Legal Insight

December/2019 HAWSONS CHARTERED ACCOUNTANTS

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In this issue:

- Legal sector revenue increases
- The Solicitors Regulation Authority (SRA) bring in changes
- Investment in Lawtech almost triples.
- SRA concerned at firm's approach to anti money laundering.
- SRA prepares for more active role in tech regulation.
- Bar pupil minimum pay set to increase.
- New regulation for solicitors and legal services

Introduction

Simon Bladen
Partner, Sheffield
0114 266 7141
slb@hawsons.co.uk

Welcome to our winter Legal Newsletter

As I write this, we are rapidly approaching the final run up to Christmas. The dark nights, heavy rainfall and falling temperatures seem to resonate with the current uncertainty surrounding the economy. Without getting into politics and regardless of views, hopefully the outcome of the recent General Election will at least provide some greater certainty around Brexit. Which is hopefully good news for the legal sector, particularly the corporate world. Only time will tell.

We hope you enjoy our latest newsletter and more importantly from everyone at Hawsons have a great Christmas and a prosperous New Year!

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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 understanding of the unique issues that many in the sector are facing, combined with our technical experience, allows our solicitor specialists to provide you with proactive, commercial and informed accountancy and tax advice.

Legal sector revenue increases

A report conducted by TheCityUK revealed that UK legal sector turnover increased by 6% year-on-year to £35.5bn. For the top 100 firms across the U.K revenue increased to £26.4bn in 2019 representing 8% growth, 80% of this was made by the 25 largest firms.

The report suggests that specialist firms had stronger growth than general practice firms. Legal services trade surplus has more than doubled in the past decade to £6.5bn. Chief executive of TheCityUK Miles Celic said: 'It is vital that international parties understand that the many benefits of using English law will endure, regardless of the outcome of Brexit,' adding that 'the benefits of choosing English law and England and Wales as a jurisdiction will remain, regardless of the Brexit outcome'.

The UK's development in lawtech is one of reasons why the UK's legal sector has grown so much, with the report stating that 44% of all EU start-ups are based in the UK.

'The UK has become a global hub for lawtech, a global market which is now worth $15.9bn. It benefits from highly developed legal market, a technology talent pipeline, a competitive tax system, a liberal regulatory regime and the recognition of the importance of innovation by government.'

Residual balance guidance published

The SRA has recently published a statement relating to residual balances under the new 2019 SRA Accounts Rules which became effective for all firms from 25 November.

The statement can be accessed from the SRA website https://www.sra.org.uk/solicitors/standards-regulations/withdraw-client-money/

The publication is a 'mandatory statement' which must be complied with by all SRA authorised firms and their staff. Essentially it allows firms to deal with individual client matter balances up to £500, in the same way that they have been able to do under Rule 20.2 of the 2011 rules.

The statement is very reader friendly way and there are probably a few points worth highlighting:

• residual balances, should, in the SRA's view, only exist if the firm has failed to comply with rule 2.5 ('old' rule 14.3) and cannot now return the monies;

• by that token residual balances should be relatively rare;

• firms must not deduct out of pocket expenses incurred trying to trace the owner of the funds;

Continue to next page.

Residual balance guidance published

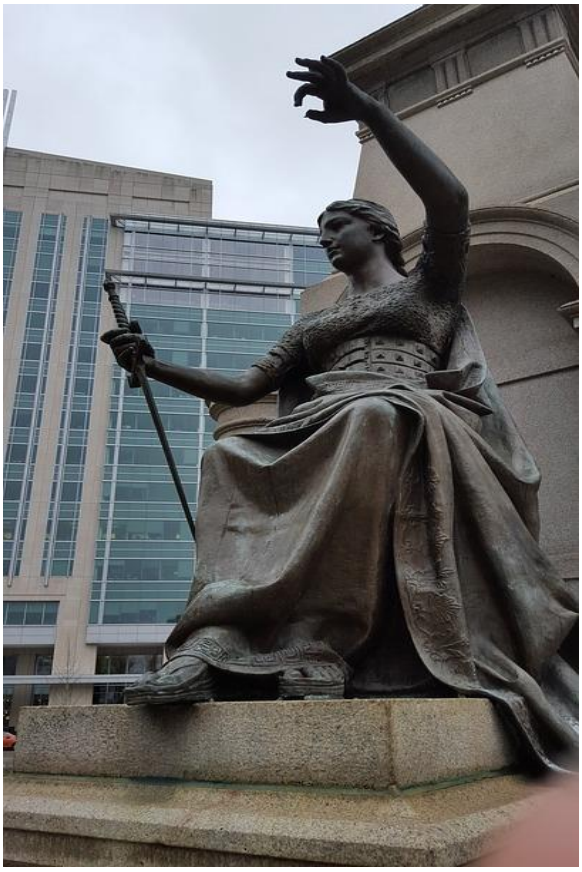
• there is no specific requirement to choose a charity that provides an indemnity, although if that is the case the firm remains liable should the client reappear and request their money;

• appropriate records are to be kept and you should be able to evidence the efforts you have made to return residual balances to the client as has been the case in previous versions of the rules.

