
Accountancy
Report 2022
Tomorrow
Begins Today

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Foreword

I'm delighted to present our NatWest Accountancy Report for 2022. I'd like to first say thank you to Robert Mowbray for his vital contribution to its ongoing production and development. I'm also grateful to all the firms that have contributed and provided insights, which will help others within our sector as we slowly emerge from these challenging times.

Our report focuses on firms that operate at the SME level across England, Scotland and Wales. By comparing the financial performance of local and national peers, we've found some surprising and extremely valuable insights.

Firms can use these findings to help them target areas where they can improve, so they can enhance their profitability and the way they manage their working capital.

This edition is different from our previous surveys because we feel it's important for all of us to fully understand how the accountancy sector performed, and how firms behaved, during the pandemic. On that basis, we've included a future-proof checklist. We hope it will give you a useful framework in which to navigate challenges that lie ahead and take full advantage of new opportunities that will help you to innovate and grow your business. It's encouraging that the accountancy sector has exhibited such remarkable resilience, with many of the firms we spoke to even showing a growth in profitability at a time when many other sectors experienced significant downturns.

David Weaver
Head of Professional Services

It's encouraging that the accountancy sector has exhibited such remarkable resilience.

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Executive summary

Some of the more interesting findings of the survey were as follows.

Fees

- Median fees per equity partner were £798,000, compared with £649,000 when the survey was last undertaken in 2019. This shows there was a great deal of growth during the pandemic because many clients needed extra help with payroll, furlough and getting government-backed loans.
- Median fees per fee earner at £88,000 have grown less quickly from the 2019 survey when the figure was £80,000. This demonstrates most of the growth was achieved by taking on more fee earners rather than by boosting the productivity of existing fee earners.

Profits

- The median profit per equity partner of £193,000 shows there's an 18% growth on the previous year. This means that, with an increasing demand for services and a reduction in certain office expenses, the profits earned in many firms during the pandemic increased significantly. It'll be interesting to see if this increase is sustainable.
- Median profit as a percentage of fee income is 23%.
- Median furlough monies received as a percentage of PEP (profit per equity partner) were 5%, which shows very few people were furloughed. This probably isn't surprising given how busy many firms have been, and how few administrative staff are employed.
- Median gearing, which refers to the total fee earners per equity partner, was 8.9. That means profit margins can be maintained when work is delegated to the right level.
- Increasing pressure to raise staff salaries considerably means that firms could struggle to maintain and increase profits.
- Remote working and now hybrid working have been a great success and are here to stay.

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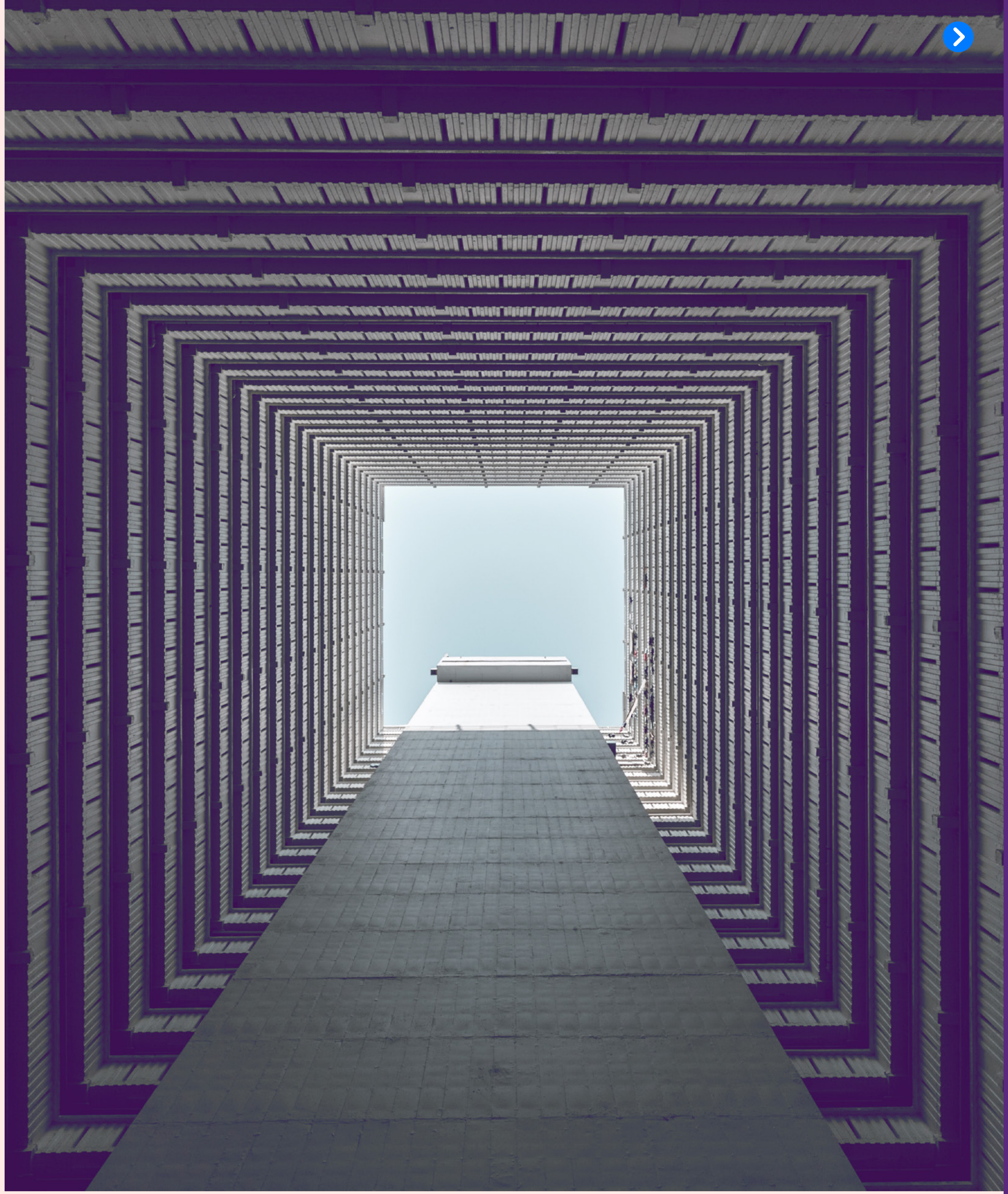
Lock-up

- Median total lock-up days were 114, which shows that even though firms have been busy they've maintained cashflow at similar rates to previous surveys.
- Median WIP days were 42 days, while median debtor days were 65 days.

Finance

When lockdown came along, firms were worried they might run out of money. That's why they took fast action to defer some of their tax payments. Also, government-backed loans were used by most firms to make sure they would maintain healthy cash balances. There was a considerable and immediate drop in certain expenses – like travel and utility bills.

With median partner capital and current account balances at 29% of fee income, it means partners are financing the WIP and debtors of firms. So only fixed assets are more likely to need some bank finance.



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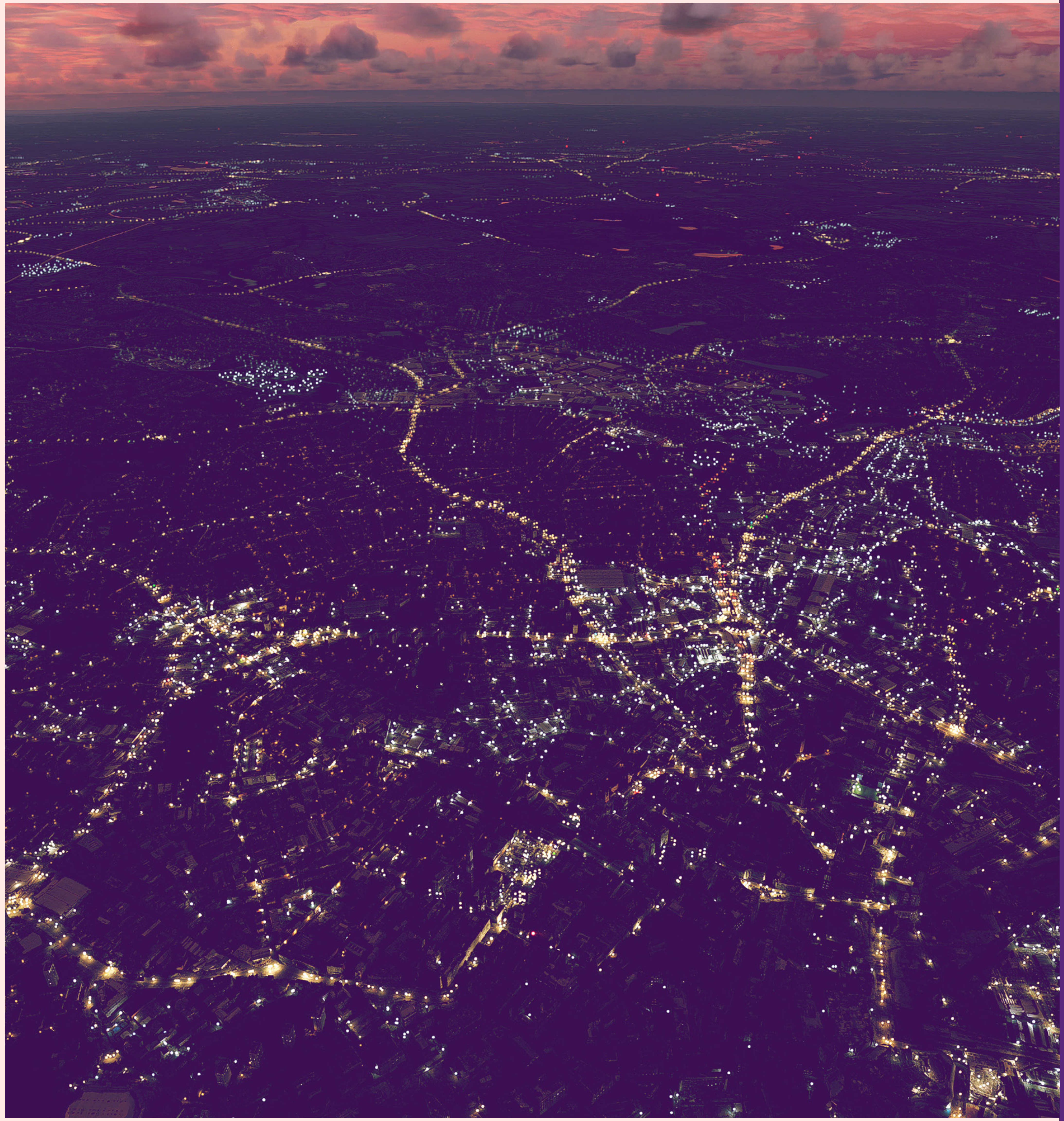
Introduction

