

Business recovery & insolvency

Third party funding and the legal sector

Case study - A solicitors' practice in distress

Affinity Solicitors Limited, more widely known as Adams Moore Law, operated from six locations offering family law services primarily through **legal aid funded work**. The company encountered cash flow difficulties and entered administration in **November 2013**.



The principle assets comprised work-in-progress generated on **Legal Aid Agency (LAA)** assignments. The opening balance of funds at point of liquidation owed to the LAA was c. **£2.5 million**.



In December 2014, Dean Nelson and Nick Lee of **Smith Cooper** were appointed joint liquidators of the company and, together with independent consultant **Jasvir Chopra**, formulated a strategy to audit and manage the historic reconciliation and takeover of the company's client account.



Since December 2014 approximately **900 client files** have been reconciled, with c. **£3.8 million** being recovered to date, enabling payment in full of the funds owed to the LAA, with a surplus balance of c. **£1.3 million** being achieved so far.



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Background

The company was subject to a private debenture and, when payments due under the loan to the debenture holder failed to materialise, it was subject to a formal letter of demand.

A Company Voluntary Arrangement was initially considered but not proceeded with and, so as to protect the recoverability of the work in progress, the private debenture holder appointed administrators. All of the company's staff had been made redundant prior to administration, with all live files being transferred to alternative solicitors.

Whilst those actions afforded some protection to the debenture holder, he later sought the appointment of Dean Nelson and Nick Lee of Smith Cooper to be appointed as joint liquidators in order to deliver a suitable strategy to maximise the realisations available to the company.

The principle assets comprised work in progress generated on LAA assignments. The opening balance of funds at the point of liquidation owed to the LAA was in the region of £2.5 million, with the former administrator previously estimating a net recovery of between £350,000 and £400,000, after redemption of monies due to the LAA but before costs.

It was evident that had the company been able to expedite the conversion of work in progress into cash, as well as maximising the recovery on files, prior to administration that the reported cash position would have been materially enhanced. Following an audit of the company's working practices, it was noted that there was a heavy reliance on case managements systems, as well as a shortfall in the compliance with the LAA's regulations. This had resulted in a lack of progress on a large proportion of the work in progress and matters becoming dormant.



How we helped

The initial concern of the joint liquidators was to put in place the appropriate platform to maximise the recoveries for all stakeholders, within the funding made available by the private debenture holder.

At the point of liquidation the company had ceased trading some 13 months prior and the joint liquidators had to repatriate client files stored within over 450 archive boxes.

The joint liquidators appointed independent consultant Jasvir Chopra, to audit and manage the historic reconciliation, billing accrued work in progress on the LAA files, and take control of the company's client account for distribution purposes.

An audit of the client files was undertaken by Jasvir, and it was apparent that the estimated recovery was not achievable by simply processing or handing unbilled matters to an independent cost company, tasking them to cost the WIP presented before them.



The benefit of the how the strategy was structured gave both the joint liquidators and Jasvir sufficient flexibility to adapt to these issues and it became necessary to dedicate substantial time in reconciling in excess 900 client files, alongside the limited management information available, to resolve any billing issues in accordance with the LAA regulations whilst simultaneously liaising with the LAA to progress the realisation of the work in progress, before instructing an independent cost company to prepare the end bills.

Whilst this strategy elongated the time of the project it limited the costs incurred thus maximising the return to the stakeholders.

Given the strategy and approach adopted the joint liquidators and Jasvir we were able to develop close relationships with the LAA and the debenture holder, who were able to see a clear benefit to the work being undertaken. In turn we saw a more efficient progressing of the files and bills through to completion, again increasing the return to the stakeholders.

To date, in excess of £3.8 million has been recovered, paying in full the funds owed to the LAA with a surplus balance in excess of £1.3 million so far available for the benefit of creditors in the estate, before deducting the costs of the liquidation. The recoveries remain ongoing and it remains a possibility that creditors will be paid in full.

