

LAW FIRMS IN LOCKDOWN – REPORT 5 – APRIL MONTH-END

Introduction

I delayed this latest report so that we could include in it a look at April month-end across the mixed group of firms who participate in my surveys. I'm glad I did that as the results set out below are very interesting.

I hope and believe my surveys have been slightly different to “the norm” in that they aren't just a collection of stats and numbers – they include very human thoughts, fears, hopes and insights. I know from the feedback I get that readers value the “heart” parts of the survey as much as they welcome the “head” parts.

Thanks again go to the firms who took part in this survey – 20 firms (ranging from very large regional heavyweights to single work-type, single office, niche firms, to High Street firms, all shared their detailed information and thoughts with me in this survey. You know who you are. They don't have to do it and they get nothing out of doing it. I know they are doing it with a desire to share their experiences with the ultimate aim of helping the legal commonwealth that we are all part of.

So – what was April month-end like?

Generally, I think many law firms live to fight another day. Billing was down but a parallel reduction in costs and overheads and the arrival of cash as part of the furloughing scheme meant that profit was “okay” and cash got a shot in the arm. Firms were able to “keep themselves in the game”. This is not enough though, even if it were sustainable – which it is not.

If you haven't got a Private Client team, get one! Yes, right now they are cash cows, but more widely as you may know if you've seen me speaking or writing about the model I use in my work with law firms (which I call The Perfect Legal Business), Private Client is at the centre of the “culture of care” that I advocate. How can you really *care* for the clients of all your teams if you leave them, their families, and their businesses exposed to all the ills that flow from intestacy, or – even worse – from the absence of LPA's?

Throughout my report below, although firms can breathe an April sigh of relief, there are repeated references to what is coming, particularly as the pipelines begin to empty.

At the end of the day there simply has to be new work going into the pipes.

And that's just this year. What'll happen next year when everything has to be repaid?

I couldn't help but see over the last few days the vast number of promotions that benefited literally many hundreds of the 15,000 legal sector contacts that I have on LinkedIn as the new financial year started at many firms. I can't remember a time of such swathes of promotions being announced. Great news, of course, in many ways but obviously firms will have to keep an eye on rising salary costs in a time of reduced file-openings...

Firms are mostly and at best in a holding pattern (or rather, a holding-on pattern). There needs to be a bounce-back and – at its simplest level - a return to file-openings. Even that though will leave a nasty bout of painful indigestion that'll have to work its way through the system

To repeat what I say in every survey – I urge you to make sure you are doing all the basics that The Perfect Legal Business would do. These aren't just for “now” – they are perennially valuable practises.

In terms of where you might focus right now, as a first step have a look at Briefing 1 on my website, and go to the Law Society's website where you'll see the Toolkit for law firms that I helped to draft and the video I did for them in which I set out in detail the specifics of what I would do now were I leading a law firm in the current climate. At the request of Fran Eccles, its Chief Executive, I'll be going through all of this for members of Manchester Law Society in my webinar for them on 18th May.

In essence, I set out in these places the key aspects of the Perfect Legal Business, that mythical law firm that I talk about in my work with law firms and in my forthcoming book, that are most relevant right now. You'll be surprised at how basic and straightforward the practises are – I'm not telling you about anything you don't already know.

That's all for now. I'll do a further survey at the end of May.

If you get anything of value out of reading these reports, why not make them even more valuable? If you would like your firm to participate, as plenty of firms have over the weeks, please just email me at simon@mccrumandco.com

In closing, I hope again that the following report is of value to you. Any feedback is gratefully received.

Best wishes to you and your teams.

SIMON MCCRUM
MCCRUM CONSULTING
www.mccrumandco.com

LAW FIRMS IN LOCKDOWN – REPORT #5 – APRIL MONTH-END

MY QUESTION	YOUR ANSWER
<p>Taking your firm as a whole, in <i>billing</i> terms how was April as a business month?</p> <p>A – Superb B – Good C – Okay D – Poor E – Very poor F - Catastrophic</p>	<p>We had an okay month – C</p> <p>April billing was 25% down on the month.</p> <p>We ended up about 17.5% down which was far better than the 40% deficit we had forecast for April at the end of March</p> <p>In billing terms, we had a good month – B or even A</p> <p>Our Court of Protection team had an A month. Probate was an A too. Our team which does LPA’s though had an F month, surprisingly.</p> <p>We billed around 25% less than we would have expected. So for us this was poor in normal terms but okay in COVID terms.</p> <p>As a PI firm we had our best month so far this year.</p> <p>We had a C month</p> <p>Between A and B</p> <p>I would say A/B – we exceeded our monthly target so given the present circumstances that was pretty amazing!</p> <p>B – we billed about 80% of our monthly target but we have much reduced staff and overheads due to furloughing so ironically, we’ll actually have a strong month in profit terms.</p> <p>April continued March’s trend of being excellent billing and cash months. Figures were distorted though due to several contingent cases getting over the line and by accelerated high-cost-case payments being made by the Legal Aid Board earlier than anticipated.</p>

