

Legal Focus

DRIVING LIFELONG PROSPERITY

Autumn 2018

SPOTLIGHT ON TECHNOLOGY IN THE LEGAL SECTOR

Welcome...

to the autumn edition of our Legal Focus. In this edition, we look at how to evaluate the return on technology investment in legal practices, extracting good management information from your software, and what Making Tax Digital means for you.



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DRIVING LIFELONG PROSPERITY

Is technology leaving you behind?

The world is changing whether we like it or not. Like anything in life, we have two choices – we can either evolve with it, or stay as we are and risk being left behind.

As business owners, we should not ignore change, but a cautious approach minimising exposure to business risk is advisable. So how can we evaluate new ideas and ensure they will result in increased returns?

One of the key components to maintaining and improving profit margins is investment in technology. But before you rush out and spend a king's ransom on the latest piece of technology which claims to be the answer to your prayers, take a step back and consider what you are trying to achieve. Here is some practical guidance for firms of all sizes to help you through the decision making process.

The forces driving your future profit margins

1. Recruiting the right people at the right levels
2. Increasing salary costs to maintain and attract talented individuals
3. Pressure to offer agile working
4. Limited office space, restricting growth
5. Fee pressure from clients and/or competition
6. Succession planning

These longstanding challenges to growth are familiar to us all. However, if we are open to change, technological advances can offer alternative solutions to these problems and change the way we work. More opportunities become available to us, generating larger profits for the firm.

A PRACTICAL GUIDE TO EMBRACING TECHNOLOGY APPLICATIONS

STEP 1 - IDENTIFYING WHAT TO CHANGE AND HOW

Do you know your current cost of production? Are you using timesheets to record all work performed? Even fixed fee work requires measurement. Timesheets are not just a method for invoicing clients. They are a management tool to help the firm fully understand how they deliver a service to a client. It is essential to have a timesheet policy in place which enables fee earners to record all of their time even when the value of the fee is exceeded.

Without a clear understanding of the costs incurred in delivering client services, your decision making will be impaired and measuring your return on investment will be impossible.



STEP 2 – IDENTIFY WHAT YOU ACTUALLY DELIVER

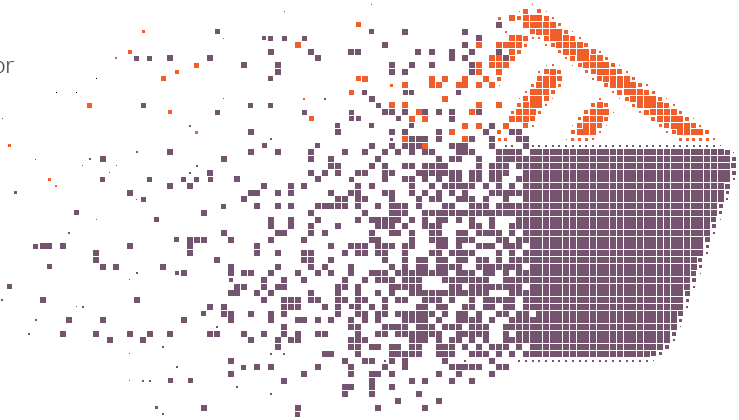
Once your data is extracted from your timesheets, you can analyse how the time is spent between following a predetermined process or truly adding value.

It is the value added work that you want to preserve and ideally grow in terms of quantity and impact for the client, which is a whole topic by itself.

The key is to identify the processes. There will be elements that can be done more cost effectively with no impact on service levels, either by using more junior staff, or by using technology. Many firms already save time using template letters, but is it possible to take this further by adopting artificial intelligence?

What impact would technology have in your law firm – improved efficiency, fewer lawyers, or less reliance on support staff, perhaps?

The aim is to reduce the cost of production without compromising on service, allowing you to do more in less time.



STEP 3 – IDENTIFY THE INTERNAL ISSUES

Administrative tasks necessary for the completion of a matter but of no direct benefit to the client, can swallow up time. When this 'internal' time is not recorded on the matter the true cost of file opening and closing, or money laundering will never be known. If you can identify certain tasks performed several times a day, then why not try to automate them?

People do not enjoy repetitive work, so here is an opportunity to get creative by mapping ideal processes for each administration task.

STEP 4 – CALCULATE THE TRUE RETURN ON INVESTMENT (ROI)

Having streamlined your processes by adopting smart processes and technology, you can then calculate the potential cost saving. However, ROI is more than just saving costs. The time saved by introducing efficient processes and technology can now be used to add value (and fees) elsewhere. It is this return that determines the true benefit derived from the investment.

Obviously, when a fee earner spends less time on a fixed fee matter the profit margin will improve. But beware! If the fee is based upon time spent, the technology investment will not directly lead to improved margins for the firm as the efficiency is being passed on to the client. You may not be ready to pass this on to a client just yet, so pricing needs to be considered too.