We are unaware of any solicitor's practice, primarily reliant upon legal aid funded work, where such a turnaround has been occurred in what appears to be a ground-breaking assignment.

The role of the Independent Consultant (IC)

As you will know, dealing with a law firm can be an extremely complex assignment due to the competing interests of the various stakeholders involved, especially where the main asset comprises work in progress.

Where possible an administrator or liquidator will seek to sell the work in progress to a law firm (upon being appointed) or, where funds allow, and subject to the agreement of the stakeholders, instruct an independent cost company to convert the unbilled work in progress into cash. Unsurprisingly, this does not always guarantee a full recovery as there will be some suffering of deprivation of records resulting in an unavoidable reduction in the levels of recovery. The ultimate benefit of our joined-up approach and strategy enabled us to manage and resolve the recovery in detail with the joint liquidators and the independent consultant working together with full access to the company's records.

As part of our strategy it was also necessary to maintain credibility with the Solicitors Regulation Authority ("SRA") when it came to dealing with the company's client account. When a law firm enters an insolvency process ordinarily the responsibility for the client account remains with the company's management. Upon the company entering administration there was a real risk of an intervention by the SRA, which would have substantially diminished the likely return to creditors.

As part of the strategy implemented by the insolvency practitioners the independent consultant, having obtained authorisation from the SRA, absorbed responsibility for the client account, ensuring that sufficient credibility was retained with the SRA, which in turn facilitated delivery of the intended strategy, enabling a substantially greater return to creditors than what would have otherwise been achieved.

“The ultimate benefit of our joined up approach and strategy enabled us to manage the recovery in detail with the joint liquidators and the IC working together with full access to the company's records.

Our recommendations

At Smith Cooper we try to avoid a formal insolvency wherever possible, believing that prevention is better than cure.

We conduct rigorous and comprehensive reviews of organisations, recognising distress signs early in the decline curve, assessing ways in which to prevent any further damage to the business, initiating methods to try and restore liquidity, add value and ultimately rescue the business in whole or part, should it reach that stage.

We pride ourselves on the hands-on support that we provide, and this case strategy embodies the approach adopted at Smith Cooper. Should we have been involved earlier in the decline curve it is not

inconceivable to suggest that an Insolvency process would have been avoided, which could have maintained jobs, avoided the inconvenience to clients and protected the interests of all stakeholders.

In our experience, when a business enters an insolvency process it is not unusual, with the benefit of hindsight, to see that the advice of an insolvency practitioner, with a focus on turnaround, should have been sought at an earlier juncture and, once a business has passed the point of no return, the options become severely limited.

If you consider your business to be in a potential distress situation, whether it be creditor pressure, a lack of working capital, or something specific to your circumstances, then we would encourage you to contact us for an initial meeting at no cost to you. Our intention is to turn your problems into solutions, and to ensure that an insolvency process is avoided wherever possible.



Smith Coopers' team is made up of consummate professionals, with a keen eye for detail and pragmatic problem solving skills.



**Dedicated in
our approach**



**Dilligent in
our efforts**



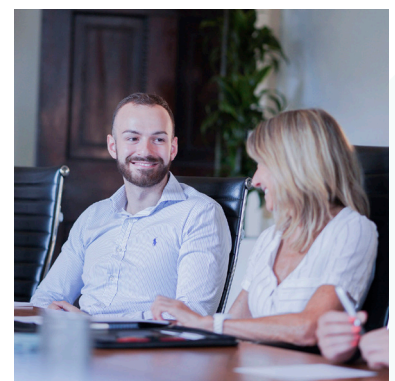
**Experts in
our field**

Services we offer law firms

- Hands on support to maximise the potential for a successful recovery
- Audit of work in progress
- Takeover of unbilled work in progress for recovery purposes
- Manage client account balances
- COFA support
- Business and client account audit
- Mergers, acquisitions and sales

