



# Contribution of the UK legal services sector to the UK economy

**A report for the Law Society**

January 2020

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# Contents

**01**

Executive summary

Page no 05

**02**

About the study

Page no 11

**03**

The UK legal services sector

Page no 15

**04**

Economic contribution of the UK legal services sector

Page no 21

**05**

Wider social-economic value

Page no 43

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## Appendix

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**01**

Endnote

Page no 51

**02**

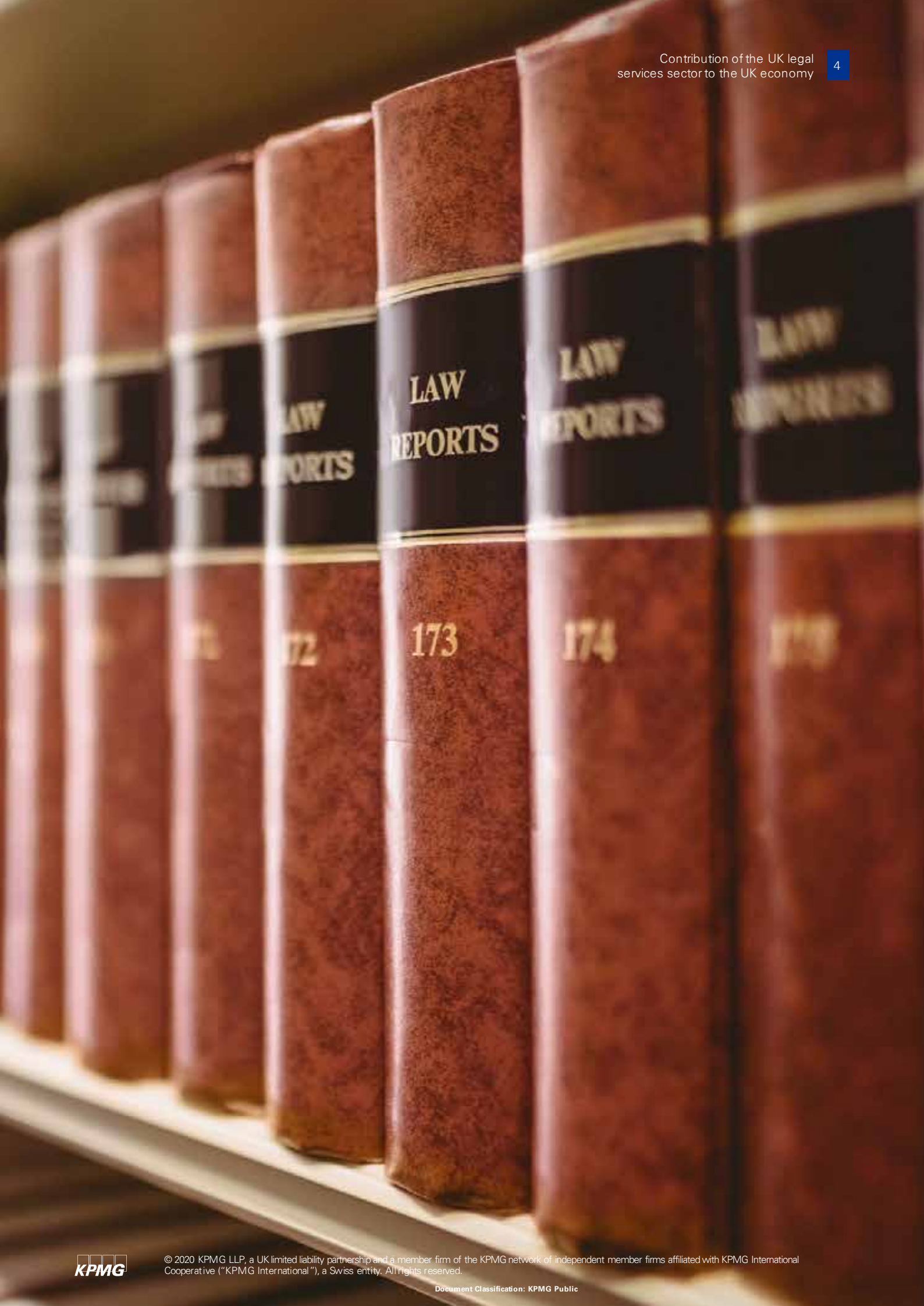
Methodology for the static economic impact analysis

Page no 59

**03**

LFS employment data

Page no 61



## 01

Executive  
summaryAbout the  
study

The Law Society of England and Wales ('The Law Society') was established in 1825 and is the independent professional body for solicitors in England and Wales, representing over 190,000 solicitors<sup>(1)</sup>.

Given its role in the legal services sector, the Law Society has been keen to understand the economic contribution of legal services in the UK. To that end, in 2016 it commissioned and published analysis to quantitatively assess the degree of economic contribution that the legal sector and its actors (e.g. solicitors) generated<sup>(2)</sup>.

This report provides an update to the 2016 analysis, following KPMG being commissioned in August 2019 to conduct an independent assessment of the gross<sup>(3)</sup> economic and social contribution of the legal sector in the

UK for the six year period from 2013 to 2018 based on the latest available data. As well as updating the 2016 analysis, this report also provides new insights and analysis covering additional areas of economic and social impact.

Specifically, our study<sup>(4)</sup>:

- estimates the direct economic contribution of the UK legal services sector to the UK economy in terms of Gross Value Added (GVA)<sup>(6)</sup>, employment, productivity, inter-sector trade and international trade, based on static economic impact analysis<sup>(7)</sup> using Office for National Statistics (ONS) data;
- estimates the wider economic contribution<sup>(5)</sup> of the UK legal services sector, in terms of indirect and induced GVA and employment<sup>(8)</sup>, based on static economic impact analysis using ONS input-output analytical tables;

- Notes:
- (1) Law Society 2019, Lawtech Adoption Research, See: <https://www.lawsociety.org.uk/support-services/research-trends/documents/law-society-lawtech-adoption-research-2019/>
  - (2) Law Society, 2016. Economic value of the legal services sector. See: <https://www.lawsociety.org.uk/support-services/research-trends/a-25-billion-legal-sector-supports-a-healthy-economy/>
  - (3) Gross effects reflect the total effect of an intervention or activity. Net impacts take into account only those impacts that are additional, i.e. impacts that are brought about, over and above what would happen anyway. These excludes any impacts that would occur in the absence of the activity or intervention under consideration. See: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/191511/Additionality\\_Guide\\_0.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/191511/Additionality_Guide_0.pdf)
  - (4) The scope of impacts analysed in this study were agreed with the Law Society at the outset of the project based on the impacts generally included within such studies and with a focus on the main channels through which the Legal Sector contributes to the UK.

- (5) Direct economic impacts are the first round effect where the demand creates economic activity.
- (6) GVA measures the contribution to the economy of an individual producer, industry or sector, net of intermediate consumption (for example goods and services that are used in the production process). It is a measure of the economic value of the activity.
- (7) See section 4 for an explanation of static impact analysis.
- (8) Indirect impacts are the effects generated through the activity and output supported in the UK based supply chain as a result of procurement of inputs of goods and services (both for construction and ongoing operations). Induced impacts are multiplier effects that arise in the UK economy as a result of direct employees and employees in the UK supply chain spending a proportion of their wages in the UK. This spending generates additional economic activity for those businesses from which these employees buy goods and services and in these businesses' own wider supply chains.



- uses KPMG’s Spatially Applied Generalised Equilibrium (SAGE) model to undertake dynamic impact modelling<sup>(9)</sup> of the economic value of the UK legal services sector to the UK economy, in terms of GVA and employment, as well as through wider economic indicators such as wages, productivity, private investment, trade and tax receipts;
- assesses qualitatively and quantitatively the contribution made by the legal services sector through provision of pro-bono legal services; and
- assesses the wider impact of the legal services sector to economic growth through its role in implementing the rule of law, and through this, enabling a well-functioning economy.

Our analysis draws on a range of information sources, including data and information provided by the Law Society and obtained from external publically available sources, primarily from the ONS.

### Key findings from our analysis

#### Static economic impact analysis

##### Gross value added

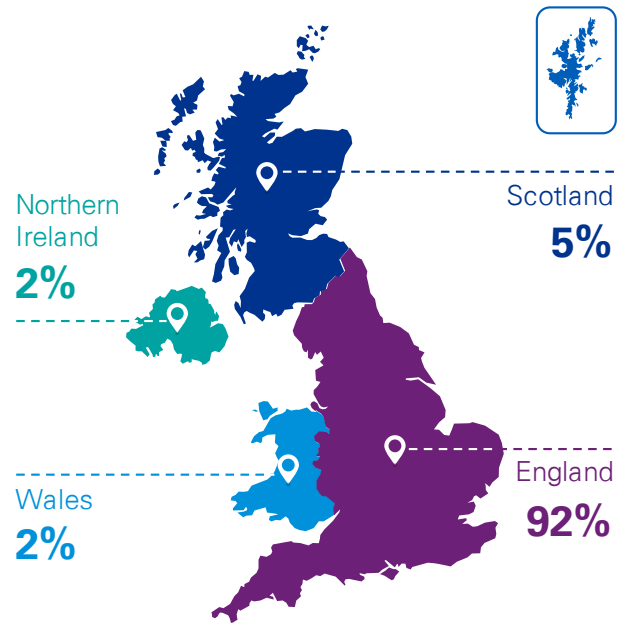
Our analysis estimates that in 2018, the legal services sector<sup>(10)</sup> contributed £59.93bn of GVA to the UK economy, comprised of:

- £39.79bn of direct GVA generated through the legal services sector’s activities in the UK;
- £11.87bn of indirect GVA generated through the legal services sector’s UK supply chain; and
- £8.27bn of induced GVA generated through the legal services sector’s direct and indirect employees’ spending of wages in the UK economy.

Our analysis indicates that the legal services sector generated economic activity, in terms of GVA, in each of the four countries of the UK, with England making up the large majority of the GVA contribution.

Notes: (9) See section 4 for an explanation of dynamic impact modelling.  
 (10) Comprised of the ‘Legal activities’ sector as classified by the ONS (SIC 69.1) and legal professionals in sectors other than the ‘Legal activities’ sector classified by the ONS (SOC 2412, 2413, 2419, 3520, 4212). See section 4.1 for more details.  
 (11) The split of legal services GVA contribution across the UK countries is approximated based on SIC code 69 (Legal and accounting services) due to lack of country level data for GVA for SIC code 69.1 (Legal activities).

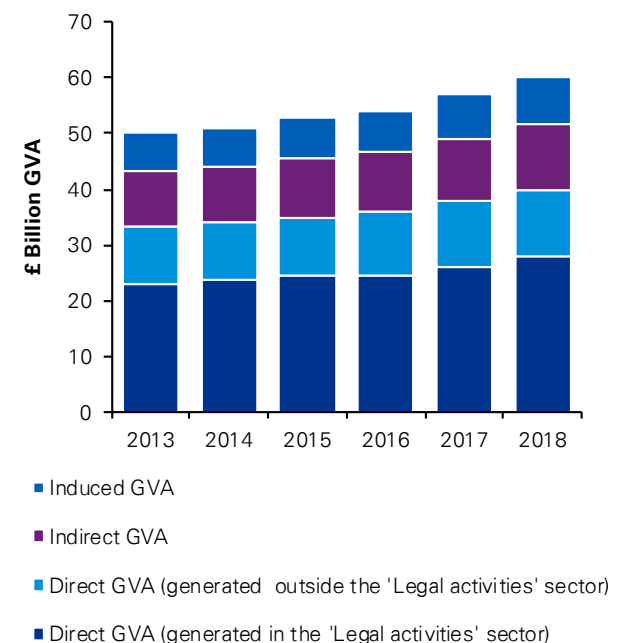
**Figure 1: Estimated share of UK legal services sector direct GVA by country, 2017<sup>(11)</sup>**



Source: KPMG analysis of ONS ABS data (2017). Percentages do not sum to 100% due to rounding.

The analysis shows that the GVA contribution of the sector has grown over the period 2013-2018, and that this growth has been stronger than growth of the UK economy as a whole (20% compared to just under 11% for the UK economy).

**Figure 2: Total GVA generated by the legal services sector in the UK, 2013 to 2018**



Source: KPMG analysis of ONS ABS and LFS data.

## Employment

In terms of employment, our analysis finds that in 2018, the legal services sector supported approximately 552,000 FTE employees in the UK, comprised of an estimated<sup>(12)</sup>:

- 358,000 direct FTE employees employed in the legal services sector, of which:
  - 225,000 FTEs were employed in the 'Legal activities' sector<sup>(13)</sup>; and
  - 133,000 FTEs were employed as legal professionals<sup>(14)</sup> in sectors other than the 'Legal activities' sector<sup>(15)</sup>;
- 150,000 indirect FTE employees employed in the UK legal services sector's supply chain; and
- 43,000 induced FTE employees supported through the spending of the UK legal services sector's direct and indirect employees' wages within the UK economy.

Our classification of employment in the legal services sector is shown below in the green boxes:

**Table 1: Legal services sector trident**

		'Legal activities' sector	
		Yes	No
Legal professionals	Yes	Legal professionals working in the 'Legal activities' sector	Legal professionals working outside the 'Legal activities' sector
	No	Non-legal professionals working in the 'Legal activities' sector (e.g. HR personnel)	Non-legal professionals working outside the 'Legal activities' sector

Source: KPMG 2019.

Similar to the GVA of the legal services sector, the sector supported employment across the four countries of the UK. Our analysis shows that, in 2018, the largest share of employment (in FTE terms) supported by the sector was in England (87%), with the smallest share of the legal sector employment being in Northern Ireland (3%).

Notes: (12) Numbers do not sum up to 552,000 due to rounding.

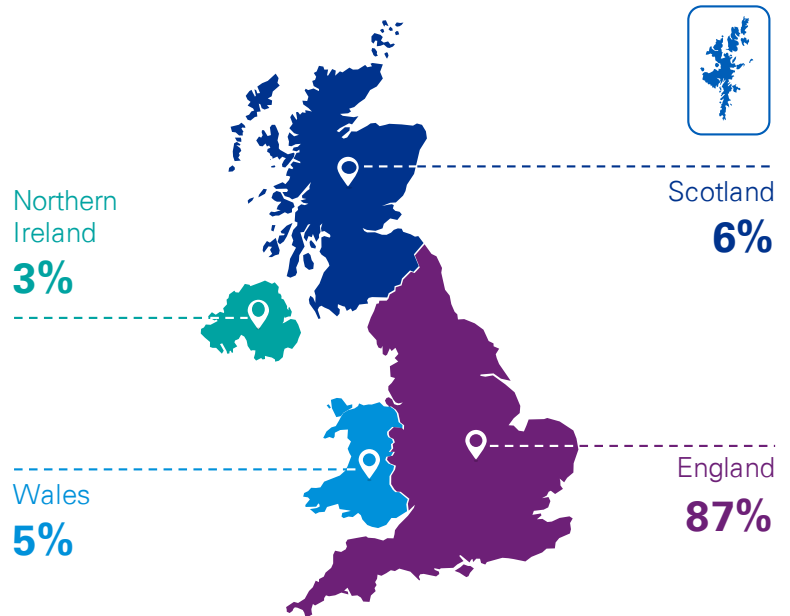
(13) As classified by the ONS (SIC 69.1).

