

Legal Sector COVID-19 Survey Report

Summer 2020

Welcome to the MHA Legal Sector COVID-19 Survey Report



Karen Hain
MHA Moore & Smalley
Head of the Professional
Practices Group at MHA

Towards the end of May 2020, whilst still in the midst of the COVID-19 lockdown period, MHA undertook a survey of the legal sector focusing on the impact of coronavirus, how this is affecting law firms, and the influence on future plans.

Headline results were shared mid-June 2020, and we thought it would be useful to add a short commentary to our survey which we hope you find of interest.

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Fee income

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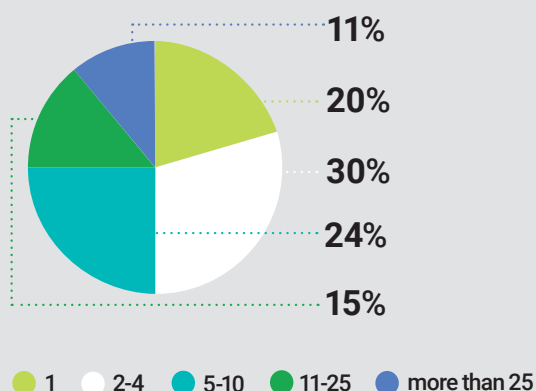
Processes and
future planning

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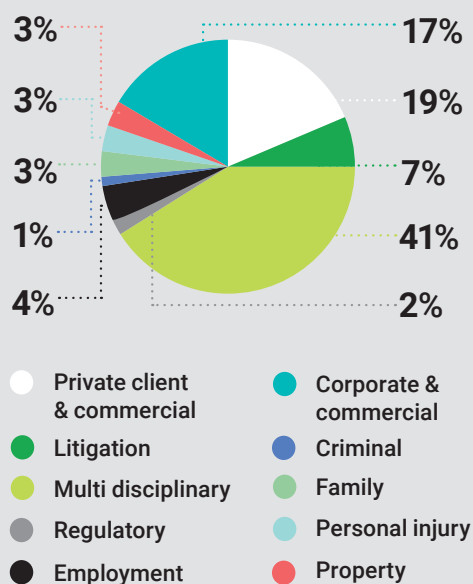
Furlough

About the respondents

How many equity partners/shareholders
are in your practice?



What type of law do you practice?

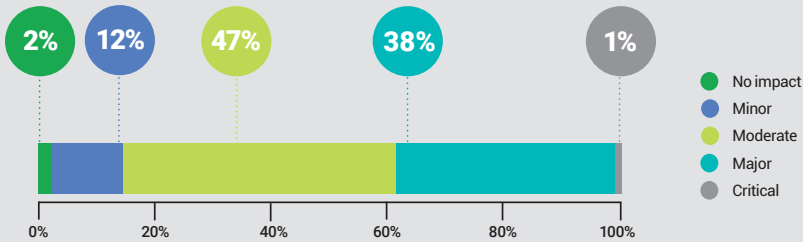


Headline results

1 Fee income

85% of firms said that COVID-19 has had a 'moderate' or 'major' impact on fee income.

What has been the impact of COVID-19 on fee income?

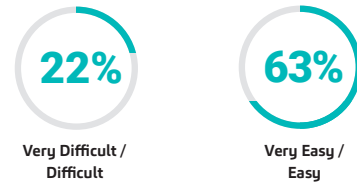


What percentage amount have fees changed by?

68% of firms have seen a decrease of fee income of 10% or more, with 19% seeing more than a 30% decrease in fee income.

2 Home working

There has been a clear split of firms who have found it either easy or difficult to transition to home working.



Positives

- Agile working / better work life balance / flexibility
- Improved productivity and performance
- Better communication internally and externally
- Reduced expenditure
- 'Opening' hours increased

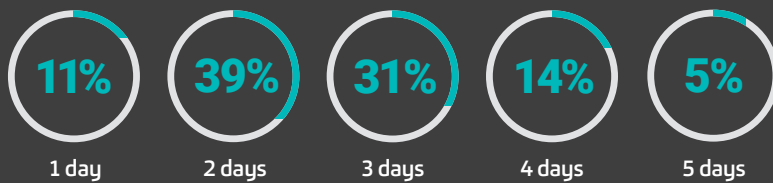
Negatives

- Difficult working practices such as printing, accessibility, and admin support
- Supervision of team members and morale
- Internet and technology issues
- Isolation and wellbeing
- Childcare

3 Working practices going forward

Once lockdown is lifted, 81% of firms expect staff to continue to work from home, with 50% stating that they expect staff to work up to 2 days a week from home going forward.