Services we offer in distressed situations

- Present a regulatory framework agreement for SRA and / or LAA approval to ensure clients' interests are protected
- Ensure safe transfer of client files and client funds in accordance with informed client consent
- Provide regular reports to the SRA on the progress of the insolvency process; Takeover of the client account for distribution purposes
- Act as administrators or liquidators to deliver the proposed strategy



The team



Jasvir Chopra | Galleria Associates

An experienced compliance and management Consultant, Jasvir has a deep understanding of SRA and LAA requirements. Her key skills are developing and introducing rigorous compliance and risk management frameworks to deliver operational efficiencies, cost recoveries (legal and non-legal aid) and support the growth of legal businesses as well as auditing and introducing regulatory compliance minimising the risk of regulatory breaches.

Jasvir qualified as a Solicitor in 2003 and has experience working in private practice, and therefore understands the pressures and functionality of law firms. Coming out of private practice she now spends her time training and assisting staff and management on their obligations under these regulations ensuring compliance with the relevant legislation, codes of conduct and standards of good practice. In insolvent situations she supports IP's in recovery of work in progress.

Without Jasvir's involvement in delivering our combined strategy the ultimate outcome for stakeholders of the company would not have been achievable. Jasvir's considered and diligent approach in dealing with an assignment of this size should not be understated in this ground-breaking assignment.



Michael Roome | Smith Cooper

Michael is an Insolvency Practitioner and Partner at Smith Cooper with over twenty years' experience in assisting businesses and individuals in financial difficulties.

Since joining Smith Cooper in 2010, Michael and the team have dealt with a number of high profile distressed solicitor practices, affording them a real insight as to the issues faced in attempting to achieve the best possible outcome for all of the stakeholders involved.

Michael thrives in dealing with highly complex and technical assignments, whilst maintaining an acute commercial awareness, with a view to achieving the ultimate goals of all interested parties concerned.

Smith Cooper were recognised as Regional Insolvency Team of the Year at the 2018 TRI Awards with the work undertaken on this highly convoluted assignment forming a substantial part in Smith Cooper being recognised by the Turnaround, Restructuring & Insolvency industry for their delivery of value and commitment.

What they said

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Since entering the SME sector, having specialised in restructuring from my Investment Banking days, I saw the opportunity to invest in a law firm. As a potential investor to the sector, I needed to ensure I worked with suitably qualified individuals, who could look after my interests. I needed to understand the risk and reward of any investment, and how I would achieve a satisfactory return on my investment.

I was introduced to Michael at Smith Cooper and Jasvir, to devise a strategy and a plan for the project, which would determine the likely recovery on investment. I also sought the views of two other insolvency practitioners, however, I found Michael to be very down to earth, grasped the issue in hand and formulated a quick deep dive into the major challenges faced on the project. In contrast, one of the other insolvency practitioners I approached indicated that any surplus was unlikely and that there would be insufficient realisations to discharge the LAA's debt. Jasvir was also impressive with her depth of knowledge and it was clear in my mind, that she had the expertise to manage the complexities of the project, in partnership with Michael. Suffice to say, the project has been both challenging and complex, however, the success of the project has been entirely down to the professionalism, acumen, drive and determination of both Michael and Jasvir to see the project through to its positive outcome, especially when you consider the number of curve balls / obstacles that have arisen during the life of the project.

The main factor for its ultimate success was the joined up and hands on approach by the whole team.

Bhupendra Gandhi
Private Debenture Holder

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We were instructed by the debenture holder who was frustrated with the progress made by the company's former administrators in resolving the position with the LAA. We recommended and procured the appointment of Smith Cooper as liquidators who, in conjunction with Jasvir Chopra, worked tirelessly in order to achieve a fantastic outcome for our client, the LAA and the creditors generally.

I would not hesitate to recommend them for any similar engagements in the future, as the outcome in this case (and differing approach of the former administrators and Smith Cooper as liquidators) demonstrates clearly the importance and benefit of engaging an experienced, specialist team.

Carl Mifflin
Partner at Howes Percival Solicitors

Get in touch