(14) As classified by the ONS (SOC 2412, 2413, 2419, 3520, 4212).

(15) As classified by the ONS (SIC 69.1).



**Figure 3: Estimated share of UK legal services sector direct employment by country, 2018<sup>(16)</sup>**



Source: KPMG analysis of ONS LFS data (2018). Percentages do not sum to 100% due to rounding.

Overall, as of December 2018, approximately 1.1% of the total UK labour force was employed in the legal services sector<sup>(17)</sup>.

Unlike GVA, our analysis shows that the level of employment in the legal services sector has declined slightly over the period from 2013 to 2018 (by just under 0.7%). Employment levels have fluctuated over this 6 year period, with a notable decline in 2014 and 2015, as well as in 2017 and 2018.

**Figure 4: Legal services sector employment (in FTE terms), 2013 to 2018**



Source: KPMG analysis of ONS ABS and LFS data.

Notes: (16) This is based on ONS LFS data (2018) for the legal services sector.

(17) ONS, UK labour market: December 2018, See: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/december2018>

## Productivity

The legal services sector has made a positive and growing productivity contribution to the UK economy – as measured by the average GVA per employee. Productivity is considered a key source of economic growth and competitiveness<sup>(18)</sup>, <sup>(19)</sup>.

Given the increase in GVA over the period, whilst employment was at broadly the same level in 2018 as in 2013, the productivity of the sector has increased by 17%, from £84,000 per employee in 2013 to £100,500 per employee in 2018. Our research also indicates that there may be scope for significant productivity improvements in the sector in future years as a result of further technological developments which are expected to impact legal services provision.

Productivity of the 'Legal activities' sector is now almost double the UK national average of £54,330 per employee in 2017<sup>(20)</sup>.

## Interdependencies with other sectors in the economy (inter-sector trade)

Unlike sectors such as manufacturing and construction, the 'Legal activities' sector is heavily labour and knowledge intensive, rather than having significant intermediate inputs.

Based on 2017 ONS data:

- the 'Legal activities' sector itself makes up 16% of the value of inputs to the legal services sector, potentially driven by self-employment in the sector, internal referrals and the need for law firms to collaborate to provide a broader range of specialisms given that law firms increasingly tend to specialise in specific areas of expertise<sup>(21)</sup>.
- 'Real estate services, excluding on a fee or contract basis and imputed rent' account for a sizeable proportion of the sector inputs to the legal sector (14%). This includes buying, renting and operating of own or leased real estate.

In terms of demand for legal services, the largest source of demand comes from the public sector (covering 'Public administration and defence; compulsory social security' and 'Human health activities'), taking up 17% of output from the 'Legal activities' sector. The financial services activities sector, combined with insurance and reinsurance activities, also makes up a sizeable proportion of demand for legal services (15% of the total).

## International trade

As well as serving domestic demand, the legal services sector in the UK provides services overseas, with 15% of the sector's output being exported based on 2016 data<sup>(22)</sup>. In 2017<sup>(23)</sup>, the UK exported approximately £5bn worth of legal services, and imported approximately £0.80bn. It therefore contributed positively toward the UK's balance of trade, and had the highest balance of trade among professional services sectors in the UK.

## Dynamic economic impact analysis

Taking a forward look at the legal services sector, we have conducted a dynamic impact analysis and considered the potential impact of the legal services sector on the UK economy if the productivity of the sector was to improve (for example, from technological change, automation and AI). We have analysed the potential economic impacts of such changes using a hypothetical scenario in which the productivity of the legal services sector improves by 1%. This scenario was tested using KPMG's Spatial Applied General Equilibrium (SAGE) Model; a form of Computable General Equilibrium (CGE) model which covers the whole of the UK economy, including the legal services sector and its supply chain.

Results from our analysis using SAGE estimate that a hypothetical 1% productivity improvement in legal services in 2020 could increase UK GDP by between £990m and £1,200m by 2050, depending on whether the total factor productivity improvements applies only to legal firms or more broadly to legal services activity across the whole economy.

Notes: (18) ONS. 2018, Productivity measures. See: <https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures>

(19) Parliament Briefing Paper. 2017, Productivity in the UK. See: <https://researchbriefings.files.parliament.uk/documents/SN06492/SN06492.pdf>

(20) ONS 2019, Subregional productivity: labour productivity indices by UK NUTS2 and NUTS3 subregions, See: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/datasets/subregionalproductivity/labourproductivitygvaaperhourworkandgva-perfilledj-obindicesbyuknuts2andnuts3subregions>

(21) <https://www.lawgazette.co.uk/comment-and-opinion/rise-of-specialist-law-firms/5041463.article>

(22) ONS 2018, Input-output supply and use tables, See: <https://www.ons.gov.uk/economy/nationalaccounts/supplyandusetables/datasets/inputoutputsupplyandusetables>

(23) ONS 2019, International trade in services, See: <https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/datasets/internationaltradeinservicesreferencetables>

This analysis implies that every £1 of productivity saving in the legal services sector in 2020 could generate between £3.30 and £3.50 of additional GDP for the UK by 2050. The productivity improvement in the legal services sectors has benefited the wider economy by:

- supporting other sectors of the UK economy, with an estimated 78% to 80% of the estimated total impact on UK GDP occurring in other (non-legal) sectors;
- generating more capital for other sectors of the economy, with every £1 increase in legal services productivity in 2020 estimated to result in £9.15 to £10.61 of additional capital by 2050;
- improving real wage rates for workers across all sectors of the economy, with average UK wage rates increasing by an estimated £0.61 to £0.68 per £1 of wage rate increases in the legal services sector.

This significant additional growth in the economy, over and above the initial productivity gain, is due to the important role that legal services play in the supply chain of other sectors, particularly high-value exporting services.

## Wider socio-economic value

### Pro bono legal services

As well as contributing to the economy through the paid-for services it delivers, the legal services sector makes a significant contribution to the UK economy and society through the provision of pro bono legal services<sup>(24)</sup>.

Our analysis demonstrates that the value of such activity is significant. Based on data provided by the Law Society<sup>(25)</sup>, covering a representative sample of its members, we estimate that in England and Wales approximately 43,800 solicitors dedicated time to supporting pro bono legal services in 2017, spending a total of approximately 1,446,000 working hours undertaking pro bono work. By converting this time into a monetary value using average charge out rate data as a proxy for the opportunity cost and value of providing these services, we estimate that this pro bono time was worth approximately £439m in 2017<sup>(26)</sup>.

### Wider contributions of the legal services sector to UK economy

Evidence also points to the legal service sector having a significant impact on economic growth in the UK through the enabling role it plays in the functioning of the overall economy<sup>(27),(28),(29)</sup>. As we explain in section 5.2 this impact comes through three main routes: establishing and protecting property rights<sup>(30)</sup>; facilitating transactions; and permitting economic co-operation and organisation.

The effective interpretation and implementation of the rule of law (both in terms of statute law and norms and conventions), through the provision of legal services, has a central and critical role in delivering these functions, and therefore facilitating greater investment and economic growth<sup>(31)</sup>.

Notes: (24) The Pro Bono Protocol, developed under the Attorney Generals' Pro Bono Coordinating Committee defines the pro bono services as 'legal advice or representation provided free of charge by legal professionals in the public interest.'

(25) The Law Society, The pro bono work of solicitors PC Holder Survey 2012-17.

(26) In calculating this based on number of hours recorded in the PC Holder Survey we should note after discussion with the Law Society that some firms will not want to disclose their pro bono hours as they do not want pro bono to be seen by the government as replacing legal aid. This is particularly true since LASPO came in. As a result, our total figure based on number of hours might be an underestimation of the full volume and therefore value of pro bono work that occurred in 2017.

(27) Rodrik et al. (2004). Institutions rule: The primacy of institutions over geography and integration in economic development. *Journal of Economic Growth*

(28) Lorizio & Gurrieri (2014). Efficiency of Justice and Economic Systems. *Procedia Economics and Finance*

(29) Mishkin (2007). Globalisation and financial development. *New Perspectives on Financial Globalisation Conference*, Washington D.C.

(30) A property right is the exclusive authority to determine how a resource is used, whether that resource is owned by government or by individuals. Private property rights have two other attributes in addition to determining the use of a resource. The first is the exclusive right to the services of the resource (e.g. whether to rent it to others, and if so, to whom). The second is the right to delegate, rent or sell any portion of the rights by exchange or gift at whatever price the owner determines (provided someone is willing to pay that price).

(31) Regulatory Policy Institute (2012). Assessing the economic significance of the professional legal services sector in the European Union. See: [https://www.ccbe.eu/fileadmin/speciality\\_distribution/public/documents/FREE\\_MOVEMENT\\_OF\\_LAWYERS/FML\\_Reports\\_studies/EN FML\\_20120926\\_Assessing\\_the\\_economic\\_significance\\_of\\_the\\_professional\\_legal\\_services\\_sector\\_in\\_the\\_European\\_Union.pdf](https://www.ccbe.eu/fileadmin/speciality_distribution/public/documents/FREE_MOVEMENT_OF_LAWYERS/FML_Reports_studies/EN FML_20120926_Assessing_the_economic_significance_of_the_professional_legal_services_sector_in_the_European_Union.pdf)

## 02

## About the study



## Scope of the study

The Law Society of England and Wales (officially 'The Law Society') was established in 1825 and is the independent professional body for solicitors in England and Wales. The Law Society represents over 180,000 registered legal practitioners to government and regulatory bodies in England and Wales with its stated objectives<sup>(32)</sup> of:

- providing support to practising and training solicitors, including with career opportunities, networks events and development training;
- being the voice of the profession in Westminster, Cardiff, Brussels and other governments;
- influencing the legislative and regulatory environment in the public interest;
- promoting England and Wales as the jurisdiction of choice for legal services; and
- promoting the role legal services play in the UK economy<sup>(33)</sup>.

In addition, the professional body aims to support the wider legal system in the UK by seeking to<sup>(34)</sup>:

- drive excellence in the profession;
- safeguard the rule of law;
- work to make sure no-one is above the law;

- protect everyone's right to have access to justice; and
- defend human rights at home and abroad.

While a number of studies<sup>(35)</sup> have assessed the importance of the legal institutions for the economic prosperity of countries, there is less evidence providing a quantification of the value of economic and social contribution that the legal sector and its actors (e.g. solicitors) in the UK generate. To address this gap, in 2016 the Law Society commissioned and subsequently published a report on the economic value of UK legal services, based on 2015 data. This study provided a detailed analysis of the economic value of UK legal services, in terms of the estimated contribution to UK economic output and the employment generated by the sector.

In order to provide an updated analysis of the economic contribution of the sector, in August 2019 the Law Society commissioned KPMG to conduct a new study. This provides an independent assessment of the gross<sup>(36)</sup> economic and social contribution of the legal sector in the UK for the six year period from 2013 to 2018, based on the latest available data, as well as providing new insights and analysis covering additional areas of economic and social impact.



The scope of impacts analysed in this study were agreed with the Law Society at the outset of the project based on the impacts that are generally included within such studies and with a focus on the main channels through which the legal sector contributes to the UK economy. Specifically, our study:

- estimates the direct economic contribution<sup>(37)</sup> of the UK legal services sector to the UK economy in terms of Gross Value Added (GVA)<sup>(38)</sup>, employment, productivity, inter-sector trade and international trade, based on static economic impact analysis using Office for National Statistics (ONS) data;
- estimates the wider economic contribution of the UK legal services sector, in terms of indirect and induced GVA and employment<sup>(39)</sup>, based on static economic impact analysis<sup>(40)</sup> using ONS input-output analytical tables;
- uses KPMG's Spatially Applied Generalised Equilibrium (SAGE) model to undertake dynamic impact modelling<sup>(41)</sup> of the economic value of the UK legal services sector to the UK economy, in terms of GVA and employment, as well as through wider economic indicators such as wages, productivity, private investment, trade and tax receipts;
- assesses qualitatively and quantitatively the contribution made by the legal services sector through provision of pro-bono legal services; and
- assesses the wider impact of the legal services sector to economic growth through its role in enabling a well-functioning economy.



## Sources of information

Our analysis of the contribution of the legal sector in the UK is based on various sources, including data and information provided by the Law Society and obtained from external publically available sources.

Our analysis is primarily based on the following sources of data:

- ONS UK Input-Output Analytical Tables (IOATs) (2017 data)
- ONS Annual Business Survey (ABS) (2018 data)
- ONS International trade in services (2017 data)
- ONS Labour Force Survey (LFS) quarterly data (2013, 2014, 2015, 2016, 2017, 2018)
- Law Society Research Unit data (Financial year 2016 – 2017)
- Law Society 'PC Holder Survey (2012 – 2017)'
- KPMG's Spatial Applied General Equilibrium (SAGE) Model, built using a variety of data, mostly from the ONS, including:
  - ONS UK Input-Output Analytical Tables (IOATs)
  - ONS Regional accounts.
  - ONS Business Register and Employment Survey.
  - ONS Regionalised estimates of UK service exports.
  - HMT Public Expenditure Statistical Analysis.

We have also supplemented our analysis using a range of additional sources of information, analysis and data provided by the Law Society Research Unit, as well as insights from existing literature and studies relating to the wider socio-economic contribution of the legal sector.



## Report structure

The following sections of this report are structured as follows:

- In section 3 we set out the context for this report, including an introduction to the UK legal services sector and the trends that are currently, and expected to, affect the legal services landscape.
- In section 4 we set out our approach to our analysis and present our findings in relation to the economic contribution of the legal services sector to the UK, comprising:
  - the results from our static economic impact analysis, in terms of the direct, indirect and induced GVA and employment impacts of the sector as well as the economic contribution of the legal services sector in terms interdependencies with other sectors in the economy (inter-sector trade), international trade, and productivity; and
  - the results from our dynamic impact analysis, in terms of the headline GDP contribution of the sector, as well as its impact through wider economic indicators such as real wages, private investment, household consumption and trade.
- In section 5 we present our assessment of the wider contributions of the legal services sector in terms of pro-bono legal services provision and its wider role in supporting economic growth through facilitating a well-functioning economy.