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	<p>A – our Legal Aid Care team pulled forward all “payments on account” that they could at the outset of lockdown, but the effects of this will be felt long term. Other teams were B & C</p> <p>A – as a niche Private Client firm, we have seen a 20% increase in business.</p> <p>A</p> <p>C</p> <p>C</p> <p>B – core fees were a little below target, but some exceptional items took us ahead of budget for the month.</p> <p>D</p> <p>March had been an excellent month for us as we had anticipated Lockdown. Then April was a good month but not as good as a normal year-end month. June could be disastrous if we see an end to furloughing whilst restrictions are still in place. In Conveyancing, we have matters exchanged with completions from July onwards so we will see some income then but I fear June/July are going to be the toughest two months. Then we will have Q1 next year with two VAT payments and 2 tax payments along with loans that were deferred for 12 months starting again from April.</p>
<p>Within your business, were there some teams that were, in billing terms, A and B, and some teams that were D, E, or F?</p>	<p>Conveyancing was a D, Commercial Property was a C, and the others were all A’s and B’s.</p> <p>Our Private Client team had an A month. Our Family, Employment, and Dispute Resolution teams had a B month. Residential and Commercial Property had a D month - due simply to a drop in their work.</p> <p>Employment and Private Client were A. Family and Dispute Resolution were B, Corporate/Commercial was C. Residential Conveyancing was D and Commercial Property was E.</p>

Residential Conveyancing was an F, Private Client was an A, and Personal Injury was a C

Our Legal Aid Care work was an A and Conveyancing has slipped to a D

In Conveyancing, cases couldn't all complete though we still completed on over 100 so we were pleasantly surprised at that.

All teams were B – some teams were down in work, but we re-directed their lawyers to support the busy teams, so overall, hours were good.

Corporate, Employment, and Family all had A months but they were concluding cases and have nothing in the pipeline. Private Client claim they are busy but we aren't seeing fees yet. Litigation was a C and Property was an E

Our Private Client team were fine. Our Family team was much lower than usual. Conveyancing was way down. Crime fell off a cliff.

We are not seeing a drop in private Family matters but residential and commercial property work are definitely taking a hit and this will affect cash in the next 6 months.

If the lockdown continues, we do see there being an increase in divorce work and maybe also businesses looking to downsize premises or effect break clauses. We also think we'll see an increase in Mental Health cases and domestic violence cases in the longer term.

We are remaining optimistic that if we can get a loan to see us through the tough months, we can pull cash in to make up some of the shortfall, later in the year.

All teams were A's and B's

All teams were C

Private Client was a C, mainly because we'd emptied the coffers at the end of March which was our year-end. Activity in that team is high though so we should catch up on billing later in the year.

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	<p>Chargeable hours have been good over the last few weeks, but these didn't turn into bills and cash during April.</p> <p>There's lots of new work in Private Client but it's on estates where no money has come in yet. In other areas of work there just a lot less work available.</p> <p>Less files and less chargeable hours have impacted on us.</p>
<p>Did any downturn in billings hit the profitability of your team/s and firm, or had you made cuts and arrangements that meant that profit was hit less than turnover?</p>	<p>In Conveyancing, there were less completions and less files. Commercial property suffered because of a series of aborted transactions.</p> <p>Conveyancing is still looking profitable as we are still billing but the wages have dropped.</p> <p>Fortunately, turnover and profit for April was better than forecast even in pre-lockdown budgets, let alone our post-lockdown version. However, there are underlying downwards trends in several teams. May's forecast is for there to be a reduction in both turnover and profit.</p> <p>Profit actually increased in the month of April as overhead reductions kicked in.</p> <p>Profitability held up in April but we are still nervous of longer term prospects.</p> <p>We had made cuts and arrangements, so our profit was hit less than our turnover.</p> <p>We had put in place a pay cut for April and May and have interim-billed some work ahead of when we would normally do that – this will impact later in the year though.</p> <p>We are forecasting a loss on the month once figures are completed but we have a massive pipeline of conveyancing cases so we haven't made any cuts yet and are not intending to.</p> <p>Turnover is down 33% so profit will be down a bit. We received our furlough money so that made things better – it took us out of overdraft.</p>

