



Solicitors

Specialist Solicitor Accountants

Newsletter

Winter 2015

Introduction

Welcome to our final newsletter of 2015. It has been an interesting year for the sector and as such we have tried to cover a variety of topical issues in this newsletter. The ongoing changes to SRA Accounts Rules remain a key focus, with the latest phase now given approval. In addition, the recent high profile cyber-attacks have highlighted that all businesses are vulnerable to hacks, and law firms are often an attractive target. In this newsletter we have looked at cyber security in the legal sector and how to protect your law firm. We also look at the recent Autumn Statement.

In this issue we look at:

- Autumn Statement summary
- SRA Accounts Rules – approval given for new Rule 38 to replace Rule 39
- Managing succession in the legal sector
- Autumn Statement: removal of damages
- Cyber security – make your law firm safe

We hope you enjoy this edition of our newsletter and, as always, please get in touch if you would like any further information.



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Hawsons are specialist legal accountants

Hawsons is one of the few accountancy practices with a dedicated team specialising exclusively in the need of solicitors and legal professionals. We act for a large number of law firms across all three of our offices and offer a wide range of services which are tailored to meet their individual needs. Our legal client base consists of a multitude of firms of varying structure and size, from sole traders to limited companies and LLPs with corporate members.

Our specialists offer an all-encompassing service to sole traders, partnerships, companies, partners and LLPs. We are able to offer all types of compliance work and advice on non-routine issues, including personal and business planning.

For more information on our legal expertise, including the services we offer and our experience, please visit: www.hawsons.co.uk/solicitors



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Autumn Statement summary



On 25 November, the Chancellor delivered his latest Autumn Statement. In a year which has already seen the two Budgets and a General Election, solicitors were perhaps unsure about what this latest spending review would bring. In this article we summarise the key points arising from the Autumn Statement.

In summary (general):

- Tax credit cuts scrapped all together
- £12bn in targeted welfare savings to be delivered in full
- Small business rate relief to be extended for one more year
- NHS to receive £10bn more funding a year in real terms by 2020
- Basic state pension will rise by £3.35 to £119.30 a week
- New 3% surcharge on stamp duty for buy-to-let properties and second homes from April 2016
- Doubling of housing budget to £2bn a year
- Capital funding of transport projects to rise by 50%
- Increased devolution with 26 new or expanded Enterprise Zones announced
- Transport (37%), environment (15%) and energy (22%) departments all face funding cuts

In the Budgets in March and July the government announced various proposals, many of which have been subject to consultation with interested parties. Some of these proposals are summarised here. Draft legislation relating to many of these areas will be published on 9 December and some of the details may change as a result.

Our Autumn Statement summary on our website highlighted these key issues and also provided a reminder of other key developments which are to take place from April 2016.

Read our summary at: <http://www.hawsons.co.uk/guide-2015-autumn-statement>

Autumn Statement legal impact

Simon Bladen, Legal Partner at Hawsons, Commented: "This year's Autumn Statement didn't bring much in the way of change for the legal sector, which will perhaps come as a welcomed relief to many. There was, however, another big blow for personal injury lawyers."

Shock announcement

The Chancellor did make one big announcement which will impact the legal sector. He proposed the removal of the right to general damages for minor soft tissue injuries and increase the small claims limit for personal injury claims from £1,000 to £5,000.

We have more details on this announcement later on in this newsletter.

For more information on the Autumn Statement please contact your local office specialist.

SRA Accounts Rules – approval given for new Rule 38 to replace Rule 39



You may remember some of our previous articles regarding the changes to the SRA Accounts Rules following the announcement in May 2014 that the regulatory body were reviewing the requirement for all firms of solicitors who hold client money to submit an annual accountant's report. Following that review, the SRA proposed that the significant changes to the SRA Accounts Rules would be implemented using a three-phase approach of regulatory reform, which commenced in October 2014.

We discussed Phase Two, the relaxation of Reporting Accountants' requirements, in detail when the initial plans were announced in July 2015. Those changes to SRA Accounts Rules were, however, subject to approval from the Legal Services Board.

Rule 39 vs Rule 38

That approval has now been granted, meaning that these further changes to the SRA Accounts Rules (Phase Two) will take effect for accounting periods ending on or after 1 November 2015. In short, Rule 39 has been removed and replaced by an amended Rule 38.

The amended Rule 38 brings changes to the SRA Accounts Rules that will be welcome news for the majority of UK law firms, as accountants will now be encouraged to exercise their professional judgment, to provide a more risk-focused, audit style approach to reporting. Rule 38 will also see changes that may benefit smaller law firms, through additional exemption in regards to the requirement to have an external accountant's report. This means that in the future there are likely to be far fewer qualified reports.