## 03

# The UK legal services sector



## The current UK legal environment

Based on the latest available data (from 2017), the legal services sector in the UK<sup>(42)</sup> is comprised of approximately 9,500 law firms, with a turnover of around £24 billion<sup>(43)</sup>. In addition to this, the legal services sector includes the provision of services outside the law firm setting, for example in-house legal services, government legal services and legal services provided within broader professional services firms. Approximately 78% of practising certificate (PC)<sup>(44)</sup> holders are employed in private practices, with the remaining 22% split between in-house<sup>(45)</sup> (17%), and in government (5%)<sup>(46)</sup>.

This generates an expansive network of experienced legal professionals who operate in a variety of fields, from commercial and property law, through to more niche areas such as maritime law. The main areas of legal practice in the UK, as identified by the Law Society<sup>(47)</sup>, include:

- **Competition law:** law that regulates market competition;
- **Corporate law:** law that governs the functioning of companies;
- **Criminal law:** law which relates to crime and the punishment of those who violate laws;
- **Employment law:** area of law regulating the relationship between employers and employees;
- **Family law:** law dealing with family matters and domestic relations;
- **Human rights law:** law concerned with fundamental rights and preventing abuse;
- **Immigration law:** national government policies controlling the immigration and deportation of people;
- **Insolvency law:** law regulating companies in the UK which are unable to repay their debts;

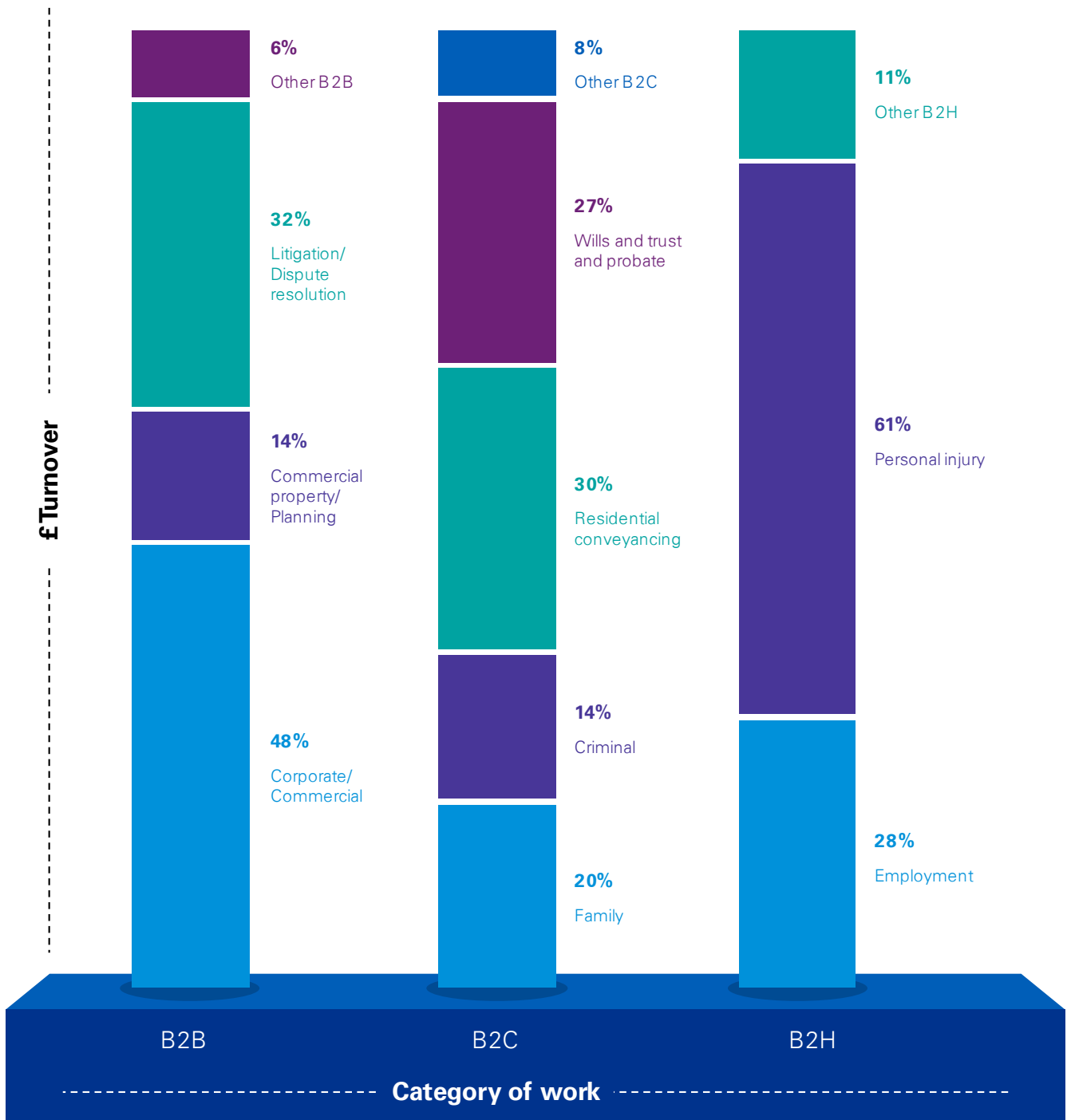
- **Intellectual property law:** law relating to the rights and obligations attached to intellectual creations;
- **Litigation and dispute resolution:** legal services associated with the process of resolving disputes between parties;
- **Personal injury:** law regulating compensation for injuries sustained;
- **Private client:** legal services relating to asset management, including wills and probate, power of attorney, trusts and tax;
- **Property law:** law governing ownership and tenancy in and relating to property;
- **Tax law:** law that regulates the taxation of individuals and companies.

These practice areas can be broadly broken down into categories based on the market for the services: Business-to-Business (B2B); Business-to-Consumer (B2C); and Business-to-Hybrid (B2H).

As illustrated in Figure 5, more than half (approximately 60%) of the turnover generated in England and Wales by law firms is derived from B2B legal services, dominated by corporate/commercial law and litigation/dispute resolution, including arbitration. Around a fifth is from B2C and around one seventh from B2H, with residential conveyancing (property law) and personal injury being the largest areas in terms of turnover for each of these markets respectively.



Figure 5: Turnover by category of work, financial year 2016-17



Source: KPMG analysis of Law Society 'Firms segmentation' data (2019).

The Law Society<sup>(49)</sup> reports that in England and Wales in the year to August 2018 demand for legal services from individual customers (B2C) grew relatively slowly, which it considers reflected low income growth of UK households. Demand for legal services from business (B2B) is reported to be driven by the overall growth of the UK economy, as well as the

expected growth of specific sectors which have high demand for legal services (i.e. financial services sector). The Law Society expects that the short-term demand for legal services will increase as a result of potential changes to the regulatory landscape due to Brexit, though over the longer-term Brexit could have a negative impact on growth of the sector through its impact on the wider economy<sup>(50)</sup>.



## Roles in the legal services sector

The range of legal services, set out above, are delivered by solicitors, barristers, paralegals and other legal professionals. Each performs a different role in the overall legal services ecosystem, from drafting legal documents, such as contracts, to representing clients at tribunals or in court (advocacy) and dispute resolution (such as arbitration hearings).

### Box 1: The Legal System of England and Wales<sup>(5 1)</sup>

The UK legal system is made up of four main parts:



Statute law



Common law



Conventions



Works of authority

Of these, statute law is the most important and takes precedence. In addition to statute law passed by parliament, legal principles are also based on the decisions of judges interpreting statute law. These collective judicial decisions form the common law. Common law can be changed by legislation, but cannot overrule or change statutes. The last elements of the UK constitution consists of conventions and works of authority which do not have statutory authority, but nevertheless have binding force.

English and Welsh Law is enforced through the court system, which is structured as follows:

- The lowest criminal courts or Magistrates' Courts deal with minor offences with more serious cases (or appeals from the Magistrates court on factual points) being heard in the Crown Court, in front of a judge and jury.
- Appeals against conviction and sentence are made to the Court of Appeal (Criminal Division).
- Civil cases are heard firstly in the County Courts or the High Court, which also hears appeals from the Magistrates Court on points of law.
- Cases may be appealed to the Court of Appeal (Civil Division, or Criminal Division for appeals against conviction and sentencing) and can be appealed from the County Court to the High Court.

In addition to the courts there are specialised Tribunals, which hear appeals on decisions made by various public bodies and government departments, in areas such as employment, immigration, social security, tax and land.





In England and Wales, the role of a lawyer is divided into two clear and distinct specialisms – that of solicitors and that of barristers.

The majority of legal services activity is undertaken by solicitors. As at 31 July 2018, there were approximately 143,000 PC holders in the UK<sup>(52)</sup>. Their work involves services such as the provision of legal advice, drafting legal documents and letters, and in some instances, representing clients in court<sup>(53)</sup>.

Most courtroom ‘expert advice and advocacy’ work is undertaken by one of the 16,000 barristers in the UK<sup>(54)</sup>. Barristers usually qualify into, and practice in, a specialist area, but unlike solicitors will spend most of their time researching the law and practicing advocacy at the courts.

Cases are heard in court by one of almost 3,000 Court Judges or 1,700 Tribunal Judges, supported by around 3,100 Tribunal non-legal members<sup>(55)</sup>. Judges tend to have obtained a number of years’ experience as a lawyer (either as a solicitor or barrister) before being appointed as a judge.

Solicitors and barristers are also supported by paralegals who assist lawyers in their work. They undertake some of the same work as lawyers but do not give advice to consumers of legal services.



## Trends in the legal services sector

The legal services sector is changing. Liberalisation of the market through the 2007 Legal Services Act<sup>(56)</sup>, changes to the provision of Legal Aid<sup>(57)</sup>, and new regulations expected to be introduced this year that will enable solicitors to work and offer ‘freelance’ services to the public outside of the traditional legal entity models<sup>(58)</sup>, among other drivers, will all act to change how legal services are delivered in the UK.

However, it is technology that is expected to deliver the greatest changes in the sector. A 2018 survey<sup>(59)</sup> of law firms found that all of the Top 10 and 40% of Top 11-25 firms viewed technology as the key challenge facing the legal sector over the next two years. The report notes that to remain relevant, law firms need to adapt to the changes in the technological field, for example by adopting cloud sharing and automation of delivery models. Therefore, over the coming decades, like many sectors, the legal sector is expected to see significant transformation as a result of technological developments, particularly within the field of artificial intelligence (AI) and automation.





AI can be adopted by organisations to accelerate and automate decisions and profitability. Moreover, organisations can use it to lower labour costs, and increase the quality of the work produced<sup>(60)</sup>. However, AI may also have knock-on effects on the labour force.

There are a range of estimates about how the legal services sector may be affected by these developments,

For example, an analysis conducted by the ONS<sup>(61)</sup> shows that the risk of automation is highest in administrative and secretarial occupations, and lowest in jobs roles which require particular training and education. Specifically, barristers and judges, solicitors, and legal professionals are expected to have a lower risk of automation (the probabilities of these roles being replaced by technology are 25%, 23%, and 24% respectively), compared to legal associate professional (39%) and legal secretaries (62%).

Although legal services roles may be at lower risk of automation, the scale of impact could still have significant implications for the sector's workforce. One study estimated that 22% of an existing lawyer's job and 35% of a paralegal's job could be automated<sup>(62)</sup>. And the Law Society's own analysis indicates that by 2038, employment in the UK legal services sector could be 20% lower than it would otherwise be, as a result of the adoption of new technology. Such adoption of technology, for example investment in 'LawTech'<sup>(63)</sup>, is increasingly being driven by a need for greater efficiency due to increasing workloads and complexity of work as well as reportedly greater client pressure on costs and speed<sup>(64)</sup>.

Studies also suggest that advancements in technology, as well as growth in its use, are likely to bring new industries to the legal sector, which may require more legal professionals to specialise in technology related law. For example, new technologies have resulted in new intellectual property laws and increased litigation around patents and trademarks<sup>(65)</sup>.

This means that whilst technology is expected to change the operation of the legal services sector and, all else being equal, reduce the labour requirement for the sector, growth of the sector is expected to continue. Specifically, the legal services market is expected to see annual revenue growth of between 5%–6% from 2019–2022<sup>(66)</sup>. In addition, technological improvements are expected to increase the sector's productivity – a critical enabler of economic growth, competitiveness and higher standards of living<sup>(67),(68)</sup>.

## 04

# Economic contribution of the UK legal services sector



## Framework for our analysis

The legal services sector's impact on the economy includes the direct value of the economic output it produces and the people it employs. The activity of the sector also has knock-on effects to other parts of the economy.

We have assessed the legal services sector's economic contribution in two ways: through a static economic impact analysis and a dynamic economic impact analysis. The static analysis captures the contribution of the legal services sector as it exists today, including a snap shot of its linkages with other sectors of the economy. The dynamic analysis considers a hypothetical scenario of what the future of the economy could look like, considering the same economic linkages between legal services and the rest of the economy, if there was productivity improvement in the legal services sector. The dynamic analysis builds on the static analysis but the results of the two analyses are not additive.

### Static impact analysis

In the static impact analysis we capture the following three types of impacts:

- Direct impacts: the first round effects where the legal services sector generates business activity and output through its UK operations. We assess the direct impacts in terms of GVA, employment, productivity, interdependencies with other sectors in the economy (inter-sector trade), and international trade.
- Indirect impacts: the second round effects generated through the activity and output supported in the legal services sector supply chain as a result of the sector's procurement of goods and services to input to its operations. We assess the indirect impacts in terms of GVA and employment.

- Induced impacts: the multiplier effects that arise in the UK economy as a result of the legal service sector's direct employees and those employed in its supply chain, spending a proportion of their wages in the UK. This spending generates additional economic activity for those businesses from which these employees buy goods and services and these businesses' own wider supply chains. We also assess at the induced impacts in terms of GVA and employment.

This static economic impact analysis adopts an input-output modelling approach, whereby the indirect and induced GVA and employment are estimated using the type I and type II GVA and employment multipliers<sup>(69)</sup> derived from the input-output tables produced by the ONS<sup>(70)</sup> and the Scottish Government<sup>(71)</sup>. Input-output tables show, in matrix form, the inter-linkages between sectors of the economy in terms of the value of goods and services (inputs) that are required to produce each unit of the output in given sectors of the economy.