We've produced surveys of the accountancy sector for 2015, 2017 and 2019. It's now time to look at the sector again to discover what's changed – and what could happen next.

In this year's report, we've focused on the impact of the pandemic and the development of more flexible working, as well as the increasing shortage of skilled accountants and what medium to long-term impacts the sector needs to consider so it can continue to grow.

The survey was made up of a detailed review of the financial performance of 22 firms across England, Scotland and Wales, made up of 11 limited companies, six partnerships and five LLPs, with annual fee income ranging from £2m to £25m. As well as the financial review, we also held interviews with leaders of some of the firms we reviewed. Our aim was to understand what's happened recently and what firms plan to do in the future. We wanted to learn how firms plan to adapt to the different challenges the sector faces, so that their businesses stay resilient and future-fit. In this report, we compare results from the current period with those in previous versions. But we have to be cautious when looking at these trends, because our sample sizes are small, and we've included different firms in our surveys each year.



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Fee income and the short and longer-term impacts of Covid-19

Fee income and the short and longer-term impacts of Covid-19

Income generation	Lower quartile	Median	Upper quartile
Fees per equity partner (£'000)	604	798	1,138
Fees per fee earner (£'000)	71	88	138
Fee growth percentage since previous year	0	4	7

You can increase profits without increasing fee income by controlling expenditure. But that can only go so far before it affects service levels, which could have an impact on a client's willingness to pay the full fees. That's why most firms choose to grow their fee income. It's important this growth leads to increased profit, which you can make sure of by taking on the right type of work that can be delivered in a profitable way.

A good way to measure fee income is to describe it as fees per equity partner. The median annual fee per equity partner in our survey was £798,000, with a lower quartile figure of £604,000 and an upper quartile figure of £1.138m. In our 2019 survey, the equivalent median figure was £649,000. This shows that over the last three years there's been an increase of £149,000, which is a 23% rise. So, over the last two years of the pandemic, there's been a steady increase in fee income. That may not be so surprising, as in times of great change clients would be likely to look for more help from their professional advisers. The firms we spoke to said staff were made aware they had to give clients more support in these difficult times. As a result, there was a spike in demand for many services, including payroll and furlough support, and help to acquire emergency loans.

It's possible to increase fees without increasing profits if the increase in fees is more than covered by an increase in fee earner salaries. That's why you could also look at fees per fee earner, which show if there's a change in efficiency when fees are rising. The median figure in our survey was £88,000, with a lower quartile figure for each quarter of £71,000 and an upper quartile figure of £138,000. In the 2019 survey, the equivalent median figure was £80,000.

So there was a smaller growth of 10% over the last three years compared with the rise in fees for each equity partner. This suggests the growth in fees per partner has been driven more by increasing headcount than by boosting fee earner productivity.

We also measured the movement in fee income since the previous year. We found the median increase was 4%, with no change at the lower quartile level and an increase of 7% at the upper quartile level. This shows, while median fee income levels are still rising, there are some firms with no increase at all.

Growth in fees per partner has been driven more by increasing headcount than by boosting fee earner productivity.

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Figure 1 shows what clients were focusing on most at the start of the pandemic. Just 14% of them felt price was the key issue. Almost half (48%) felt speed of delivery was the key measure for clients, while 38% believed it was quality of work. This reinforces the fact that clients will normally pay more for a service that's delivered well – and on time. It was interesting to hear firms say there are some types of work now showing less price constraint than there would have been in the past. Audit is a good example of this, because some firms can now choose which audits they would like to do, and they can also now charge the fees they want to charge, as there's less competitive pressure on these fees.

Figure 2 shows the parts of firms that the pandemic impacted most. Finance wasn't affected at all and there was very little impact on client service. The bigger impacts were on people management once everyone was working remotely and on business development, which became difficult with social distancing.

Accountancy firms said they were usually fairly well prepared for remote working because accountants have been working remotely at client offices for many years. Having said that, they did need to upgrade servers and buy furniture for people to allow them to work effectively from home. This made it more important to focus on cybersecurity, since there would now be more devices with remote access to firms' systems.

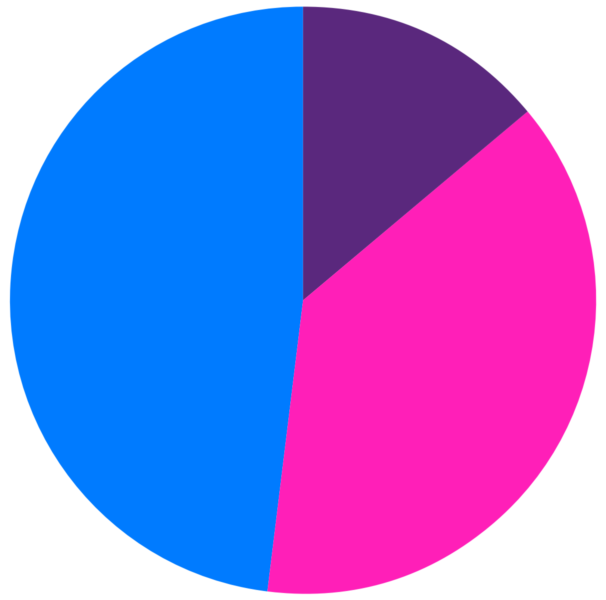

Figure 1

What did clients focus on the most at the outset of the pandemic?

- Price (14%)
- Quality of work (38%)
- Speed of delivery (48%)

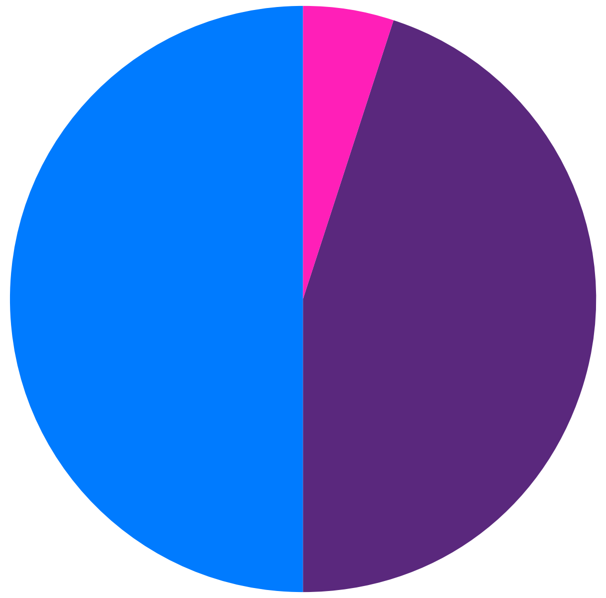

Figure 2

Which aspect of your business was most impacted by the pandemic?

- Business development (45%)
- Client service (5%)
- People management (50%)
- Finance (0%)

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We asked firms to comment on the overall impact of the lockdowns on their firms. They told us that at the start they were extremely concerned. But most firms adapted to the situation very well, as you can see in **Figure 3**. We heard that 41% of them thought there was a positive, or very positive impact, and just 14% said there was a negative or very negative impact.

It's also interesting that 4% of firms still think it's too early to say. So we may have to wait longer to know the true impact the last few years have had on staff and client retention.

