

EXECUTIVE SUMMARY



A SKILLS ANALYSIS OF THE
NORTH WEST
LEGAL SECTOR

1. INTRODUCTION

pro-manchester was commissioned by the Northwest Development Agency (NWDA) to report on the impact of changes in the legal sector on future skills requirements. Armstrong Craven was appointed to carry out this work which included desktop research and consultation with members of the profession.

“THE NORTH WEST IS UNDISPUTEDLY THE SECOND LARGEST LEGAL CENTRE IN THE UK AFTER LONDON.”

2. STRUCTURE OF THE NORTH WEST LEGAL MARKET

The North West is undisputedly the largest legal centre in the UK after London and has a high proportion of the top 100 law firms outside of London, with over 1770 private practice firms' offices. Within the North West, Manchester and Liverpool account for 74% of all employment with Manchester providing the majority of employment overall¹.

The Legal 500 classes the North West regional heavyweights as Addleshaw Goddard, Beachcroft, Cobbetts, DLA Piper, DWF, Eversheds, Halliwells, Hammonds, Hill Dickinson, Pannone and Pinsent Masons.

Manchester has the highest number of practices and partners within the major regional cities. The legal sector in Greater Manchester is reported to have grown over 25% in numbers in the past five years². Elsewhere in the region, Aaron & Partners is a key firm in Chester as well as Manchester and in addition to their Manchester and Liverpool offices, Brabners Chaffe Street and DWF are key players in the Preston market.

Robert Levy of Kuit Steinart Levy says: “Manchester is very firmly number two to London now. Manchester has a range of services and experts which means that you do not have to go to London very much.”³ The scale of the legal market in Manchester compared to other regional centres is clearly demonstrated by statistics.

“MANCHESTER IS VERY FIRMLY NUMBER TWO TO LONDON NOW. MANCHESTER HAS A RANGE OF SERVICES AND EXPERTS WHICH MEANS THAT YOU DO NOT HAVE TO GO TO LONDON VERY MUCH.”

Size of firms in the region

The legal sector in the North West is diverse and fragmented. It is viewed as a competitive market with lots of firms fighting over the same work. 88.3% of private practice firms in the North West employ 10 partners or fewer. Larger firms of 11 or more partners account for 11.8% of firms in the North West, and provide the bulk of employment in the sector. It is worth noting Liverpool and Manchester have respectively the first and third highest number of small firms in England and Wales.

Types of work undertaken

Within the North West Manchester is the leading Financial and Professional services centre and is recognised as the only city in the region with the capacity to compete on an international stage. It is the UK's largest commercial centre outside London and the largest legal services sector outside London, with firms able to compete with London-based firms on an equal footing. Firms in the region are more frequently winning large, high-profile deals from the magic circle and there is confidence in the sector that corporates are increasingly confident in choosing regional practices⁵.

“The value of North West deals done in the first three quarters of 2006 jumped by almost a third, from £15.3bn to £20.8bn, according to figures by Corpin Worldwide and analysed by law firm Eversheds. The number of deals rose by a more modest 7% but it is a further sign of the huge strides that the North West corporate lawyers have taken over the last 5 years in transforming the region into a dynamic corporate market of national and often international standing. National firms such as DLA Piper, Addleshaw Goddard, Pinsent Masons, Eversheds and Hammonds have built up solid international practices and routinely advise on the kind of big ticket deals that would not see the light of day in Manchester or Liverpool. Halliwells, Cobbetts and Pannone do as much work

Number of Practices⁴

Manchester	412
Birmingham	342
Leeds	136
Bristol	123

Number of Partners

Manchester	4014
Birmingham	3202
Leeds	2171
Bristol	1540

1-2 2006. Greater Manchester Financial and Professional Services (FPS) Sector Report
3 Robert Levy Kuit Steinart Levy (Insider August 2007)

4 The Law Society 2006.
5 2006. Greater Manchester Financial and Professional Services (FPS) Sector Report

outside the region as they do locally, with China being the focus of recent attention. The focus on national and international work is matched by the strong commitment to the region's business base."⁶

According to the Law Society, personal injury, residential conveyancing and crime (general, motor and juvenile) are the top three areas of work for practising certificate holders in the North West⁷. Liverpool has a high concentration of maritime firms specialising in maritime law, driven by the £3.3bn turnover maritime sector in Liverpool.

