



Face Facts Legal

MacIntyre Hudson LLP's Legal Sector publication for UK solicitors and law firms



LLP conversions – past, present and future



The number of legal firms converting to Limited Liability Partnership status continues to gather momentum. Last year 12% of the 3,000 legal firms in the UK had changed their legal status with a further 33% saying they would eventually convert. This year the Law Management Section survey of legal firms shows that the number of converts has now reached 35% and with a further 16% in the pipeline to change status, it is likely that over half will be there by the end of next year.

Grant Gleghorn, Principal and Head of the Legal Services Group, looks at the reasons behind the trend.

"This isn't really surprising. Most partnerships conclude early on in their considerations that it is 'a no brainer'.

The advantages are fairly obvious. Whilst professional indemnity cover exists and protects to a degree – insurers will seek to avoid liability if they can.

The veil of incorporation goes a long way to avoid further sleepless nights wondering if your 'joint and several partners' did the right thing."

Also high on the list of reasons for changing over is the perceived

status of the firm. It shows a progressive, forward thinking firm that is embracing the 21st Century, in much the same way as those firms that are seeking Lexcel Practice Management accreditation.

The capacity to attract the best staff from the market place is also believed to be enhanced. If a great candidate with equity aspirations has a choice to join one of two identical firms, one having joint and several liability, the other not – which would they join?

Certainly, the members of MacIntyre Hudson LLP's Legal Services Group are seeing the accelerating transition and are assisting clients and non-clients alike with conversions on an ever increasing basis in their working routine.

With the two main perceived disadvantages of cost and financial disclosure being seen more and more as impostors (the costs can be managed down to low figures and disclosure is all but non-existent for firms with a turnover of under £5.6m per annum) there is really little to hold firms back.

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How can the Business Strategy Group help your practice?

Our Business Strategy Group (BSG) boasts a proud record of helping law firms with strategic issues through our strategic planning services.



If you can identify with any of the following, then we will be able to help you:

- Lack of profitability.
- Spending time on the wrong sort of work.
- Spending too much time at work.
- Working in your business rather than on it.

Our experience shows lawyers are uniquely placed to benefit from strategic advice. Below are just two examples of the strategic planning work we have undertaken recently.

Example 1

A two partner firm based close to the City of London, but not in it, had many creative ideas but were becoming frustrated with putting them into practice, because the principals were too busy working in their business rather than on it. We have worked with this firm on a regular basis over the last five years, and in that time their profitability has increased by a factor of five. They are now based in the City rather than next to it and have huge plans, which they

are putting into action, for the future of the business.

Example 2

A firm earning on average £800,000 per partner actually asked us to help them improve profitability! We worked with them to create action plans for each department to identify areas where improvements could be made – and many of these were relatively simple issues, probably the same issues that you face.

There are real possibilities to change and improve your business and the way you work within it.

With the economic climate deteriorating, you may well be asking whether you can afford such advice. The answer is, you can't afford to be without it.

For further information on the services offered by The Business Strategy Group, please call Chris Stratton on 020 8446 0922 or email chris.stratton@mhllp.co.uk



Changes to the Solicitors Accounts Rules (SAR) 14 July 2008

Following last year's consultation on the treatment of small balances left on client account at the end of client matters, the Solicitors Regulation Authority (SRA) has amended rules 15 and 22 of the SAR.

Summary of key changes

There has been an increase in the regulation concerning such balances, formally requiring a firm to deal with balances following the conclusion of a retainer. Rule 15(3) requires prompt return of these funds to the client once there is no reason to retain the funds. In addition, rule 15(4) requires the firm to inform the client if money is going to be retained and for what purpose. These rules only apply to balances arising on or after 14 July 2008 – they do not

need to be applied retrospectively. It may be helpful to firms to extract and print out a list of all residual balances as at 13 July that are not affected by this change.

On the other hand there has been some relaxation in the procedures required when a firm wishes to pay over residual balances to a charity. Rule 22(4) essentially allows the solicitor to pay individual balances that do not exceed £50 without first obtaining SRA approval. This is subject to certain safeguards (in rule 22 (2A)) and does not cover sums that are not paid to a charity. Sums exceeding £50 will still need to be authorised for withdrawal by the SRA.

Keep up to date with changes via the SRA website www.sra.org.uk

Training to get through the credit crunch

Are your professional staff fully equipped to manage the credit crunch? Are you confident in their abilities to forward plan and focus on priority issues to increase productivity in tough economic conditions? For assistance identifying training needs in your firm, contact MacIntyre Advisory Services Ltd., one

of the UK's leading training companies for professional services firms. They will work with you to understand your needs and develop training programmes to help motivate your fee earners and maximise profitability.

