

# GAZETTE



The Law Society

## SRA issues warning on business models

By Neil Rose

The Solicitors Regulation Authority (SRA) last week urged solicitors to be 'particularly cautious' if approached about taking advantage of new business structures to be allowed under the Legal Services Act.

The warning came as a survey of top law firms by accountants Smith & Williamson found that 22% were likely to seek external capital in the next two to five years. Of them, 43% would look at a public listing, 57% at private equity or venture capital and 71% at structured finance.

Just over three-quarters of those firms said they would be looking to raise less than £20 million, which Smith & Williamson director Gavin Murphy said indicated that it may not be the largest firms which go public first.

The most popular use for the money was 'to fund the long-term development of the business', followed by funding the



**Pakistan: the UN's Hina Jilani and Law Society President Andrew Holroyd protest at 10 Downing Street, p4**

acquisition of teams and providing a means by which partners can realise value in their firm.

But in a high-level strategy paper on how it plans to implement the Act, the SRA said the alternative business structure (ABS) licensing regime is unlikely to

be in place before 2011 at the earliest, and it is too early to say what restrictions will be placed on those seeking licences – even though some commercial organisations and investment groups are 'making preliminary soundings of existing firms and others are, we believe, making firm proposals'.

The regulator said there could be conflict issues that prevent or restrict certain types of commercial entities from providing legal services.

While the ban on fee-sharing was relaxed in 2004 to give solicitors access to a wider range of investment, the SRA said that 'contractual arrangements which include provision for the future sale of an ownership interest in a firm, in return for investment or services now, could breach the fee-sharing rule and compromise independence'.

It added: 'The SRA would therefore urge solicitors to be particularly cautious' **Continued on page 3**

## Law firms 'failing clients' over technology use

By Rupert White

Law firms are failing clients by not keeping up with their technology needs, according to a survey of general counsel.

More than half of the 114 senior in-house lawyers questioned by City firm

Kemp Little and publisher PLC disagreed with the statement that outside law firms put a significant amount of effort into saving costs for their clients with technology. And more than 60% felt that law firms were not passing on savings they make through using technology.

The report indicates that general counsel see technology playing a huge role in cutting their legal expenditure, said Richard Kemp, founder of Kemp Little.

Another striking point of the research, he told the *Gazette*, was that general **Continued on page 3**

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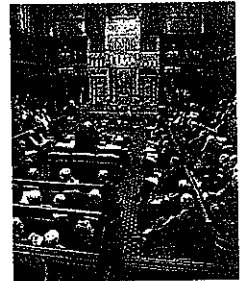
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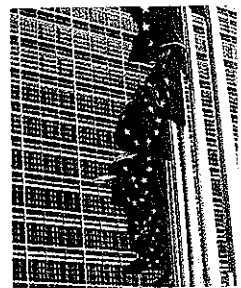
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## Society avoids LSC fine

The Legal Services Complaints Commissioner this week admitted that it has 'taken too long' to announce her decision not to fine the Law Society for its complaints-handling performance in 2006/7 – and made it clear that a fine is likely next year if the Society fails again to meet its performance targets.

Zahida Manzoor also welcomed a proposal to inject up to £500,000 more into the Legal Complaints Service (LCS) – whose budget is £36 million – to fund an action plan aimed at making up ground lost to IT problems and flooding in recent months.

Ms Manzoor said she would have been justified in fining the Society for the failure of predominantly the LCS, but also the Solicitors Regulation Authority (SRA), to deliver the complaints-handling plan for the year ended 31 March 2007. Five of the 13 targets were missed.

But she said: 'There have been success and failures this year. I have decided, at this stage in the Law Society's development, to give more



**Manzoor: performance concern**

weight to the commitment to improve evidenced by the restructuring of the organisation and efforts made to meet the targets. However, I remain seriously concerned that quality targets have been missed.'

The latest statistics indicate that the LCS is missing some of its 2007/08 targets, and Ms Manzoor told the *Gazette*: 'The Law Society and LCS should be in no doubt that I'd be unlikely to extend the same latitude [on not fining] again.'

