

## **Professional firms are continuing to experience exceptionally high levels of demand for their services but headcount levels are growing less rapidly**

The Forum conducted its most recent quarterly trends tracker in April 2018 to ensure that sector leaders and Government remain informed of the current activity levels and projected growth prospects of the UK's largest sector.

### **EXECUTIVE SUMMARY**

- 48% of firms report that current levels of activity and new work flow are above normal.
- 29% of firms report that current levels of headcount are above normal.
- The Forum's sector diffusion index at 72.6 is consistently 20 points above the Markit/CIPS UK services index.
- Over 90% of firms are expecting activity levels and new work flow to grow in the coming year, with 77% expecting growth in revenues, and 74% expecting growth in headcount.
- 85% of client-facing and 82% of business services & support employees (including partners) are reported as being either fully or partially engaged. Only 8% are reported as being disengaged.
- Government is urged to bring greater clarity on Brexit if it is to facilitate sector growth or alleviate the constraint with the highest impact on sector growth.
- 84% of the 31 tracker respondents are firm-wide leaders and a further 12% C-Suite or divisional leaders. 61% are SMEs, 48% are based outside London, and 52% are law firms.

### **DETAILED FINDINGS**

- **Activity levels:** Current levels of activity and new work flow are reported to be above normal by 48% of firms and below normal by just 3%. This compares with 51% above and 6% below in the January 2018 tracker. The associated diffusion indices (*see note below for calculation*) are 72.6 (72.4 in January 2018 but 54.2 in January 2017). To place these sector indices in a broader context, the monthly [IHS Markit/CIPS UK Services PMI®](#) index declined from 54.2 in December 2017 to 52.8 in April 2018.
- **Headcount levels:** Current levels of headcount are reported to be above normal by 29% of firms and below normal by just 6%. This compares with 66% above and 9% below in the January 2018 tracker. It is unclear if this results from changes to working practices or shortages of talent.
- **Growth:** 77% of firms expect their revenues to grow in the coming year with just 6% expecting a decline (an index of 85.5). This compares with an index of 89.8 (85% up and 5% down) in the January 2018 tracker. Over 90% of respondents are projecting activity and new work levels to expand in the next 12 months, but only 74% are projecting increases in headcount levels. As regards three-year growth, expectations are lower, with just 65% of firms expecting growth in revenues and 13% a decline.
- **Employee engagement:** 68% of client-facing employees (including partners) are reported to be fully engaged with a further 17% partially engaged, and 65% of business services & support employees are fully engaged with a further 17% partially engaged. Only 8% of employees are reported as being either fully or partially disengaged.
- **Messages to Government:** Respondents were asked to share the one thing that Government could do either to facilitate their firm's growth or to alleviate the constraint with the highest impact on the firm's growth. These were the verbatim responses:
  - ❖ Cut the red tape/regulation stifling small businesses. It seems to be never ending and totally contradicts government stated aims to ensure SMEs are given an appropriate share of government contracts by their use by tier 1 and 2 contractors enraged on major government contracts.