What will the changes to SRA Accounts Rules mean in practice?

This announcement is the latest step in the process of simplifying the SRA Accounts Rules, moving away from the obligatory 'one size fits all' process and towards proportionate and targeted regulation. The SRA has acknowledged that Rule 39 was prescriptive and now, with an amended Rule 38, is encouraging the use of professional judgement rather than mandatory regulation. Both of the key changes arising from this approval – the relaxation of regulatory burden on smaller law firms who are relatively low risk and the requirement for accountants to exercise professional judgement in their reporting – will be welcome news for the sector.

Of particular benefit to law firms will be the greater emphasis on accountants exercising their professional judgement which will give greater scope when deciding what to report on. This change, along with the removal of the need to qualify reports for trivial breaches of the accounting rules, will give accountants the flexibility to assess the risks to client money, giving law firms greater value for money.

You should now start talking to your accountant about what these latest changes may mean for your law firm moving forward.

Overall the changes to SRA Account Rules, which are a fundamental reconsideration of the rules as a whole, bring welcome news. Further changes to SRA Accounts Rules are also planned and remain in the pipeline. We will keep you updated with ongoing developments.

For more information please contact your local office specialist.

Managing succession in the legal sector

Law firms, just like any other business, must make preparations and plan ahead for succession. Thorough and proactive succession planning is critical to ensuring the long-term sustainability of any law firm. Succession planning - particularly with the age profile of the sector rising and the potential lack of suitable successors - is now a key legal sector focus.

Simon Bladen, Legal Partner at Hawsons, answers some of the most pertinent questions and provides advice on managing succession in the legal sector.

Is the importance of succession planning recognised by law firms?

“Yes and no; it depends really. During the recent economic downturn a lot of law firms rightly focussed on short-term decision making, ensuring the immediate financial viability of the firm. That, regrettably but understandably, has seen succession planning in law firms put on hold. Over the next five or so years many law firms will be transitioning to the next generation, which means succession must be recognised and planned for.”

Why should succession be a key focus now?

“There are a number of reasons why succession planning is becoming a very real concern. Firstly, the age profile of the legal sector is increasing and many partners are today of an age when they begin thinking about retirement. It is not uncommon for law firms to have almost half of their partners approaching retirement age. When these individuals do leave a firm, they leave large shoes to fill. Secondly, the legal sector has moved on in terms of its employment status. Ten, twenty or thirty years ago it was often assumed that the next generation would work their way through the ranks to partner level; staying at the firm for most of, if not all, of their career. With a greater emphasis on work-life-balance and regional financial and social disparities, top candidates / employees can now move between firms much more than they could have, or even would have, in the past. That means there must be a greater focus on succession planning.”

What should firms consider when thinking about succession plans?

“For a succession plan to be viable and safeguard the future of the law firm, firms and their partners must first have to buy into it. Planning an effective succession plan is a complex and detailed process, but failure to do so risks the long-term success and reputation of the firm. Financially and strategically, the importance of key employees cannot be overlooked. In this blue box (top right) are some of the key things firms should considering when succession planning.”



Succession plans should consider some of the following points:

- Identify key positions, competencies and employees within the firm.
- Engage with partners approaching retirement to create a succession plan.
- Manage the phased handover of existing clients and ease new partners into client relationships.
- Review current remuneration strategies and incentives, for the partner leaving and partner joining.
- Create a programme of appropriate strategies to retain and bring new talent through the firm.
- Communicate with all stakeholders throughout the succession process.

What are some of the potential barriers to succession planning?

“We published an article earlier in the year about the potential barriers to succession planning in the legal sector. The lack of suitable successors, the failure to raise the subject of retirement and ensuring client retention were the three key barriers to managing successful succession we looked at. Those barriers are still relevant now.”

Any other advice for law firms?

“Look at the process through the eyes of your clients. Clients enjoy stability and value the relationship that has developed over a number of years. Succession means change, and clients may not always accept change. Law firms need to consider their clients at every stage of succession planning – When should clients be informed? How should clients be informed? How will client relationships be handed over? There are lots of things to consider to help safeguard the client relationship following succession.”

For more information please contact Simon Bladen at slb@hawsons.co.uk or 0114 266 7141 or your local office specialist.

Autumn Statement: removal of general damages



What are the proposed changes?

One of the shock announcements from the recent Autumn Statement was the move to raise the small claims limit and remove whiplash compensation. In this article we look at what the changes may mean for personal injury law firms.

