearly 2 months' expenditure at the end of the 2020 period. Going forward, this might be a useful measure for firms to use and, as they grow, they can consider what additional resources are required.

Table 27 – period-end bank balance 2020 for 6 months (£'000)

	Small			Large			Total		
	LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
South-east							23%	28%	32%
Midlands and East							6%	20%	30%
North							7%	12%	18%
South-west and Wales							19%	26%	36%
Scotland							31%	39%	55%
Total	**8%**	**28%**	**32%**	**14%**	**20%**	**32%**	**13%**	**22%**	**32%**
Very large firms							10%	20%	33%

Table 28 shows the equivalent figures at the end of the 2019 period. Net cash was only 3% of 6 months' fees. At that point firms would have struggled to deal with a serious interruption to cashflow. The danger for all firms after the pandemic is that they slip back to where they were before the pandemic.

Table 28 – total net cash as a percentage of fees 2019

	Small			Large			Total		
	LQ	Median	LQ	LQ	Median	UQ	LQ	Median	UQ
South-east							-18%	22%	44%
Midlands and East							-13%	-7%	3%
North							-11%	-1%	4%
South-west and Wales							-3%	6%	9%
Scotland							10%	24%	36%
Total	**-7%**	**4%**	**16%**	**-12%**	**2%**	**13%**	**-11%**	**3%**	**14%**
Very large firms							-8%	3%	8%

How did firms improve their cash position given that lock-up deteriorated during the period?

There were certain expenses that fell below normal, such as travel and business development expenses. Some payments to suppliers were deferred and many firms made use of the VAT and income tax deferral schemes.

Most firms also temporarily suspended or reduced monthly drawings of partners. These actions made a big difference but so too did taking on the UK Government's emergency Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce BackLoan Scheme (BBLS).

Many firms made use of this additional funding as a safety net amid the pandemic but there were a considerable number of firms that decided such borrowing was not needed. **Table 29** shows the amount borrowed under CBILS/BBLS at the end of the 2020 period.

It's interesting to see that most small firms did make use of CBILS/BBLS, while the majority of large firms didn't apply for such loans. In total, 45% of firms made no use of government loans.

Table 29 – government loans received 2020 for 6 months (£'000)

	Small			Large			Total		
	LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
South-east							0	25	388
Midlands and East							50	50	400
North							0	150	350
South-west and Wales							0	250	740
Scotland							0	0	0
Total	**38**	**50**	**275**	**0**	**0**	**500**	**0**	**50**	**373**
Very large firms							0	0	245

Perhaps a better way of understanding the CBILS loans is to express them as a percentage of fee income for the period.

This is shown in **table 30** and it can be seen that while this was significant in small firms the impact was far less in larger firms, which made less use of CBILS.

Table 30 – government loans received as percentage of fees 2020

	Small			Large			Total		
	LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
South-east							0%	6%	22%
Midlands and East							5%	11%	15%
North							0%	5%	12%
South-west and Wales							0%	15%	23%
Scotland							0%	0%	0%
Total	**3%**	**10%**	**19%**	**0%**	**0%**	**15%**	**0%**	**5%**	**15%**
Very large firms							0%	0%	5%

Another way of seeing the impact of CBILS is to calculate what the period-end bank balance would have been without these loans. The median figure with the loans of £542,000 was seen in **table 25**. **Table 31** shows that without CBILS the median bank balance would have been £297,000 – £245,000 lower. The average amount borrowed by firms with the government-backed schemes was £321,000.

It's worth highlighting that at the end of the 2019 period the median figure was £63,000, as seen in **table 26**.

This shows that, even without government loans, the median bank balance improved by £234,000 because of the other measures taken. Very simply, about half of the improvement in the period-end bank balance came from CBILS and the other half from other measures such as expenditure reduction and the deferment of taxes and partner drawings.

Table 31 – period-end balance with no government loan 2020 for 6 months (£'000)

	Small			Large			Total		
	LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
South-east							92	129	899
Midlands and East							-10	322	543
North							-46	26	156
South-west and Wales							225	647	1,223
Scotland							558	928	1,332
Total	**41**	**128**	**204**	**84**	**669**	**1,594**	**26**	**297**	**765**
Very large firms							322	1,200	2,669

Firms allow clients credit, which needs to be financed. Firms will also need to finance capital expenditure. If the partners don't want to rely on bank finance, then all finance will need to come from the partners and the partners need to think about how much capital is needed to fund the firm.