Our static analysis of the contribution of the UK legal services sector, in terms of GVA and employment, is based on ONS data relating to the 'Legal activities' sector, and on LFS data relating to legal professionals working outside of the 'Legal activities' sector (See Box 2). Analysis of productivity, international trade, and interdependencies with other sectors are based on firms in the 'Legal activities' Standard Industrial Classification (SIC) codes using data sourced from the ONS.

In our analysis we report employment in full-time equivalent (FTE) terms. This adjusts part time or temporary staff into an annual full-time equivalent based on the proportion of full-time hours worked over a year. The results of our static economic impact analysis are presented in section 4.2.



## Box 2: Approach to using LFS data

As part of its official statistical releases, the ONS publishes the Annual Business Survey (ABS)<sup>(72)</sup>, which reports the GVA contribution of non-financial services in the UK economy by industry<sup>(73)</sup> on an annual basis. The ONS ABS provides the GVA contribution of the 'Legal activities' sector<sup>(74)</sup>, which covers<sup>(75)</sup>:

- 'legal representation of one party's interest against another party, whether or not before courts or other judicial bodies by, or under supervision of, persons who are members of the bar;
- general counselling and advising, preparation of legal documents; and

- other activities of notaries public, civil law notaries, bailiffs, arbitrators, examiners and referees<sup>(76)</sup>.

However, this does not capture the full scope of the legal services sector in the UK and therefore underestimates the contribution of the sector to the UK economy. Specifically, the ONS definition of the sector does not include the contribution made by legal professionals who work in other sectors of the economy (e.g. legal professionals working in-house within corporates, or in public institutions).

Our classification of employment in the legal services sector is shown below in the green boxes:

**Table 2: Legal services sector trident**

		'Legal activities' sector	
		Yes	No
Legal professionals	Yes	Legal professionals working in the 'Legal activities' sector	Legal professionals working outside the 'Legal activities' sector
	No	Non-legal professionals working in the 'Legal activities' sector (e.g. HR personnel)	Non-legal professionals working outside the 'Legal activities' sector

Source: KPMG 2019.

Therefore, to capture the legal services sector activity not included with the ONS figures, additional ONS data from the LFS was analysed.

The LFS is the only source of official data that provides a breakdown of workers in the UK by industry and occupation. We used it to estimate the number of employees working as legal professionals outside of the 'Legal activities' sector, and, therefore, to estimate the direct GVA contribution of these employees to the UK economy.

The ONS reports that 'the LFS is intended to be representative of the entire population of the UK'<sup>(79)</sup>. However, the smaller sample coverage of the LFS means that when analysing specific and sub-groups of people or sectors the results from the LFS are subject to higher standard errors and confidence intervals and are, therefore, less reliable<sup>(80)</sup>.

Our analysis of the LFS data shows that there are an additional 133,000 FTE legal employees in other sectors of the economy beyond the 225,000 FTE legal professionals employed in the legal services sector. These employees are included in our analysis.

To obtain a comprehensive estimate of the direct GVA of the legal services sector<sup>(81)</sup>, we summed the (publicly available) direct GVA contribution of the 'Legal activities' sector from the ONS ABS, with the estimated GVA contribution made by legal professionals who work outside the legal activities sector, based on LFS data.



## Dynamic impact analysis

To conduct the dynamic impact analysis we adopt a 'Computable General Equilibrium' (CGE) modelling approach to estimate the potential wider impacts of the sector on the economy over time. This analysis uses KPMG's SAGE Model (see Box 3) of the UK economy to estimate the total economic impacts that arise in the UK economy over time in terms of business investment, household spending and international trade as a result of observable transactions in the legal services sector. Similar to the static economic impact analysis, this modelling captures the direct, indirect, and induced impacts.

Our dynamic impact analysis uses KPMG's SAGE Model to assess the potential impact of the legal services sector on the UK economy if the productivity of the sector was to improve. We have analysed the potential economic impacts of such changes using a hypothetical scenario in which the productivity of the legal services sector improves by 1%.

A productivity improvement amounts to a cost saving to businesses. It means that businesses require fewer inputs to produce the same amount of output, or, put another way, they can produce more output for the same inputs. The specific type of productivity improvement we have analysed is an improvement to total factor productivity (TFP), which is an improvement in business' use of both labour and capital in production.

We have analysed a hypothetical 1% improvement in legal services TFP in two ways through the SAGE Model:

- Firstly, we applied a permanent 1% TFP improvement to the legal services sector (using the ONS definition of the sector as 'Legal activities') in 2020 (i.e. law firms become more productive)<sup>(82)</sup>. To put this productivity improvement into context, it is equivalent to approximately one extra year of historic TFP growth in the 'Professional services'<sup>(83)</sup> sector as a whole<sup>(84)</sup>. This would push the productivity of the legal services sector closer to that of 'Architectural and engineering activities; technical testing and analysis'<sup>(85)</sup> and 'Management consultancy activities'<sup>(86)</sup> (as presented in Figure 9).
- Secondly, we applied the same 1% TFP improvement to the broader definition of the legal services sector (which includes legal workers employed in other sectors of the

economy) in 2020 (i.e. all legal services activity across the economy becomes more productive, rather than only that activity in the 'Legal activities' sector – see Box 2).

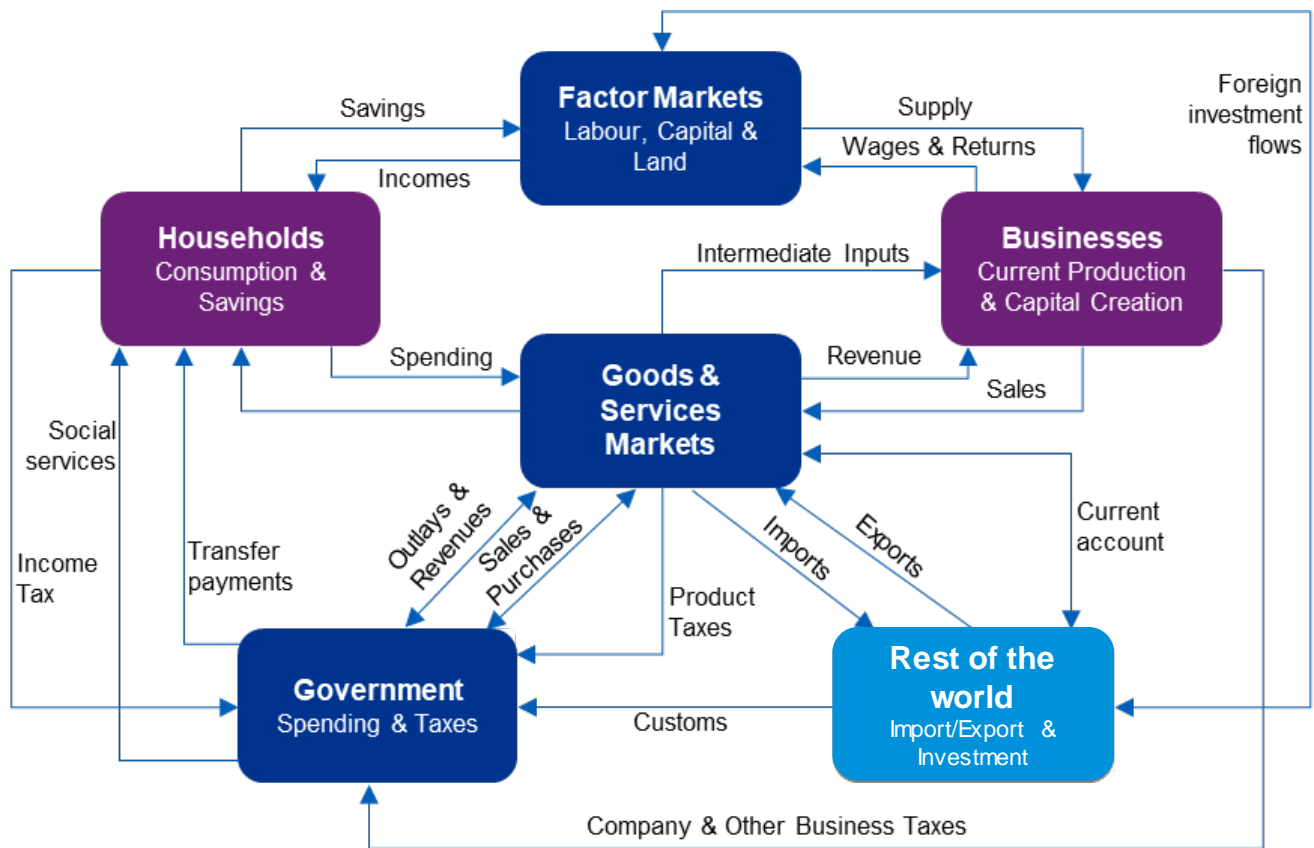
In our economic modelling, the permanent 1% productivity improvement is applied in the year 2020. The SAGE Model is then run until the year 2050 to understand the long term impacts across the economy compared to a 'business as usual' scenario. As shown by the modelling results presented below, the majority of the whole economy impacts of this hypothetical productivity improvement are estimated to occur within 15 years of the initial improvement (i.e. by 2035).

Further details of the modelling, along with the results of our analysis are presented in Section 4.3.

### Box 3: CGE modelling

CGE models are a sophisticated form of economic modelling which capture the complex interactions between different economic agents – including households, businesses, government and the rest of the world – operating in competitive markets with explicit resource constraints and budget constraints. Economic theory is used to specify the behaviour and market interactions of these different economic agents. Through these linkages, CGE models capture how changes in one part of the economy can have knock-on effects in others; this includes effects on inter-sector trade (supply chains), capital markets (investment and saving), international trade (imports and exports), labour markets, household consumption and Government spending and taxes. A robust feature of CGE models is that when analysing a change or 'shock' in one part of the economy, growth in the whole economy is constrained by available resources, meaning over time the economy must converge to a new 'general equilibrium' or 'steady-state' (after adjusting for changes in prices and a new allocation of resources). This contrasts with static input-output analysis, which is a partial equilibrium approach that does not capture budget and resource constraints and the interactions/competition between different economic agents for those resources.

The robust properties of CGE models mean they are widely used by Governments and international organisations. In the UK, this includes HMRC and HM Treasury, which use CGE models to assess the impact of tax and trade policies on the UK economy<sup>(87)</sup>.

**Figure 6: Overview of agents and transactions flows in KPMG's SAGE Model**

KPMG has developed the SAGE Model of the UK economy using CGE theory and detailed economic data from the ONS. The SAGE Model disaggregates the UK economy into 105 sectors, including the legal services sector and its supply chain, and 109 sub-regions of the UK which operate as separate economies linked by inter-regional trade flows.



## Results of our static economic impact analysis

### GVA generated by the legal services sector in the UK

A key measure of economic activity in an economy is GVA. It is a measure of the economic value of the goods and services produced at an individual company, industry or sector level, net of intermediate consumption (i.e. the goods and services that are used in the production process). GVA estimates the difference between the value of goods and services produced and the cost of inputs, such as unprocessed materials, used to create those goods and services. A nation's gross domestic product (GDP) includes the sum of the GVA of all economic agents within the economy<sup>(88)</sup>.

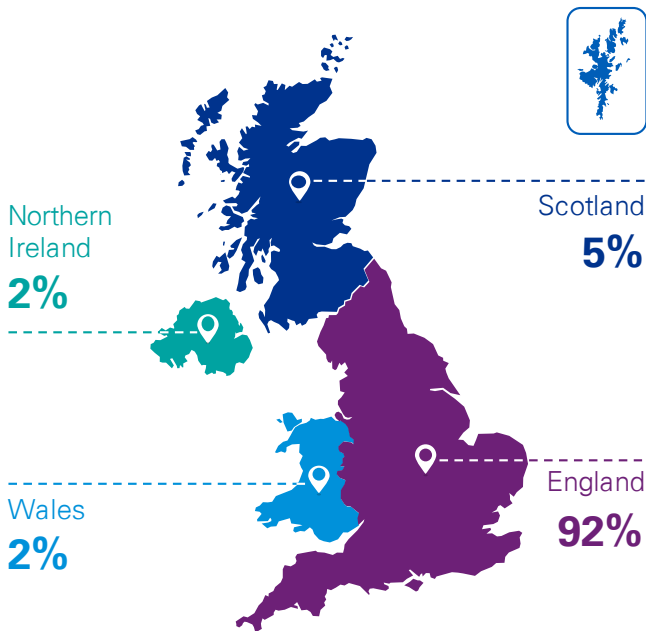
Based on our analysis of the GVA contribution of the legal services sector to the UK, we estimate that in

2018 the legal services sector generated a total of £59.93bn of GVA in the UK economy, comprised of:

- £39.79bn of direct GVA generated through the legal services sector activities in the UK;
- £11.87bn of indirect GVA generated through the legal services sector UK supply chain; and
- £8.27bn of induced GVA generated through the legal services sector's direct and indirect employees' spending of wages in the UK economy.

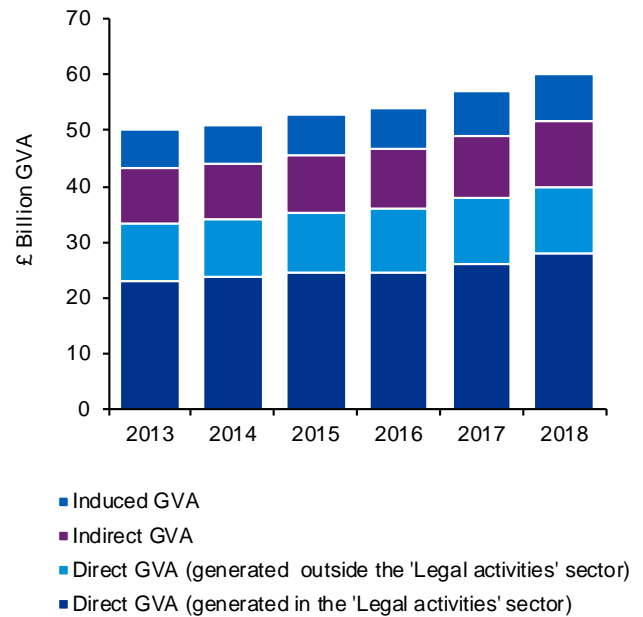
Our analysis indicates that the legal services sector generated economic activity, in terms of GVA, across the four countries of the UK<sup>(89)</sup>. Figure 7 illustrates the share of direct GVA contribution for each of the four UK countries in 2017.

