

## LAW FIRM IN LOCKDOWN – REPORT #6

Hello again

We are now some three months into Lockdown – indeed, we are just starting the journey out of it.

With the much-valued input of dozens of law firms, I have been tracking the effect of the Lockdown on legal businesses of all shapes and sizes across the country.

In the first month, we saw remarkable agility across the profession as firms switched en masse to “WFH”. Investment in tech meant that legal businesses could survive such turmoil with ease. March’s month-end posed no problems – much of March was pre-Lockdown.

In April, the effect of the pandemic on the general and the business population began to bite. In many areas of law, new instructions ground to a halt. Chargeable hours went down as a result. Billing would naturally follow this journey South – but when? April’s month-end wasn’t generally too bad either.

All eyes turned to May’s month-end – would this be the month that the profit and cash pain really hit law firms? The report below – Report #6 – covers May’s month-end.

It is by far the most pessimistic of the reports I have done. For the first time, billing is hugely down in some firms as existing pipelines were exhausted without being replaced with new matters.

Of course, there are firms and teams within firms that buck this trend. But it looks to me – and to many of the participating law firms – that revenues have settled at a new low and we really do need to see continued “unlocking of the lockdown” if the good old days are to return.

Whatever your view of the Government’s handling of the crisis, there is no question that the furloughing apparatus has helped our profession, as have the various loans and grants that are available. The deferring of VAT and Tax have had a major impact on cash too – but these are time bombs.

As I say, I came away from this Report #6 feeling more pessimistic than at any time during this survey series. If file-openings and chargeable hours do not increase in June, I fear that June’s month-end and the end-June prognosis will be bleak.

Now more than ever is the time to be marketing to your existing clients – let them all know everything that you can do for them - quoting profitable prices, catching every minute you spend on files, billing every minute that is recoded, making sure all files are being worked on

all the time (by reducing lawyer caseloads by increasing lawyer numbers, if your lawyers have too many files), and getting paid quickly.

If you are not doing all of these things, there is little point in marketing for new work from new clients – it'll just help you to stand still rather than really progress.

Have a look at Briefing #1 on my website for some of the things The Perfect Legal Business would focus on now.

Report #6 is set out below - I'll survey and report again at the end of June.

Thank you

SIMON

MY QUESTION	FIRMS' ANSWERS
<p>Taking your firm as a whole, in <i>billing</i> terms how was May as a business month?</p> <p>A – Superb                      B – Good                      C – Okay                      D – Poor                      E – Very poor                      F - Catastrophic</p>	<p>C</p> <p>E - May was our lowest billing month in recent history. We achieved about 64% of target.</p> <p>E</p> <p>D</p> <p>C/D</p> <p>C/B</p> <p>C – Okay</p> <p>Objectively a D, but compared to what was expected, an A</p> <p>E Poor, circa 40% of a normal month.</p> <p>As a PI firm, we had an A month - superb. It was our highest billing month since February 2019 by some way</p> <p>As a Private Client firm, it was B – April was our strongest month although that was in part due to clearing out WIP ready for our new financial year. Performance continues to look strong.</p> <p>B</p> <p>C</p> <p>C – Okay. We were about 19% down on our budget</p> <p>B – May was ahead of our amended “coronavirus target” and even slightly ahead of our original budget.</p> <p>We billed well in April, and actually met our new target in May (albeit it’s a lower target due to some lawyers being on furlough).</p> <p>We billed 70% of our pre-CV19 monthly average</p>

