The Institute of Legal Finance & Management

Saffery Champness
CHARTERED ACCOUNTANTS

May 2020

Coronavirus and the impact on UK law firms – one month on

Last month we published a survey in conjunction with Saffery Champness which looked at the impact on UK law firms of the Coronavirus, including firms' strategies around furloughing staff members.

I detailed how it was our intention to run the survey again to give some insight into the direction of travel with firms' strategies and to better understand how those firms are adapting under the strain of so much uncertainty.

I am therefore pleased to be able to present the second part of our survey which considers the situation one month on and helps us better understand how we can support our members as we enter the next phase of the crisis.

As always, my team and I, and the Executive Council of the ILFM, wish you all the best.

Tim Kidd, Chief Executive
The Institute of Legal Finance & Management

www.ilfm.org.uk

Our April survey painted a clear picture that, while the large majority of law firms had communicated a furloughing strategy to staff, the scale of the measure taken, including proportions of staff affected and associated pay cuts for existing staff members, were relatively modest.

We gathered responses from all sizes of firms, ranging from small local firms, to top 50 national firms. Our data was gathered over the first week of May and this follow up survey provides some crucial insight into how the measures taken by firms have evolved over what has been a short but critical time period.

Ian Johnson, Director
Saffery Champness LLP

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91%

of firms have now communicated a programme of furloughing staff, up from 77% in April

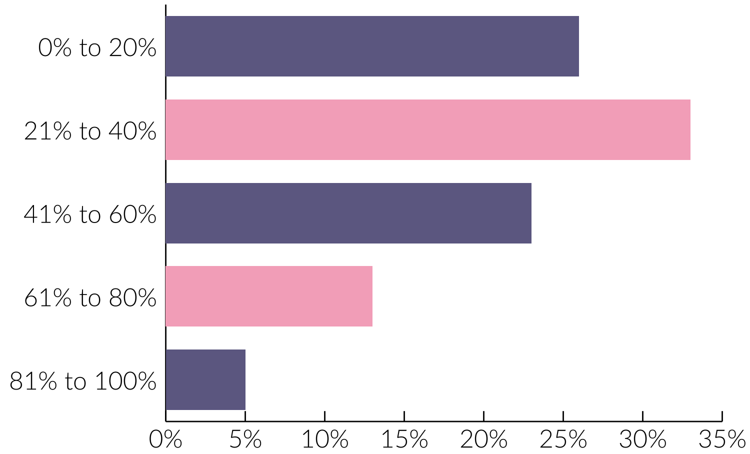
Furloughing – where are we now?

At the beginning of April, we reported that 77% of firms had communicated a furloughing programme to staff, and it is not surprising to see that number rose to 91% during the month. Although that rise may seem alarming, as always, context is important and, of those firms that have furloughed staff, most (almost 60%) have reduced the workforce by no more than 40%, and almost half of those by no more than 20%.

This is consistent with the scale we saw last month and is an encouraging indicator that the majority of firms are looking ahead to make sure they are operationally well placed when we emerge from the other side of the crisis. In fact, a lower proportion of participants are taking the most extreme measure of furloughing most staff members; just over 4% of firms are furloughing more than 80% of staff members, compared to 7% last month.

Where staff members are being furloughed, 69% of firms are not topping up salaries at all but, again, this statistic should be taken in context. While there will undoubtedly be some higher paid fee earners who may be suffering substantial pay cuts, this figure will also include lower paid staff and non-fee earners whose salaries will be largely covered.

Fig 1: Percentage of staff that will be furloughed in firms that are adopting the measures



An ongoing reluctance to vary contracts

Last month, we reported that the majority of firms had not introduced pay reductions for staff members who had not been furloughed, and that remained during April with 78% of firms keeping pay levels the same, and only 3% reducing pay by more than 20%.

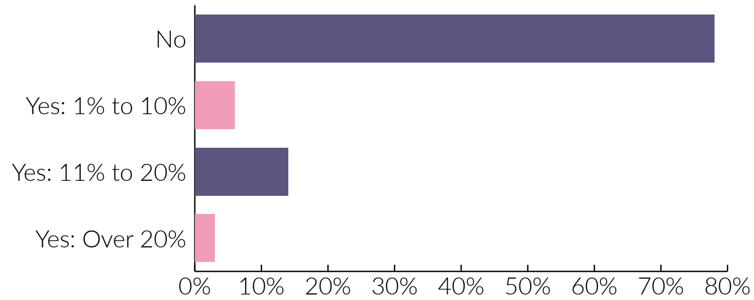
Consistent with this finding, 80% of firms have left contractual working hours unaffected, while the other 20% have introduced reduced working hours to some degree.