**Figure 7: Estimated share of UK legal services sector direct GVA by UK country, 2017**



Source: KPMG analysis of ONS ABS data (2017). Percentages do not sum to 100% due to rounding.

**Figure 8: Total GVA generated by the legal services sector in the UK, 2013 to 2018**



Source: KPMG analysis of ONS ABS and LFS data.

We also analysed the GVA contribution of the legal services sector over time (from 2013 to 2018) using the same analytical approach. This shows that the estimated GVA contribution from the UK legal services sector increased by 20% from 2013 to 2018, from £50.10bn to £59.93bn, as shown in Figure 8.

Within this, we estimate that:

- the GVA contribution of the legal services sector coming from the 'Legal activities' sector as defined by the ONS increased 22% from £34.37bn in 2013 to £41.85bn in 2018; and
- the GVA contribution generated from legal professionals working outside the 'Legal activities' sector also increased – by 15% from £15.73bn in 2013 to £18.08bn in 2018.

This compares to GVA growth for the UK economy as a whole of just under 11% over the same six year period<sup>(90)</sup>.

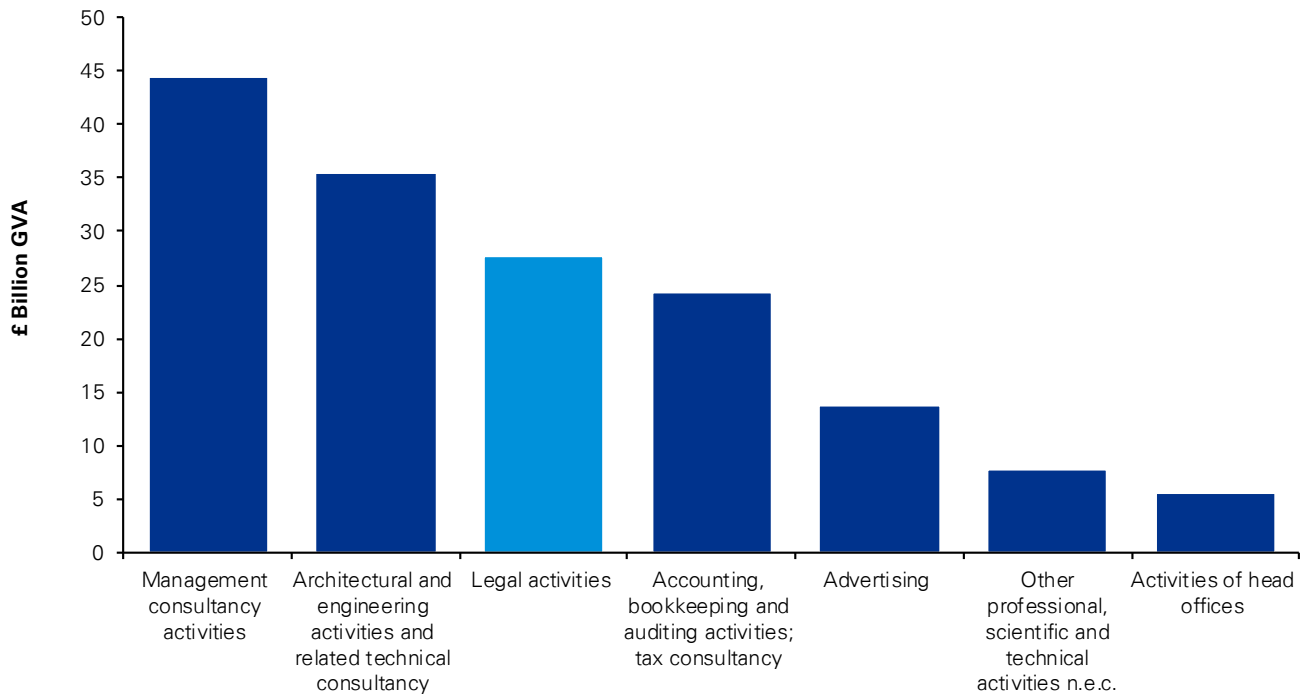
To set the results for the legal services sector in the context of other similar sectors, we have looked at its contribution to the economy relative to other 'Professional, scientific and technical activities' sectors, the wider industry classification in which the 'Legal activities' sector sits.

We based this analysis on data from the ONS ABS on the direct GVA contribution in 2018. To ensure the comparison was consistent across the sectors, we compared the GVA contribution of the 'Legal activities' sector rather than the estimated total contribution of the legal services sector, i.e. excluding the economic activity of legal professionals employed in other sectors (e.g. the in-house legal professionals). We took this approach as, similar to the legal services sector, there are other sectors where the economic activity of individuals employed in occupations associated with the sector, is captured within the output of other sectors in which they are employed. For example companies' in-house accounting and finance teams would not be captured within the ONS ABS data for the 'Accounting, bookkeeping and auditing activities' sector but in the sector in which the company they are employed by operates.

By comparing the GVA contribution of the 'Legal activities' sector to other 'Professional, scientific and technical' sectors in the economy, the ONS data shows that the 'Legal activities' sector GVA contribution to the UK economy is amongst the

highest of the group. In fact, amongst the comparable sectors, only 'Management consultancy activities' and 'Architectural and engineering activities and related technical consultancies' made a higher GVA contribution in 2018.

**Figure 9: Direct GVA contribution across 'Professional, scientific and technical activities' sectors, 2018**



Source: KPMG analysis of ONS ABS and LFS data.

## Legal services sector contribution to UK employment

Generating employment is a key route through which the legal services sector contributes to the UK economy. Similar to GVA, we assessed the employment impacts in direct, indirect and induced terms, using an input-output modelling approach.

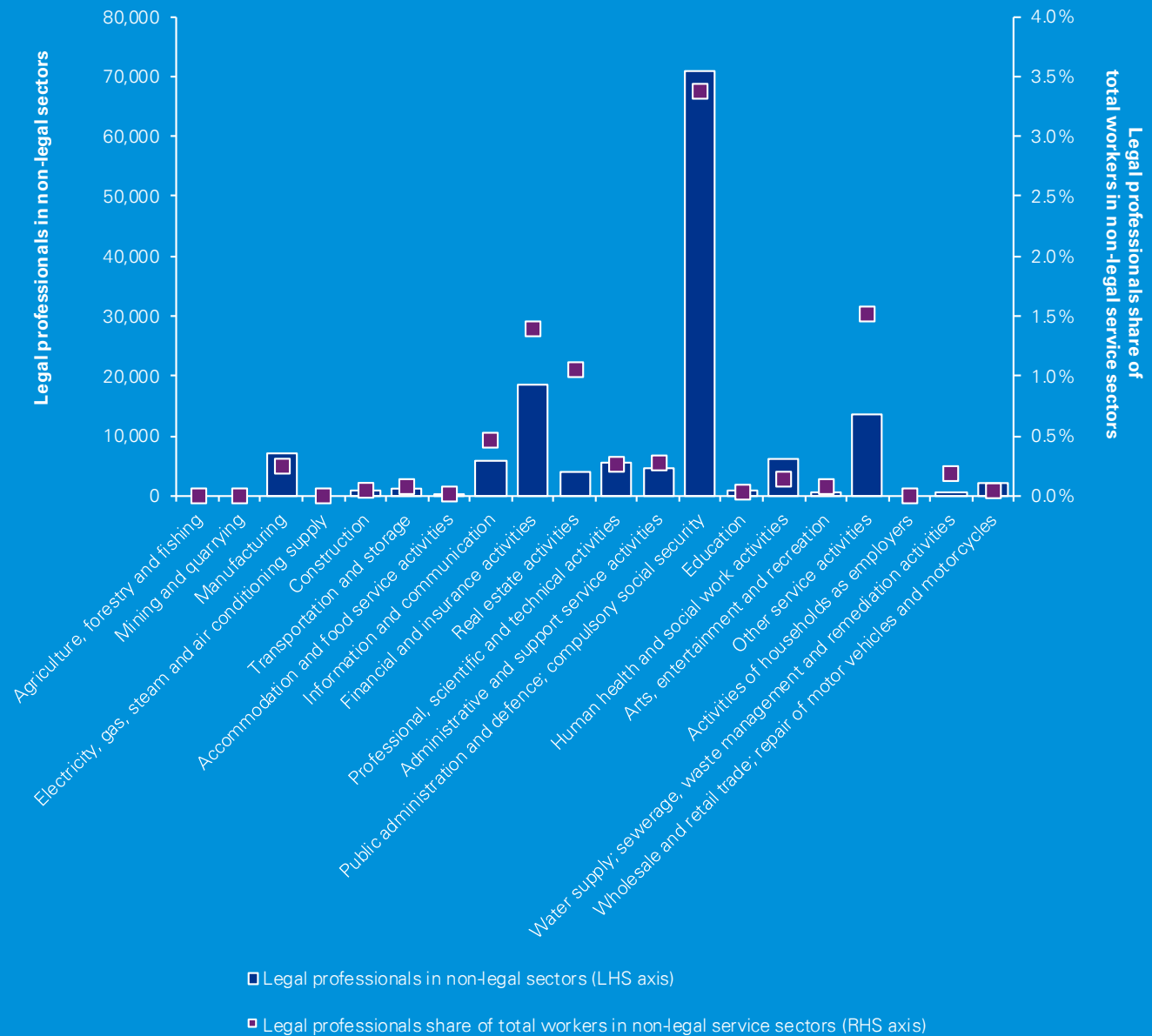
As reported in Box 2, we sourced data from the ONS LFS to estimate employment in the legal services sector<sup>(91)</sup>. This includes employment in the 'Legal activities' sector as well as the employees working as legal professionals<sup>(92)</sup> in sectors other than the 'Legal activities' sector.

Our analysis of the LFS data shows that on average through 2018, the legal services sector directly employed approximately 358,000 FTEs<sup>(93)</sup>. Of these:

- 225,000 FTEs were employed in the 'Legal activities' sector<sup>(94)</sup>; and
- 133,000 FTEs were employed as legal professionals<sup>(95)</sup> in sectors other than the 'Legal activities' sector<sup>(96)</sup>.

### Box 4: Legal professionals working outside the 'Legal activities' sector

Figure 10: Legal professionals in other industry groups and share of total employees, 2018



Note: 'Professional, scientific and technical activities' excludes 'Legal activities' (SIC 69.1).  
 Source: KPMG analysis of LFS (2018) data.

Analysis of the LFS data shows that there are approximately an additional 133,000 FTE legal workers in other sectors of the economy beyond the 225,000 FTE workers in the 'Legal activities' sector.

Figure 10 shows the distribution of legal professionals in other sectors, and the share of the total workforce they make up. The largest concentration of legal professionals outside of the 'Legal activities' sector is in 'Public administration

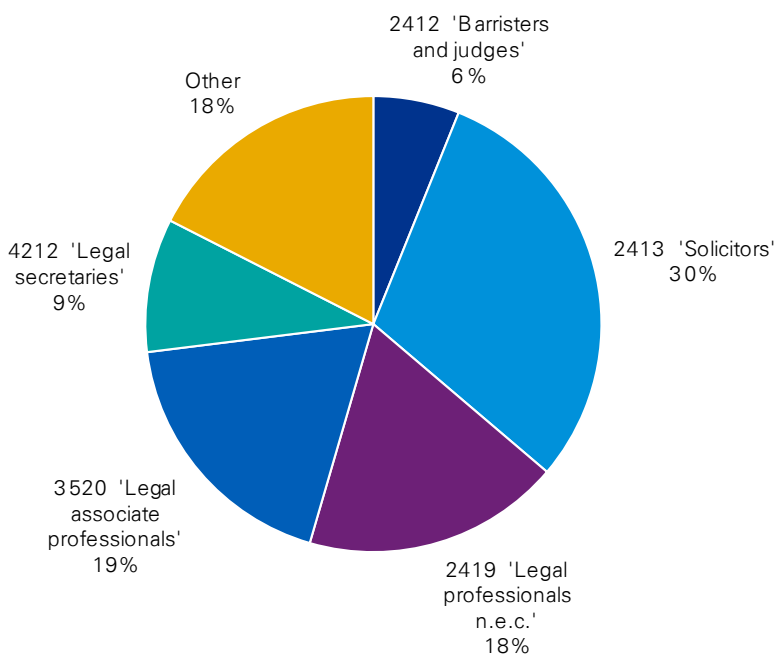
and defence; compulsory social security', with approximately 71,000 legal professionals making up 3.4% of the total workforce working in the 'Public administration and defence; compulsory social security' sector. 'Financial and insurance activities', and 'Other services activities' also employ a share of legal professionals, making up respectively 1.4% and 1.5% of the workforce employed in these sectors.

As illustrated in Figure 10, the majority of legal professionals working outside the 'Legal activities' sector work in public administration, education and health sectors. The relatively high number of legal professionals employed in this sector is largely due to justice and judicial activities being captured within 'Public administration and defence; compulsory social security' which alone makes up 48% of employment of legal service professionals outside of the 'Legal activities' sector. Other key sectors of employment for legal professionals include 'Other service activities' (10% of employment outside of the 'Legal activities' sector), and 'Financial and insurance activities' (8%).

Of the estimated 358,000 direct FTEs employed in the legal services sector in the UK in 2018, close to 30% were employed as solicitors, 6% as barristers and judges, 18% as legal professionals, 19% as legal associate professionals, and approximately 9% were employed as legal secretaries. The remaining 18% were employed in other, non-legal supporting roles in the legal services sector (e.g. IT technicians, office supervisors, archivists and curators).

Full details on the breakdown of FTEs across sectors and occupations are provided in Appendix 2.

**Figure 11: Legal services sector direct employment by occupation (in FTE terms), 2018**



Source: KPMG analysis of ONS LFS data (2018).



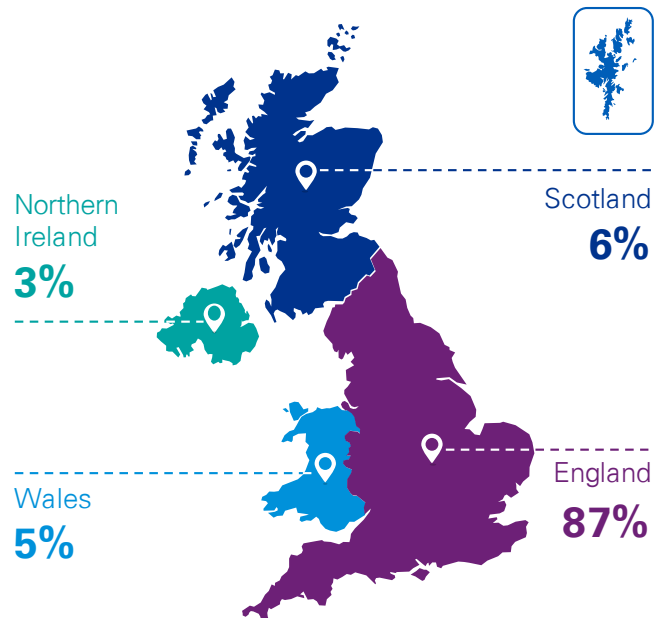


In addition to the FTEs employed directly in the UK legal services sector, we estimate that the UK legal services sector indirectly generated an approximate additional 193,000 FTEs in the UK in 2018, comprised of:

- approximately 150,000 indirect FTE employees in the UK legal services sector’s supply chain; and
- approximately 43,000 induced FTE employees supported through the spending of the UK legal services sector’s direct and indirect employees’ spending of wages within the UK economy.