• Reporting Accountants are likely to need to review the records detailing any payments to charity as part of their work;

• While not detailed the statement does make reference to the issues for the firm to consider when deciding what will be reasonable steps to try and trace the client and repay the funds, as well as a few suggestions on ways to trace the client: social media, Companies House or Probate Registry searches; DWP letter forwarding service, internet searches, etc.

It is fair to say that this has often been a tricky area. Most would benefit from looking carefully at their existing polices to deal with file closure procedures and repaying funds promptly in order to avoid residual balances arising. In the first instance regular review of exception reports of files with no movement should be part of the monthly accounting routine.



Investment in Lawtech almost triples in two years to £62

Research conducted by Thomson Reuters and Legal Geek have found that in the past two years investment in the UK's legal technology sector has nearly tripled as start-ups receive £61m in 2018. So far this year UK lawtech start-ups have received £62m, whereas in 2017 they received £22.2m which demonstrates the level of growth.

The legal sector is evolving quickly in the UK which has created 44% of all lawtech start-ups in the EU. The fast development is down to law firms and universities creating a network of 'tech labs'.

Jim Leason, vice president of customer markets at Thomson Reuters, said: 'The UK benefits from a unique mix of a large tech and data science talent pool and world-leading law firms as well as easy access to capital through financial markets.

Legal tech is now attracting funding from a variety of sources, including law firms themselves, private equity and venture capital funds. This interest has given start-ups the crucial leg-up they needed to take their products quickly through to the next stage of development and testing.'

Solicitors regulation authority raises concern about firms' approach to anti-money laundering

The Solicitors Regulation Authority (SRA) has contacted thousands of firms to ask them about the money laundering measures they have in place to combat the issue. The SRA will be conducting checks on 7,000 firms as there are fears that many firms are doing very little to meet their obligations.

The SRA wrote to 400 firms in March to ask them to demonstrate compliance with the 2017 regulation. Of these 400 firms 83 were found to be non-compliant. It was also found that 64% of firms were using a low-quality template and were taking a 'copy and paste' approach. The SRA also found that around 135 risk assessments were dated recently which could suggest that they updated their risk assessment in response to the SRA request.

Paul Philip, SRA chief executive, said: 'Money laundering supports criminal activity such as people trafficking, drug smuggling and terrorism. The damage money laundering does to society means that every solicitor must be fully committed to preventing it. The vast majority would never intend to get involved in criminal activities, but poor processes open the door to money launderers.

'A call from us should not be the prompt for a firm to get their act together. You need to take immediate action now if you are not on top of your money laundering risks. Where we have serious concerns, we will take strong action.'

The solicitors Regulation Authority prepares to be more active in tech regulation

The Solicitors Regulation Authority (SRA) is looking into who and what should be regulated as they look into playing a more active role in the legal technology industry. As more and more firms are bringing technology and innovation into the legal sector the SRA have said they must look into regulating these new technologies as they outline their strategy up to 2023.

The SRA believe that if they get involved now it could help to increase access to justice and integrate ethical standards at an early stage in the technology sector.

Anna Bradley, SRA chair, said: ‘Technology has the potential to help address the problem that far too many people struggle to get the legal help they need. We want to help unlock those opportunities for the users of legal services and for the profession. And in this fast-changing world, we know regulators need to be on the front foot. Our new strategy sets out our commitment to looking ahead and finding new ways of working with other organisations to best serve the public.’

Bar pupil's minimum pay set to increase

From 1st January 2020 the minimum wage for a pupil barrister working for a chamber in London will be £18,866 a year, whereas outside London pupil barristers will receive a minimum of £16,322. The previous minimum wage was set to £18,436 for pupils in London and £15,728 outside of London. This is an increase of 2% and 4% respectively.

This minimum was only introduced in September 2019, prior to this chambers could pay their pupils £12,000 per year. Furthermore, earlier in the year The Law Society suggested that the minimum wage for a trainee solicitor should be £22,121 in London and £19,619 outside of London. But there is no regulation in place yet stipulating that firms have to pay these wages.

Oliver Hanmer, Bar Standards Board director of regulatory operations said: 'This increase to the minimum pupillage award reaffirms the BSB's commitment to ensuring that training for the bar is more accessible, affordable and flexible while sustaining high standards.'

