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LAW FIRMS IN LOCKDOWN – REPORT 7 – JUNE MONTH-END

Introduction

Most cases that come into law firms last weeks or months. Some cases last years. It was therefore no surprise that when Lockdown came a few months ago, most law firms did not immediately fall off a cliff.

Instead, they carried on working - in most areas of law. Lawyers were able to carry on working on existing caseloads and existing pipelines. March saw a great month for many firms, and April was more of the same.

But pipelines were by then wearing thin. The most pessimistic of my Lockdown reports came at May's month-end. File-openings – the passport to a firm's near-term future - had slowed considerably in many areas of law.

The need for a return to pre-COVID levels of new activity was increasing as cash became tighter. Government support enabled firms to "hang on in there". Without an increase to new activity though, the impending withdrawal of that Government support would mean that firms would simply be unable to carry on paying fee-earning staff who were less than busy and Support staff who were under-used, and redundancies would loom large across the profession.

It looked like the Government were obliging and that help was at hand in that "unlocking" started and is accelerating. Which brings us to this latest survey and report, set out below.

The big fear was that chronic pain would "whack" the profession in June and that there would be no increase in new matters coming in to law firms.

Have a look at the report below and see what you think. The feedback gathered from a mixed group of 20 firms is not at all what I feared.

Rather, I think it is a very upbeat report that shows that normal client activity is indeed on its way back and that the participating law firms were good at making decisions and acting on them. They also look like the decisions they made were the right ones.

I for one believe that if the continuing withdrawal of the country from its state of Lockdown continues, the profession has done enough to not only "hang on in there" but to also come out fighting fit and to move into the new world as stronger, leaner businesses.

As you'll see, plenty of firms are "coming out fighting". I'm working with numerous firms to give them the competitive edges that'll help them to dominate their local markets. Now is the time of opportunity!

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.

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My book, "The Perfect Legal Business" is now available at mccrumandco.com. I set out there in detail the very attainable pieces of jigsaw that make up the Perfect Legal Business. You'll be surprised at how basic and straightforward the practises are.

So - onwards and upwards. The pessimism of my May report has been replaced with the optimism of my June report. I'll do a further survey at the end of July – hopefully we'll have moved even further forward by then.

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 and as ever, any feedback is gratefully received. Best wishes to you and your teams.

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MY QUESTION	YOUR ANSWER
Taking your firm as a whole, in *billing* terms how was June as a business month? A – Superb B – Good C – Okay D – Poor E – Very poor F - Catastrophic	A A B C C C D A – superb as against our Covid budget and it would have been a B against our pre-Covid budget B - good - only 4% down on last June B - our fees at the end of the first quarter are up on the same period last year. B – good. We were well over our internal expectation though below what we would have achieved without lockdown. B - 10% down on last year, but 10% up on forecast – we had been forecasting improvements in June but things have picked up substantially faster than anticipated B - good in the circumstances. June was £110k compared to c.£90-95K for April and May. The average pre-lockdown was £125K pm. In part this has been due to a slowdown on some work and because of reduced numbers (x3 solicitors on furlough). C – a more 'normal' month for us, following two above-budget months. Year-to-date, we are still ahead of target though. C – but I am okay with this as the firm is still young and has operated in the PI sector for most of its life. We have recently expanded to do more private-paying work such as Wills, Divorce and Settlement Agreement advice etc so I am happy with the way things are going. C/D – okay, but slightly below par D – Poor billing in pre-Covid terms, but ahead of what we predicted

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	Good given the circumstances: 22% over the Covid budget but 19% down year-on-year.
Which teams are having a buoyant time, and which teams are really suffering? Has there been any easing of their suffering in June as compared to April and May? Is the “performance” graph going up or down?	The performance graph continues to rise (due to the nature of our work, Private Client) but not at the rate of March/April CoP work is still very buoyant. Private Client is busy but this is not fully reflected in billing figures yet. Litigation good, Conveyancing picking up All teams are at or exceeding target (albeit reduced targets). June was a better month than May. The performance graph is on a slow upwards curve. The team is busy and is receiving new Enquiries. One solicitor is being brought off furlough leave. Employment is now buoyant. No team is now “really suffering” - most are doing okay or poor, but far better than before. June has been our best month of performance in terms of fees invoiced since March and notably better than April and May. The performance graph is going up. Divorce – 10 new instructions in June, Wills – 4 new instructions, PI – 4 new instructions PI – had a very good June in billing terms Performance graph is “steady” – residential has seen an upturn and sadly so has Probate Conveyancing has gone beserk. Best month ever in terms of new work coming in. Divorce is starting to pick up but nowhere near the usual level of income. Crime is dead in the water, as there have been very few arrests. In Private client, Wills have slowed down but we now see the income coming in for the Probates we started in March and April. No teams are suffering. Conveyancing is struggling to cope with the tidal wave of new instructions. Remortgage – we had to turn volumes down but are still very busy. Private client – there is a bottleneck at the Probate Registry which is holding up fees but the pipeline has not been affected. Conveyancing new matters have gone at a consistent 45 degree angle (upwards) since early May. Last week was our busiest week for Conveyancing new matters in the history of the firm All teams are performing better than anticipated. Those in Private Client and PI are faring best. Residential has seen a huge bounce but it is too early to tell if this is pent-up energy or a new level of normal. Business teams are hardest hit but nowhere near as bad as feared. Our performance graph is going up all round, no part of the firm appears to be suffering unduly.