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	<p>C – we billed above our “worst case” cashflow forecasts by 80% but were still down about 30% on pre-Covid billing. Cash collection appears OK, but there are pockets of resistance – we have had a handful of clients say they cannot pay because of Covid and they asked for extensions under our Covid client support scheme.</p> <p>May was above target albeit a reduced target based on those lawyers who are not on furlough. We are still ‘living’ mainly from the WIP bank.</p>
<p>Within your business, were there some teams that were, in billing terms, A and B, and C, and others that were D, E, or F?</p>	<p>All teams were okay. PI is down on new instructions, but cases are settling and cheques are coming in. The firm has picked up new instructions for Divorce and Wills.</p> <p>All teams with the exception of Dispute Resolution exceeded their reduced targets.</p> <p>Conveyancing down, Personal Injury settlements up, overall profitability steady</p> <p>Employment, Dispute Resolution and Private Client – all B ; Family - C ; Corporate &amp; Commercial, Residential Conveyancing – all E ; Commercial Property - F</p> <p>Debt, Litigation and Employment were B. Conveyancing was B in terms of what we were expecting but E in terms of what we had budgeted pre-Covid. Corporate and Comm prop were E, as was Lifetime Planning</p> <p>Wills A, Probate B, Divorce D, Conveyancing D, Crime F,</p> <p>Private Client B, Personal Injury C, Commercial C, Family D, Conveyancing F.</p> <p>Comm property – E ; Resi and Employment – D ; Commercial, Family, Private Client – C ; Dispute Resolution - B</p> <p>All teams were C</p> <p>Care and Adoption and private Family remain buoyant whilst Conveyancing and Civil Litigation have dropped off</p> <p>Our teams vary between E and B. No team is at A. Most are clustered around C and D. Private Client is billing well (B+), but the work is standard, seasonal stuff. The warm weather and low Covid related death rates have not resulted in any increase in case volumes.</p> <p>Lifetime Planning, Family, Disputes, Employment and PI are all A or B or C. Commercial Property, Residential Conveyancing and Corporate Commercial are all D.</p>

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	<p>Our Court of Protection team remains an A – well ahead of target for both May and year to date. Private client was a C - just over target for May but behind for the year.</p> <p>All our teams are down. Newer Private Client work is not yet billable and we have seen a small increase in Property activity – all unbillable as yet, decent cases but not yet finished</p> <p>Some parts of Conveyancing were nearly at last year’s levels. Other areas were substantially down.</p> <p>Private Client billing is substantially down at the moment, but this may be due to bills not being raised yet. Our Re-mortgage team is only slightly down on last year</p>
<p>Was their billing down because there were less lawyers, less new files, and less chargeable hours, or because hard work simply couldn’t be turned into cash that month and it’ll come later?</p>	<p>Billing was down due to less new files and less chargeable hours.</p> <p>Probate were flat-out but no money is coming in on the cases yet. Divorce suffered due to a lack of new files, same with Crime. Conveyancing couldn’t push existing cases forward and less work had come in since start of April.</p> <p>The problem is less new files, and we can't close the Conveyancing pipeline</p> <p>Billing was down due to less new files</p> <p>We are considering returning some staff from furlough very carefully. Property seems to have shown some green shoots – Conveyancing has shot up but this is a reawakening of old files as well as new matters coming in. Comm Prop has increased in terms of new instructions albeit gently.</p> <p>Our reduced billing is due to a combination of things but effectively less lawyers due to furlough equals less chargeable hours</p> <p>The teams that suffered had problems because of there being less new files</p> <p>Lockdown meant work couldn’t be turned into bills but this will come later. We started to see things opening up in the second half of May – both in terms of conveyancing completions and conveyancing new matters</p> <p>Our lower billing was mostly due to less work coming in, and less lawyers doing the work that is there. Some work is tied up with the Courts – mostly Family and Court of Protection work</p> <p>We have had less work overall as a result of finishing off pre-Covid matters and a downturn in new instructions since lockdown</p> <p>Fewer new files is more the issue in Res Con whilst less ability to progress matters to turn cases into cash is the issue for PI, Civil Lit and Commercial</p>

