

## **RUPERT HAWKE LEGAL**

### **Effects of the Legal Services Act**

The introduction of the Legal Services Act coupled with significant cuts in legal aid funding by the Ministry of Justice (MoJ) will lead to an enormous shake up in the legal sector over the next few years.

Traditionally legal aid practices have enjoyed reasonable profit margins (though eroded in recent years) in a closed shop environment. This has allowed firms of all sizes to continue trading over the years since even badly run organisations could make profits due to the margins available.

All this is now changing. In October 2011 the MoJ made significant cuts to fees paid on a wide range of legal aid work. We now have the Legal Services Act that removes barriers to the closed shop with external financing and expertise becoming an option under the alternative business structure (ABS).

We therefore have a legal environment that provides opportunity as well as threats for firms. We are likely to see the legal industry taking a similar form to the Optician industry after deregulation with a small number of large firms dominating the market via access to funding and economies of scale.

The threats therefore relate to smaller firms who simply won't be able to attract external funding or have the business skills and economies of scale to compete. Margins will be so low that their only options will be to cease trading or merge with larger firms.

Within the next few years there will be three types of firm in the legal sector:

- Small firms providing a very particular niche service – the only small firms left will only be trading due to a unique selling point.
- Established large firms who already had mass pre Legal Services Act and have grown since then mainly through acquisition and access to ABS status
- New entrants to the market via acquisitions of firms and introduction of their own management to drive the businesses forward.