It is predicted that corporate and mergers and acquisitions work will increase in 2008 and insolvency and corporate recovery work will increase as a result of the current economic turbulence.

3. FACTORS AFFECTING SKILLS REQUIREMENTS

The Global Credit Crunch:

As the shock of the credit crunch ripples out, regional growth forecasts have been revised down, although the Regional Economic Forecasting Panel suggest the rate of slowdown will be lower in the North West than in the UK. The sharpest slowdown is likely to be seen in the FPS sector, although this is still likely to be the fastest growing sector in the region.

The strong growth of the FPS sector in the North West, and the concentration of professional firms in Manchester in particular, makes it more resilient to current global conditions. The mood in the businesses is that despite the wider economic climate, Manchester's exposure is considerably less than feared and despite bleak national outlooks Manchester based operations remain remarkably healthy.

There will be an inevitable dampening in the jobs market, although the emphasis so far has been on cost cutting rather than job losses... the full economic impact on employment has yet to play out. A tightening in recruitment now could have a significant impact on the availability of experienced staff over the next several years.

The Legal Services Act and Carter Review

The Legal Services Act has paved the way for reforming the restrictive nature of legal practices and the impact may see a restructuring of the legal services market and its method of delivery. "Multi-disciplinary partnerships and non-lawyer investment in law firms are set to become a reality in 2008 under government plans for a limited early introduction of alternative business structures (ABS) although the full ABS is unlikely to come into being until 2011 due to the requirement for a new licensing regime... Reform on the scale envisaged will be radical, resulting in new structures, new methods, new owners and new capital"⁸.

New players such as the AA, RAC, Co-operative Legal Services and Halifax Legal Solutions (HBoS) have already entered the market offering a range of consumer legal services, new businesses offering outsourced services for process-driven transactions delivered by paralegals, clerical and administrative staff, and technology replacing people as firms offer high volume low value e-legal services.

With the Legal Services Act allowing the opening up of alternative business structures for law firms, firms are naturally considering their options and although our research shows no definite moves to adopt a particular structure at this point, it is being viewed as a method of bringing development capital into firms and a method of introducing non-legal skills such as business development and client management into the business.



The merger of financial services, banking and other corporate organisations with legal firms could be a consequence of the restructuring at the high and low end of the markets, requiring a broader recruitment base and creating a demand for management and business training for partners as well as trainees.

predicted to continue, with the private equity community confident that the deal market will remain buoyant despite the downturn in the global financial markets. The North West and the West Midlands have the densest population of publicly-backed venture capital funds.

“THE SIZE OF THE NORTH WEST ECONOMY CURRENTLY PROVIDES A GOOD ECONOMIC ENVIRONMENT FOR LEGAL FIRMS OF ALL SIZES. MANCHESTER GENERATES A QUARTER OF THE REGION’S WEALTH AND 10% OF JOBS.”

The continued commoditisation and automation of legal services means work will continue to shift from qualified solicitor to paralegal and from paralegal or technician to technology.

Literature research suggests that the number of firms doing legal aid work would fall as a result of the Carter Review. The scope of this report is confined to members of pro-manchester and Professional Liverpool and although two of our firms surveyed do legal aid work, it is not sufficient to draw substantive conclusions, particularly at the smaller end of the market where the impact will be greater. (42.7% of the total 1,770 firms offer legal aid).

“THE AIM MARKET IS SO STRONG THAT AIM NORTH HAS BEEN ESTABLISHED IN MANCHESTER.”

Regional market activity

The size of the North West economy currently provides a good economic environment for legal firms of all sizes. Manchester generates a quarter of the region’s wealth and 10% of jobs. The growth of the legal sector is largely attributed to the growth of the financial services sector in the region.

AIM listing capability

The North West has strengthening reputation for AIM activity. According to research from Baker Tilly, 23 companies from the North West were admitted to AIM in 2006, raising £254m. In 2005, 24 companies from the region were listed, raising £212m. The London Stock Exchange shows 132 AIM listed companies in the region. Only London has more. The AIM market is so strong that AIM North has been established in Manchester, with the goal of providing networking opportunities for directors of AIM listed companies based in the North.