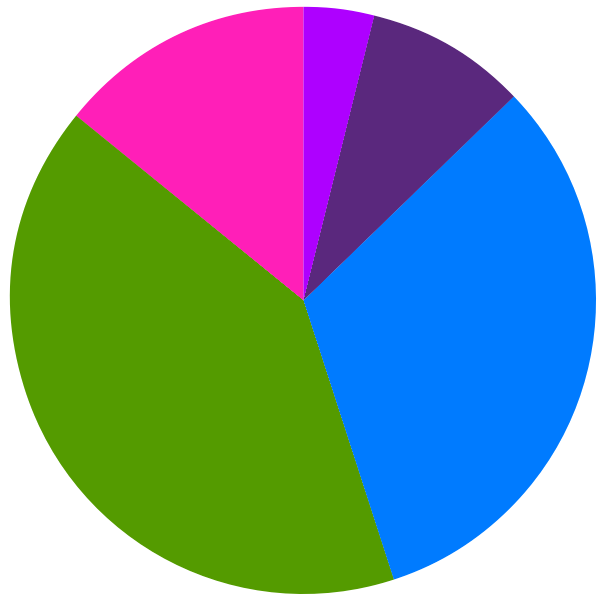

Figure 3

What is your overall assessment of the lockdown impact on your firm?

- Very positive (9%)
- Positive (32%)
- Neutral (41%)
- Negative (14%)
- Very negative (0%)
- Too early to say (4%)

We may have to wait longer to know the true impact the last few years have had on staff and client retention.

Questions to consider now

1. Where can new service lines be developed to fuel future growth?
2. Are we recording all the time spent on client matters and how could more of that time be billed?
3. What further investments are required to increase fee earner productivity?

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Profits and
drivers of profits

Profits and drivers of profits

Profits	Lower quartile	Median	Upper quartile
Profit per equity partner (£'000)	158	193	271
Profit growth percentage since previous year	3	18	27
PEP as percentage of fee income	22	23	32
Furlough received as percentage of PEP	1	5	11
Total fee earners per equity partner	5.6	8.9	13.2
Equity partners as percentage of total partners	67	98	100
Fee earners as percentage of total headcount	78	83	90

The creation of profit – rather than revenue – should be the long-term goal of professional firms. By increasing profits, firms can attract new employees and reward them. They can also invest in knowledge, training and slicker processes to increase the likelihood that they'll deliver a better service to clients. Of course, firms should also give some attention to controlling excess expenditure. But the focus should be on making sure that when expenditure goes up, it leads to an increase in profit. During lockdowns, expenses were reduced on items such as travel, business development and utility costs. Also, some staff could be furloughed while income levels continued at the same level (during a time of reduced staff numbers).

So it was inevitable that profits would rise. Obviously, post-lockdowns, most of the expenses will go back to what they were before. This could squeeze margins unless income levels rise. One managing partner told us that, with the pressure of some expenses, the business would only stand still next year with an increase in fees of 5% to 10%.

We also asked firms to comment on the change to their Professional Indemnity Insurance premium at the point of 2021 renewal. **Figure 4** shows 27% of firms had an increase of over 25% and a further 55% had an increase of over 10%.

This shows the cost of Professional Indemnity Insurance is now rising rapidly. For most firms, it could be a while before we know if there'll be an increase in claims made on the back of the lockdowns. Supervising their employees and work was clearly more challenging for firms over this period, so it's likely there'll be some increase in claims. It's interesting to hear firms did try to make sure their work was properly supervised. In the past, audits done on site were carried out by senior fee earners, who could supervise junior staff. One business told us they would still carry out most audits remotely but, when the audit team return, they sit in the same part of the office, so they can supervise junior staff more efficiently.

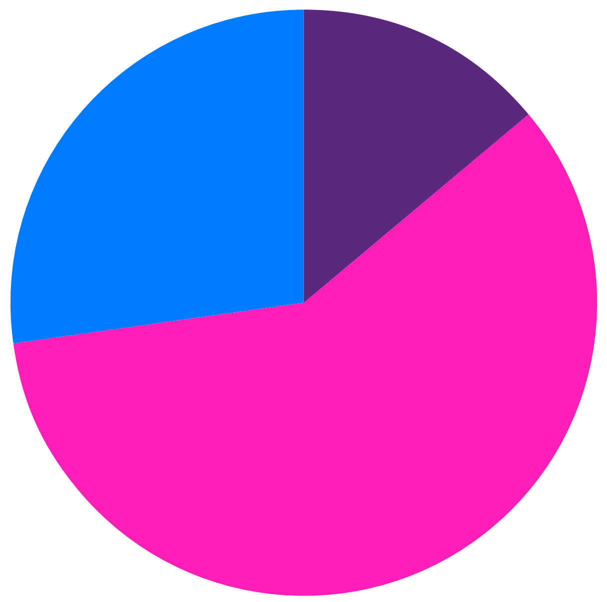

Figure 4

What was the change to your PII premium at the 2021 renewal?

- Decrease >10% (0%)
- No real change (18%)
- Increase >10% (55%)
- Increase >25% (27%)

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The biggest expense in accountancy firms is staff costs. There's now a lot of pressure on staff salaries. Firms made a point about the increases they've recently given to newly qualified staff, managers and directors. The figures varied, but were typically between 10% and 25%. This shows any increase in profit in the last few years could be difficult to maintain, especially if fee income doesn't continue to grow.

Retaining staff is obviously a major issue for most firms. You can see this clearly in **Figure 5**, where 73% of firms said it was either difficult, or very difficult for them to attract and retain the best talent. Staff should be paid the going rate, but firms also need to look at what else they need to do to stay ahead of the competition. This includes things like allowing staff flexibility to choose where they work, and the hours they want to work. It's also important to offer clear career paths and support, so they'll be able to develop faster. Many firms believe they've looked after their staff well during lockdown. However, it's not so clear their staff would agree, either from what they say or from their decisions to move on or stay. On a positive note, one managing partner did say it's getting harder to attract qualified staff and keep them but, if firms do take the time to train their staff, there's a good supply of school leavers and graduates who are willing to work hard to develop their skills and build a career.

The most common measure of profitability is PEP. Our survey shows a median PEP of £193,000, with a lower quartile figure of £158,000 and an upper quartile figure of £271,000. Our 2019 survey had a median figure of £150,000. This means there's been a 29% increase in the median PEP over the past three years. So, the lockdowns of the last two years didn't have a negative impact on profit.

Firms can try to increase PEP by moving some of their equity partners to fixed share partners. We looked at the percentage of partners who were equity partners and the median figure was 98%. This shows most firms are almost entirely equity partnerships. The median figure in our 2019 survey was 100%.

Growth in profit over the past year for the firms we surveyed shows a median increase of 18%, with a lower quartile figure of 3% and an upper quartile figure of 27%. These are very significant increases. It'll definitely be a challenge to maintain these figures in future.

We can also assess profitability as a percentage of revenue. Our survey shows a median figure of 23% and an upper quartile figure of 32%. The median figure in our 2019 survey was 24%. During lockdowns, profits were propped up with government support through the furlough scheme. But most of the firms we talked to made very little use of this because they were busy, and it was mainly their support staff who they sometimes furloughed. We calculated how much of the PEP was from furlough support and the median figure was 5%, with a lower quartile figure of 1% and an upper quartile figure of 11%. Although this shows that furlough increased PEP, it hasn't made a significant difference for most firms that are still busy.

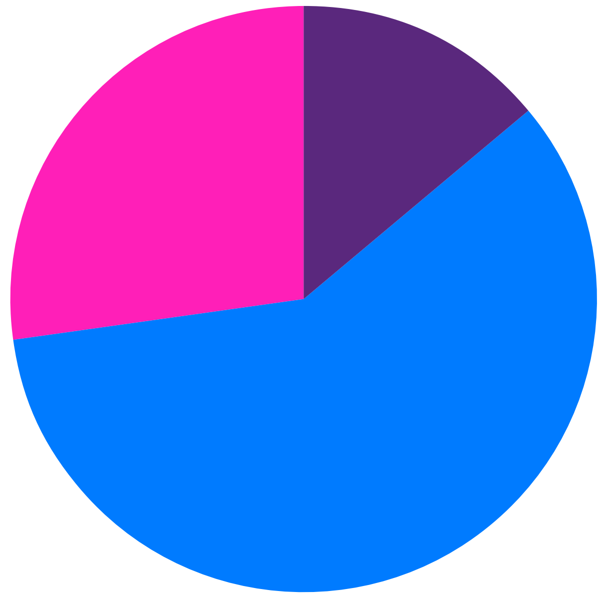

Figure 5

How difficult do you find it to attract and retain the best talent for your business?

- Very difficult (14%)
- Difficult (59%)
- Manageable (27%)
- Not difficult (0%)

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We can calculate PEP by using the following formula. We've illustrated some numbers below to show how a business can reach a PEP of £200,000.