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	<p>Profitability was maintained and even increased because we have been hard on furloughing staff.</p> <p>We have increased prices to ensure that profit is not hit</p> <p>As billing wasn't down, nor was profitability</p> <p>We made some cuts early on. Profit was therefore protected in part for what was our year end – 30th April</p>
<p>Are things getting tight on the cash front? Has the cash position been helped by any Government schemes?</p>	<p>Cash is still holding up well. We expect a worsening over the next three months as billing reduces.</p> <p>We are okay at the moment for cash. The government scheme that has helped us the most is the deferral of our July tax bill to January 2021</p> <p>We are okay for cash at the moment. Furloughing has helped. We are yet to avail ourselves of any CBIL money.</p> <p>The good March and April that we had has given us a war chest. We have secured CBIL funding but have delayed drawdown in view of new reserves we have been able to build up such as those flowing from the speeded-up Legal Aid payments.</p> <p>Cash is starting to get a bit tight but we know we are due to receive a fair few "costs on account" over coming weeks. We have benefited from the furlough scheme.</p> <p>The CJRS is frustrating – we would rather our employees worked as much as they can, not be furloughed. The scheme doesn't really work for professional services?</p> <p>We were declined for a CBILS loan but we have been given a normal loan</p> <p>We are doing okay – taking advantage of Government payment deferrals on PAYE and VAT has made a significant difference to our short and medium term forecasts.</p>

Cash has not yet become tight as we pulled forward some billing. The CJRS has definitely helped along with our team agreeing to take a 20% pay cut for two months. We know of the impact coming later in the year though, so we are preparing our CBILS application now.

We received our first furlough payment which was a help. As a temporary measure we stopped saving for tax and VAT which has had a big effect on cashflow, albeit temporary as it'll all need to be paid at some point. We have applied for CBILS loan and expect to draw that down this week.

Cash is holding up but this is being helped by postponing our May VAT payment to March 2021. We are trying to ensure that our Credit Control team are chasing payment of invoices now more than ever. Most clients are paying.

Things aren't getting tight in cash terms – we aren't paying the VAT this month which will disguise things as will the large furlough payment due for May.

As a niche Private Client firm we are okay due to increased billings and we haven't seen a downturn in cash collection. We are also benefitting from decreased travel costs and reduced rent (and the rent is being spread monthly now).

We have not received the grant we have applied for yet.

We are actually building a cash pile

We were able to bill a lot in March and April which has helped significantly, and our staffing bill has reduced due to the furloughing scheme. Our bank is happy to extend our overdraft if need be and it has said it will support us with lending through CBILS if needed.

Our increase in Private Client work has steadied and we expect it to remain at the current level (a 20% increase in workload) for the foreseeable months ahead and irrespective of any change in lockdown. We expect work to drop back a bit to nearer pre-crisis levels (on a comparative basis) although still higher than before in the next 6-9 months. That said, we are hiring and so will expect to see increased levels of work in real terms.

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Please give me your assessment of what you see as the outlook for your firm over the next 6 months, (a) assuming the Lockdown really starts to ease in June and (b) if lifting of the Lockdown is not really effective until August / September

I am not sure that we'll be in a rush to bring staff back into the office – social distancing is going to be a problem. I'm thinking much more at the moment in terms of keeping the "working at home" arrangement in place for the longer term. We seem to have a good system in place and I think the threats to the business are more connected with other things perhaps not within our control rather than the fact that I have lawyers sat at home rather than in the office. I intend to canvas opinion from all staff next week after we have heard what Boris has to say.

If lockdown really starts to ease in June then we are hopeful we can ride out the storm. If lifting is not really effective until August/September, then we will be in a real mess

Between May and July we expect current lower file-openings to begin to bite and billing to be significantly lower than in a normal year. We expect the final 6 months of this year to be at a run-rate of double the first 6 months.

We are projecting a significant reduction in income over the next 6 months, with significant losses, but with our cost-saving measures, funding, and a marketing drive we believe we will break even for the year based on the performance in the second Half. If lockdown continues for longer, then that timescale will be extended. Currently we project being at full-bore for the final quarter.

We have a feeling that July will be crunch time.

Either way we anticipate work will be slower to return than it was to disappear not least due to uncertainty in the market place – particularly with regard to transactional matters. We anticipate cashflow to be impacted so that whilst we are okay at the present the pressure is likely to be felt as the lockdown is eased.

If lockdown eases in June and property bounces back, we should be okay. If easing is delayed until August/ September, it will be a real struggle.