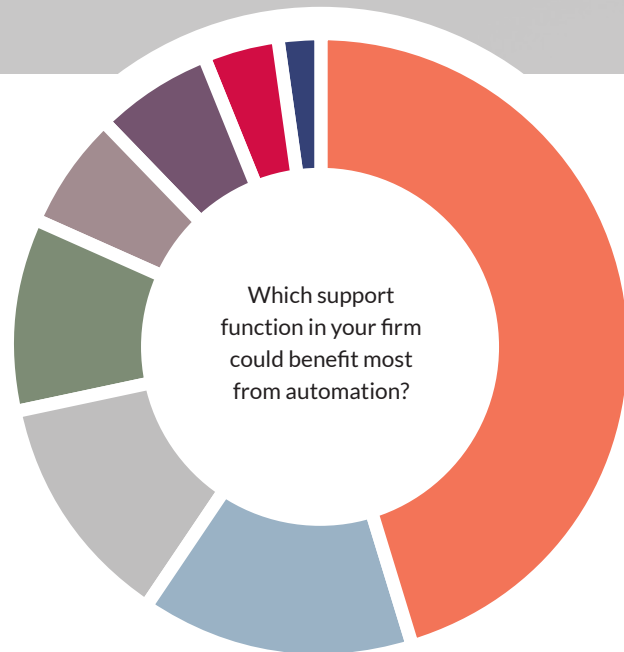
IS TECHNOLOGY LEAVING YOU BEHIND?

STEP 5 - LOOK BEYOND CLIENT FACING WORK

The same review of processes will be appropriate across the whole administration function of the organisation. Indeed, larger firms are already creating headlines as their need for support staff changes and reorganisations follow.

The cashier office is a good place to begin. With process changes, often roles can be combined and there is less need to replace employees when they leave. Visit each administration process in turn, be it secretarial support/reception/IT support, to see what actually happens and how smart processes and technology may create savings.

HR departments already use artificial intelligence (AI) to make decisions on recruitment based upon patterns of history, and can identify individuals likely to become successful practice owners into the next decade.



45% Finance
14% Operations/administration
45% Marketing and PR
10% Risk and compliance
6% HR
6% Other
4% Knowledge
2% Premises

STEP 6 - SEEK HELP

You have done your research, identified areas to improve, and planned what to do with the savings. Now you need to find the tech tools to make your plan work. At this point, get some informed advice from an expert in this field, to guide you through the options. It is time to commit to spending some money. A good decision will reduce costs in the long term and will quickly enable you to get on with the day job without getting distracted by the project.

CONCLUSION

These steps will help you focus on what you really need and save you from buying a piece of software based purely on what the sales team tell you. Remember, technology will not fix anything; it is just a tool and comes with its own challenges.

With rapid technology development, the upside is that the cost of buying software is contracting, and now sophisticated applications are affordable for even the most modest size firms. It is worth taking the time to review your business thoroughly and understand how the service you provide can improve by embracing all the tools available.

REVEALING THE KPIs HIDDEN IN 'BIG DATA'

As our IT systems grow increasingly powerful, so does the ability to record ever more detailed information about our business performance. But how do you prevent yourself drowning in the detail, and ensure you remain focused on the big picture?

Information is critical. Firms wishing to gain a competitive edge have learned to harness all manner of data, and use it to give meaningful insight to their own performance and the wider legal sector.

Case management and accounts software is designed to capture large amounts of pertinent data about fees billed, costs and time spent on matters. Yet few firms make good use of this data. Often management reporting is limited to departmental and fee earner performance.

Creating bespoke reports based on your firm's own specific metrics will give you much greater clarity on actual performance, and help you identify exactly where profits (and cash) are being generated or lost.

For example, by combining information from payroll records to the time recording system, you can accurately compare the output and costs of each department and fee earner. And you can go further, by revealing key business strengths, under-utilised support resource, operational bottlenecks, and potential skill gaps.

Major software and cloud platform providers facilitate the manipulation of this 'big data', without you needing to rely on the coding skills of your IT support. Tools such as Excel's 'Get and Transform' are a cost effective way to link data from more than one source, making it possible to tailor your reports in a wide variety of formats.

Establishing which products/departments are actually generating returns after all the real direct servicing costs have been applied, particularly in the case of fixed fee work, can give you a robust foundation on which to make key decisions about the future direction of the firm. Steering it away from loss leading, high maintenance areas, and concentrating efforts on more profitable revenue streams, should naturally have a positive impact on your bottom line and improve the working environment at the same time. Any additional costs of improvements to your management information will be recovered quickly and doubled by the increased returns generated.

For more information on how you can improve your monthly reporting and focus your attention on the most profitable parts of your firm, please contact **Jules Rodgers**, our in-house business intelligence specialist.

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MAKING TAX DIGITAL – ARE YOU PREPARED?

After years of talk and empty threats Making Tax Digital (MTD) is actually happening, and soon! Let us see how it will change things in your firm.

Firstly, MTD will only affect the submission of VAT returns at this stage. Proposals to widen the scope to include other business taxes have been put on hold until April 2020 at the earliest.