PEP (£200,000)
=
gearing, which is the number of fee earners for each equity partner (8)
x chargeable hours per fee earner per year (1,000)
x average rate at which time is recorded (£120)
x recovery rate (80%)
x margin (26%)

The level of gearing a business can achieve is a function of the complexity of the work being done. If the work is simple, they'll need less supervision to reach higher gearing. If the work is complex, then they'll need more supervision, and so they'll have lower levels of gearing.

The level of chargeable hours firms record is usually driven by how hard people work and how good they are at recording their time. There's often a correlation between how hard people work and how much they're being paid. The rate at which firms can record time is usually driven by how complex the work is. So, junior fee earners usually have lower rates and senior fee earners have higher rates. The recovery rate measures the percentage of chargeable time that's billed. That's mainly driven by how efficient the work is.

The margin measures how efficiently fees are being turned into profit.

We've looked at gearing levels in our survey and the median figure is 8.9, with a lower quartile figure of 5.6 and an upper quartile figure of 13.2. In our 2019 survey, the median gearing figure was 7.3. This shows the increase in fees for each equity partner over this period was driven largely by a 22% increase in gearing.

Perhaps the most interesting fact about lockdowns was the impact on productivity of fee earners. You can describe the productivity of a fee earner as fees per fee earner. This relates to the chargeable hours recorded x recorded rate x recovery rate. This figure has increased from £80,000 to £88,000 over the last three years. Before the lockdowns, most firms were reluctant to allow staff to work remotely because they felt it would lead to a reduction in productivity.

Figure 6 shows the impact on chargeable hours recorded for each accountant. It's reassuring to see that 82% of firms had no real change in this and 14% had an increase of more than 5% in recorded hours per accountant. Managing partners told us staff can often record more hours in a day if they're no longer travelling to clients or the office. It could also be there are fewer distractions and meetings to attend when they're working remotely. We also heard there are now fewer internal meetings – and this should continue. One partner said sometimes they can now have 10 client Zoom meetings in a day, which would never have been possible with face-to-face meetings.

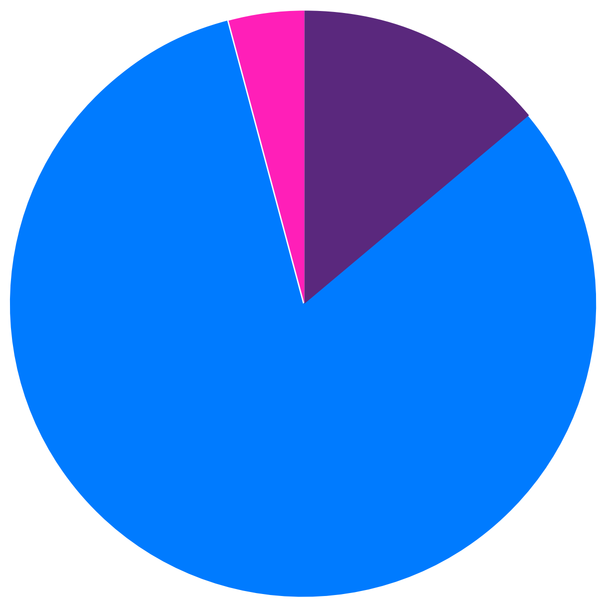

Figure 6

Has the pandemic resulted in a change in chargeable hours recorded per accountant?

- Increase >5% (14%)
- No real change (82%)
- Decrease >5% (4%)

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It was interesting to hear about the impact of lockdown on chargeable hours for firms. One partner said before the pandemic they would probably have spent at least 10 hours a week or 450 hours a year travelling to see clients. This wouldn't have been recorded as chargeable time. Another partner said his business had a large client base in the automotive sector, which also had to deal with a great deal of travel time that they wouldn't have been able to charge clients. After the pandemic arrived, this sort of travel time largely disappeared. More time was then made available for work that could be charged. These sorts of observations from partners show how important it is to have a good time recording policy and an FAQs document to give staff and partners detailed guidance on how they should record their hours. They can then charge more time to clients as they'll appreciate how much more time is now being dedicated to the work being done. If travel time is called "travel time", then perhaps no value is seen in this time. But if you describe it as "preparation for and travel to the meeting" it's more likely the client will appreciate the value of that time.

Fee earners who don't have the right amount of administrative support might lose some productivity. We measured the percentage of total of employees who are fee earners and the median figure was 83%. This is compared with 79% in the 2019 survey. Firms shouldn't necessarily see a drop in administrative staff as a cost saving, as it may result in a drop in productivity of fee-earning staff. It's interesting that some partners said they had a sufficient number of administrative staff, but their junior fee earners might give you a different answer to that question.

Figure 7 shows the productivity of each recorded hour, where 86% of firms believe there's been an increase or no real change in this number. This has encouraged firms to allow their staff to carry on with flexible working.

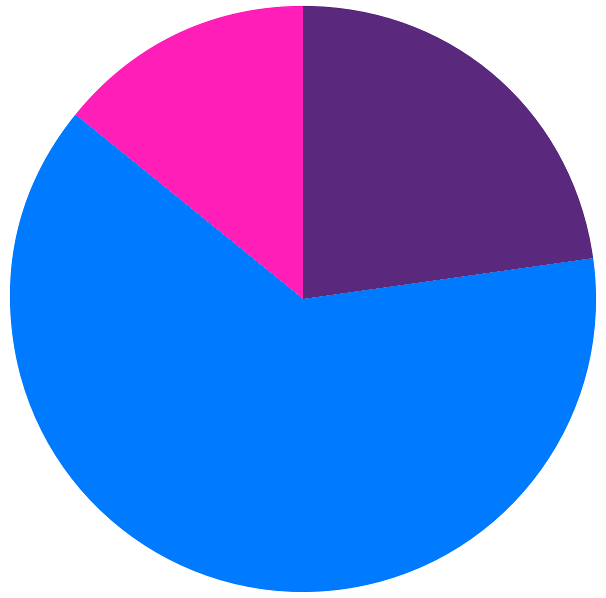

Figure 7

Has the pandemic resulted in a change in productivity per hour worked?

- Increase >5% (23%)
- No real change (63%)
- Decrease >5% (14%)

Questions to consider now

1. How are we going to attract and retain the most talented people?
2. Are we charging clients for the value that we are delivering?
3. Are we training our partners and staff sufficiently, and in the best way, so that they have the best technical knowledge and commercial skills?

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Lock-up and working capital

Lock-up and working capital

Lock-up	Lower quartile	Median	Upper quartile
WIP days – this year	75	42	21
Debtor days – this year	81	65	54
Total lock-up days – this year	139	114	93
WIP days – last year	76	51	22
Debtor days – last year	70	64	57
Total lock-up days – last year	136	119	95

Although the long-term goal is to increase profits, the short-term goal for all firms is to stay afloat, by making sure there's enough money to keep the business going. A long-term problem for all firms is it can take a great deal of time to turn chargeable time into cash. Time that's been spent, but which hasn't been billed yet, is called work in progress (WIP). And time that's been billed that is still unpaid is 'debtors'. Instead of just looking at the amount of money for WIP and debtors, it's better to describe these figures as WIP days and debtor days. That's because this is a measure of efficiency that firms can use to compare larger and smaller firms. In the past, firms talked about how it could often take 120 days to turn time recorded into cash. 120 days is four months, so it's obvious that unless firms have enough money in reserve to fund this working capital, they could run out of cash.

The median total lock-up days (time taken to turn time recorded into cash) in our latest survey is 114 days, which is a slight improvement on the traditional number of 120 days we mentioned earlier. In our 2019 survey, the median figure for this was 118 days, which shows there's been very little improvement over the last three years.

The median figure for WIP days in our latest survey is 42 days, and the median for debtor days is 65 days. So, accountants are now better at invoicing work than they are at collecting outstanding bills. In the 2019 survey, the median was 44 WIP days and 71 debtor days, which again shows only a slight improvement over the last three years.

Firms should think hard about the commercial terms they agree with clients and their working practices that could improve their control of lock-up. If firms could cut down their working capital requirements, they'd need less capital from partners and less external finance.

It might be a good idea if partners could tell their clients their default terms mean they have to pay some money upfront, and that there will be regular interim billing and that bills must be paid on presentation. Firms should also show more discipline in their monthly billing cycles and take action faster when bills aren't paid promptly. Phoning a couple of days after a bill has been sent to check it has been approved for payment is always helpful. It can easily just sit in an inbox and be forgotten. So there's no reason why firms shouldn't be able to reduce their total lock-up days to well under 90 days.

Questions to consider now

1. Have we established and communicated clear written guidance to everyone on our expectations around asking for money upfront, regular prompt billing and when and how credit control will be undertaken?
2. Have we got the right carrots and sticks in place to motivate everyone to follow our internal procedures?