Future working - how many days will staff work from home going forward?



4 Government support schemes used up to 3 June 2020

87%

Coronavirus Job Retention Scheme (CJRS)

68%

Deferral of VAT

31%

Coronavirus Business Interruption Loan Scheme (CBILS)

31%

HMRC Time To Pay

13%

Bounce Back Loan Scheme (BBLs)

10%

Rates relief

8%

SSP Rebate

4%

Self Employed Income Support Scheme (SEISS)

5 Furlough

The largest proportion of survey respondents (24%) furloughed between 21% and 30% of staff across their firms.

48% say that more than 60% of furloughed staff are from admin and support functions.

6 Processes and future planning

68% are considering innovation, streamlining or digitising processes or functions.

Key themes:

- Utilising technology and digital processes for systems and procedures
- Increase in video conferencing
- Going paperless
- Agile working

7 Business strategy



Marketing
66%

are changing their marketing plans with most utilising digital marketing tactics and targeting more specific work/sectors.



Recruitment
61%

have changed their recruitment plans with most halting recruitment, with an opportunity to expand the pool of candidates in line with the agile working practices now on offer.



Rent and premises
68%

are reviewing their current premises requirements, considering smaller offices.



Bad and doubtful debts
40%

said they are changing plans to focus more on credit control and tightening up payments on account.

7 Business strategy



59%

of legal firms are changing their current business strategy due to COVID-19.

Key themes:

- Opportunities from new IT hardware/software
- Opportunities for new business/staffing without geographic restriction
- Agile working
- Focus on profitability and not fees
- Removing loss making or high risk areas of work
- Curb in growth plans



IT
66%

are changing their plans for IT, with most improving systems and procedures to allow for more home working.

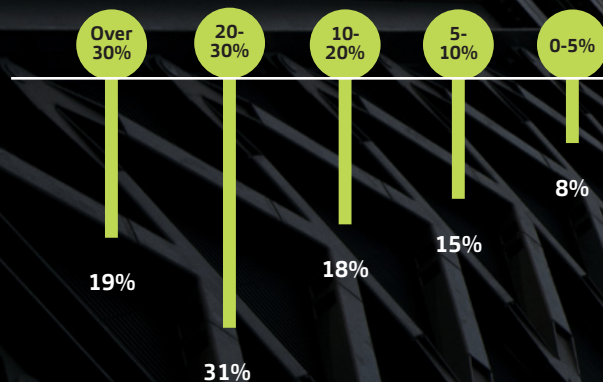
8 Cash flow

82% of legal firms are reviewing their cash flow forecasts either daily or weekly.

Fee income

The percentage amount that fee income has changed by

Percentage fall in fee income



Percentage rise in fee income



no change in income

31% of the firms surveyed saw a fee income decrease of between 20-30%

The severity of impact on law firms is connected to the firms' service lines. Typically, the severity is categorised into three levels:

Busy (17% of firms)

This covers a wide scope of impact on revenue, from up to a 5% reduction in fees, through to over 30% increased revenue being seen. Business is still going well, but with disruptions to the way firms operate. In some cases demand is even increasing. Examples include, private client and employment law.

Low to Moderate impact (64% of firms)

Grouped as a 5% to 30% reduction in income with uncertainty and short-term impact. Typically, multi-disciplinary firms fall into this category with their range of services spreading the risk and avoiding excessive impact to fee income.

Significant impact (19% of firms)

More than 30% reduction in revenue and in some cases business has stopped. This is symptomatic of firms with a heavy bias towards property or corporate work.

Survive, maintain, thrive

Firms in **survival** mode need to adapt rapidly to the current situation.

As firms progress from survival, to **maintain** and grow income they need to pivot strategies, adapt their delivery and business model, and consider developing new services and means of delivering services for the evolving marketplace. Firms will need to continue to move quickly over the coming 6 months as they have to adapt to repeated change forced by the coronavirus pandemic and resulting economic strain.

