



The Law Society

Legal breakfast summary

Professional services: staying competitive in the global marketplace

18 November 2009

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The Law Society legal breakfast series was established in May 2008 with the aim of exploring opportunities for legal business operating in the regulatory environment created by the Legal Services Act. Now in its second year, the series is focused on identifying what a successful legal business and a thriving legal sector will look like within the framework created by the Act.

The eighth legal breakfast (the second of the 2009/10 series) took place on 18 November 2009 to address the question of how the City can remain competitive as a global centre for professional services.

The speakers were (in order of appearance):

- Sir Michael Snyder (senior partner, Kingston Smith LLP)
- David Cheyne (senior partner, Linklaters LLP)

Each speaker gave a ten minute address, after which questions were taken from the audience and a debate ensued.

Position of professional services

Both speakers emphasised the pre-eminence of the UK professional services. They highlighted its position as the largest sector in the UK economy, generating 8 per cent of GDP and employing 11.5 per cent of UK workers. Sir Michael felt that this success was founded on the international outlook of the UK professional services, which provides a platform for promoting the UK overseas. He felt that such an outlook does not exist in the US, where the political focus is more insular. There was general scepticism that either the Government or the opposition had an appreciation of the size of the professional services sector or the importance of law firms in attracting a large amount of foreign exchange.

Conditions for competition

In spite of the apparent strength of the professional services, the speakers asserted that steps need to be taken to secure that such a state continues. Both agreed that in order to maintain its reputation as an international centre, the UK has to be viewed by those overseas as a desirable place to live and to work. This necessitates good housing, schools, healthcare and transport.

Regulation

The central issue to competitiveness is the need for effective regulation without discouraging international business from locating their operations in the UK. Sir Michael suggested that this means having proper and enhanced consultations with relevant stakeholders and possibly the creation of new guidelines for post-implementation reviews of regulation. Any proposed regulation must take account of burden and cost and be based on proper evidence for its need. Sir Michael also advocated increased use of sunset provisions.

David Cheyne applauded the independent report into regulation by Hunt and Smedley for having changed the perception of the SRA in terms of the need to regulate corporate firms differently to High Street firms. He felt that this change would be helpful to firms with international operations.

David Cheyne was strongly critical of the tendency for government to gold-plate EU regulations which he felt made the UK slightly uncompetitive.

Tax

Both speakers called for a review of tax or compliance issues faced by partnerships. Sir Michael highlighted the differential between tax rates on corporate retained profits – taxed at 28 per cent, the standard level of Corporation Tax – and partnership retained profits – taxed as high as 50 per cent, the higher rate of personal tax. He argued that correcting this difference would act as an incentive for partnerships to invest more in their future development. David Cheyne thought partnerships to be highly unattractive from a tax position and that it was increasingly likely that talent would move elsewhere as a consequence.

Sir Michael felt that the Government needed to revisit tax regulation on so-called 'non-doms', citing anecdotal evidence that the rules had deterred businesses from setting up in the UK. He thought that the pivotal factor was less about how much tax a person paid, but whether they 'feel loved' or not.

Skills

Securing the appropriate skills is an integral feature of any plan to maintain competitiveness. Sir Michael Snyder stressed the need for increased investment in relevant education and for the professions to work more closely with academic institutions, promoting career opportunities to a wider range of students and trainees.

Both speakers felt that there needs to be a concerted attempt to retain more skilled migrants, a prospect threatened by negative perceptions of the new points-based system of immigration. He explained that the system had led to delays in visa approvals, problems recruiting foreign staff for positions in the UK and difficulties with graduate recruitment, internships and training schemes. It had also forced out many international workers already working in the UK. David Cheyne felt that there should be no restrictions on lawyers coming to work in the UK, and that the more people able to see London as the place to conduct litigation and draw up contracts under English law, the better for the economy.

Shaping public policy

Both speakers called on the professional services to use the influence that they have to comment and raise the alarm when government tries to introduce regulations for the right reasons, but with the wrong effect. Each felt that this influence was far greater than was generally supposed. Lawyers especially should apply pressure to secure a more realistic form of regulation and legal drafting.

In particular, both speakers were keen to highlight the importance of professional services bodies working together on common themes to influence Government. They felt that this was considerably more effective than disparate attempts to inform Government thinking and that, at present, the sector is relatively uncoordinated. Sir Michael said that discussions were taking place to form a permanent liaison group for the professional services to open dialogue with ministers and senior civil servants.