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	It is really hard to read as the last two weeks of June have been crazy in terms of file-openings and the really big surprise is that the last two weeks average for Conveyancing was ahead of pre-Covid levels. We are presuming that this is pent-up demand being satisfied and are wary of taking this as an indicator of how things will go in the long term. Compared to expectation, Conveyancing and Commercial Property are much busier than expected when we re-budgeted in April. No teams are really suffering. Our performance graph is going up. The teams that are full of beans: Care, Family, Wills and Probate. In the intensive care ward: Conveyancing; Litigation. Recently discharged and recovering: Commercial; Commercial Property. Avoiding illnesses and carrying on as normal: Court of Protection. In terms of our performance graph, June is a BIG leap up on May, and close to pre-Covid budget. Our Childcare team reasonably are unaffected. Property billing is well down, but we saw a strong recovery in new matters in June All teams save for Corporate are having a buoyant time. Corporate is rising though. Deals are in a holding pattern. Performance graph is going up but we are cautious as Government support hasn't ended yet…
How were June's chargeable hours – returning to normal levels or still down? Hugely down?	Returning to normal levels - only down 2% on last June even with a significant number of fee earners still furloughed. Our Realisaton/Recovery rate is up quite considerably. Normal levels have returned Down, but heading in the right direction. Chargeable hours are increasing 87% as compared to pre-lockdown levels Slightly up on previous two months but still very slightly below target. We are at about 80 to 85% of normal levels across the firm as a whole – aided by Employment posting at 150% levels admittedly. Lower than March/April but still strong. Excellent. We have averaged >100 chargeable hours per day for each of the last 3 weeks Still 10%-15% down on pre lockdown levels. It is interesting to see though that the average "per hour" value of the pre-lockdown hours is lower than those currently being recorded as more of the senior legal advisors have been kept in the business.

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	Hours were good in June with a lot of fee earners going above and beyond. Overall at a normal level. On a more granular level some teams are up and others are down. Some analysis suggests one reason some teams are recording less is because they are busy doing their own admin work. We are therefore taking full advantage of flexible furlough and releasing more admin staff off furlough. The solicitors who are working are working hard and able to work effectively from home. So, our "per solicitor" hours are up but overall (given furlough) the team's hours are down but also a reflection that some areas of work have quietened down ie. matrimonial finances. Our chargeable hours are 0.7% more than this time last year.
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?	As a pure Private Client firm, we've experienced a billings upturn throughout the Lockdown. Profit hasn't been too bad because of the cuts we made No further downturn in profitability and no further cuts made. Profit has been hit less as we have managed our overheads The firm is predominantly a PI practice so earnings are always a roller coaster ride (which is why we have moved the firm into other areas to try and flatten the curve) Operating profit was bang on target for June, despite a shortfall on fees. This was due to savings on staff costs mainly, but some other costs too. We're expecting June to be a good month profitability wise due to strong billing Performance and assertive cost and overhead management continuing Profit is not down significantly, although an obvious slowdown in activity and cooperation from defendant / third parties has caused us to recently revise our Q3 forecasts downwards Cuts are in place to ameliorate the effects. Staff pay cuts have now come to an end though, So we are expecting that the next few months will be tougher. Cuts and arrangements have worked so far, so profit is better than forecast. The Furlough scheme has off-set part of the billing shortfall. The variable office-related costs have been lower so we have limited the "bottom line" damage where possible We held off on paying bonuses in May (but still let them accrue) but paid the backlog along with the normal payment at the end of June. The brief downturn in billings in April and May were offset to some extent by Furlough payments