To **thrive** in the longer term firms should be ready with improved capabilities, clear strategies and a stable business to meet emerging market needs. This will include being on the front foot as the market slowly returns in some areas and rapidly returns in others.

Next steps

To re-imagine their business and set strategy for post COVID-19, firms should be thinking about what they have learnt through the crisis and review their strengths and weaknesses together with the opportunities and threats they foresee.



David Smith
MHA Henderson Loggie

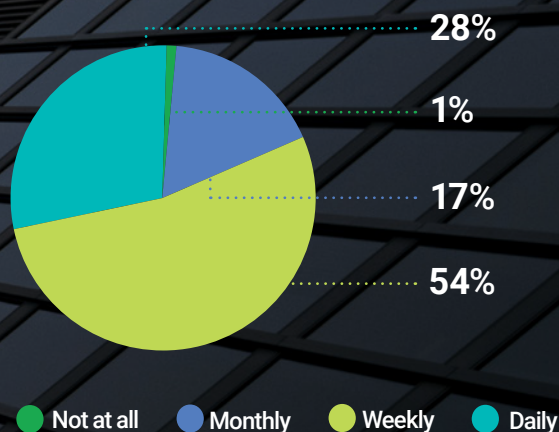
Cash flow

“Cash remains King” and even more so in these troubled times.

All practices need to remember that generating a massive growth in profit is nothing without collecting client debts and controlling expenditure and partner/director drawings.

Maintaining cash flow will be one of the key factors to survival over the coming months. Our survey confirms that most legal practices recognise this and are reviewing cash flow either daily (28%) or weekly (54%).

How often are you reviewing your cash flow forecasts?



Living, breathing, forecasting

A forecast, more than ever, needs to be a “live” ever-changing series of scenarios based on the latest information to hand, to identify potential pinch points so you can react quickly and appropriately.

Preparing alternative cash flow models, with a “worst case” scenario sitting alongside the actual expectation, will give you time to consider exceptional influences on the firm and plan accordingly.

After the Government schemes finish...

Many firms have taken advantage of various COVID-19 Government support schemes. It will be critical to review and forecast how these arrangements will unwind and how that will affect the Practice’s cash reserves once repayment of tax deferrals start to be scheduled, or staff furlough schemes come to an end.

5 tips to improve cash flow now

- 1 Review debtors and chase late payments.
- 2 Consider payment plans for debtors. If clients are struggling themselves, it might be best arranging a payment plan to receive your monies in instalments, rather than not at all.
- 3 Speak to your creditors, landlords etc, to arrange payment deferrals or holidays.
- 4 Consider Government support schemes in place, before they are withdrawn.
- 5 Review future capacity requirements. Some businesses may be considering redundancies, and while always a difficult decision, often the sooner the decision is made, the sooner the impact is felt.

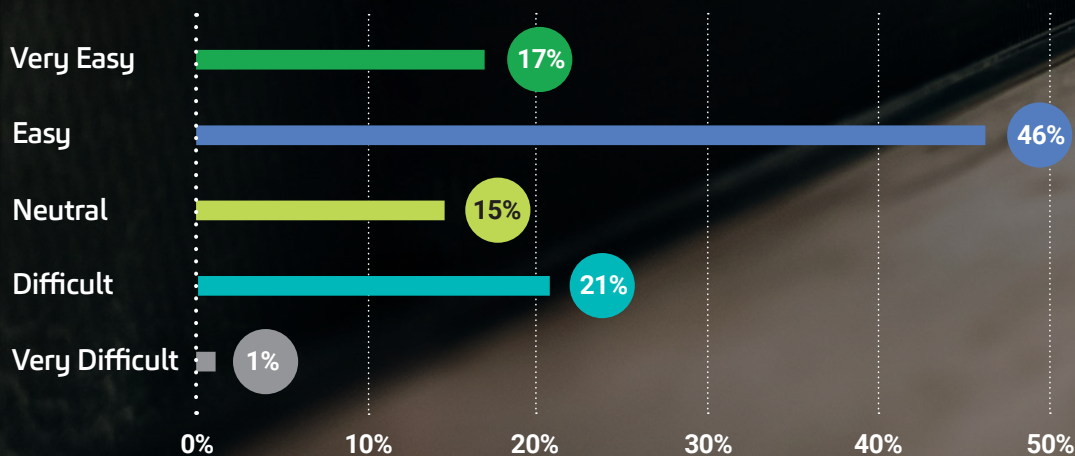
In summary ...forecast, forecast, forecast

A forecast is not a budget target, it is a tool to identify future needs and is designed to give you the opportunity to react accordingly.