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	<p>Our issues include no new instructions of any significance in the last 3 months in Commercial Property, in some areas of Contentious Litigation, and in Corporate, although in the last 14 days Commercial DR and Construction (contentious and non-contentious) new instructions have significantly risen.</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>Profitability is down and we have not made (as yet) the very harsh cuts we could have made. We are keeping the situation under regular review.</p> <p>May has hit profitability for the first time, whereas we got through March and April without it being so.</p> <p>Profit was hit less than turnover</p> <p>We made a profit in the month which was above forecast. Expenditure was less in part due to office not being open so there were savings.</p> <p>We have balanced the furlough scheme carefully which has helped reduce losses. We have been able to keep un-furloughed staff working hard on getting our existing pipeline moving forward so that as things unlock matters can complete quickly. I don't yet know the extent of May's profit or loss (I'm writing this on 1<sup>st</sup> June). April's losses were only 5% of what we had been forecasting which was great news.</p> <p>Gross margin has increased by 4%. Turnover reduced by 30% though.</p> <p>Furlough is being maxed out this week given the recent announcement of the 10 June deadline.</p> <p>We largely furloughed staff in areas where demand dropped – eg Dispute Resolution and Property - so profit was less impacted. But general overheads affect profit which we have struggled to reduce. Landlords have refused to offer any reduction on rent and most other overheads are also fixed.</p> <p>We made cuts in Commercial – moved one NQ to Probate and reduced the days of a Corporate lawyer (though this is all something we should have done pre-Covid)</p> <p>Profit has been hit less than turnover due to cuts already made.</p> <p>Profit has been hit in line with turnover, but as billing is above our budgeting we are around break even after owners' "salaries". We have not had to review retained staff salaries since we went into lockdown, which is a blessing to staff morale.</p>

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	<p>Profitability was impacted in May. We have taken further mitigation steps in anticipation, and are now moving to a reduction in headcount to prevent a repetition in June. Further staff have now been placed on furlough leave too. In April we took measures to help both profitability and cash (temporary voluntary reductions in salaries and drawings, and use of the CJRS)</p> <p>Our firm operates on Consultancy model wherein all fee earners share in the profits and are only paid if and when their costs are paid. As a result, we have a relatively low overhead operating model (of £5k per Consultant including case management system licences, Microsoft licences, telephone/internet subscription and including the office rent). There is enough money in the office account for the firm to survive the next 12 months and beyond. Any downturn in profits has not had a massive ripple effect.</p>
<p>Cash : Are things getting tight on the cash front?                  Has the cash position been helped by any Government schemes? Are debtors defaulting?</p>	<p>We have had the BRRS grant (£10k) and have applied for BBLS to put money in the bank should things tighten up (as the interest rates are very competitive and better than an overdraft)</p> <p>Thankfully we built up reasonable cash reserves during March and April so can cope with the May hit in isolation.</p> <p>No debtors are defaulting. The rise in wills has increased quick cash flow as clients pay in advance. We have taken a government loan of £50k but we aren't using it. We intend to use it to pay our PII later in the year as the interest rate will be lower.</p> <p>Cash is holding up well. Debtor days were down by 2 days between April and May.</p> <p>Cash is okay but getting tighter – we have taken a BBL which was very easy. We have also been using the Furlough scheme for Conveyancing staff and some support staff.</p> <p>Next month will see us struggle. Seeing clients default and go into CVA is now not unusual. Comments from our local Accountant is that their Insolvency teams are very busy discussing options with their clients!</p> <p>We have taken out a large CBILS loan – far in excess of what we are expecting to need. We were just being prudent because if we are wrong in our predictions then it could be needed in full or in part and we can spread it over 5 years. If all goes according to plan it will be repaid by the end of the year</p> <p>Profit has not been hit yet though our modelling shows that that is coming in August. We have not yet seen sufficient change in May to suggest that that is not going to be the case.</p>

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We need to continue to watch our cash but we are seeing no tightening. We have doubled down on our efforts on collections. We've seen a few chancers trying to reduce their bills or give reasons not to pay but we are taking a fairly hard line.

The cash position has definitely been helped by the various Government Schemes. We have seen no increase in default by debtors.

Debtors are higher than usual overall, although the level over 90 days fell slightly From April to May. There is no evidence yet of defaulting.

We have postponed the May 2020 VAT payment until March 2021 and are Considering a bounce-back loan.