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Finance

Finance

Finance	Lower quartile	Median	Upper quartile
Year-end bank balance (£'000)	234	427	885
Year-end bank balance without government-backed loans (£'000)	62	340	550
Bank balance minus all loans as percentage of fee income	-6	3	9
Partner capital and current accounts as percentage of fee income	17	29	46

When the pandemic first broke out and the world went into lockdown in March 2020, the immediate concern for most accountancy firms was cashflow. If clients stopped paying their bills and hoarded cash, then accountancy firms could have quickly run out of money. In reality, all firms understood how important it was for the whole economy to maintain cashflow, so the government quickly stepped in with emergency loans and the furlough scheme, which was an effective safety net. As a result, what could have been a crisis was quickly averted and most firms had very little difficulty in generating adequate cashflow.

The UK Government also allowed businesses to defer their March-June 2020 VAT liability to 2021, and **Figure 8** demonstrates that 77% of firms did make use of this opportunity.

Figure 9 shows that while firms could also have deferred July 2020 income tax payments for partners to January 2021, 71% of firms didn't take this opportunity as they felt bound to settle these personal liabilities of the partners.

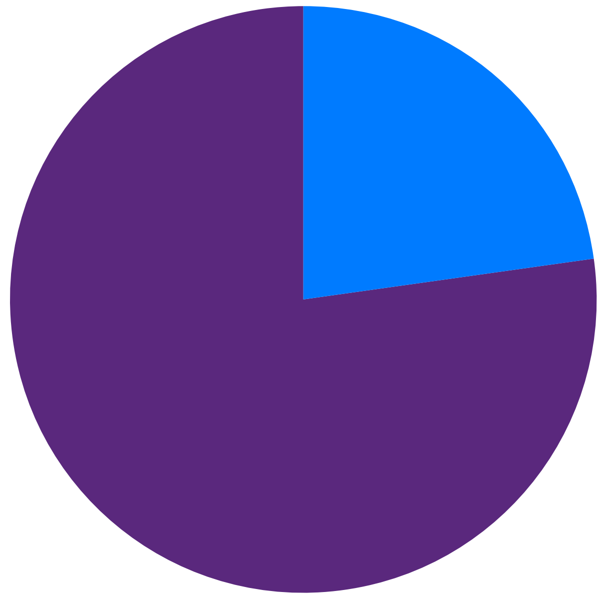

Figure 8

Did you defer your March-June 2020 VAT liability to 2021?

- Yes (77%)
- No (23%)

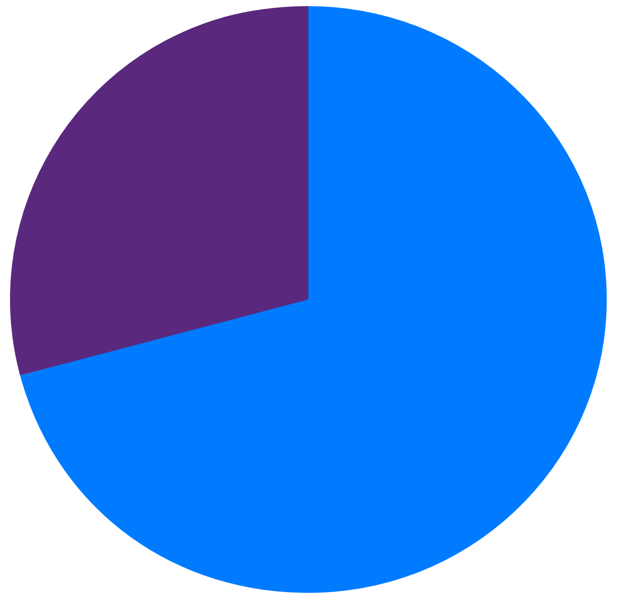

Figure 9

Did you defer the July 2020 income tax payments for partners to January 2021?

- Yes (29%)
- No (71%)

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The median year-end bank balance of firms in our survey was £427,000, so most firms have remained cash positive. Once you adjust this figure for any government-backed loans, the median figure drops to £340,000, showing that firms would have been able to survive without the government-backed loans. But these loans allowed firms to stop and think before acting, which probably helped save jobs that could have been lost.

We also calculated year-end bank balances, less all loans as a percentage of the fee income. The median figure for this was 3%, the upper quartile figure was 9% and the lower quartile figure was -6%. These show that although most firms were able to survive the pandemic, the majority would have struggled to survive if cash receipts suddenly stopped coming in for a few months.

Banks or the partners (or a combination of the two) can organise the financing of working capital. And because firms usually give their clients about four months' credit, if a business doesn't want to borrow from a bank it would need to have about 33% of fee income from its partner capital. We calculated the median partner capital as a percentage of fee income at 29%, with a lower quartile figure of 17% and an upper quartile figure of 46%. Keeping in mind that there could be other crises in future, firms should think again about how much capital they need and what facilities they may need to take up with banks to reduce the chances of ever running out of cash. Given the current growth being experienced in firms, it would probably make sense to build up further capital now by retaining some of the increased profits being earned.

Questions to consider now

1. How much capital will the business need in the future and how will we build that up over time?
2. Do we have adequate facilities set up so that if our cashflow took another major hit we could survive for several months?
3. Do we need to adjust our partnership agreement to take into consideration how quickly partners can withdraw capital when they leave?

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Comparison with previous surveys and with the legal sector

It's interesting to compare the financial performances of legal and accountancy firms. Both these professions offer professional services to the same clients, so you would imagine they would perform in similar ways.

The table below shows a survey on accountants for the years ending in 2021 and compares it with lawyers for years ending in 2020. Both surveys looked at a reasonable number of firms across England, Scotland and Wales.

	Accountancy	Legal
Fees per equity partner (£'000)	798	744
Fees per fee earner (£'000)	88	120
Profit per equity partner (£'000)	193	168
PEP as percentage of fee income	23%	24%
Total fee earners per equity partner	8.9	6.4
Fee earners as percentage of total headcount	83%	52%
WIP days	42	104
Debtor days	65	46
Total lock-up days	114	172
Year-end bank balance (£'000)	427	542
Partner capital and current accounts as percentage of fee income	29%	49%

There are many similarities between the two professions, but there are also some interesting differences. The fees per fee earner at £120,000 in the legal sector is 50% higher than the £80,000 achieved in the accountancy sector. Even so, accountancy bills slightly more per partner than the legal profession. That's because it operates with gearing of 8.9, compared with 6.4 in the legal sector. This suggests the work they do is less specialised than work that's done by lawyers, and some of it can be carried out by more junior staff at lower rates.

In the legal sector, 52% of staff are fee earners, and in accountancy the figure is 83%. So accountants manage with far lower levels of support than lawyers. It's possible lawyers have too many support staff, or accountants don't have enough, and so they have lower fees for each fee earner than in law. This might be because they have to do a lot of administrative work that could be done by other staff. Another reason for this lower productivity per fee earner in the accountancy sector could be that accountants often don't charge for some of the time they spend on client work, such as travel and other admin work. Lawyers working on one-off transactions may be better at charging for their time.

The 114 total lock-up days in the accountancy sector are significantly lower than the 172 for the legal profession. We did our survey of the legal profession a year earlier, at the start of the pandemic. Some law firms had a short-term drop in their cashflow, and there was more focus on making sure they could maintain their standard of service while remote working was being rapidly introduced. Accountancy firms have partner capital and current accounts at 29% of their annual fee income. For the legal profession, this figure is 49%, which may show how important it is to control lock-up, otherwise they'd need to have more partner or bank finance.

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2022 and beyond – is your firm future-proof?

2022 and beyond – is your firm future-proof?

It's very easy to take a sigh of relief as lockdown ends and the pandemic starts to appear in the rear-view mirror. But now we need to stop and think about the long and medium-term changes we need to make.

We asked firms to comment on how they responded to the pandemic. **Figure 10** shows 68% of them carried on as usual, 9% of them cut costs and 23% changed over to a new business model. The truth is many things didn't change at all. Some costs were cut in the short term and some new opportunities came up during the period surveyed. It's important for all of us to understand what changes we should keep in place, and what others we may need to make in the future.

Perhaps the biggest effect of the pandemic will be on where people will be working in future. **Figure 11** shows that before March 2020, some 91% of firms worked remotely for less than 25% of their time. The interesting thing is the other 9% were working remotely for more than 75% of the time. This shows a small number of firms had already accepted remote working even before Covid-19 arrived.

We asked firms to comment on how they responded to the pandemic. The truth is many things didn't change at all.

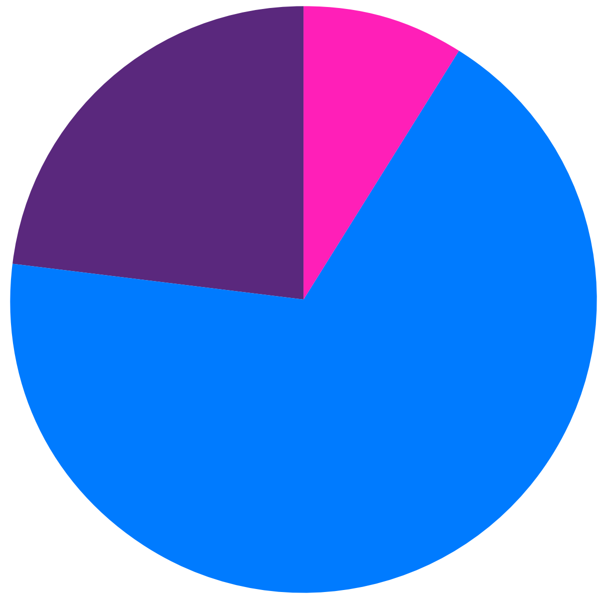

Figure 10

Which label best describes your firms response to the pandemic?