The chancellor said: “We’re going to bring forward reforms to the compensation culture around minor motor accident injuries. This will remove over £1bn from the cost of providing motor insurance. We expect the industry to pass on this saving, so motorists see an average saving of £40-£50 per year off their insurance bills.”

The two key proposals are:

- To introduce measures to remove the right to general damages for minor whiplash injuries
- To reduce legal costs by transferring injury claims of up to £5,000 to the small claims court

Stats: does the UK have a whiplash claims problem?

The number of whiplash claims has been on an upward trend in recent years, and is now reported to cost insurers nearly £2bn every year.

Here are some quick stats on whiplash claims in the UK:

- Costs insurance industry nearly £2bn per year
- Whiplash costs insurers an average £90 per policy
- Almost 80% of personal injury claims following road traffic accidents are now for whiplash
- Injury claims are expected to top 840,000 this year - up 9% on 2013/14
- Aviva found that 96% of personal injury claims in 2014 were brought by third parties

What might this mean for the legal sector?

These changes could impact legal fees as Martin Wilmott, Partner at Hawsons, comments: “The announcement made by the government in this year’s Autumn Statement was certainly unexpected and will shock many law firms. With more claims now proposed to go the small claims court, there could be big potential losses in revenues for law firms. The possible financial implications of this are of concern.”

“It is worth noting that these announcements are only proposals, and will be subject to consultation. This is not the first time the government has proposed an increase in the small claims court either. Just two years ago the Ministry of Justice decided against the increase, which came as a big relief to personal injury firms at the time. They will certainly be hoping for a similar outcome this time around.”

Jonathan Wheeler, President of the Association of Personal Injury Lawyers, commented: “Only two years ago the government ruled out increasing the small claims court limit because there were no adequate safeguards to protect genuine claimants. There are still no adequate safeguards.”

“If the small claims court limit is raised to £5,000 all that will happen is that genuine victims of injury will not be able to afford the legal help they need to bring genuine claims and there will be an epidemic of cold calling from claims management companies as they rush to take advantage of vulnerable people who won’t be able to afford legal representation.”

We will keep you updated on any ongoing consultations and developments.

Cyber security – make your law firm safe



The COLPs, partners and practice managers of law firms hardly need reminding of the risks of data loss and the potential financial cost and reputational damage which can arise. Cyber-attacks are a threat to all businesses and law firms are certainly no exception. Data breaches are regularly reported in the news and the SRA may well be focusing their efforts on cyber security and data protection when visiting law firms.

Are solicitors prepared to protect against cyber-attacks? A study earlier this year indicated not, with more than half of UK legal professionals suggesting that their companies were not doing enough to prevent data breaches. The research also found that one in ten lawyers admitted to having no measures at all in place to prevent against the risk of data loss. Those are very worrying numbers, particularly with financial and reputational damage a cyber hack is likely to have on a law firm.

Here is what you should think about doing for cyber security

There is a lot of information about what you need to do about cyber security but nobody is telling you how to do it until now.

To ensure your firm takes the necessary care of all the personal and confidential data of both your practice and your clients, you need to implement a Cyber Security Management System (CSMS). A CSMS is like the other systems and processes you have in your firm which ensure that all your staff know what they have to do and how to do it so that your client data is looked after and your firm's reputation is safeguarded.

A CSMS helps you:

- Set roles and responsibilities
- Identify and document the risks in your firm, using checklists and workbooks
- Link your risks to cyber security policies which are tailored to your business
- Train your staff on your risks and policies
- Check and document your staff's understanding of the risks and the training



Hawsons have a proven solution

We help organisations with data protection and cyber compliance, protecting both your data and that of your clients. Demonstrating that you have robust systems for data protection is becoming increasingly important for three reasons:

- To reduce the risk of fines
- Protect your organisation's reputation
- Winning new customers, especially when tendering for new business

Hawsons can help with all aspects of cyber security including the provision of a CSMS used by over 70 organisations including ICAS, the Institute of Chartered Accountants in Scotland. We also provide encryption products, policies, staff training and assessments.

Once your firm implements a CSMS and acts upon its findings you know that if your firm suffers a data breach your documented audit trail will demonstrate that you took all the reasonable steps that you could have done to prevent that breach.

Please contact your local office specialist for more information and to arrange a free, no-obligation discussion on how we can help you.



Winter 2015

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Registered to carry on audit work in the UK and Ireland and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.



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Find out more about how Hawsons can help your law firm.

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SRA Accounts Rules Training Courses

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Hawsons' specialist legal sector team provide training courses on the SRA accounts rules.

The sessions include:

- A detailed overview of all 52 rules
- Common breaches
- Current developments
- Quizzes