Cash is okay, helped by the Government schemes. We have not seen any debtor default.

We have had our first furlough payments. We have applied for CBIL loan but haven't got approval yet (due this week). Cash will be tight in mid-June when we next pay salaries. Some private client debtors have said they can't pay due to lack of income as their own finances are difficult

We have not had issues in getting bills paid and in fact have had a pretty quick turn-around from billing to payment. We have been very hot on debt for a few years and we have not lessened our normal procedures

No issue with cash yet - strong cash collection is one thing we abide by all the time.

It is too early to show wide defaulting but some 'arrangements' to stagger bills being paid have been entered into, but this is a minority position. We are sure some of the Government schemes will have helped but the real bite – in my view – will occur in late August onwards. We think our debt advisory/recovery team will be busy then.

We currently have a decent degree of headroom within our banking facilities, although as we know, this can very quickly be eradicated if we have a bad billing month. The Government schemes have helped as we have postponed the payment of over £100k of PAYE and VAT, which we need to keep an eye on in the second half of 2020.

Cash has still been collected at a healthy rate. We have not yet had a CBIL but the furlough arrangements are helping. We are not seeing debtors default yet but are wary that this may still happen

We have a reserve fund and head room. We have placed some reliance on the furlough scheme and WEF 1 June we have agreed a 15% reduction in wages for those earning over £30k for 3 months. Debtors are not increasing.

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Looking ahead :	File-openings started to increase in the last week of May - mainly in Property. There could be a rush as a result of the easing of lockdown. Too early to say if the trend will continue.
Have file-openings started to increase?	We have seen a significant reduction in billing. Our forecast include a £100k difference between best and worst case monthly scenarios. We expect worst months soon and the best months from January onwards.  File openings have started to increase slightly.
Please give me your assessment of what you see as the outlook for your firm over the next 6 months	We see the number of firms shrinking thereby increasing the concentration of work available to those firms that survive. As a result, I am predicting growth. I am not concerned by anything at this stage and am confident for the future.  File-openings have not started to increase and if anything are falling - especially in Probate work. A Law Society note suggested there was a massive build-up of Probate applications. It is very tough. Furlough is being extensively used and we may need to review bank funding in 3/4 months. What keeps me awake at night? Business failure, not being able to collect debtors, and cash running out in 3 months if our billing can't recover.
What is keeping you awake at night now?	We have had good increase in Care work , Probate has been okay and Res Con is now starting to get back to new enquiries reaching pre -Covid levels  File openings have not yet started to increase. Things are very challenging. We worry over the lack of new file-openings feeding through to a lack of cashflow in the next 6 months as the Government pulls back on support schemes  In May, new files (both number and value) were at the highest level since January 2020. The speed of the Court of Protection application process is slowing things down, which will affect our ability to stay above the revised billing target. Chargeable time is plateauing a few percent below target.  We think we will be something like 20-30% overall off target.  The timebomb is in the system. I am thinking of it as a blood clot. It's in the arteries already, working its way up to the heart (sorry if that's a bit of a grim image.) Our file openings were much lower than normal in April and May, so that's the blood clot.  Property had its best week in the last week of May since mid-March. Litigation work is non-existent. Comm Property is very quiet. Employment was better in May than in March or April – with some employers seeking redundancy advice. Private client work was very busy in March and less so in April and May but steady. Family work is patchy – it was very quiet in March, and busier in April but quieter again in May. Commercial has been relatively steady – but very little in the last 3 weeks in May.

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We will almost certainly have some redundancies – some in support areas and some Lawyers too. What is keeping me awake? Same as it ever was, to quote Talking Heads. It's about getting people working efficiently, quoting robustly, billing promptly, getting paid quickly. If there is less work, it exposes where people are not working as they should – and then how we manage that.

Managing the return has been a headache. Whilst the return has only been partial, everyone needs to be reassured and made to feel safe, and of course some have enjoyed furlough and the nice weather and home working and don't want to return...