78%

of firms have still not introduced pay reductions

While the number of firms that have commenced redundancy negotiations with staff has crept up, standing at 10% compared to 6% last month, there has been no major sea change in firms' staffing strategies and the feeling is that firms are preferring to take moderate steps in the short term to ensure resilience in the long term.

Fig 2: Are you introducing pay reductions and if so, by what percent?



Short-term pain for long-term gain?

These moderate measures for staff members who remain in work do not come cheaply, and almost a third of firms surveyed predict a fall in profit of greater than 25% over the course of the year, with 10% anticipating that they will now make no profit at all.

These falls are consistent with the overall level of predicted activity, with around a third of participants predicting a fall of more than 25% in fee income. Only 4% are anticipating little or no impact.

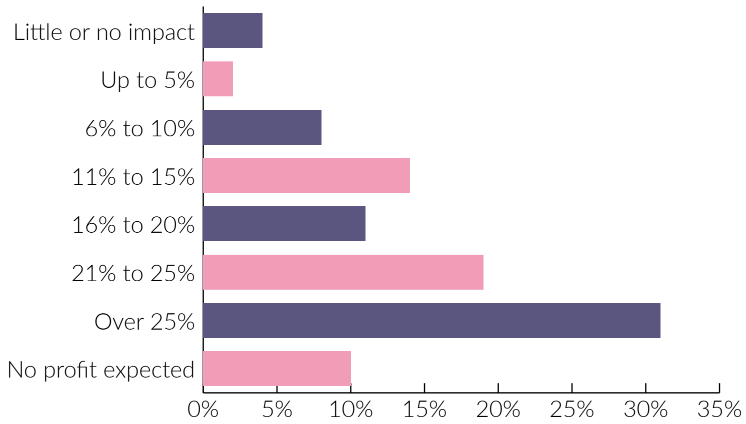
However, partners are putting out a clear message that they are willing to take these financial knocks if it means that they can maintain confidence among the workforce, and this is most apparent when you consider the sacrifices that the partners themselves are making. 54% of firms have reduced partner drawings, or are planning to do so during May, while 8% have stopped drawings altogether. That is a marked increase compared to last month when we observed that only 42% of firms were considering this measure.

54%

of firms have already reduced partner drawings or will be doing so in May

Firms remain reluctant to apply the brakes too sharply, and only 20% of participants have rescinded job offers, or will do so this month. That is largely unchanged since this point last month. However, pay rises and promotions continue to be put on ice. Of those firms that had previously planned these from 1 April, 55% have cancelled or deferred their plans – up slightly from 53% last month.

Fig 3: Likely impact of Coronavirus pandemic on profits for next financial year (compared to budget)



Looking to the future

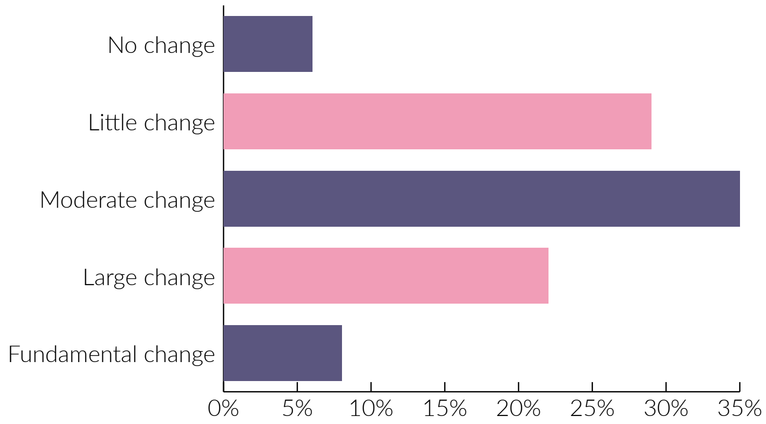
Despite the obviously huge impact of Coronavirus, most firms remain comfortable that they will be able to at least fulfil their regulatory obligations. Only 13% of participants predict difficulty in meeting regulatory deadlines, such as SRA Accounts Rules and Companies House filing requirements. In any case, the SRA is releasing dynamic guidance to help firms fulfil their duties in this respect.

Because of the speed of the initial outbreak, most firms were forced to implement home working arrangements with little, if any, room for detailed planning. A very small proportion of firms - just over 6% - anticipate there will be no real change to their remote or home working policies as a long-term result of the crisis, and 29% predict only a slight easing of their policies. The majority of respondents felt otherwise, with 57% taking the view that their policy will change by a moderate to large amount, and 8% predicting a fundamental change with staff members only attending the office when absolutely necessary.

57%

of firms feel there will be a moderate/large change to their remote working policy in the future

Fig 4: The impact of the current crisis on firms' home working/remote working policy



Support for businesses during the Coronavirus pandemic

Further information on the various government support measures, together with other Coronavirus resources for individuals and businesses, can be found at www.saffery.com/our-services/coronavirus.

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