Our analysis indicates that the legal services sector supported employment across each of the four countries of the UK in 2018. By country, direct employment supported ranged from an estimated 311,000 FTEs in England to 9,500 FTEs in Northern Ireland. Figure 12 shows the proportion of total UK employment in the legal services sector that each country accounted for in 2018<sup>(97)</sup>.

**Figure 12: Estimated share of UK legal services sector direct employment by country, 2018**

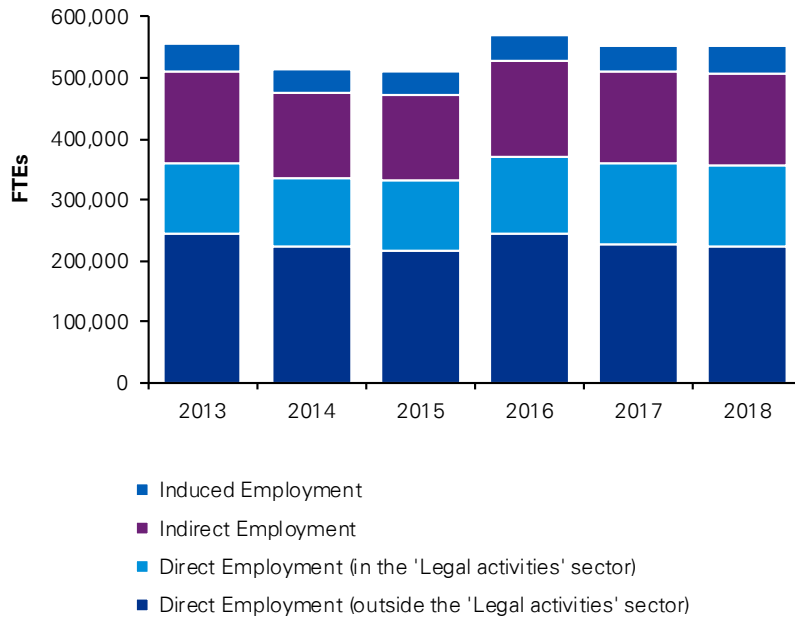


Source: KPMG analysis of ONS LFS data (2018). Percentages do not sum to 100% due to rounding.

Assessing the direct employment in the legal services sector and its associated indirect and induced employment from 2013 - 2018 indicates that the employment levels have fluctuated to a limited extent. As shown in Figure 13, we estimate that employment in the legal services sector has slightly decreased from approximately 555,000 in 2013 to about 552,000 in 2018. Employment decreased in 2014 and 2015, before peaking in 2016 and subsequently decreasing again in 2017 and 2018.

Our analysis indicates that these movements in employment levels are driven by changes in the level of direct employment within the 'Legal activities' sector, while direct employment of legal professionals outside the 'Legal activities' sector has steadily increased over the period from 2013 to 2018 (from about 116,000 FTEs to approximately 133,000).

**Figure 13: Legal services sector employment (in FTE terms), 2013 to 2018**



Source: KPMG analysis of ONS LFS data.

### Productivity of legal services sector employees in the UK

As well as considering the overall GVA and employment contribution of the legal services sector to the UK economy, we also consider the productivity of the sector<sup>(98)</sup>. Productivity refers to how much output is produced for a given input (such as an hour's work). Productivity is considered a key source of economic growth and competitiveness. As such, it reflects a country's ability to improve its standard of living over time<sup>(99),(100)</sup>.

Our analysis shows that the value of the average GVA per FTE in the UK legal services sector in 2018 was an estimated £111,000 and the average GVA per employee was approximately £100,500.

As explained further above, our analysis shows that over the time frame considered, GVA of the legal services sector has increased whilst employment in 2018 was at broadly the same level as in 2013. This means that the productivity of the sector, measured by the average output (GVA) per employee increased by 17% from 2013 – 2018. This compares to 11% growth in productivity across the UK economy as a whole. The increase productivity seen in the sector may be driven, at least in part, by increased use of technology and automation (see section 3.3).

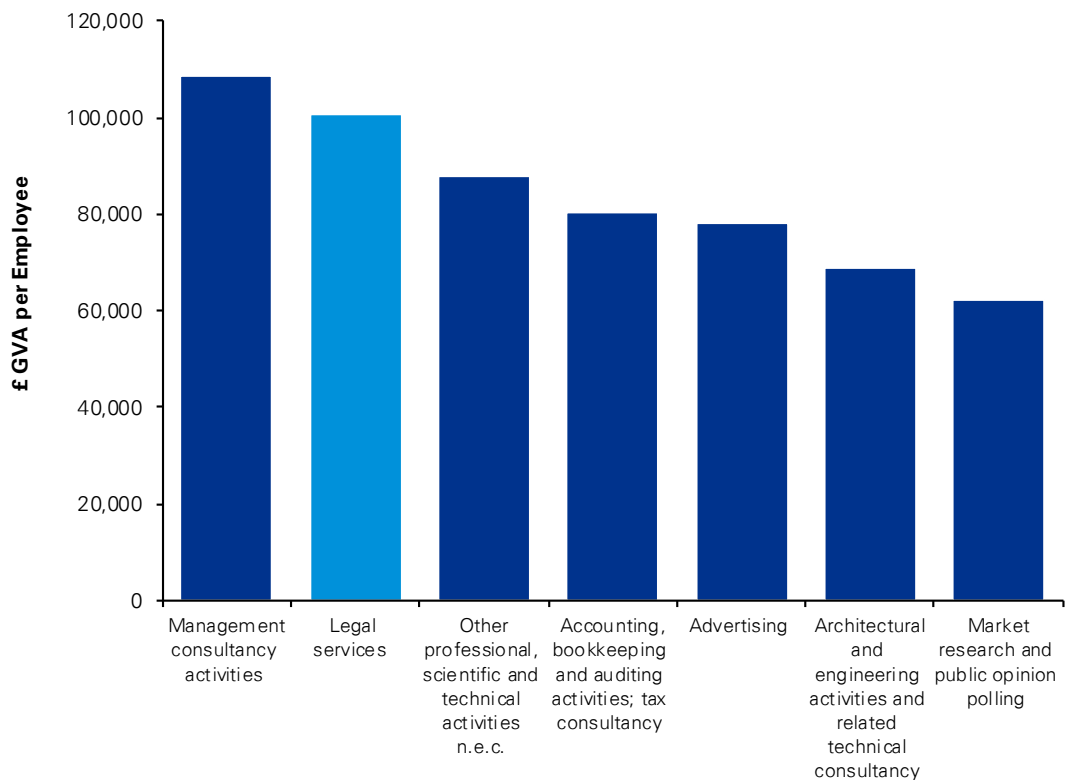




Levels of productivity differ across sectors of the economy as well as across individual firms. To contextualise the legal services sector's productivity, we have compared it to the average GVA per employee for the overall economy. The average GVA per employee in the UK was £54,330 in 2017<sup>(101)</sup>. This means that the legal services sector's labour productivity is almost two times higher than the average GVA per employee in the UK.

We have also compared the legal services sector's labour productivity to that of employees in the other sectors within the 'professional, scientific, and technical activities' industrial classification<sup>(102)</sup>; While the legal services sector is more productive than a number of sectors within the wider industrial classification, our estimates show that employees working in 'Management consultancy activities' sector have a higher productivity (approximately £108,000 per employee per annum) than the legal services sector.

**Figure 14: Productivity across professional, scientific, and technical sectors**



Source: KPMG analysis of ONS data (2018).

There are a number of workforce related factors that impact on productivity and innovation, including the skill level of employees. In general, higher skilled jobs are more productive, meaning each job makes a greater contribution to the economy.

As highlighted in section 3.3, the sector is expected to undergo changes due to the rise in automation of legal services tasks. While this could reduce the number of

FTEs required to do the same work, particularly for more standardised and administrative tasks, higher value work may be less impacted, and overall productivity of labour could increase. Indeed, as noted above, our analysis shows that the productivity of workers in the legal services sector has increased from £84,000 in 2013 to £100,500 in 2018, which may be the result of such trends already taking effect.



## Legal services sector interdependencies with other sectors in the economy (Inter-sector trade)

In order to understand how the legal services sector interacts with other sectors of the UK economy, we have undertaken an analysis to assess which sectors provide inputs to the legal services sector (i.e. which sectors legal services' companies procure good and services from). Moreover, we have also looked at the sectors for which legal services act as an input to their own production/provision of goods and services. These interactions determine the impact that the sector has on the wider economy through its supply chain, as well as the way in which the legal services sector supports key uses of its services (see also section 5.2).

The legal services sector is heavily labour and professional knowledge intensive, as it does not need significant intermediate inputs for the production of the sector's outputs (e.g. expert legal advice, judicial services, general counselling). However, as detailed in section 3.3, technology innovation has already started to change the legal landscape; this may result in an increase in the share of technology intermediate inputs over time.

Drawing from the data from the 2017 ONS Input-Output supply table<sup>(103)</sup>, our analysis, presented in Figure 15, shows that the largest proportion of inputs to the 'Legal activities' sector (16%) comes from a single sector: the legal sector itself.

This may be driven by two main factors:

- whilst solicitors typically work for law firms, barristers tend to be self-employed<sup>(104)</sup>, therefore referrals between the two represent inter-sector trade; and

- law firms increasingly tend to specialise in specific areas of expertise<sup>(105)</sup> meaning that they may not individually have the full breadth of skills and experience needed to cover all issues and therefore rely on engaging the services of other firms with the specialisms required in order to provide a more comprehensive service to clients.

'Real estate services, excluding on a fee or contract basis and imputed rent' form 14% of inputs to the legal services sector. This includes buying, renting and operating of own or leased real estate.

'Computer programming, consultancy and related services', 'Financial services, except insurance and pension funding', and 'Advertising and market research services' also act as important inputs to the legal sector, accounting for approximately 8%, 5%, and 4% respectively in 2017.

Education services' also account for a relatively sizeable proportion of the sector inputs to the legal sector (4%). This is likely to be driven by a number of legal firms funding education and training for their employees which is externally procured, for example, Legal Practice Courses for trainees and professional development training, including compulsory 'continuing competence'<sup>(106)</sup>.

The analysis of the interdependence of sectors in an economy allows the production of multipliers<sup>(107)</sup>. As explained in section 4.1, these are used in our analysis to estimate the indirect and induced contribution of the legal services sector to the UK economy. The indirect multipliers differ across industries to reflect the different input requirements to produce each unit of output and the relative productivity and value added of different activities.

'Legal activities' sector multipliers<sup>(108)</sup>, similar to the multipliers relating to other professional sectors, are lower than the average across the sectors in the UK economy<sup>(109)</sup>. It is in the nature of the professional sectors to have relatively lower indirect multipliers, due to their limited supply chains.

Turning to demand, legal services also serve as important inputs to other sectors of the UK economy, with a range of sectors procuring legal services. Our analysis of the 2017 ONS Input-Output supply table<sup>(110)</sup>, the results of which are shown in Figure 15, also illustrates which sectors utilise legal services most in the UK economy.

Approximately 10% of the total demand for legal services in 2017 came from the 'Public Administration And Defence; Compulsory Social Security' sector. This is likely due to public administrations purchasing legal services from legal businesses for the representation of legally aided clients. In addition, whilst the Government Legal Department<sup>(111)</sup> services much of the Government's legal requirements it also procures services from external legal professionals when needed. The Law Society Gazette<sup>(112)</sup> reports that by 31 March 2019, the UK government reduced its spending on external law firms by 10% over the previous two years. Furthermore, based on Thomson Reuters' analysis, the Law Society Gazette reports that the Department for International Trade is currently one of the biggest spenders on external legal services, due to its role in negotiating international trade agreements related to Brexit.

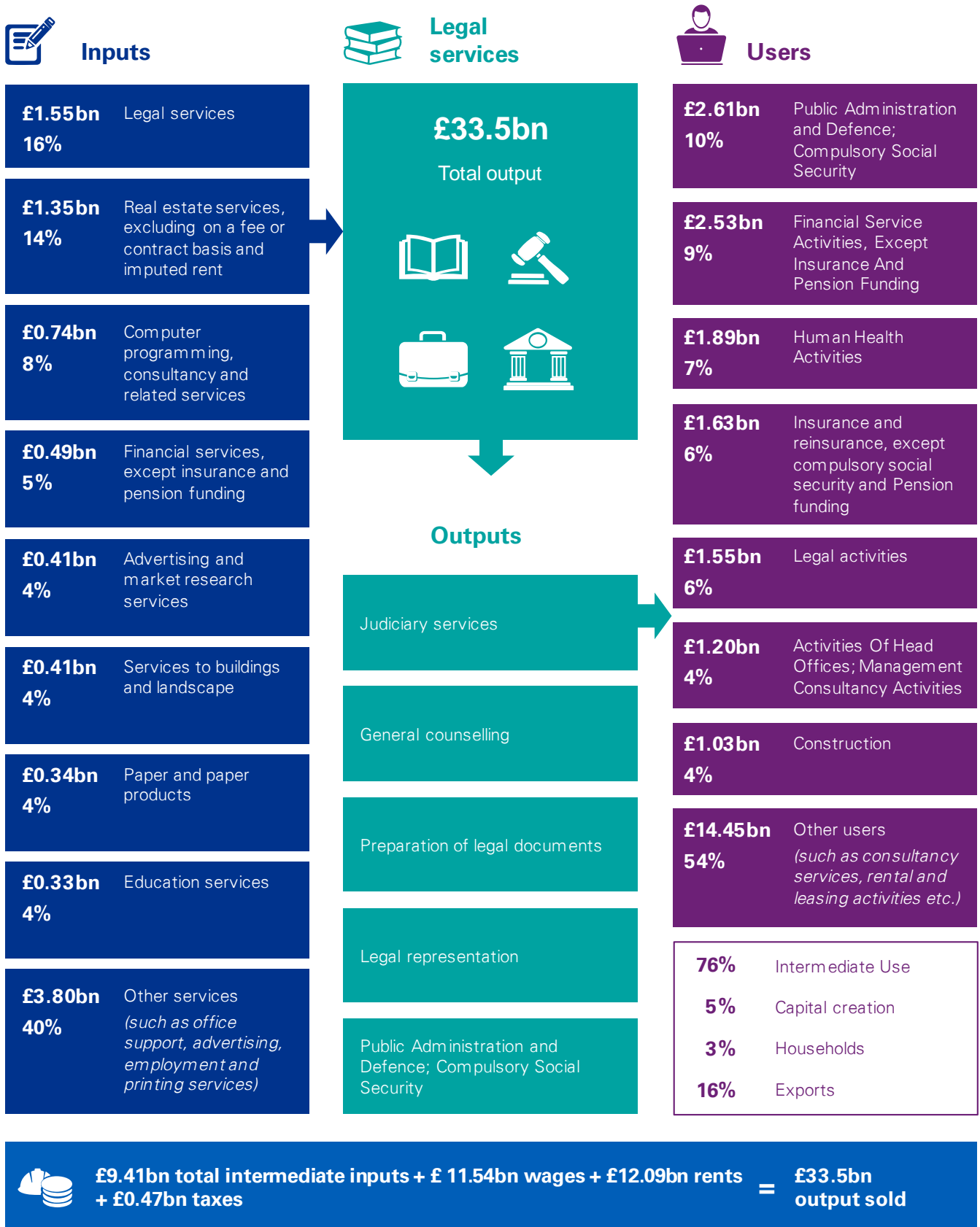
The 'Financial Service Activities, Except Insurance And Pension Funding' sector and the 'Human Health Activities' sector represent respectively 9% and 7% of the total demand of legal services in 2017.