Private equity deals

The North West has experienced a boom in private equity experience in recent years, driven by a strong regional market and also interest from the London based private equity houses. This activity is

Manchester Civil Justice Centre

The Civil Justice Centre opened in Manchester in October 2007. It is the second biggest court in England housing Manchester County Court and will consolidate civil justice in Manchester, providing facilities for family, commercial, small claims, high and county courts. It is predicted that the flagship centre will provide many opportunities for Manchester’s legal sector.

National drivers of change Legal Services Act

The Clementi Review, which paved the way for the Legal Services Act, considered what regulatory framework would best promote competition, innovation and the public and consumer interest in an efficient, effective and independent legal sector. Clementi concluded that the current structures of law firms are restrictive and recommended the opening up of law firm ownership and the establishment of alternative business structures.

Legal disciplinary practices

Legal disciplinary practices bring different types of lawyers (solicitors, barristers, legal executives, trade mark and patent attorneys) together in one practice, opening up competition and possibly resulting in smaller firms being swallowed up by larger practices, creating a one stop shop for clients. The creation of legal disciplinary partnerships will provide opportunities for professional managers (e.g. finance, HR and marketing professionals) to become owners in firms, resulting in a much more fluid market for professional managers, with greater opportunities for progression and ownership.

It is anticipated that Legal Disciplinary Partnerships will become a reality by the beginning of 2009.

Multi-disciplinary practices

Multi-disciplinary practices allow legal and other professionals (e.g. accountants, chartered surveyors, estate agents, consultants) to operate under one partnership. An amendment to the legal services bill will allow law firms to have up to 25% non-lawyer partners, but non-lawyers will be restricted to offering

services ancillary to the work of a legal practice. Multi-disciplinary practices and non-lawyer investment in law firms are set to become a reality in 2008 under government plans for a limited early introduction of alternative business structures. Full alternative business structures are unlikely to come into being before 2011 as a new licensing regime needs to be established.

New entrants

The proposed Alternative Business Structures will result in non-legal firms, such as retailers and financial services providers, entering the legal services market. The likely impact of this is the swallowing up of process driven legal services such as conveyance and will writing. Given the volume of work undertaken in these sectors in the North West, the entry into the market of non-legal firms is likely to have a big impact on the survival of the smaller general practices in the region.

4. CURRENT SKILLS NEEDS IN THE LEGAL MARKET

Law and LPC graduates

Supply of trainees

Law has retained its status as the most popular subject for UK undergraduates and the North West has a strong graduate market, with Greater Manchester producing more law graduates than Leeds, Birmingham or Glasgow having 2,792 students at Greater Manchester Universities in 2006 and 6,669 across the North West⁹. Competition is stiff as candidates outnumber the solicitor training contracts available. Many graduates elect to work as paralegals as a stepping stone into the profession and then move into training contracts.

Up to 50% of law graduates do not enter the profession, many by choice. A law degree has cachet in itself. Research did not provide any comment on the destination of this 50% of law graduates.

Skills gaps of trainees

Research highlights the very strong law graduate market in the North West, with large firms reporting a plentiful supply of high quality LPC candidates.

Skills of particular importance are negotiation, communication, interaction with client and colleagues and advocacy/presentation skills. Advocacy, negotiation, letter writing, drafting, research and interviewing skills are now assessed, as part of the LPC, and whereas other communication skills such as presentation skills and negotiation, are not formally assessed they nonetheless constitute an important part of the course for at least one LPC provider in the region and their importance is emphasised to students.

Generally the big firms feel the quality of LPC graduates improves year-on-year and that trainees are better equipped to carry out work than ever before, although smaller firms have more of an issue with the communication and commercial skills of the LPC graduates.

Qualified solicitors

Interviews indicated that although there is no overall shortage of commercially qualified solicitors in the region, recruitment remains difficult in certain areas. There is a shortage of good quality 2-5 years' corporate PQE candidates and high calibre lawyers with complex or niche expertise can be difficult to find. Tax, IP, insolvency and corporate pensions were picked out as examples.

“LARGE FIRMS HAVE ADAPTED TO CHANGING MARKET CONDITIONS AND INCREASED COMPETITION WITH NEW STRUCTURES AND BUSINESS DEVELOPMENT STRATEGIES.”