Given that in normal times a median firm might allow clients 120 days' credit, then a firm would need partner capital of 33% of fee income. During the pandemic, this grew to 172 days – 47% of annual fees. Firms would be well advised to consider what level of partner capital is required as a percentage of fee income.

The higher the percentage, the less the firm should need bank finance. **Table 30** shows that partner capital as a percentage of fees for a median firm was 49% in 2020, while **table 31** shows that the equivalent figure in 2019 was 42%. Most firms didn't ask partners to inject fresh capital during the pandemic.

The increased percentage arises as many firms reduced partner drawings and also with falling levels of fee income the existing partner capital became a greater percentage of fee income.

Note that the median figure in **table 32** of 49% was calculated on fees for a 6-month period. Therefore, this equates to 24.5% of annual fees, which is considerably less than the 47% required just to cover the credit given to clients.

Large firms had a median partner capital figure of 60% of fee income, while in small firms this figure was 37%. This highlights that large firms are generally better capitalised and that this is a generally greater issue in small firms.

> Most firms didn't ask partners to inject fresh capital during the pandemic.

Table 32 – partner capital as a percentage of fees 2020

	Small			Large			Total		
	LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
South-east							27%	86%	98%
Midlands and East							22%	38%	75%
North							26%	48%	70%
South-west and Wales							32%	48%	60%
Scotland							48%	80%	97%
Total	**23%**	**37%**	**107%**	**35%**	**60%**	**76%**	**31%**	**49%**	**83%**
Very large firms							43%	71%	83%

Table 33 – partner capital as a percentage of fees 2019

	Small			Large			Total		
	LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
South-east							17%	58%	81%
Midlands and East							12%	25%	60%
North							26%	40%	67%
South-west and Wales							24%	33%	58%
Scotland							44%	61%	75%
Total	**20%**	**35%**	**85%**	**20%**	**50%**	**72%**	**19%**	**42%**	**75%**
Very large firms							33%	64%	70%

2021 outlook

2021 outlook

The report has looked at what happened during the pandemic. What's now more relevant is what might change in future and what trends Covid-19 has accelerated in the profession. For many years there has been discussion about remote working. Prior to the pandemic, very little homeworking took place **(figure 13)**.

There had been very little movement, with firms believing productivity would drop, IT capabilities not being sufficiently robust and perceptions people needed to work in teams to achieve optimum levels. The pandemic changed all of that in an instant.

Now, 55% of firms say that their staff are working remotely for at least 75% of the time **(figure 14)**. When talking to firms, it's not been a surprise to hear that the only people who have continued to come to the office are those who need to deal with the post, to use certain equipment such as printers, sometimes those responsible for the IT infrastructure and fee earners who are unable to work from home because of their domestic circumstances.

We collected many anecdotes from businesses relating to their readiness for homeworking. One firm talked about how the partners had appropriate laptops but other staff members didn't and so there was a rush to acquire 100 new laptops. However, with the NHS taking priority and with a shortage of computer chips, this did mean that remote working was difficult for a few weeks. Another firm explained how the senior partner visited another local firm to buy some old laptops.

One firm explained that, in December 2019, their IT director demonstrated Microsoft Teams to the partnership and explained "that this was the future". Apparently the partners couldn't see why the firm needed such applications until in 2020 the penny dropped.

Figure 13 – what percentage of time was spent working remotely before the pandemic?

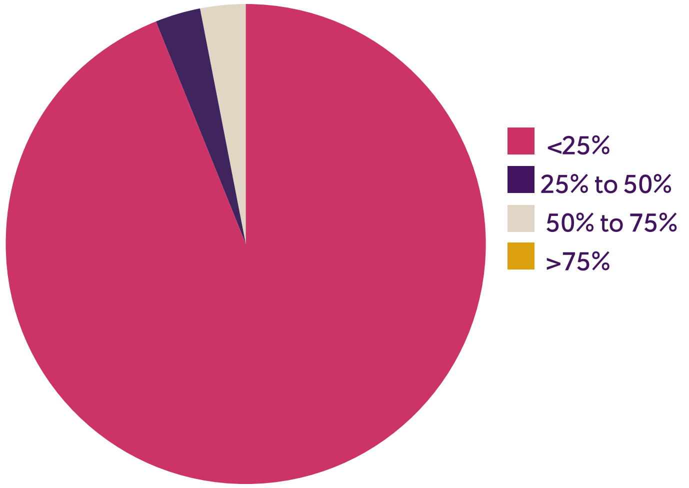
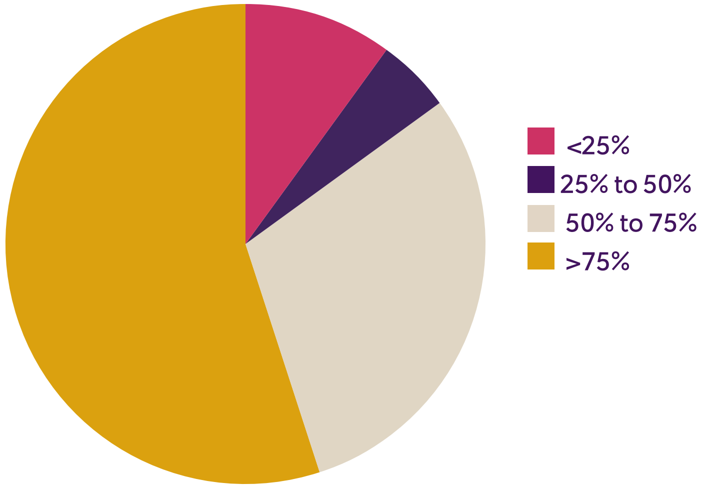