If easing starts in June, we expect a surge in fees over June and July and also a surge in new conveyancing matters. We then expect a dip in completions and fees in August reflecting lockdown's effect on new matters, until the post-easing new matters complete in around October. Thereafter we see a strong end to the year and a strong Spring. We expect Re-mortgage work to remain strong and to grow, and the same in Private Client.

If easing is delayed until August, we will have the whole of Conveyancing on furlough. We would fear that existing conveyancing matters would fall through and we would fear a deeper effect on national confidence and consequently on the housing market. At this stage we can't say that we'd be looking to make cuts but that would be a possibility depending on the strength of the recovery. More likely we would move staff from Conveyancing into Re-mortgage in order to retain talent in the firm – ready to move them back as the market picks up.

I see us having about 70% of the staff coming in, but on a rota, with redundancies needed from June onwards as the work will simply not be there. Support roles will be reduced first.

If we are looking to July/ August before Lockdown really eases, then an extended furlough scheme may well save jobs. If not, then savings at all levels including at Salaried and Equity Partner levels will need to be implemented.

Private Client is busy but we expect it to tail off from this peak. We also expect Divorce to be busy. Crime is on the floor so it can only go up. We expect a slow rise in conveyancing back to where we were.

If Lockdown doesn't lift until September then even more staff are going to have to go. We could not sustain their wages over that period of time.

The problem is getting new business. Without a full working economy and with a lack of consumer confidence, new work is going to be very difficult to obtain. Although we have done well in March and April, the lack of new work is going to bite from June onwards.

The longer this goes on the worse it'll get.

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Even if Lockdown eases in June, it does not mean that people will be ready to do business.

Billing for May is likely to be significantly down. If lockdown is lifted in June then there will still be a reduction in work particularly in conveyancing, which will be seen in billing for at least 2 months, and probably thereafter if the housing market remains depressed. In the second scenario we are just looking at a postponement of that period, which might well lead to a redundancy process in our property team, and other teams if they are also affected.

If Lockdown starts to ease in June with a phased return to the office, we expect a downturn of 20 - 30% in turnover. We will then have to look at a redundancy programme based on evidence of matter openings, time recording, and work pipeline. If things are delayed until August/September, we will need the furlough scheme to be extended to avoid significant redundancies although we are already planning a redundancy programme against departmental projections

We think business will be a little slower in either scenario. Our problem as a Court of Protection firm is the direct impact of COVID 19 on our vulnerable clients and the speed with which the Court of Protection can turn applications around.

As things stand, will May be

- A – Better or
- B – More of the same or
- C – Worse?

We have done well so far but we expect May to begin the downturn in billing.

It is no exaggeration to say that the insurance sector could really save many a law firm if they wanted to. I'm not entirely sure whether it is in their overall interests to save law firms though.

I have written to the Law Society to see whether they can help with our quest to get Legal Expenses Insurers to make interim payments on files. The standard terms are that we can only invoice at the conclusion of the case. Right now, these cases are all being postponed and the point at which we can invoice (let alone be paid – they often take months to pay) is now very far off. We have WIP on these matters which could save us during the next few months but our requests to be permitted to interim invoice are being denied. If the Law Society could assist it might save many a law firm.

Let's see what the Government do this month. People are preparing to move house in May and removal firms are making themselves available again. Some people have been moving themselves!

May was always going to be worse as it's our Month 1, but the real question is the extent of the under-performance. That in turn will depend on the support and buy-in from our fee-earners, and to date they have really stepped up to the plate.

May will be worse for us – substantially so. Billing was very high in March which helped cash in April (though getting paid is now a lot harder). As April has been a lower billing month, coupled with slower payments, May is going to be a poor cash month. The number of new files opened in April was very low so May will be a poor billing month too (which in turn will make June a poor cash month).

Whereas April turned out okay for us, May and June are going to be tough.

We expect May to be the same or worse.

Provided the defendants' and/or their insurers' operations remain open and the Court system keeps moving, our outlook is positive.

We know we'll take a hit later in the year as we are pulling fees forward now.

I'm expecting May to be our worst month for fees but hoping that by the end of May we will know when and how things are going to unlock. In Re-mortgage, new cases have rallied to pre-COVID levels after a 70% drop two weeks ago. New-build conveyancing is also showing great promise as all the building sites have confirmed they are returning to work in full on 11th May and we have started to receive notices to complete.

We expect May to be worse.

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May's income will be a lot less as we have now worked through a lot of the files we took on in April.

It is looking like billing won't be too bad in May. June is likely to be much worse.

In May, we are preparing for C, anticipating B, and hoping for A!