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	(at our peak we furloughed 40% of staff but we are getting more back each week now). It's too soon to say if we made a loss in June – I think we will have made a small profit, but confidence comes from the new jobs which will turn into fees in about 4 months' time. Profitability is up as billings have remained stable whilst costs have been reduced as we all travel less. However, as restrictions ease, we are aware costs will start to rise and we are still unclear as to the longer term impact on the economy – we are cautiously optimistic. For April and May we rolled out a 20% reduction in salaries across the board to conserve costs and to protect cashflow. We have now re-instated full pay for June. We also took the decision to make two dismissals of solicitors for performance-related reasons. Profit is holding up well and is less affected than turnover because of our savings measures. Profit was significantly higher than forecast. Offices are not yet open which is keeping general expenditure down in addition to salaries being cover by the furlough scheme (for now at least).
Cash : Are things getting tight on the cash front? Has the cash position been helped by any Government schemes? Are debtors defaulting?	Not yet but only because of Furlogh and VAT deferment. Cash is good So far okay (touch wood). Nothing noticeable yet on debtors We are not seeing bad debt at abnormal levels; if anything, the good cash practices we adopted from late March onwards mean we are getting paid quicker than ever. Cash is currently okay, and if the upward trend continues we will be fine (save that profit for equity partners will be very low this year). We are fine cash-wise although we are as diligent as ever especially as we want to continue our growth. We're not seeing debtors defaulting. Cash continues to hold up well. Average debtor days were down 1 from May to June which is good news given that our % of turnover from Residential work is lower. Cash is good. We were in a good position pre-lockdown and have obtained a SBRRS grant and a BBLS loan so are in a stronger position cash wise. No significant debtors – we have never had more cash. As at today we have plenty of headroom in our banking facilities, partially helped by the Government payment deferral schemes on VAT and PAYE. However, we anticipate Q3 to generate less revenue than Q2 and therefore we have no room for complacency. Clients have been paying. We haven't gone into overdraft at all. It's become clear that staff costs really eat into profitability

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	No cash problems here. In fact while we have a CBIL loan approved we have not drawn it down yet. The reserves from March and April's exceptional months are also holding up. Debts are maintaining their level but are becoming older, which is a concern. Cash is still very strong but 15% down as a cash collection rate year-on-year. Cash is okay – our CBILS loan is about to be drawn down. Some debts are slower to be recovered, in particular some divorce and probate ones that are dependent on house sales which have been slower to conclude Surprisingly our cash is okay. We did a good number of completions in June which kicked in plenty of cash. Although we borrowed big on the CBILs scheme we haven't had to dip into it at all yet. We anticipate a slow-down in new instructions as we move through Q3, so are holding the CBILs loan in reserve. We don't anticipate a massive slowdown though and don't anticipate needing to use the loan but are just being cautious Cash is looking good at present helped in large part by the deferral of tax payments. Cashflow forecasts always showed our pinch point to be June 2021 and this remains the case, although we are about to embark on a plan to repay deferred tax over the coming months. Cash is still manageable but unpaid VAT is an issue and the next one is due. We will manage but over the next couple of months we may need to consider a facility depending on our conversion of the recent increase in workflow Cash collection has been surprisingly good. We run a tight ship and from March we anticipated real problems here with clients paying or being able to afford to pay. However, this has not materialised. We had a very good cash collection month and eliminated the year-to-date shortfall that we brought forward into June.
Have file-openings started to increase?	File-openings are almost back to normal. Yes, they are increasing Yes - in Conveyancing and Family. Yes - June was 95% of pre-lockdown numbers. As a Private Client firm, file-openings remain strong. We've not suffered and feel very fortunate. The value of new files in June was the highest figure in a month since the back-end of 2018. Yes - although figures are skewed heavily by the large swings in file openings for residential conveyancing.