Figure 14 – what percentage of time is spent working remotely now?



When asked how much remote working is envisaged in the future, most firms see it continuing but not at the same level as under lockdown **(figure 15)**.

Without the pandemic it might have taken another decade for firms to arrive at this new way of working. Most fee earners are asking for agile working and want to return to the office to work at least for a few days each week.

Interestingly, many fee earners commented on how they will still do most of their work from home as it's easier to work there than in the office. This suggests that the office in future is likely to be used in quite different ways.

While work will still be undertaken in the office, it will be the place where people come to meet, talk, collaborate and form deeper relationships with colleagues.

One managing partner commented on the need to reconfigure offices and that they won't go back to open offices with long rows of workstations.

While there were a few firms that think they might need less office space in future, the majority don't have plans to reduce space but appreciate that, with agile working, it may be possible to increase headcount by about 1/3 without needing additional space.

One managing partner said that, over time, the culture of the firm was being impacted during lockdown and if people didn't return to the office then why would they continue working for the firm as they could equally work from home for anyone else. It was suggested that it's "common experiences" at work that bind people and a firm together and that if these don't resume then the culture of the firm might start to erode.

With homeworking now accepted, recruitment markets will change. Firms will be able to recruit fee earners who don't live as close to the office as would have been necessary historically.

We asked firms to comment on how far ahead they're business planning. While, rightly, there was considerable short-term planning required when the pandemic struck, it's reassuring to see that most firms are once again looking ahead and planning for a future beyond Covid-19 **(figure 16)**.

Figure 15 – what percentage of time will be spent working remotely in 2 years' time?

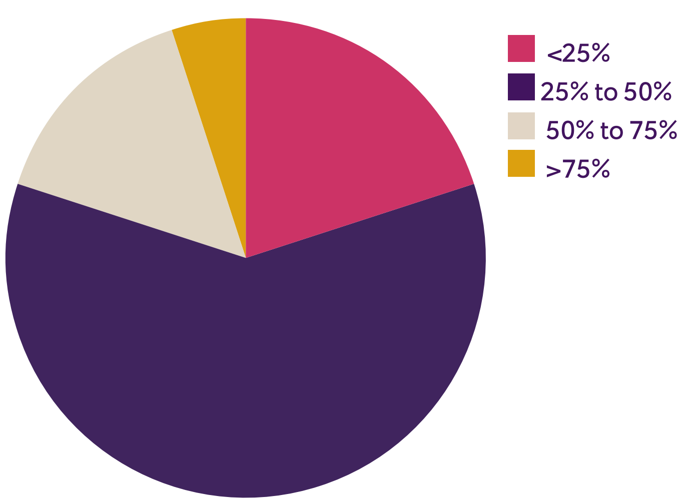
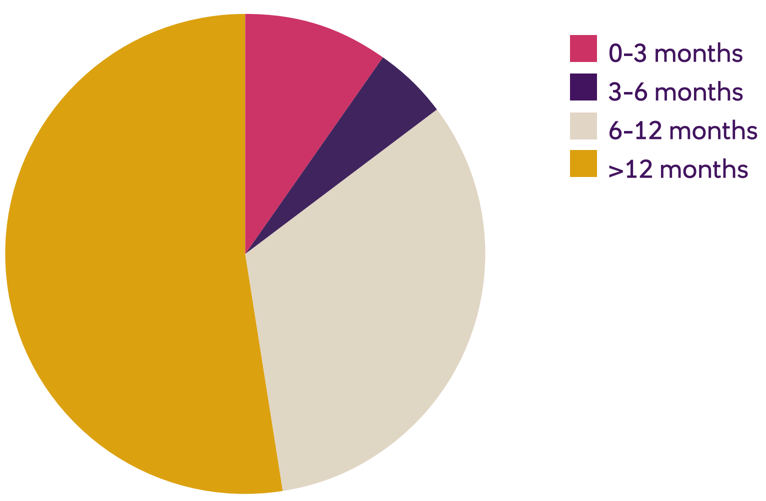