Home working

How has the transition from office to home working been?



"Amazon has been good!"

Many of those firms who found it relatively easy were already working in the cloud or had virtual networks set up for staff to access. However, some IT equipment had to be hurriedly purchased.

"Re-thinking how we work"

31% of respondents reported difficulty with working practices such as printing, scanning, copying, post, accessibility to paper files, and no admin or support staff available. Hopefully, the work-around solutions found can be retained as a more efficient approach, together with **"faster uptake of new technologies"**.

"Difficult to monitor, motivate, supervise and train..."

21% of firms noted issues with team morale, the practicality of staff working remotely, and how their performance is managed. Line Manager time is being taken up with staff communication. Trainees have been furloughed, in some cases, due to the difficulty in training them. Only 4% of firms said that it was easier to stay in contact with staff once lockdown was implemented.

"Good test of disaster plan"

13% of firms claimed an IT or technology issue was a negative impact of working from home. But some of these will have been short term learning points for individuals, or a real-life audit that online back-ups do actually work!

"Feeling of Groundhog Day"

9% of respondents were concerned about isolation, mental and physical well-being together with the blurring of home and work boundaries and **"people are missing people"**. Any long-term plans for home working will need to build in regular contact including socialising, possibly a group yoga session!

"Better work life balance"

9% of firms reported an improvement in work life balance, lower stress levels, less commute time with staff enjoying more flexibility in their work delivery. 6% also reported improvements in productivity and performance.

Onwards and upwards...

Lockdown was thrust upon us, with home working a necessary evil to some. Massive lessons have been learnt in a short space of time, and firms need to ensure that they don't resort to going backwards.



Working practices going forward

How many days will staff work from home going forward?



What does the future hold?

81% of our survey respondents indicated that moving forwards staff would continue to work from home, at least partially.

Professional firms are seemingly embracing a transition to a new normal and trying to ensure that positives can be taken from what has been a time of upheaval for many.

The future looks...homely

Over three quarters of firms questioned expected staff to spend up to 50% of their working life at home in the future, with 70% of those expecting staff to be working 2–3 days from home each week.

In order to flourish in the new environment, firms must find ways to minimise the negatives of working from home and focus their workforce, and their culture, on learning from this lockdown period.

Culture

It is likely cultural changes will be needed to ensure any remote workers still feel part of teams and communication will be essential. Performance management and training are key issues when staff are not in offices and firms need to think outside the box to solve these.

IT

Effective IT systems are vital to facilitate efficient remote working and firms should be looking now at current systems and assessing future requirements. The practicalities of not being in the office can hamper productivity if not addressed.

Workforce

Introducing more flexible working practices usually result in an empowered workforce that feels trusted and valued, with improved work-life balance.

The benefits are not all wellbeing related either, for professional service firms where time really is money, there now seems little point wasting time commuting to and from meetings when video conferencing will suffice.

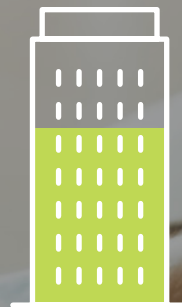
Productivity and performance can soar with a motivated workforce, so the future for some firms could be bright.



Business strategy

One of the most commonly heard expressions at the moment is “it’s a strange world in which we live.” It certainly is, and therefore it is more important than ever to plan effectively.

Changes have been monumental, rapid and totally unexpected, with 59% of the legal firms surveyed said they are changing their current business strategy due to COVID-19.



59%

of legal firms are changing their current business strategy due to COVID-19.

New opportunities

23% of respondents are listing out the opportunities that have arisen since lockdown. IT and changes in processes are generating new ideas. There is a drive to remove traditionally geographical restrictions on new business, staff recruitment and specialist work.

Profitability

14% of firms are focusing on profit rather than fee income. Serious consideration is being given to ceasing to provide low value/low profit services. A similar number of firms are planning for low or no growth with a restriction to the plans for consolidation.