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	Yes Yes Yes. Yes - 0.1% more than this time last year and 47% up from May's "files opened". Yes, file openings up and are at about 85% of normal levels now, across the firm as a whole. No real change – we are still in the process of converting enquiries from our most recent marketing push Yes, they are up but still down on last year – over the last month we have moved to 85% of pre-Covid levels. However, some transactions which had stalled have now started again and we are therefore taking advantage of the flexible furlough to bring back some of the furloughed workers on a part -time basis to satisfy the increased workflows. Yes – we had a strong month in property. Wills & Probate remains below where we expected them to be. Yes, June new matters were up to 89% to pre-Covid average File-openings are massively up. In Conveyancing new jobs last week were the highest in the history of the company. Remortgage could go through the roof if we could cope but we can't so we're having to keep those jobs restricted. Our capacity is hindered by still having a number of staff working from home – we are planning on erecting partitions/screens so we can bring all staff in if they are able to come in – when we go to 1m+ rules. That will also give us the ability to recruit (which we don't have the space for on 2m distancing rules) In part, yes. May certainly saw a downturn in enquiries generally which was a worry given our work is transactional. However, as a Family firm we have started to see an increase in children cases, disputes and curiously in relation to international family issues. "Financial" new enquiries seem to be on the backburner - no doubt whilst people wait and see what the future holds. This may change as lockdown restrictions are relaxed and people return to work and 'normal'.
As things stand, will July be A – Better B – More of the same C – Worse?	A A – better, as more of the existing pipeline will complete A B B, but that's okay as we were pleased with June performance At least B and maybe A.

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	B - more of the same, we hope B realistically but obviously hoping for A. C C - the expectation is worse than June as June was a good month and the impact of the lower file-openings in April and May will take effect. B – more of the same (but we are not concerned by this) B – if we have another couple of months at the same level it will be perceived as a good result Chargeable hours / file openings – more of the same. Fee income / cash flow – marginally worse I anticipate we will be about 85% of our pre-Covid budget level. B – we are envisaging a steady-as-you-go month for July, with no significant divergences from the budget. B. I'd say more of the same. Traditionally the summer months quieten down a little bit for us whilst clients (and new clients) and other lawyers take annual leave. It's hard to gauge what will happen this year given issues with holidays and the need to return to normal. One factor to take into account is that the court system is at breaking point and a lot of hearings (particularly final ones) are being adjourned to 3-6 months from now. The work we would have been doing now is potentially postponed but that may create a bottleneck in the Autumn with work flow etc, so we are having to anticipate and plan for this.

Please give me your assessment of what you see as the outlook for your firm over the next 6 months – are redundancies inevitable? Do you see lasting change to your business?	We are not anticipating a great year but better than feared. We do not believe we will need to make any redundancies directly related to Covid. Indirectly, our business will change as will working behaviours and patterns. We intend to utilise the traction that has built up around new ways of working to make permanent changes to how we do things – these changes may lead to the restructuring of how we operate which may in turn lead to some redundancies. We took the opportunity to get rid of a couple of staff who weren't up to standard. We will replace them though – probably in late July or August. As a solely Private Client firm, we are growing. We do see lasting change but in a positive fashion – we're being opportunistic with hiring (there are many disillusioned lawyers who've used lockdown as a time to reflect on their career paths and their firm's values) and we will further embrace flexible working. The importance of teamwork has been emphasised more than ever.

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Redundancies are inevitable in the support functions, but we are cautiously optimistic for the next 6 months. The way we work and use our offices has changed forever.

Our key change will be to capitalise on agile working.

We do not see lasting change. Cost-cutting exercises have already been undertaken and the willingness on the part of the equity partners to have a bad year in terms of income/profit should be enough to see us through this. We will stand by all of our staff if we possibly can.

As we operate on a consultancy model we don't have any wages to worry about so we can bend and flex with what Covid-19 throws at us. I am confident for the future as I see organic growth as a result of competitors closing and/or growth by acquisition.

Redundancies are highly unlikely as one of our biggest issues is having the capacity to turn the work into fees more quickly.

Yes – redundancies are inevitable, and we are currently in the early stages of a redundancy consultation. A few staff have left which will also reduce the overall number.

Regrettably, we have made our redundancies now. I learned two recessions ago it is better to grasp the nettle early and make the tough decisions, both for the business and for the staff. Indeed, the first of our redundancies has already secured alternative work before what I anticipate will be a tsunami of redundancies as furlough unfolds. From the firm's point of view, we are leaner and meaner. It's difficult to assess what the next 6 months holds. We have had 3 good months out of 4. I believe we will be down on turnover; down on overheads; but up on our Covid budget. Short term, things are looking brighter, but longer term we will need to replace some sources of work and introducers.

Redundancies are under consideration, but are not expected to be widespread if they are needed. We hope to get back on track over the next 6 months, assuming we don't have a second spike in the virus. Flexible working will become more common, and we will use a lot less paper.