Figure 16 – how far ahead are you now business planning?



We asked firms to comment on Brexit and if it's seen as an opportunity or threat **(figure 17)**. It's not really seen as an issue at all in most firms. This is different to the response gained when the last survey was written and perhaps illustrates that we're likely to worry most about the largest current issue and not even greater issues that could be just around the corner.

The fact that a Brexit deal was eventually agreed and the no-deal scenario was avoided also explains why this is now not such an issue.

Across the globe, there is greater acceptance of a need to act rapidly to avert a climate change disaster. While governments can set a policy framework, it's down to businesses and individuals to change the way in which they operate.

We were interested to see that of the firms surveyed, nearly all said that climate change was not on their strategic agenda or it was in the fourth quartile of their agenda **(figure 18)**.

This could be because other issues have become more pressing or it could be because firms don't see how they can contribute significantly to a reduction in carbon emissions.

Clearly, the move to agile working will result in less commuting and business travel, which might be one of the greatest contributions that can be delivered by firms, along with a potentially reduced office footprint.

It will be interesting to see over the next few years whether firms come under greater pressure by clients to make further strides on reducing carbon emissions.

Figure 17 – do you see Brexit as an opportunity or threat to your firm?

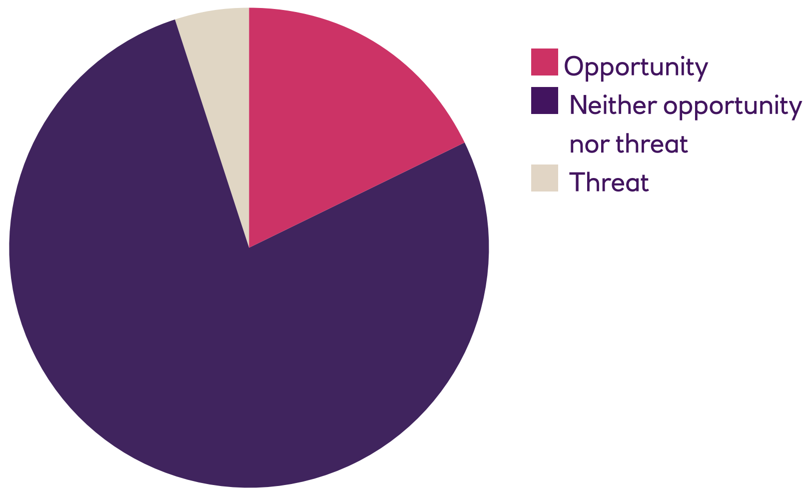
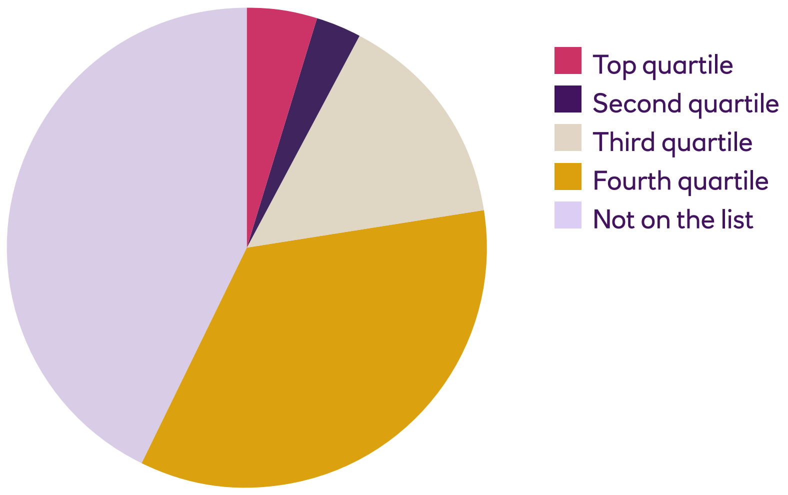


Figure 18 – in which quartile is climate change and sustainability on management's strategic agenda at the moment?