- Cost cutter (9%)
- Continue as usual 68%)
- New business model (23%)

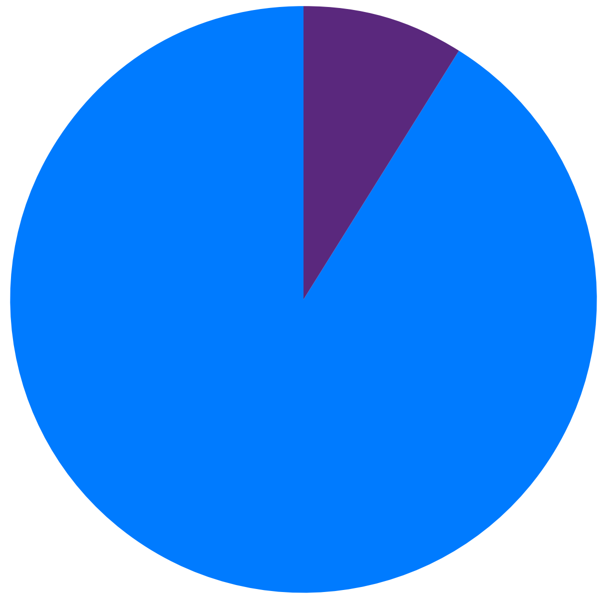

Figure 11

What percentage of time was spent working remotely before the pandemic?

- <25% (91%)
- 25-50% (0%)
- 50-75% (0%)
- >75% (9%)

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Figure 12 shows the percentage of time being worked remotely now. The figure of 91% of people working remotely for less than 25% of the time has fallen to 18%, and 82% of people working remotely for more than 25% of the time. None of the firms we spoke to believe they'll ever go back to the way they worked before the pandemic. In fact, we heard comments from some firms about how technology is continuing to develop and how it will become even easier to work remotely in the future. People also told us they feel the best meetings are always in person and that larger meetings still don't work as well online as they do in person.

Firms are still trying to work out how a hybrid arrangement could develop over time. For example, qualified staff may only need to be in the office on two or three days a week. And trainees may need to be in the office four or even five days a week to learn the job as quickly as they would be required to. It's interesting that Thursday is now seen as the new Friday in many firms, because few people are normally in the office on Friday.

From talking to firms, we see there are now many examples of individuals and teams working far from the office; sometimes even in other countries, for people who only need to be physically in the office occasionally. Firms based in major cities are now targeting good people who are based in more rural locations. This could be a threat to rural firms that want to retain their talented people.

Figure 13 shows the amount of time that will be worked remotely in two years' time. Interestingly, the current figure of 18% of people working remotely for under 25% of the time will go up to 27%. But the other 73% will be working remotely for more than 25% of the time. If that's true, it means the pandemic changed working practices in just a few years, which would otherwise have taken much longer.

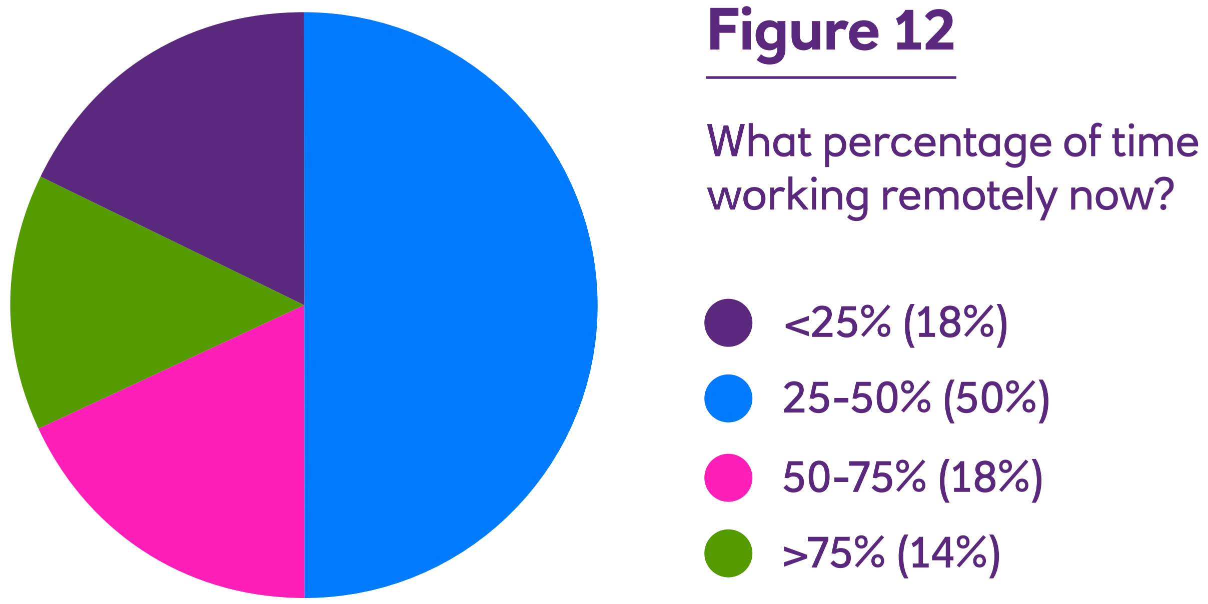

Figure 12

What percentage of time is spent working remotely now?

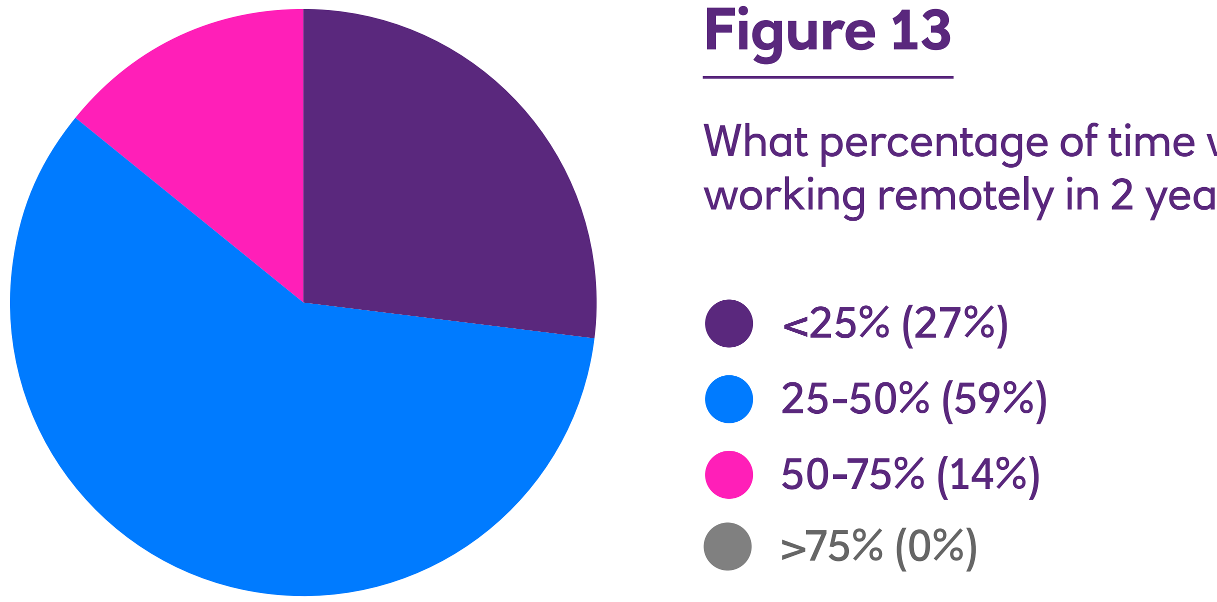

Figure 13

What percentage of time will be spent working remotely in 2 years' time?

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Most firms aren't planning to reduce their office footprint further. But they do recognise that, as their business grows, they could probably take on another 20% to 30% more staff without having to acquire more office space, due to the nature of hybrid working. So profit margins could rise for these firms. And as there's now less of a need to travel to clients' premises, travel costs will be reduced. This is another saving for clients. Firms in smaller towns said their rents were relatively cheap, and people liked having their own office. Even though with hybrid working it's possible to operate with less space, it probably won't happen.

It's easy to focus on the short-term issues and forget about the medium and longer-term. But it's reassuring to see in **Figure 14** that most firms are now planning ahead for a year or more. We were also interested to hear from business leaders who set up new committees to focus on sustainability, inclusivity and diversity. The work being done by these committees is now feeding into longer-term business planning.