In 2014 the mandatory minimum salary was scrapped by the Solicitors Regulation Authority, and now trainees only have to be paid National Living Wage.

Charlotte Parkinson, chair of the Junior Lawyers Division (JLD), said: 'The JLD has continued to lobby the SRA to reinstate a mandatory minimum salary for trainee solicitors…without current success. Since 2016, the Law Society promotes a recommended minimum salary for trainee solicitors, however this cannot be enforced and the JLD are aware of organisations that pay trainees below this recommended minimum.'

'A continued lack of a mandatory minimum salary detrimentally impacts social mobility and access to the solicitor profession.'

New regulation for solicitors and legal services

On the 25th November new legal services regulation came into force. The new regulations will allow a solicitor to work for unregulated firms without a waiver. Furthermore, these new regulations enable solicitors to work as freelancers in a chambers style set-up and without having to become a sole practitioner.

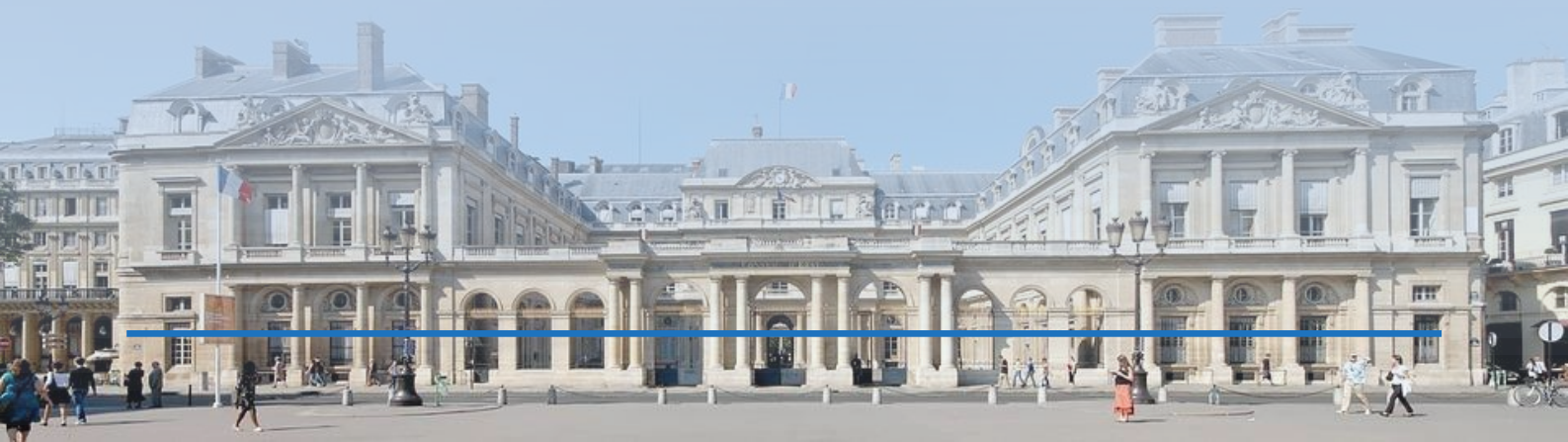
Founder of the City-based firm Aria Grace Law, Lindsay Healy said to The Law Society Gazette: “As an unregulated firm Aria Grace Law gets better rates for insurance, less compliance costs, and because we do not provide complex regulated services we are not encumbered with office costs needed to provide those services.”

Many firms are welcoming this change including Hybrid Legal. Alan Reid the director of Hybrid Legal has said that these changes mean that his solicitors can work without a waiver from the Solicitors Regulation Authority. “For us it is all about making legal services more accessible to sectors of business in the UK not well served by the current system. There is a reason why just one in 10 SMEs seek professional advice”.

However, these changes are not without their challenges as the chair of the law Society’s PII committee Nick Gurney-Champion mentions. He states that solicitors need to consider many aspects before going freelance including workload, future career prospects, and income stream.

Simon Bladen at Hawsons had this to say: There’s no doubt that the changes arriving in late November will have far reaching implications for the legal profession. The extent of these changes probably won’t be fully known until later next year. This could be a potentially good move as long as clients are protected to ensure the good name and strong reputation of the UK legal sector is preserved.

Read the law gazettes full article here.



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If you would like to see more information about our legal accountants click here.

Simon Bladen
Partner, Sheffield
0114 266 7141
slb@hawsons.co.uk

Martin Wilmott
Partner, Doncaster
01302 367 262
maw@hawsons.co.uk

Richard Burkimsher
Partner, Northampton
01604 645 600
richardburkimsher@hawsons.com

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