Diversity and inclusion remain important business issues. Thoughts around this are more polarised, with just under half of firms seeing this as a priority while half of firms don't **(figure 19)**.

Once firms start to return to the office, there may be more staff movement and it will be important for all firms to be able to retain and attract the best people.

Policies around diversity and inclusion will, for many people, be important when they're deciding where they want to work.

We asked firms to comment on how confident they feel as business begins to return to a more normal time and lockdowns end. Have the experiences of the last year damaged the confidence of firms or are they very resilient? Our survey shows that none of the firms are pessimistic or very pessimistic about the future. Some 33% of firms are very optimistic and a further 53% are optimistic **(figure 20)**.

Firms talked a great deal about the lessons learned from the financial crash a decade earlier. They had learned to act decisively and they had also appreciated the need to remain calm. Hopefully, many lessons have been learned from the pandemic and if these are remembered then firms are right to have confidence in dealing with whatever is thrown at them in future.

Our survey shows that none of the firms are pessimistic or very pessimistic about the future. Some 33% of firms are very optimistic and a further 53% are optimistic.

Figure 19 – in which quartile is diversity and inclusion on management's strategic agenda at the moment?

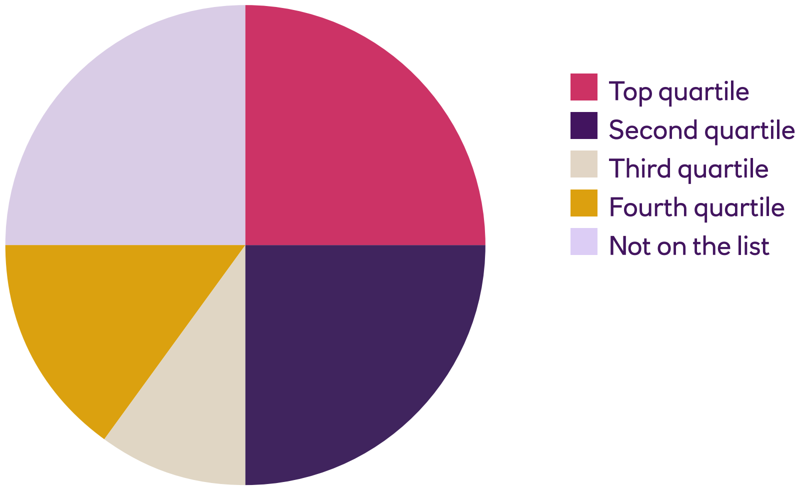
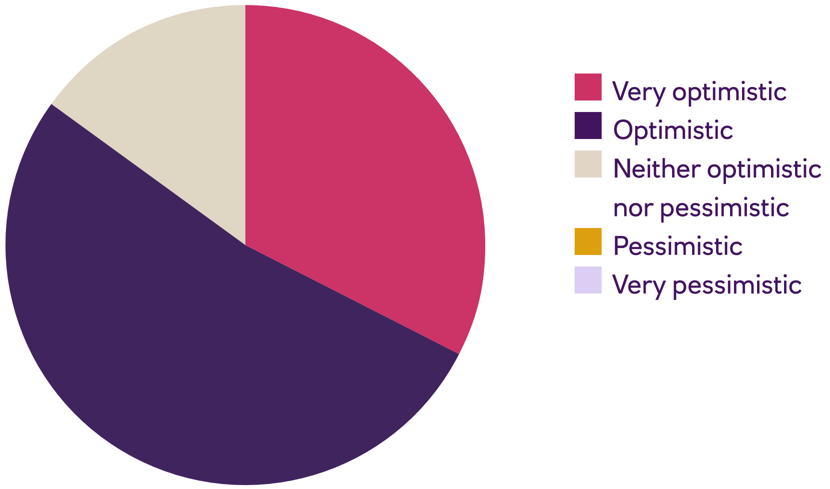


Figure 20 – how optimistic are you now for the future of the firm?