IT (66% will make changes)

The majority of firms will retain some version of agile working. Even with tight control over expenditure, the IT budget is crucial. Change started with necessary home working but has morphed into demand for better IT hardware and software to allow for more efficient online working, wherever it is based.



Staffing (61% have made changes)

Most recruitment has stopped, except for “key hires”. The continued offer of agile and home working is seen as a positive for staff recruitment and retention.



Rent and premises (68% are reviewing)

There has been almost across the board the recognition that firms do not need as much office space as they have at present. Plans tend to encompass some sort of lease review with down-sizing floor area.



Marketing and business development (66% are changing)

A focus on digital marketing has been accelerated whilst in lockdown and will continue coming out of it.

Next steps

The momentum of change that has been thrust upon legal practices during lockdown should be maintained so that positive action is taken for the long term benefit of the firm.



Mark Brunton
MHA Tait Walker

Processes and future planning

With the impact of COVID-19 closing physical office space and forcing firms to act differently, most firms have made a temporary change to how processes are carried out.

However, we wanted to know how many firms are going to return to type and how many are going to make a permanent change.

68%

are considering innovation, streamlining or digitising processes or functions.



Given that everyone has had to embrace new technologies quickly, now is the ideal time to streamline and digitise all departments.

48% of respondents will be looking at how to better utilise technology and have specifically mentioned **“live client access to documents”**, case management systems, financial reporting software, onboarding clients, machine learning and artificial intelligence, and a secure portal for document sharing. One said, **“we have embraced the adoption of electronic solutions to compliance, streamlined payment arrangements and implemented time saving information gathering technology and automated documentation production.”**

Paperless or paperlight?

15% of survey respondents stated that they already worked paperless, with a further 17% specifically planning to move paperless.

Paperless is a vision for the future but paperlight is a real short term solution for many businesses using automated document production, digital client onboarding systems and central scanning of post and other papers.

We'll meet via our computer screen

“We anticipate that more meetings will take place remotely.” Video meetings have become normal and 24% of respondents will increase video over face to face meetings. Many have said that client meetings are more efficient and effective using video conference.

Agile working

13% of firms want to retain some form of agile working for their staff.

Maybe we won't be so disappointed...

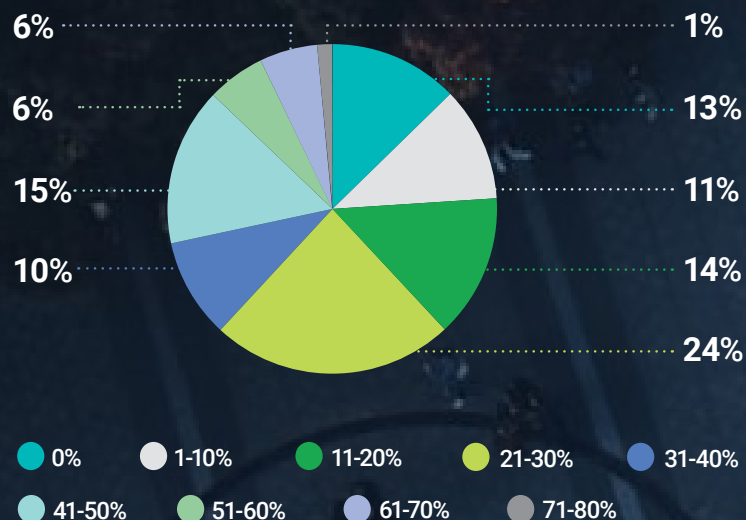
In our MHA Legal Benchmarking Report 2020 we mentioned that few firms had embraced changes in working practices, such as use of IT, artificial intelligence, and location independent working. Based on the results of this survey, we are not expecting to be so disappointed in our 2021 Benchmarking Report!



Furlough

It was a word we all had to look up a few months ago, but now it has become a staple of business planning.

Of your total workforce, what percentage have you furloughed?



87% of respondents have used the Coronavirus Job Retention Scheme (CJRS) and given the initial uncertainty, most furloughed heavily at the start of lockdown and have brought people back as demand has picked up.



13% of respondents furloughed no staff at all. Some of these firms are sole practitioners, but we have also seen many PI specialists continue working from home with their full workforce.