Tel: 020 7429 4100
Email: masinfo@mhllp.co.uk



“Our Lexcel training really serves to underline our experience and understanding of the sector and our commitment to being one step ahead of our competitors.”

Grant Gleghorn, Principal and Head of the Legal Services Group



Maximising profitability in a downturn

Financial Benchmarking Survey 2007 seminar

Join speaker Robert Mowbray, author of the Law Society's Law Management Section Financial Benchmarking Survey 2007, at our seminar on 15 October to discuss the key findings of the survey and look at the main drivers for improving your practice's profitability in an uncertain economic market.

The survey looks at the economic wellbeing of law firms and seeks to identify best management practice as well as analysing the importance firms hold on quality marks such as Lexcel, the amount of time spent on practice management, new structures such as Limited Liability Partnerships and suspicious activity reporting to the Serious Organised Crime Agency. Robert is known for his easy style and ability to cut

through the jargon and will be able to provide you with practical advice and guidance.

For more information and to reserve your place at our complimentary seminar, please visit www.macintyreHUDSON.co.uk/news/events.html or email info@mhllp.co.uk

For more information about the Law Management Section and how to join please visit www.lawsociety.org.uk/lawmanagement

Seminar details

Date: Wednesday, 15 October 2008
Location: Holiday Inn, East M1 Jct.14, London Road, Newport Pagnell, MK16 0JA
Time: 4.00pm to 6.00pm

Award for North London client

Congratulations to Ritu Sethi who won the Business Services category at the 2008 First Women Awards.

Ritu qualified from Bristol in 1988 with her LLB Honours and qualified as a solicitor in 1990. She set up The Sethi Partnership, a firm of solicitors in West London, in 1994 and quickly began to achieve outstanding results for clients which led to her setting up the first one-stop property shop in Harrow, Middlesex.



In 2000, Ritu was also named Asian Business Owner of the Year and in 2007 was a finalist for the Professional of the Year at the Asian Achievers Awards and the Professional Excellence Jewel Award.

“When the dream is big enough, the odds don't matter” says Ritu. “Winning the First Woman Award in the Business Services Category was a night where all my hard work and dreams were realised. A big thank you to my entire team for their support and commitment! Here's daring to dream even bigger!”

The awards, held by the CBI and Real Business Magazine in association with Lloyds TSB Corporate Markets, celebrate inspirational women who are pioneers in business and those who are helping to remove barriers and open up opportunities for others to follow.



Lexcel qualification

We are pleased to announce that we are the first accountants to achieve the Lexcel qualification status firm wide, with all members of our Legal Services Group now being trained Lexcel consultants.

Andrew Holroyd, President of the Law Society for England and Wales,

said: “As the first accountancy firm to gain Lexcel consultant status across their organisation, MacIntyre Hudson is proving their high level of commitment to better understanding their clients in the legal profession. With the legal landscape continuing to change, solicitors will need to ensure they have the appropriate levels of support from their service providers. With Lexcel trained staff, MacIntyre Hudson have taken a proactive step to achieve higher levels of understanding.”

www.lawsociety.org.uk

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LLP conversions



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So you've decided to convert to LLP status. What next? Given that 50% of firms would have converted by the end of 2009, considered professional opinion is that those progressive firms would be moving on to look at new ways of exploiting profitability and profit retention. These are likely to revolve around hybrid structures. With the LLPs being a corporate entity, firms are finding that as a spin off, in addition to getting away from the joint and several liability nightmare, they can also extract better terms from their bankers. Historically, finance has had to be underpinned by personal guarantees or even charges against personal assets.

Now, as banks are in the position to take debentures over the Corporate's assets, these can be negotiated away either completely or to a greater extent.

The current favourite of hybrid structures seems to be the admission of the corporate partner to the LLP. If dealt with on a commercial basis this can result in profits being retained in the structure, subject to 21% or 22% of tax leakage rather than the current 41%. With a well written member's agreement, surplus profits above those required by the personal members can be held in a company, the ownership of which is reflected by the LLP personal members themselves.

As a result, the retained profit of 78% or 79% can then be applied to the working capital of the LLP and thereby potentially freeing up the members personal capital in the business.

For further information on LLP conversions or hybrid structures please contact your local MacIntyre Hudson Legal Services Group member, listed below.

How to contact us

email: info@mhllp.co.uk

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MacIntyre Hudson LLP has 9 offices across the UK. We are also a member of CPA Associates International, with representative firms worldwide.

See www.cpaai.com for more details.

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