As financial services firms operate in a highly regulated environment, they require a range of legal services, including the development of contracts, broader advisory and project and deal structuring services, as well as dispute resolution services<sup>(113)</sup>. However, the Law Society<sup>(114)</sup> reports that even though the financial sector represents one of the main sources of demand for legal services, it does not expect it to be a significant source of growth in demand for legal services in the future given that the UK financial sector has been showing 'only a modest recovery since the financial crisis' and a 'moderate growth at most over the forecast period'<sup>(115)</sup> (2017-2025).

Demand for legal services from the 'Human health activities' sector is driven by clinical negligence cases and issues around insurance coverage.

The extensive uses of legal services by the financial sector and the health sector contribute to the impact generated by the legal services sector to the UK, as they are necessary for the well-being of the economy. The broader role of the legal services sector in supporting the economy is explained in further detail in section 5.2 of this report.

Figure 15: Legal services sector linkages

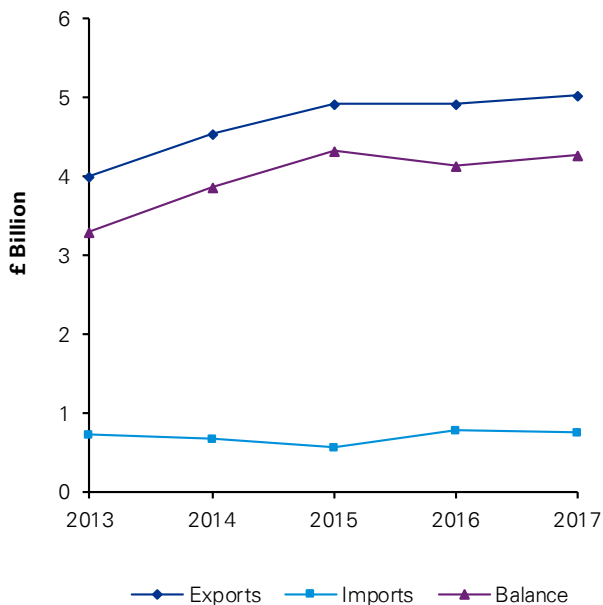


Source: KPMG analysis of ONS Supply-use table (2017).

## International trade

The balance of payments measures the economic transactions of the UK with the rest of the world<sup>(116)</sup>. Specifically, the balance of trade is the difference between the value of imports and exports, and it is used as an indicator to measure the relative strength of a country's economy. A country that imports more goods and services than it exports has a trade deficit. On the other hand, a country that exports more goods and services than it imports has a trade surplus.

**Figure 16: Legal Services historical trade (2013 to 2017)**



Source: KPMG analysis of ONS 'International Trade in Services' data.

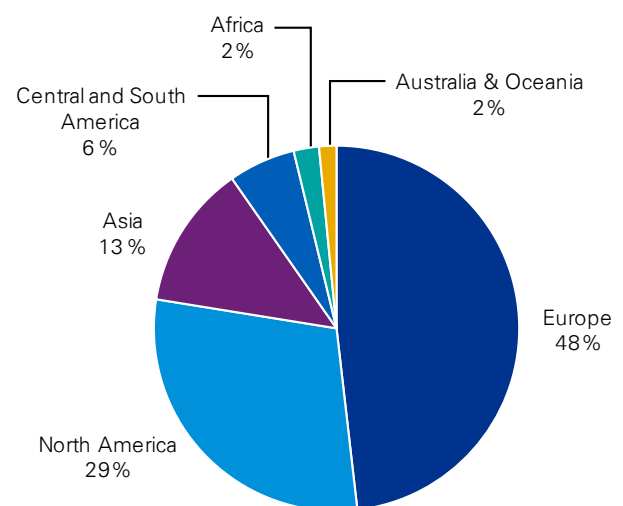
The UK legal services sector contributes to the UK economy's export levels, for example in terms of the provision of legal sector services to foreign businesses using English law and legal services offered by British legal firms when contracting. English law is recognised as an international standard and is the law most frequently used in the world of commercial contracts, governing approximately 40% of global corporate arbitrations<sup>(117)</sup>. For example, a Ministry of Justice study reports that the UK is a 'global leader in international and commercial arbitrations', and that 90% of commercial cases managed by law firms in London have an international party<sup>(118)</sup>. However, the study also finds that 'Protectionist regulations remain a major obstacle to us exporting our services to some foreign markets' and suggests that worldwide competition for legal services is increasing, and that London and other UK jurisdictions are now competing with other major global cities to become the hub of legal expertise.





In 2017<sup>(119)</sup>, the UK exported approximately £5bn worth of legal services, equivalent to around 2% of total services exports<sup>(120)</sup>. The largest share of legal services exported were to the United States (accounting for approximately 28% of exports of legal and accounting services), followed by the Netherlands and Ireland (accounting for approximately 7% and 5% of legal services exports respectively)<sup>(121)</sup>.

**Figure 17: Estimated share of UK legal services exports by continent, 2017**



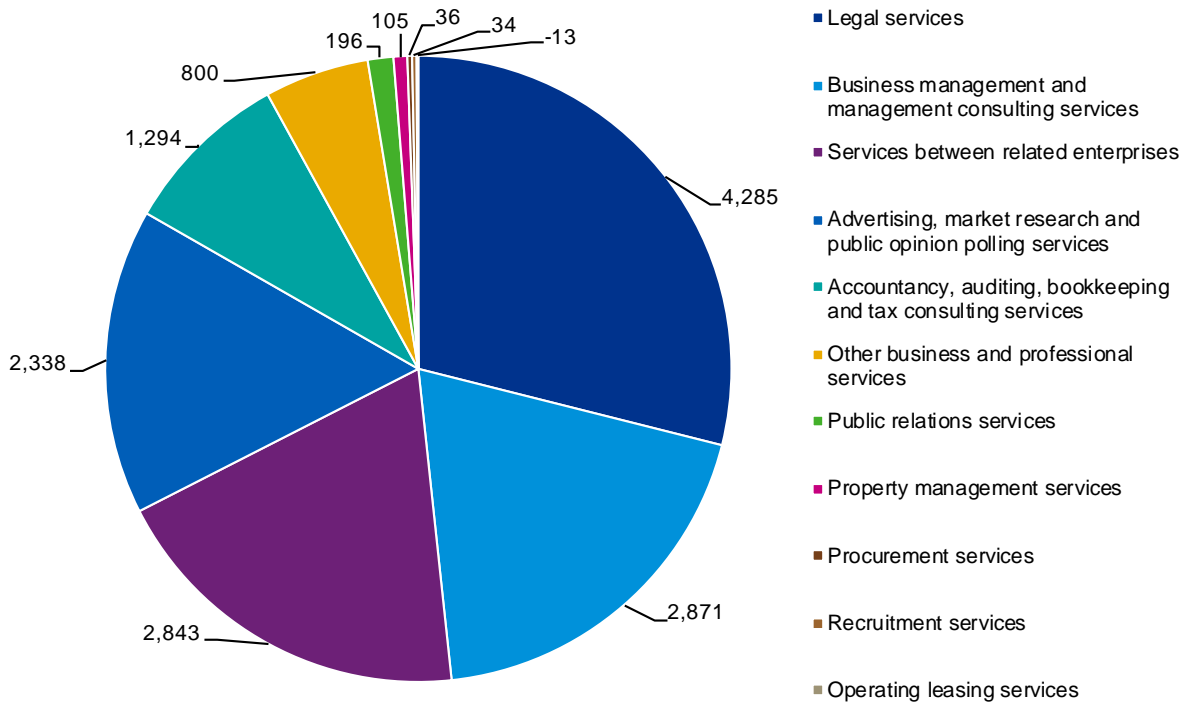
Source: KPMG analysis of ONS 'International trade in services by partner country, UK: October to December 2017: The list of trade partners'.

Imports to the UK of legal services were lower at approximately £0.80bn, equivalent to approximately 0.5% of total services imports in the UK in 2017<sup>(122)</sup>.

The legal services sector, therefore, contributed positively toward the UK's balance of trade, making a net contribution of £4.29bn in 2017, and potentially more given than this as our analysis is likely to underestimate the contribution given that it captures activity only in the legal services sector itself and not in the other sectors that rely on legal services, such as the financial services sector, which is a major exporter and relies significantly on legal services (as shown in Figure 15).

Figure 18 shows that by comparing the balance of trade<sup>(123)</sup> in 2017 across the business and professional services sectors in the UK, the legal services sector had the highest balance of trade in 2017.

**Figure 18: Balance of trade (£ Million), 2017**



Source: KPMG analysis of ONS 'International Trade in Services' data.

## Results of our dynamic economic impact analysis

While section 4.2 assesses the current contribution that the legal services sector makes to the UK economy, this section presents a dynamic impact analysis which looks forward and considers the potential impact of the legal services sector on the UK economy if the productivity of the sector was to improve. Section 3.3 has highlighted a number of factors which could result in a more productive legal services sector, such as technological change, automation and AI.

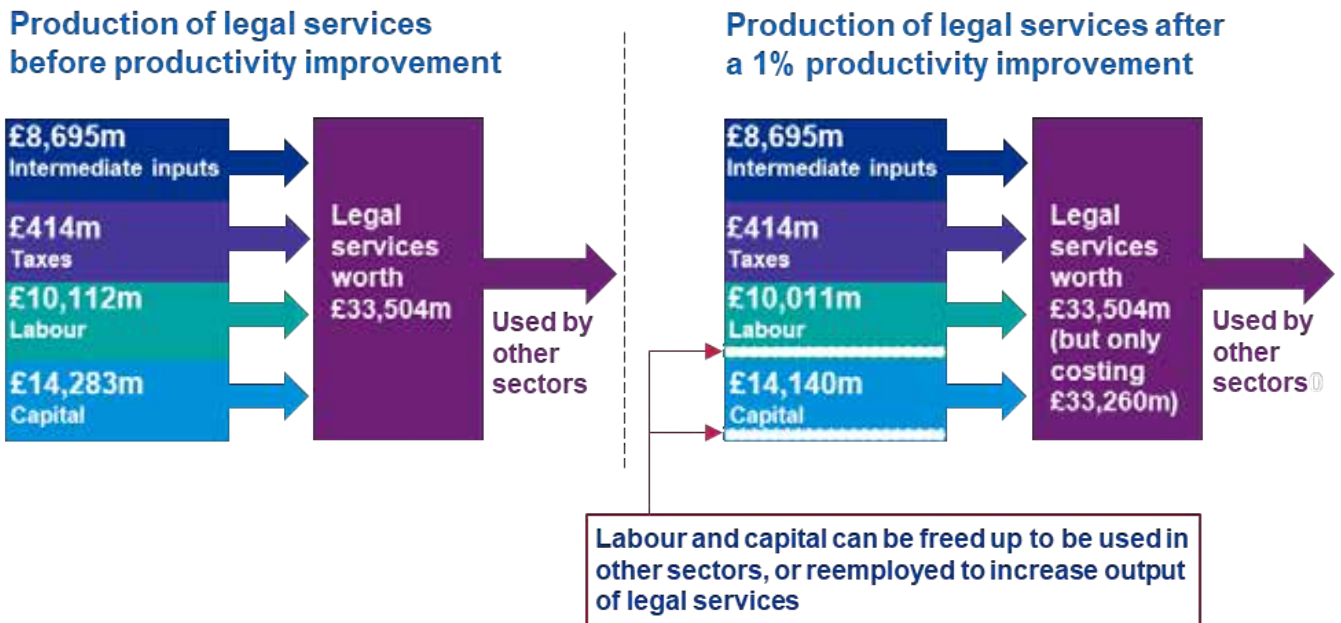
As explained in section 4.1, in a CGE model, economic impacts are estimated by introducing a 'shock' – to a particular part of the economy and modelling how this affects the whole economy over time (with the economy converging to a new equilibrium). This growth scenario is then compared to a 'business as usual' growth scenario in order to estimate the potential impacts of the shock on GDP. It is also possible to analyse the impacts of the shock on the components of GDP<sup>(124)</sup>, considering both the expenditure-side (household consumption, private investment, government consumption, imports and exports) and the income-side (labour/wages, tax receipts, capital and land rents).

Productivity improvements are an essential feature of economic growth. In our dynamic economic impact analysis of the legal services sector, we have used the SAGE Model to analyse the GDP impacts of a hypothetical 1% improvement in TFP.

### First round effects of a hypothetical 1% improvement in TFP

To demonstrate this this TFP improvement, Figure 19 presents what a hypothetical productivity 'shock' might look like initially, before it has any wider impact on the economy. This is based on the current structure of the legal services sector as presented in Figure 15.