Fee earning staff

When comparing furlough numbers in 10 percentile points, 23% of firms furloughed between 31-40% of fee earning staff, which was the highest for fee earners.

Fee earning staff put on furlough, generally, has depended upon what type of law is practiced. Corporate and commercial work has slowed down, but employment and probate has increased.

Support staff

48% say that more than 60% of furloughed staff were from support functions and this has led to a number of discussions about whether "admin" will ever be the same as pre-lockdown.

There are a number of factors to take into account when considering this:

- Reception offices were closed.
- Most firms had a much lower level of absence (holidays) during lockdown and so there was a reduced demand for cover.
- Offices are inefficient with people moving around, distracting others. Productivity is reported to be higher during lockdown.

Changing the way you work

We are all adopting technology quicker than ever and we will not unlearn those skills. So, it is desirable to try to envisage those economies continuing. This is then key when considering future furloughing and how this may interact with redundancy or notice periods.

Engagement with those on furlough has also been important. Whilst they cannot contribute work wise, they can be included in everything else. Work quiz nights and Friday "virtual drinks" with all staff are becoming the norm, and this looks to continue going forward.



Jon Woolston
MHA Larking Gowen

About MHA

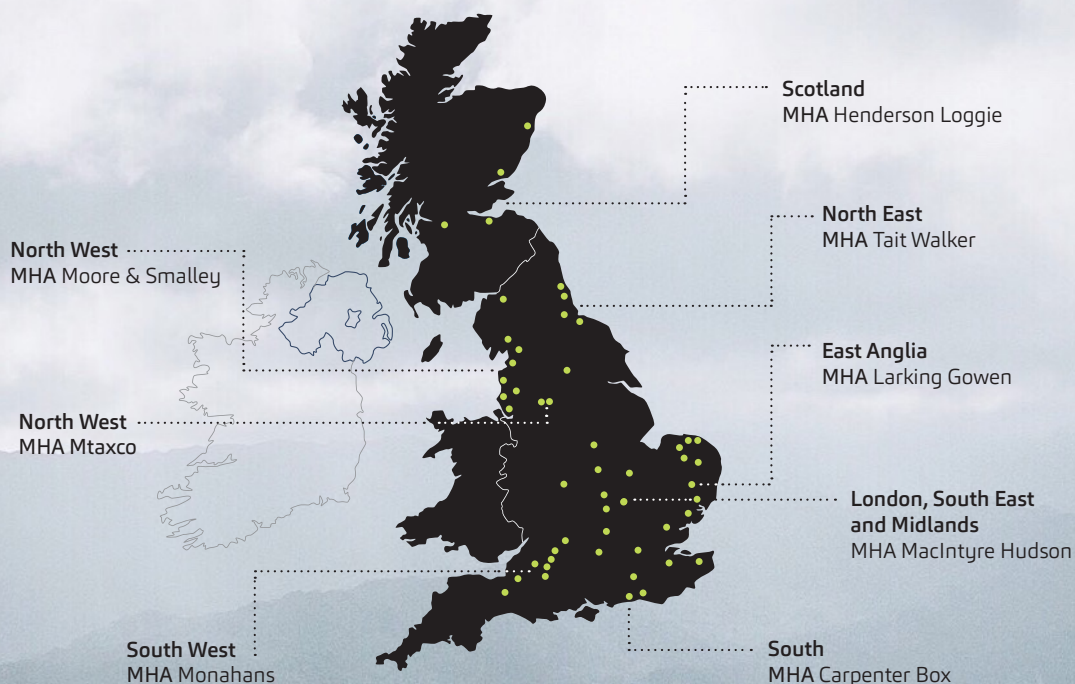
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Our member firms provide both national expertise and local insight to their clients. MHA members assist clients with their needs wherever they are in the UK, as well as globally through our membership of Baker Tilly International, which has a network of trusted advisors covering 147 territories worldwide.

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MHA allows clients to benefit from our in depth sector knowledge, which adds value to the specialist services that we can provide in accountancy, audit, tax, regulatory and expert business advice. Professional Practices is a key sector for MHA.

We act for over 400 professional practices, including over 200 legal firms. We are committed to assisting both our clients and the sector as a whole and this report is just one of the tools we use to give our clients insight into issues affecting the sector, to give them a head start when it comes to mitigating risks and exploiting opportunities.




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