- ❖ Get the rules sorted asap for providing services in the EU post-Brexit. Difficult to plan at this stage when there is great opportunity.
- ❖ Invest in the Public Sector
- ❖ Given our model we are conscious of the Government's activities affecting the self-employed. Also get a grip on Brexit!
- ❖ Abandon the Personal injury reforms which will only take money from the legal sector and put it in the hands of insurers resulting in a greater burden on the state from persons suffering loss not being able to claim from the insurer
- ❖ Reduce taxation burden
- ❖ Ensure that the outcome of the CMA review of investment management comes to conclusions that genuinely reflect the long term needs of the customer.
- ❖ Regulation is always a challenge for small businesses with less resources. This year we have considered the impact of GDPR and gender pay gap reporting - very laudable but also time consuming and expensive for small businesses to implement. We have spent a lot of time dealing with complaints and LeO - again very necessary for service focussed businesses but a distraction from growing the business - especially when LeO is not very efficient. Finally, we are concerned about the growth of cybercrime. We spend time and effort trying to keep our business secure. This is another drain on resources that could be used to develop the business. I think the biggest challenge for all small businesses in the UK is going to be how to manage digital assets and information. Smaller businesses have less to invest in IT.
- ❖ Give business confidence and clarity on life post BREXIT
- ❖ provide clarity on the path of Brexit negotiations as these affect the legal services industry
- ❖ Free movement of people post Brexit
- ❖ sort out business rates
- ❖ As little as possible
- ❖ Avoid short term focused legislation
- ❖ Remain in the single market!
- ❖ Clarity of EU citizens position post Brexit.
- ❖ Certainty in regard to Brexit and long term financial budgeting
- ❖ Offer more certainty around reforms. Making announcements and then continually pushing back on timetables is less than helpful when trying to plan for business change.
- ❖ Sack everyone in it who is divisive (on both sides of the divide) - present a united front for Britain and use it to effect a sensible and rational withdrawal and deal for the country, recognising that there are a great number of our citizens who feel marginalised and betrayed by the more affluent.
- ❖ For the UK Government to ratify the Unitary Patent and resolve the detailed exit from the EU as soon as possible.
- ❖ Continue to proactively support financially major infrastructure projects, high growth business, foreign investment, work closely with institutional investors to co fund cross sector property development to facilitate city regeneration - Midlands Engine and Northern Powerhouse etc.
- ❖ reduce the compliance burden
- ❖ Get on and clarify the post Brexit plan
- ❖ There is no one thing. There are many pinch points and smaller firms like ours lack the resources/knowledge/capability to deal with the majority of them effectively.
- ❖ The action that government could take that would most facilitate our firm's growth would be to ensure that we continue to have access to the best and brightest talent – from the UK (through improvements to the UK's education and skills programmes), from the EU and from the rest of the world (through the development of an immigration systems for the 21st century).

- ❖ Clarity on Brexit (some staff/ barristers uncertain about their status; implications for some aspects of our work; exchange rate fluctuations etc).
- ❖ Encourage more government/local authorities to engage with SME's
- ❖ Address the conflict between public sector clients looking to maximize the capital value of surplus land receipts v. need to build affordable housing
- ❖ Reduce regulatory burdens on all businesses and reduce the amount of "delegation" to business to bear costs on Govt's behalf
- ❖ Greater certainty re Brexit
- ❖ Provide some financial support or discount to smaller firms, via corporation tax or funding for taking on new employees if under a certain size

### **Demographics and indices**

- **Survey:** 31 responses had been received from named firms when the tracker closed on 27 April 2018. 61% were SMEs (defined as headcount of less than 250). The Forum does not publish a list of participating firms.
- **Firms:** 52% of the firms were law firms, followed by accountancy (19%), property (16%) and consultancy at 13%. As regards footprint, regional and national firms were both 35%, followed by global firms (19%), and London firms with 10%. Previous trackers had comparable demographics.
- **Respondents:** 52% are based in London and 48% elsewhere in the UK. 84% are firm-wide leaders and 12% C-Suite or divisional leaders. While the location demographics are similar to previous trackers, respondents to this tracker are noticeably more senior.
- **Indices:** The diffusion indices are calculated by assigning weights to the percentages: the percentage of respondents reporting an "improvement/increase" are given a weight of 1.0, the percentage reporting "no change" are given a weight of 0.5 and the percentage reporting a "deterioration/decrease" are given a weight of 0.0. Thus, if 100% of respondents report an "increase", the index would read 100. If 100% reported "no change" the index would read 50 (100 x 0.5), and so on. The Forum views its sector indices as complementing the Markit/CIPS benchmark as the latter is mainly based on input from procurement professionals who typically have limited involvement in the purchase of professional services.

### **Publicity**

- This report will be shared freely with survey respondents, sector leaders, the Forum's Advisory Board, Ministers, Government officials, and the Professional & Business Services Council (PBSC).