There will always be mis-matches in supply-demand as economic conditions change. There will doubtless be an upsurge in the need for media lawyers as Media City in Salford develops.

Large firms have adapted to changing market conditions and increased competition with new structures and business development strategies, which is demanding a culture shift among staff. There are some common skills needs identified such as better marketing and networking skills, better business awareness and business and practice management skills.

Paralegals

In general there currently is a good supply of paralegals. LPC and law graduates failing to secure further training elect to work as paralegals as an entry into the profession.

The growth of the commoditised services market will potentially increase the need for paralegals, technicians and lower skilled staff and open the sector further to non-traditional labour pools, which could further improve diversity in the workforce.

SUMMARY OF RECOMMENDATIONS

ISSUE

Ensuring the right skills supply to meet local market needs. There will always be fluctuations of supply and demand, but where major regional investments such as mediacity:uk are known then skills shortages can be identified and addressed.

Over supply of graduates. 50 per cent of law graduates don't enter the profession. Oversupply of graduates is likely to be exacerbated as the demand for qualified solicitors reduces.

Quality of trainees. Larger firms reported improvement in the quality of LPC graduates. Many of these firms have worked with LPC providers so they benefit from courses and bespoke training.

Business management skills. Reforms in the structure of legal practices will require more sophisticated strategies and management skills.

Developing skills as high volume work is redistributed from solicitors to paralegals.

RECOMMENDATION

Development of postgraduate modules in specific areas to meet projected shortfalls eg. MMU is developing a post graduate qualification in media law.

Better guidance and information to be given to law undergraduates about job trends, professional choices and careers open to graduates to allow them to make informed choices.

LPC providers should work with law firms of all types and sizes.

Ensure graduates are given more information about careers in SME firms and as employed solicitors eg. with local authorities or in-house.

Further research into strategy planning and business growth skills, particularly in smaller firms. Some development of courses to meet demand is under way:

- MMU Certificate in Legal Practice Management starting in September 08.
 - The College of Law's Postgraduate qualifications in Business, Finance and the Legal Services Market and in Management in Law Firms.
 - Improve networking skills of existing staff via programme of FPS events and cross-sector events.
-

Research into skills sets for this work and the entry and career progression routes (including qualifications and careers guidance).

The Law Society is currently undergoing consultation to look at alternative entry routes into the profession and work based qualifications.

ISSUE

Improving interview skills. Mixed views were identified on candidates' preparedness for interview.

Encouraging diversity in the workforce. Most firms noted a lack of diversity in the workforce. As the profession shifts and opens access to a wider labour pool this will create diversity.

There are more women entering the profession than men, but there is still a ceiling for many women which stops them progressing to partnership.

Accrediting training contracts. There is currently no objective assessment of training contract performance.

Improving retention.

Smaller firms analysis.

RECOMMENDATION

Investigate need for a programme to involve firms, universities and LPC providers in improving interview technique.

Promote the 'Pathways into Law' programme run by the College of Law with the University of Manchester, to open the profession up to 'hidden talent'.

Supporting existing and cultivating new BME networks with mentoring and access routes.

Develop women's networks such as Law Society women's groups and proposed pro-manchester professional women's network.

The SRA is reviewing the need for a 'fit to practice' certificate, emphasizing the importance of the Solicitors' Code of Contact.

Train supervisors to be aware of the competency level of LPC graduates so suitable work is allocated. Career development is key to retention though work-life balance is increasingly important. Smaller firms to capitalise on this to attract talent.

Further research required into the needs of smaller and rural practices.

BACKGROUND

pro·manchester is a 22-year-old private sector membership organisation representing the 241,000 employed in the Financial & Professional service community in and around Greater Manchester. Its aims are to support F&P sector growth, generating an additional £3.5bn in GVA terms and 70,000 net new jobs over the next ten years. In promoting Manchester's skills and expertise locally, nationally and globally, pro·manchester generates opportunities for Manchester professionals to develop their businesses.

Stephanie Jones
pro·manchester ltd
81 King Street
Manchester
M2 4ST

T +44 (0)161 833 0964
F +44 (0)161 832 7377
E info@pro-manchester.co.uk
W www.pro-manchester.co.uk

PREPARED BY:
pro·manchester

DATE:
October 2008