Q&A

At the end of the interviews with managing partners and finance directors, we asked for short responses to the following 4 questions. You can see some of the more common responses:

Questions	Answers
What has improved most in the firm because of the pandemic?	Relationships with staff and clients, the use of technology, trusting staff to work remotely, productivity and the partners' understanding of the firm's finances.
What's the biggest lesson you've learned during the pandemic?	Be bold, stay calm and don't panic. The value of a supportive environment.
What will be the biggest long-term change to the firm because of the pandemic?	Accelerated growth, the way in which office space is configured and used, less paper and printers, agile working, involving younger people more in medium-term strategy.
What aspect of the firm and the work it undertakes will keep you awake once the pandemic is behind us?	Professional Indemnity costs, the risks attached to certain revenue streams, staff retention, pay and conditions, a fourth lockdown in the autumn, inflation and interest rates, cyber-crime, compliance, further IT investment and spending money poorly. It's reassuring that the legal sector has weathered the pandemic well and is emerging in sound financial health. It seems unlikely that firms will revert to working in ways seen before the pandemic. Hopefully, there will be many positive and enduring changes that have arisen from the pandemic and it'll be interesting to see what further strides are taken in future years.

Is your business future-proof?

To make good use of the report, we thought that it might be helpful to prepare a checklist to help firms take stock at the end of such an eventful period. We recognise that we are simply asking the questions that need to be considered. The challenge for all firms will be to decide on the correct answers for them.

Staff engagement: mental health and well-being

1. What improvements can be made to our processes so that we better understand what our staff want?
2. Should we be identifying measures so that we can track mental health and well-being over time?
3. Do we need to think again about rewards and benefits to ensure that we can retain and accommodate a wider and more diverse employee group?
4. Are we as good as we should be at attracting the best possible people to work with us?
5. Do we invest enough in the development of our staff? Do we have clearly identified and communicated career paths that are open to everyone?

Client attraction and engagement

1. How's business development going to change with agile working?
2. Is it time to review again the clients that we're looking to target?
3. Should we be looking to offer new services to clients to increase fee income and improve client loyalty?
4. Are we good at understanding what our clients value and ensuring delivery of such value to all clients?
5. Should we think again about the way in which we quote for work? Are there changes that could be made which would result in more profitable work being won?
6. Are we good at talking to clients at the outset about estimates, money on account, billing frequency and our credit terms?

Productivity and agile working

1. What do we see as 'normal' being in the future for the number of days worked in the office each week?
2. Do we need to stipulate any core hours of working?
3. What further investments are needed to hardware, software and home office kit to ensure remote working is both a productive and comfortable working environment?
4. Have we adequately adopted the use of AI or automation?
5. Do we have the breadth of skill sets and specialisms within the firm to take advantage of the digitisation trend and new ways of working?

Making best use of the office

1. How much office space will we need as we embrace agile working?
2. Is our existing office space constructed to facilitate the way in which our staff will want to use the office in the future?
3. Is there an opportunity now to become completely paperless?
4. Are our offices an attractive place for our staff to come into, collaborate and be productive?
5. Have we got the right people dealing with cyber security and is this group properly resourced?

Firm finance

1. Does the firm have adequate capital so that it could face a future crisis and survive – even without emergency government support?
2. Are the necessary banking facilities in place and are we clear about the levels of debt with which the firm is comfortable?
3. What further steps can be taken to accelerate cashflow and reduce lock-up?
4. Have we got sufficient finance in place for the capital investments that the firm wishes to make?

About the author

Robert Mowbray is a chartered accountant, trainer and consultant who's worked in and for professional firms for more than 30 years. His involvement with law firms began in the late 1980s and quickly developed into a niche business.

His book entitled Maximising the Profitability of Law Firms, published in the mid-1990s, was the first on law firm financials. He's been involved in a large number of surveys in the legal profession, which have focused on the financial health of firms, but he's also worked on many other surveys to research other aspects of law firm performance. He's the author of Law Firm Finance and Administration Handbook: A Practical Guide for COFAs and Finance Professionals, which was the first book to be published on the role of the COFA.

Robert works with about 60 firms each year and helps them to improve their financial performance. He's assisted in many areas, including improving management information; enhancing the quantity and quality of time capture; improving the ability of fee earners to negotiate fees with clients and introduce more creative fee arrangements; managing lock-up to improve cashflow; profit-sharing arrangements that reward improved business performance, and with strategic and business planning.

He's worked with law firms in more than 40 countries and close to 1,000 firms in total. His clients range from the global elite, through major regional firms to many small firms and sole practitioners. He's an owner of Taylor Mowbray LLP, a niche business focused primarily on law firms, which he runs with Janet Taylor – an authority on the SRA Accounts Rules.

If you have further questions for Robert, please feel free to contact him via **taylormowbray.com**.

Robert Mowbray

Chartered accountant, trainer and consultant

Contact us

If you have any comments on the contents of this report or would like to talk to us, please contact your relationship manager.

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