She added that all sides agreed that seven months had been too

long to reach a final decision, but she put this down to the extra time she had given the Society, LCS and SRA to make representations to her, while there were also delays in providing her with relevant documentation. Talks are underway to streamline next year's process.

Law Society chief executive Des Hudson welcomed the decision not to levy a fine. 'The continued improvement achieved by the LCS provides consumers with a faster and better service than ever before, and which compares favourably with other complaints-handlers,' he said.

'The Society is committed to supporting [this] continued improvement. Performance is kept under constant review and the management board of the Society considers any recommendations that are put forward by the LCS.'

LCS board chairman Professor Shamit Saggat said 2006/07 saw 'substantial improvements both to the timeliness and quality of the work done by the LCS'.

*Neil Rose*

## Firms block judicial ambition

Solicitors are not pursuing careers within the judiciary because senior partners are reluctant to allow them the time to sit as judges, a commissioner for the Judicial Appointments Commission (JAC) told the Solicitors Association of Higher Court Advocates last weekend.

'We are finding particular problems with encouraging solicitors to apply for appointments and that is because, for many, to voice interest at all is career blight. It is a real problem,' said Mrs Justice Frances Kirkham.

On a show of hands, only 10 of around 150 delegates said they were considering applying for judicial appointment. Mrs Justice Kirkham said she believed 'many more people would like to apply but would not say for fear of it getting back to the office'.

She added that firms should allow solicitors the time to sit as judges – something that would also improve advocacy skills.

Mrs Justice Kirkham urged solicitors



**Kirkham: senior partners resist**

to consider and apply for jobs in the judiciary, particularly highlighting the 'wide range of Tribunal appointments' on offer. She denied that solicitors were disadvantaged at recorder level competitions – a position widely regarded as a key stepping-stone to more senior judicial appointments.

Bridget Prentice, the justice minister responsible for legal services reform, also addressed the conference and said the alternative business structures (ABSs) allowed

under the Legal Services Act will 'promote efficiency and innovation in the sector, and enable businesses to provide services in a consumer-friendly way'.

She told the audience it was vital to protect the consumer interest, and the use of the term 'client' by some lawyers and 'consumer' by government was an indication of 'the great divide between us'.

Ms Prentice added: 'I don't see people as clients – I see them as people consuming services. Perhaps I would use the word "citizen" as an alternative to describe the vast majority of people who, at some time in their life, are the consumer of services that you provide.'

Andrew Holroyd, president of the Law Society, and Tim Dutton QC, chair-elect of the Bar Council, said ABSs would not result in a convergence of the two branches of the profession, but could mean more competition between regulators.

*Anita Rice*

## ABSs

**Continued from page 1**

if approached by others with a view to committing to changes in business structures predicated on assumptions that have not yet been established about what type of ABSs will be permitted in future.'

The SRA paper also outlined how it intends to move to the firm-based regulation permitted by the Act. 'Solicitors will remain individually accountable to the SRA, and will still need practising certificates, but the mechanisms for delivering regulation (and, therefore, the regulatory burden) are likely to shift increasingly towards the organisation... The SRA considers that a firm-based regulation system based on risk will provide a more effective regulatory regime.'

● The paper can be found at [www.sra.org.uk/consultations/338](http://www.sra.org.uk/consultations/338). article and comments are sought by 14 December.

## Technology

**Continued from page 1**

counsel are 'underwhelmed' by law firms' use of technology. 'Law firms have a way to go to catch up with clients' vision,' he claimed.

General counsel showed particular interest in services such as access to legal or industry know-how and billing updates through firms' websites.

Online billing is, according to the report, an area where firms 'could really make their mark' – only one in ten general counsel said they could access billing updates on their law firms' websites, but 59% said they would like to do so.

Nearly a third of general counsel said they had had experience of using technology as a replacement for low-value work, and of those who had not, nearly two-thirds said they planned to do this within five years. Cost-cutting using technology comes in many forms, with contract management and databases top of the adoption list.

The research also found that companies are far more reluctant to outsource legal than, for example, accounts, procurement or HR functions, and less likely to largely replace their legal function with technology, citing risk as the key preventative factor.