Many firms told us they were able to work around the impact of the pandemic extremely well.

Figure 15 shows how positive firms are about the future. There's a great deal of optimism, with 91% of firms either optimistic or very optimistic. Many firms told us they were able to work around the impact of the pandemic extremely well. They were even able to show an improved financial performance. So they're quite confident they'd be able to cope very well if a similar crisis occurred in the future.

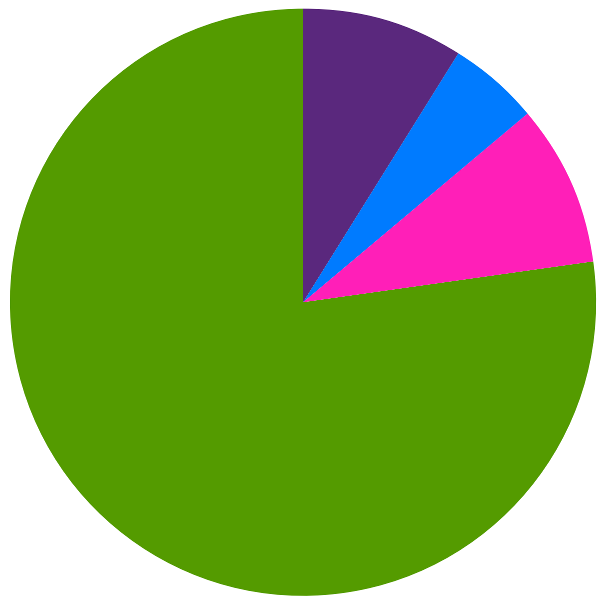

Figure 14

How far ahead are you now business planning?

- 0-3 months (9%)
- 3-6 months (5%)
- 6-12 months (9%)
- >12 months (77%)

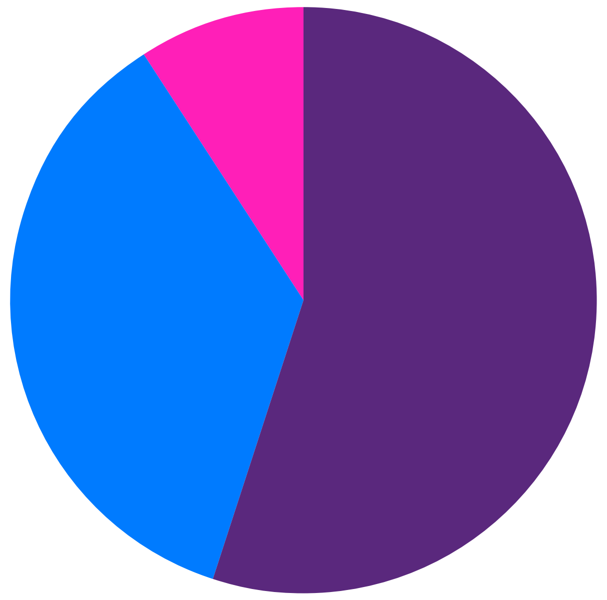

Figure 15

How optimistic are you now for the future of the firm?

- Very optimistic (55%)
- Optimistic (36%)
- Neither optimistic or pessimistic (9%)
- Pessimistic (0%)
- Very pessimistic (0%)

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We asked firms to comment on their main priority now. We can see the results in **Figure 16**, where for 55% of firms the number one priority is developing people skills. For another 23%, the main priority is succession. They told us what they need to do to allow the right people to follow on from the existing partners after a certain period. This includes making sure their capital requirements aren't too high. This issue led to one of the firms we spoke to making use of external investment. Some firms said they prioritised changing their profit-sharing arrangements and having a clear plan to show how new partners will be rewarded over time.

We also asked what the biggest risk was to their business over the next two to three years. It wasn't a surprise when **Figure 17** (biggest concern) overlapped with Figure 16 (main priorities). This shows 71% of firms thought the lack of available people with the right skills was their biggest concern during that time frame. Some firms are already turning work away because there simply aren't enough people to do the work properly.

The inability to attract, develop and retain new people in the future could lead to significant problems. Firms need to invest more in training and knowledge to allow the work to be done efficiently and at the right level. During the pandemic, there was less training taking place. So firms should be thinking now about the kind of training they're going to need to support staff who are being asked to take on more and more responsibilities.

It's interesting that one managing partner said it may be that the rapidly increasing turnover of staff could be a good thing, because in the past there were glass ceilings, where nobody was leaving. For this reason, having new people joining with fresh ideas is a good thing.

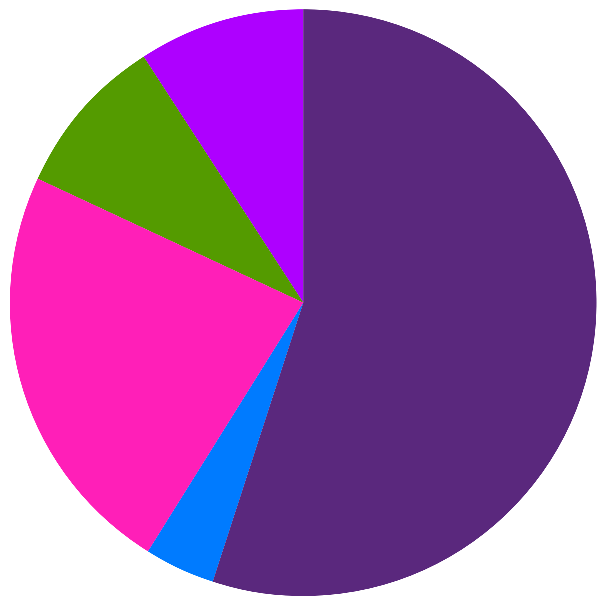

Figure 16

What is the main priority for your firm?

- Developing people skills (55%)
- Investing in technology (4%)
- Succession (23%)
- Marketing and BD activity (9%)
- Acquisition growth (9%)

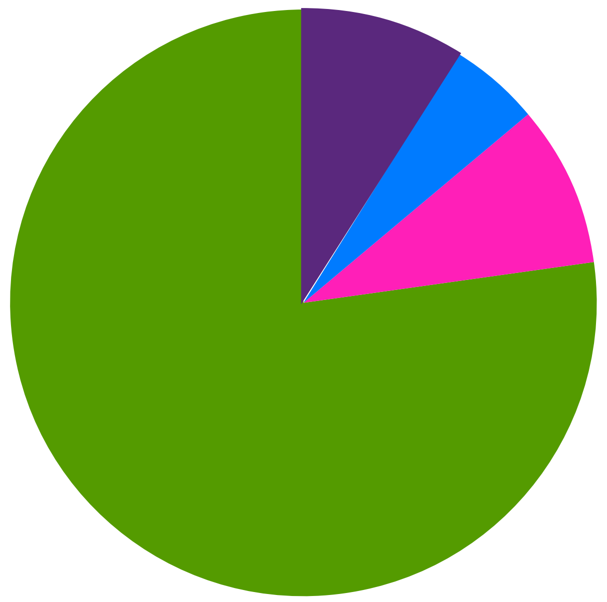

Figure 17

What do you consider being the biggest risk/threat to your firm within the next two to three years?

- Poor economic outlook (10%)
- New competition (5%)
- Succession (14%)
- Lack of skills or talent (71%)
- Productivity (0%)
- Macro event (0%)

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It's clear firms will need to carry on investing in new technology. **Figure 18** shows how none of the firms in our survey were planning to cut back on technology investments for the next year. Cybersecurity is still a threat to all firms and **Figure 19** shows 23% of firms had experienced a cybersecurity threat or fraud in the past 12 months. Several firms said they went through their insurance cover to make sure they had enough protection in case of a major breakdown in cybersecurity, or if they became victim to major fraud. Many firms are checking that all devices linked to their systems have the best possible protection. Several firms told us how they are improving security for all mobile devices with enhanced MDM software.

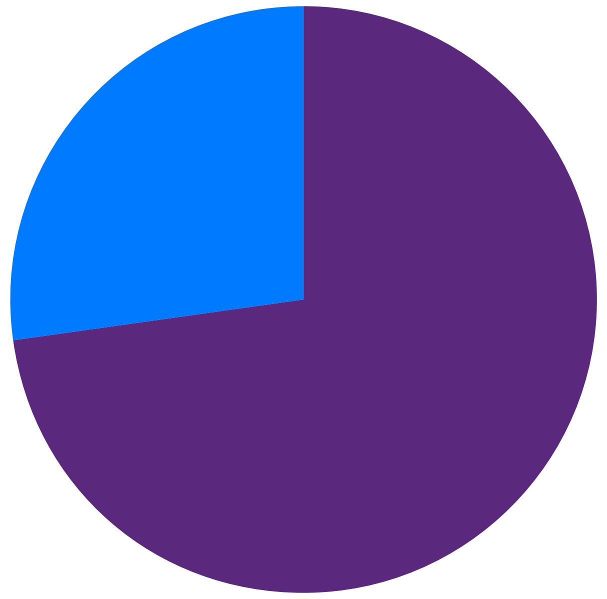

Figure 18

What is your planned investment in technology over the next 12 months?