Here is what you need to know:

- The MTD rules apply from the first VAT period starting on or after 1 April 2019.
- Any business with taxable turnover above the VAT registration threshold (currently £85,000) must comply with the rules set out in the VAT Notice 70022.
- A business which is voluntarily registered for VAT as at 1 April 2019 will not have to follow the MTD rules at that stage, but can choose to do so voluntarily. Should its turnover subsequently exceed the threshold, then the MTD rules will apply from the start of the next VAT period.
- The new rules require all VAT return data to be submitted digitally i.e. a transfer of data directly from the accounting records. It will no longer be possible to enter the VAT return information manually online via HMRC's website.
- There will be a period of grace for digital links in the first year. However, this will not apply to 'bridging' software i.e. software introduced simply to enable a financial software package to submit the VAT return. In this case, transfers of data must be digital from day one.
- A spreadsheet that is capable of recording and preserving digital records can still be used provided that it is API-enabled (Automatic Program Interface) and can transmit information digitally to HMRC, or if it is used in conjunction with bridging software.

HMRC has published a list of software suppliers who are developing functional, compatible software and who have tested their products in HMRC's test environment. Unfortunately, at the time of writing, none of the mainstream legal software providers appear here. We have contacted the major players and conclude that many are not yet ready for MTD. We recommend you talk to your software providers at an early stage to ensure that software updates will be provided in time to comply with the new rules.



PRICING AND COMPLIANCE WITH THE SRA

In January 2018, the SRA published its research on price transparency in the legal market and concluded that there was insufficient information available to consumers to enable them to make good decisions when choosing a solicitor. As a result SRA regulated firms will, in future, be obliged to publish pricing information for certain legal services to assist consumers, particularly vulnerable ones, in finding better value services that are more appropriate to their needs.

HERE ARE THE ANSWERS TO SOME FAQs THAT WE KNOW SO FAR:

When will the new price transparency rules come into force?

Guidance published at the start of October states that the new rules will apply from early December 2018.

Who will be obliged to comply with the new guidelines?

They will be mandatory for all SRA regulated solicitors practicing in the following areas of law:

- residential conveyancing;
- probate;
- immigration (except asylum);
- road traffic offences;
- employee and employer tribunal claims (unfair/wrongful dismissal);
- debt recovery (up to £100,000); and
- licensing applications for business premises.

What information must be displayed and where?

Solicitors' websites advertising any of the above services must show pricing information in a clear, accessible and prominent format. This may be either a) a fixed price, b) an average cost or c) a range of costs, with (c) being based on their typical experience in a particular work type.

Will the use of price 'calculators' be permissible?

Firms may use 'calculators' to provide a quotation to the consumer so long as the price is genuinely generated instantly. Giving information in a form to request a response and price by email or telephone will not be acceptable. The SRA are developing a template for typical questions which might be asked in a conveyancing calculator.

Will any other information be required to be displayed?

A firm's website will have to list all members of staff who work in those specified areas of law, together with details of their experience and qualifications. This will include solicitors and CILEX or paralegal workers who carry out the work and details of those who supervise them.

What is a digital badge?

The SRA are developing a digital badge to be displayed on each regulated firm's website. This is expected to be introduced by April 2019. It will contain a secure code which will be able to verify the website domain and that the firm is an approved, genuine business regulated by the SRA.

Look out for our e-bulletins - we will continue to publish the latest information as soon as it becomes available.



HMRC ENQUIRIES INCREASE AFTER ASKING LAWYERS FOR INFORMATION

Ordinary taxpayers are becoming increasingly at risk of an enquiry as HMRC ramps up the amount of data it collects and looks for new sources of information for use in its investigations.

Recently, HMRC has been collecting data on taxpayers by submitting information requests to professional services firms, such as lawyers and financial advisers, asking for confidential information on their clients. There was a 19% rise in the number of these requests last year to 1,507, up from 1,276 in 2015/16.

Submitting information requests is HMRC's latest tactic to increase its data pool on taxpayers – these requests are often effective as firms can face criminal liability for failing to comply with them.

The hunt for new information on taxpayers comes as HMRC looks to hit its new, tougher prosecution targets. In 2015, HMRC was given an extra £800 million in funding to help it meet a target of tripling the number of investigations it conducts by 2020.

HMRC already has extensive data resources at its disposal. Tax inspectors can carry out preliminary work for investigations in seconds using its £80 million Connect database, which is a state-of-the-art analytical and sorting computer system designed by BAE Systems.

The Connect computer is fed from 28 data sources; including Companies House, the Land Registry and even banks, and holds information on taxpayers' bank accounts, salaries, properties and cars, amongst other details. It compares that data with the taxpayers' self-assessment returns and flags up anything that looks inconsistent for investigation.

Leaving aside the ethical arguments for not divulging information about your clients, it is clear these requests are likely to become more frequent. In turn, this will place additional administration burdens and require increased storage for information, possibly increasing the cost of providing services to clients.

CALICO LEGAL SOLUTIONS GROUP

Hazlewoods is pleased to be a founding member of Calico. This is a new collaboration of likeminded businesses providing services to the legal sector. Its aim is to provide discussion and advice on topical issues facing law firms, helping them stay up to date, through short bulletins and social media.

To find out more, visit www.calicolegalsolutions.co.uk



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