There has been no increase in file-openings except in plot sales but fees billed in May were slightly up on May last year. Recovery rate and hourly rate are both up. What keeps me awake? The forthcoming redundancy programme.

File-openings are only increasing in 3 out of 10 areas. No sign of Property movement yet. The hardest months are to come.

We have seen a normalising of top line but there is concern as to the macro aspect of the economy as ours is a superficial position for now. Once the Government support stops, businesses will either be on a better footing and will survive in a different shape or they will (terminally) struggle. We are thinking about slightly re-shaping the team long term whilst juggling the planning for growth simultaneously.

As a solely Private Client firm, file-opening will, I believe, continue at above pre-lockdown rates but we are over the highest peak of activity. Over the next 6 months we will look to grow our revenue as we have a significant number of new hires arriving over the next 3-4 months. We will continue to carefully manage our costs and improve our collection days.

File-openings have increased dramatically week-on-week since the low point of the 3<sup>rd</sup> May. I think the big increase in new jobs week on week will carry on then level off a bit or slump a bit. However, I'm not expecting anything like Corona levels of slump just maybe a softening in new matters in later summer. But because of longer-term pressures on the housing marketing I am expecting this to come back strongly in 3<sup>rd</sup> and 4<sup>th</sup> quarters. All this is qualified by any deeper effects on the wider economy. Provided there aren't any deep effects the future looks good. If there are deeper effects on public confidence then we could be slower for the rest of the year and not come back until next spring.

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Cash will start to tighten again in the third quarter as the billing forecasts are typically lower in the summer months, and we have to start repaying the deferred PAYE and VAT. However with new income streams expected to come on board in H2 the situation should be manageable.

File openings have increased - most markedly in Residential Conveyancing. We remain optimistic that the outlook for the next six months will be better than we had feared but not as good as last year. The only thing keeping me awake is how to plan for longer term when the Government cannot even give clarity three weeks ahead.

File Openings have not increased noticeably. Over the next six months it will be a stressful time to manage overheads and static/reduced revenue.

The next 6 months will see some restructuring I fear for Conveyancing. What keeps me awake is the thought that we will need to make good people redundant.

There has been no increase in file-openings. Next 6 months should be okay though due to the early, deliberate actions we took.

Conveyancing has really picked up. Far more enquiries are coming in for Divorce. Wills has now slowed down. Crime is still non-existent. The problem is going to be the next two months. Existing staff are shattered. But we can't afford to bring the furloughed staff back yet. What's keeping me awake is having to deal with files that would normally be dealt with by another member of staff, who is currently furloughed.

The last week or two of May started to show signs of an increase in file-openings and new matter enquiries. Certainly, this is the case in Residential Conveyancing. We are hoping that after a reasonable March and April performance, and a very bad May, June and July could return to being reasonable months, with a return to normality from August onwards. What is keeping me awake at night is the prospect that we could see a repeat of May's performance. If June does not improve (though I think it should) we will have some real difficulties.

<p>As things stand, will June be</p> <p>A – Better or B – More of the same or C – Worse?</p>	<p>A</p> <p>B/A</p> <p>Things are challenging now and we fear June will be worse still.</p> <p>Because April and May have been very good I would think that June is likely to prove more difficult.</p> <p>B</p>
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B – June is our year end, so we usually have an artificial spike in June. There is a lot of demand for property in the short term but whether that will sustain is a question.

B

A

B

B

B – we hope!

We expect June to be a C as the lower new matters begin to have an impact.

We hope for A but are planning for C

Worse I suspect, unless we really get some debtors paying.

Better – more of the Conveyancing pipeline will come through to completion, and we are expecting high completions in our Remortgage team for 1<sup>st</sup> July which should help June's bills.

We currently anticipate that financially June will be similar to May. Some areas may see billing drop as the billing of work where instructions came in pre-restrictions falls but they will see work levels increase as new instructions pick up. Other areas have had increased work levels throughout the restrictions and this will start to convert in to bills.

A

More of the same or worse - but not better.