- Increase (73%)
- Remain the same (27%)
- Decrease (0%)

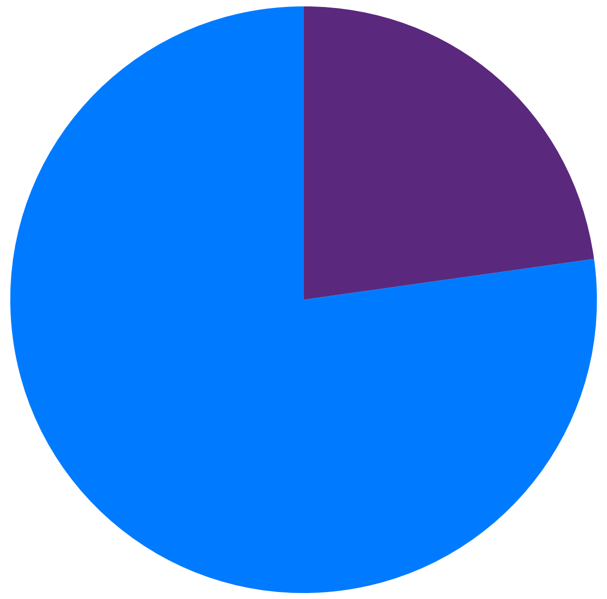

Figure 19

Have you experienced a cyber-attack or fraud attempt within the last 12 months?

- Yes (23%)
- No (77%)

Figure 20 shows the importance of climate change and sustainability to managers' strategic agendas. None of the firms we spoke to placed the issue in their top quartile and 27% of them didn't have it on their list at all. However, all businesses should think about how they can become carbon neutral and produce less waste. So it's disappointing to see it isn't a bigger priority. The firms that were properly focused on this told us they'd banned the use of single-use plastics in the office, encouraged less use of paper and restricted the printing of documents unless it was necessary. Up to now, firms haven't considered climate change and sustainability as an area where fees can be earned, but this could change over time. As there's a shortage of skilled people, firms should make sure they're investing in climate change and sustainability, because it's likely potential new staff will be more interested in working for firms that are following a greener approach to business.

Larger clients will want to make sure those firms that are working in their supply chains are also focused on this. Most accountancy firms will probably have to do more in this area.

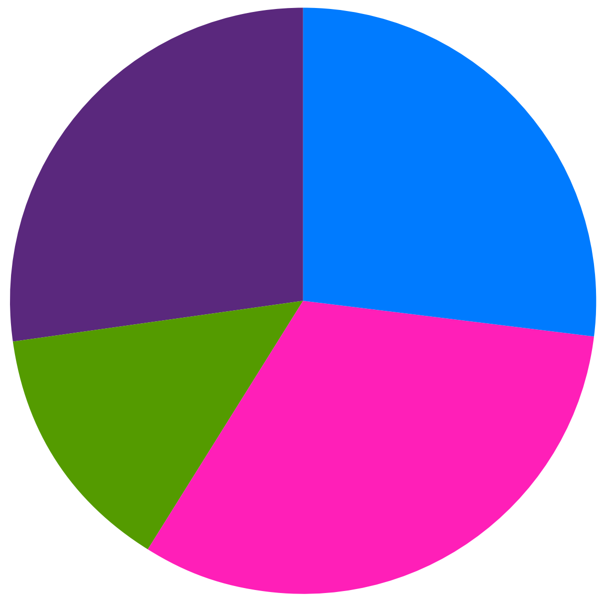

Figure 20

In which quartile is climate change and sustainability on management's strategic agenda at the moment?

- Not on the list (27%)
- Second quartile (27%)
- Third quartile (32%)
- Fourth quartile (14%)
- Top quartile (0%)

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When we talked to business leaders about what keeps them awake at night, there was no single issue that dominated. But there was a lot of optimism for the future, as we can see from **Figure 15**. One managing partner told us that having coped with the banking crisis and a global pandemic, he's confident accountancy firms will be able to cope with any crises that may come.

The main issues business leaders mentioned in our interviews included the following.

- The difficulty in meeting client deadlines and quality expectations with an increasing shortage of skilled workers.
- The technical and interpersonal skills of newly qualified staff who have had very different and more remote training than previous generations.
- The need to train new staff more quickly.
- Underperforming partners.
- The impact of rising inflation and interest rates on clients and their ability to survive.

It's clear there are still issues firms need to address. One managing partner said you have a good day when you deal with problems well. This probably applies to all firms. We should plan ahead, identify problems early and be brave and thoughtful in the actions we take. We can't expect to get everything right, but if we can learn from our mistakes, we'll create a stronger business for the future.

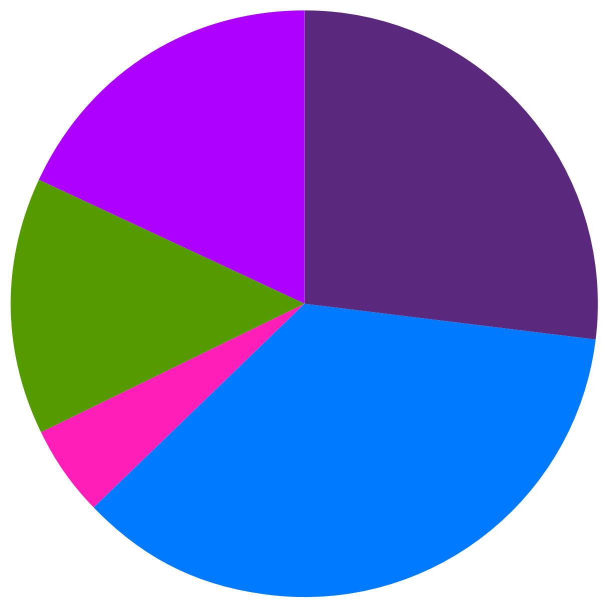

Figure 21

In which quartile is diversity and inclusion on management's strategic agenda at the moment?

- Top quartile (27%)
- Second quartile (36%)
- Third quartile (5%)
- Fourth quartile (14%)
- Not on the list (18%)

Questions to consider now

1. Are there new opportunities to attract talented people to the business even if they don't live in our area?
2. Do we need to think again about how we supervise our junior people so they can develop quickly?
3. Should we be doing more around climate change and sustainability, as our staff will want to work for firms that are committed to making a difference in these areas and increasingly clients will be asking us questions about our commitment to a greener future?

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The top five musts for business success and growth

1. Attracting and retaining talent

The significant spike in demand for accountants during the pandemic has left firms struggling to get through all the work that's available. And as there's very little chance of that demand shrinking, firms need to be clear about how they'll compete for the best talent and retain it in such a competitive labour market.

They need to think deeper about their culture and values, and invest more in wellbeing, training and development. A stable, motivated and productive workforce is essential for a strong financial performance.

2. The future of work and flexible working

Accountancy firms were quite well prepared for home working when the pandemic first broke out, mainly because a lot of work was undertaken on client premises for years. So doing business remotely worked well during the pandemic.

Now firms will need to think more about how and where their staff want to work, and how any changes will fit in with their need to deliver exceptional service to clients. They'll also need to balance this with making sure staff can enjoy shared experiences, so they feel they're part of the business.

Being flexible will help firms attract and retain talented people.

3. Climate and sustainability

Accountancy firms have a big role to play in helping to create a more sustainable future, not just for themselves but also for the ecosystems and markets they operate in.

Remote working has dramatically cut back on the amount of travel time for most accountants, which has reduced the carbon footprint of most firms. But there's still a lot more firms can do. That includes reducing the amount of printing they need to do, cutting back on the use of single-use plastics and finding ways to make their offices more energy-efficient.

Becoming a leader in sustainability can help firms attract talent, and it can also be useful to support clients.

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4.
Making sure that expenditure delivers value

It's important to have a clear, long-term strategy, so firms can invest today in things that will deliver their business objectives tomorrow. Performance is much more likely to improve with investments, which make fee earners more productive.

This includes investments in things like wellbeing, training, AI and improved systems and processes. But they could also invest in more support staff, especially if they're now asking their staff to do a lot more admin. Even if partners say they have enough support, junior staff may not always agree.

5.
Cybersecurity

Accountancy firms know how important it is to make long-term investments in technology, but it's also important for them to focus on cybersecurity.

Around a quarter of the firms we surveyed have been through a cyber-attack or an attempted fraud in the last year. A major hack could have a significant impact on a company's ability to give their clients a high standard of service, while client data could be compromised. To cut back on the risk of these sorts of issues, it's vital to invest more in staff training and technology.

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About the author

Robert Mowbray is a chartered accountant who has worked in, trained and provided consulting services to professional firms for more than 30 years. You can find out more about Robert at **taylormowbray.com/about-us**.

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