We do anticipate a slowdown as Q3 goes on. However, we are anticipating this as more of a slip back to 'normal' from 'boom' times. It's hard to call at the moment though as we don't know to what extent other sectors are going to have problems and we don't know how that will hit public confidence. The current boom in property will have a strong knock-on effect into the wider economy (DIY, carpets, curtains, furniture, plumbers, electricians, builders) so contrary to the doom-mongers I feel it will be a mixed message dip – some sectors hit hard and some sectors thriving. That is why I am not anticipating a major dip. But it's all guesswork and we have the CBILs loan waiting in the wings if we are wrong. We haven't put any adverts out yet but we will be shortly looking to recruit new staff

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	Redundancies are inevitable in business support roles. Fee-earning staff need to be kept under review. We had three fee earners on furlough and all are now back full time. I see: (a) An upturn in work from September onwards (b) Performance issues being dealt with more firmly and quickly (this pandemic has really shaken the tree) (c) A bottleneck of work given court adjournments to the Autumn and the need to plan for this (d) Flexible working practices (e) Reduced office space (f) Firms challenging costs. So many suppliers want you to enter into 2-3+ year contracts but at times like this it impacts on cashflow and it should be a buyers' market now I <u>don't</u> see: (g) Any redundancies (given our x2 dismissals already at the outset) Redundancies? Possibly, yes – non-lawyers though. Tech has enabled a slicker way of working albeit it can be clunky at times accessing the IT Team remotely to remedy niggles. Next 6 months? I think any view may be materially altered by early Autumn depending on the level of lay-offs and redundancies in the wider economy which has a knock-on effect on Conveyancing, Plot Sales and company growth plans. Private Client, Employment, Litigation should maintain their current trajectories. We need a crystal ball! I do not foresee any redundancies in the business over the short-to-medium term unless there is a dramatic and unforeseen change in the business environment which affects our firm.
What is keeping you awake at night now?	Moral issues regarding staff redundancies and CASH! Nothing, for the first time in years.. Our focus is starting to turn to how we get people into the office and what the future balance will be between that and working from home. We are concerned about the suggestion that law firms can effectively run from home permanently – we do not think they can. We need to get the buzz back of colleagues interacting and seeing clients face to face as soon as possible. Factors outside our control adversely impacting on cashflow – mainly third party / defendants / court systems having been on furlough causing case progression to slow down

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	What keeps me awake? The fact that despite our best efforts and planning, and comfortably beating our worst case reforecast in the last 3 months, there is still a significant level of uncertainty What the wider economic recovery will look like. And the risk of a second wave or of localised lockdowns impacting Nothing keeps me awake – but managing people/staff seems to be the real issue now. A lot have become used to working from home (and like it) and some have had the living daylights scared out of them by the Government. There is a general reluctance to return to normal office work, which we are trying to phase in. The other issue, linked to this, is the need or otherwise for office space given its high cost. We have always embraced IT and have been able to hit the ground running with working from home. The team has worked very well remotely, and this brings to the fore the issue of flexible working and how to potentially trial this. This will be attractive I'm sure for the team and may mean that we can reduce office space/cost. But there are team supervisory and staff development issues – so like most things, we have to find the right balance. Nothing keeps me awake, thank goodness, although I am concerned for those we will be making redundant. What keeps me awake – the impact of reshaping the teams whilst at the same time maintaining client service levels. Cyber-risk – it's still a very real threat.
Are you "hunkering down" or coming out fighting?	The latter – we bought a practise and have taken on a second marketing company We are always fighting! Coming out fighting We are fighting Coming out fighting. Coming out fighting The latter. Our website has been re-designed, our radio ad campaign is underway, and a leaflet campaign is to be launched shortly A bit of both – but more of the fighting! Neither – we are riding the wave and trying to maintain quality whilst making the most of the high volumes coming through the door

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	Pre-Covid, we were on an assertive growth trajectory. We are taking a pause on that. We are sharpening our plan and committing to implementing to a greater degree all the things that we know will improve our business. However, we will keep an eye out for any opportunities that present themselves We are fighting. Our competitors seem quiet and there are a lot of opportunities. We are definitely coming out fighting and are very confident that we can ride out the next few months and be well-placed going forward. We are fighting, but smartly and cautiously. We have been on the front-foot in delivering strong and pragmatic on-line content with good audience numbers. Not the usual stuff you see being posted or broadcast. We have some service lines which other firms simply don't have and that is helping us come away from the pack. Couple this with the strength of the third party relations we have, given our investment in those over the years, and it all hugely helps our business and brand. We are coming out even more determined to do things differently from many other law firms. A mix of both. Our concern is not to go too far with staff reductions which mean we don't have sufficient capacity to deal with the work we have or are able to get. The gloves are off, the gumshield is in, and we're up for it!