Before the shock, Figure 19 shows that producing £33,504m worth of legal services output takes £8,695m of intermediate inputs from other sectors (such as stationary, accounting services, catering, maintenance, banking etc.), £10,112m of labour from within the sector (including a mix of skill levels) and £14,283m of capital (such as computers, furniture and office space, research and product development etc.). After a hypothetical 1% TFP improvement within the sector, producing the same amount of legal services output costs only £10,011m of labour and £14,140m of capital. This means producing £33,504m worth of legal services now only costs £33,260m – resulting in a productivity gain to the legal services sector of £244m.

**Figure 19: Conceptual impact of a total factor productivity (TFP) improvement**

Source: KPMG analysis based on ONS Supply-use table (2016) in basic prices.

Our SAGE modelling analyses how this initial productivity gain to the legal services sector could have impacts on the wider economy over the time, resulting in estimated long-term impacts on GDP which are a multiple of the initial productivity gain.

The model captures how this productivity may be passed on to other sectors of the economy via the legal services sector's supply chains. This could happen principally in two ways:

- Upstream linkages: if output of the legal services sector increases due to its increased productivity, the sector would demand more inputs, which would benefit upstream industries by enabling them to increase their supply of goods and services to the legal services sector; and
- Downstream linkages: if the increased productivity of the legal services sector enables the sector to reduce the costs of the outputs it produces, these lower prices will benefit downstream industries who use legal services in their production (in terms of both intermediate inputs and capital). This may result in other sectors demanding/consuming more legal services and allow these other sectors to produce their outputs for less. In turn, this could mean the sectors that they supply can potentially do the same (and so on) across the whole economy<sup>(125)</sup>.

A productivity improvement in the legal services sector also means there are more resources (labour and capital) available to respond to the additional demand generated by lower prices both within the legal services sector and in the wider economy. Some of this arises directly from the initial productivity gain – the 1% of capital and labour no longer needed for a given level of legal sector output – but there is also an important indirect effect. As the savings flow through the economy, they increase what can be produced for a given amount of labour and capital, which pushes up wages and the returns to capital investment, increasing the supply of both. Our SAGE modelling captures these effects over time. As explained in the next section, the legal services sector's linkages with the rest of the economy mean that the impact on investment is estimated to be particularly strong; over time generating an increase in capital stock (and ultimately GDP) which is significantly greater than the initial productivity gain.

### Dynamic impacts of a hypothetical 1% improvement in TFP

Our SAGE modelling estimates that a hypothetical 1% TFP improvement in legal services could increase UK GDP by between £990m and £1,200m by 2050, depending on whether the TFP improvements applies only to legal firms or more broadly to legal services activity across the whole economy. This analysis implies that every £1 of productivity saving in the legal services sector in 2020 could generate between £3.30 and £3.50 of additional GDP for the UK by 2050<sup>(126)</sup>.



There are three key ways in which this TFP improvement in the legal services sector is estimated to generate increased economic growth in the economy as a whole through our SAGE modelling:

**Supporting other sectors of the UK economy, with an estimated 78% to 80% of the estimated total impact on UK GDP occurring in other (non-legal) sectors.**

Our modelling estimates that improving the productivity of the legal services sector has the potential to support other sectors of the UK economy by increasing their output. As shown in the earlier industry linkage diagram (see Figure 15), the legal services sector is currently an important contributor to economic activity in other important sectors of the economy, including 'Financial Service Activities, Except Insurance And Pension Funding', 'Public Administration And Defence; Compulsory Social Security' and 'Human Health Activities'<sup>(127)</sup>. A more productive legal services sector is estimated to result in lower priced outputs which benefits other sectors downstream that use legal services as an input to the production of their goods and services. This cost saving then allows those firms to potentially spend resources on other inputs such as labour, capital or intermediate inputs, and in turn expand their own production. This effect is particularly strong for export-intensive service sectors which are able to sell their outputs to global markets. For example, a financial services firm which benefits from a reduction in the costs of legal services, can instead direct this spend towards high-skilled workers or better technology for their staff to increase their own productivity. This flow-on effect ripples through the economy, resulting in the long term in a larger impact of the initial 1% productivity gain outside the legal services sector than within it.

**Generating more capital for other sectors of the economy, with every £1 increase in legal services productivity in 2020 estimated to result in £9.15 to £10.61 of additional capital by 2050.**

Our modelling suggests that, all else being equal, an improvement in legal services' TFP and the flow-on effect it has across the economy has the potential to make the UK a more attractive place in which to invest. This is because lower costs of production (from legal services being cheaper to produce) are estimated to increase the profitability of new investment. Our analysis – the results of which are shown in Figure 21 – estimates that the 1% improvement in legal services' productivity could increase annual investment at the UK level by £152m by 2050<sup>(128)</sup>.

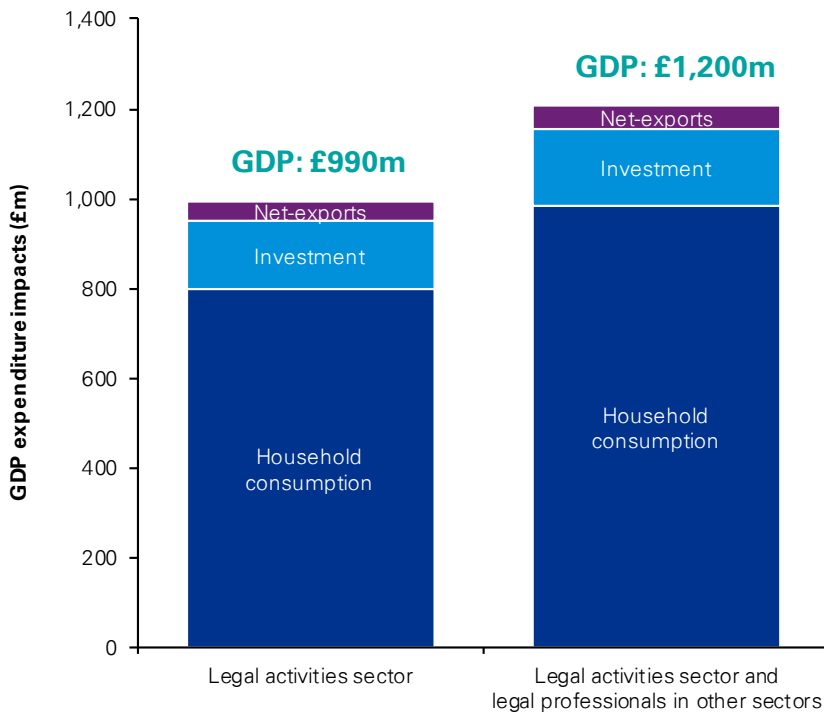
This increase in investment means that more capital (such as buildings, vehicles, software, research and product development) is accumulated over time, with the long term effect of increasing the UK's capital stock. This additional capital stock means that each worker can produce more and potentially earn a higher wage (discussed below). Of this additional capital, our modelling estimates between 78% to 84% is in other service sectors, further highlighting the role that improved productivity in the legal sector can have more broadly across the UK economy.

**Improving real wage rates for workers across all sectors of the economy, with average UK wage rates increasing by an estimated £0.61 to £0.68 per £1 of wage rate increases in the legal services sector.**

In our modelling, the TFP improvement to the legal services sector is estimated to benefit workers both within the legal services sector and more broadly across other sectors of the UK economy. As already highlighted, a more productive legal services sectors is estimated to result in cheaper inputs for other sectors which use legal services in their production, enabling those other sectors to expand their production. As production in these other sectors expands, demand is pushed up for legal services which increases demand for legal workers, as well as workers in other sectors, in turn driving up the wage they are paid. Our modelling estimates, unsurprisingly that the real wage rate (earning per hour/day) for workers in the legal services sector, where the initial productivity gain is assumed to occur, grows by more than the wage rate for workers in other sectors of the economy, however total wage income (across all workers) is larger in other sectors reflecting the estimated greater total gain in output in other sectors (see above).

Figure 20 compares the estimated impact of the hypothetical 1% improvement in TFP of the legal services on UK GDP and its expenditure components by 2050 using the two different definitions of the sector (firstly limited to legal activities, as defined by SIC 69.1, and secondly by capturing all legal services activity across the economy). In both cases household consumption is significantly increased, as the efficiency improvements across the economy drive up real wages (as explained above), allowing households to purchase more goods and services. The effect on investment and exports is also enhanced, and the impact on imports is also greater given the increases in household consumption and business output.

**Figure 20: Estimated long term GDP impacts of improving legal activities sector productivity (2050, £m)**



A 1% improvement in the productivity of the legal services sector could boost UK GDP by between £990m and £1,200m in 2050.

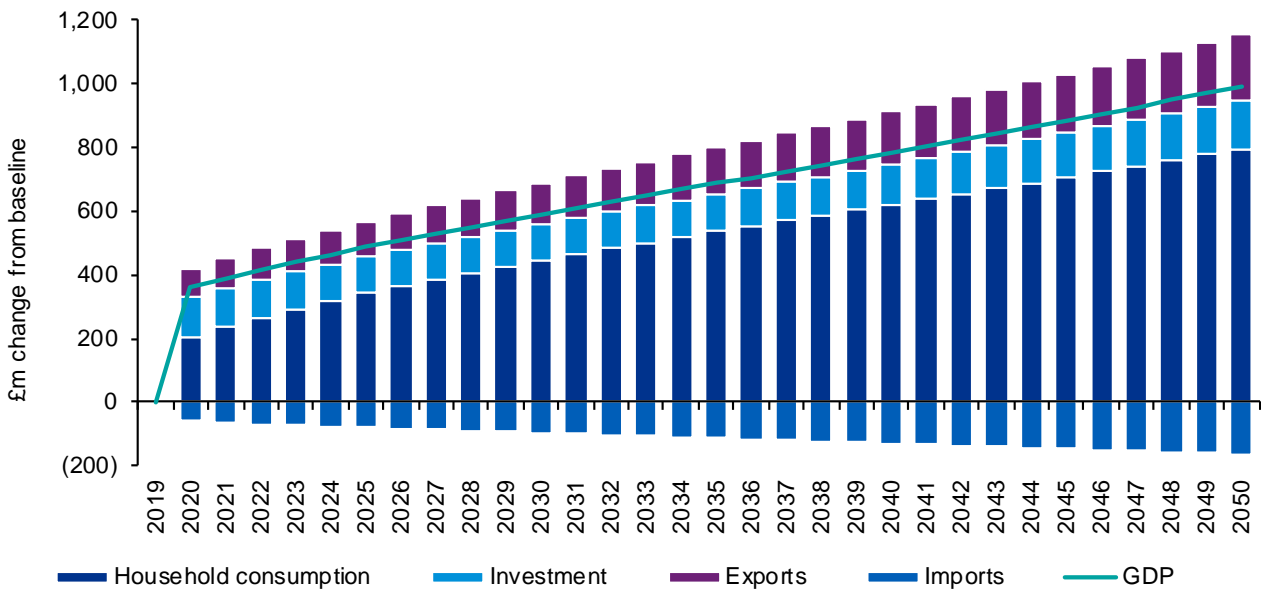


Every £1 of productivity saving in the legal services sector in 2020 could generate between £3.30 and £3.50 of additional GDP for the UK in 2050.

Source: KPMG SAGE analysis.  
 Note: Prices are in 2019 £.

Figure 21 presents the estimated impact of the hypothetical 1% improvement in TFP of the legal services on UK GDP and its expenditure components over time, focusing on the narrower definition of the sector limited to the ONS definition of ‘Legal activities’.

**Figure 21: GDP and expenditure component impacts of a 1% TFP improvement to the “Legal activities” sector**



Source: KPMG SAGE analysis.  
 Note: Prices are in 2019 £. An increase in imports is shown as a negative as this is subtracted from GDP.

Results from our modelling show that more than 80% of the long term GDP gain is estimated to come from additional household consumption (£797m in 2050<sup>(129)</sup>) – i.e. real terms additional spending by households on goods and services. Over half of this increase in household consumption is estimated to arise within 10 years of the TFP improvement to legal services (i.e. by 2030).

Although the scale of impacts differ to some extent dependent on the definition of the legal services sector adopted, the results of our dynamic impact modelling show that irrespective of which definition is used, only a small improvement (1%) to the TFP of the legal services sector, has, over time, a much more significant positive impact across the whole UK economy.



# 05

## Wider social-economic value



The contributions of the legal services sector in the UK extend beyond those economic impacts estimated in section 4.

Wider contributions made by the sector include:

- the contributions of the legal services sector to society through the provision of pro bono legal services; and
- the contributions of the legal services sector to enabling a well-functioning economy and the wider socio-economic value that is generated from this.

This section considers these impacts, and includes the results of a quantitative analysis of the value of pro bono work provided by the legal services sector as well as a qualitative assessment of the wider socio-economic contributions made by the sector. This assessment is based on evidence from academic literature that examines how the provision of legal services facilitates investment and economic growth.



### The impacts associated with pro bono legal services provided in the UK

#### Pro bono activity in the legal services sector

The Pro Bono Protocol, developed under the Attorney Generals' Pro Bono Coordinating Committee<sup>(130)</sup> defines pro bono services as 'legal advice or representation provided free of charge by legal professionals in the public interest.'<sup>(131)</sup> Pro bono services can be provided to individuals, charities or community groups who are unable to pay for legal goods and services and are unable to obtain legal funding (i.e. government legal aid) through other means. The services provided have to be free to the client for the entire legal case and provided voluntarily by the lawyer or the firm.

Evidence suggests that the practice of undertaking pro bono legal services is common among law firms and individual lawyers in the UK, particularly in the early stages of a lawyer’s career. A survey carried out by the Law Society in 2017 found that among ‘young’ solicitors (0-9 years since admission), 76% reported taking part in pro bono work in the previous 12 months. This figure reduced to 47% and 35% of mid-career<sup>(132)</sup> and senior<sup>(133)</sup> solicitors, respectively<sup>(134)</sup>.

According to a 2015 report<sup>(135)</sup>, the provision of pro bono legal services is increasing in importance to law firms and their employees throughout the UK. There has been a growing commitment for the delivery of goods and services by various organisations and institutions, with many working together to foster and pursue pro bono activities, as evidenced by the introduction of National Pro Bono Week. The event was initiated in 2001 by Her Majesty’s Attorney General for England and Wales to recognise the contribution that the legal services sector makes in the form of pro bono work to individuals unable to access legal services<sup>(136)</sup>. The event promotes and supports the free legal work solicitors undertake, and aims to encourage legal professionals and students to volunteer their time, and ensure that pro bono services are used efficiently<sup>(137)</sup>.

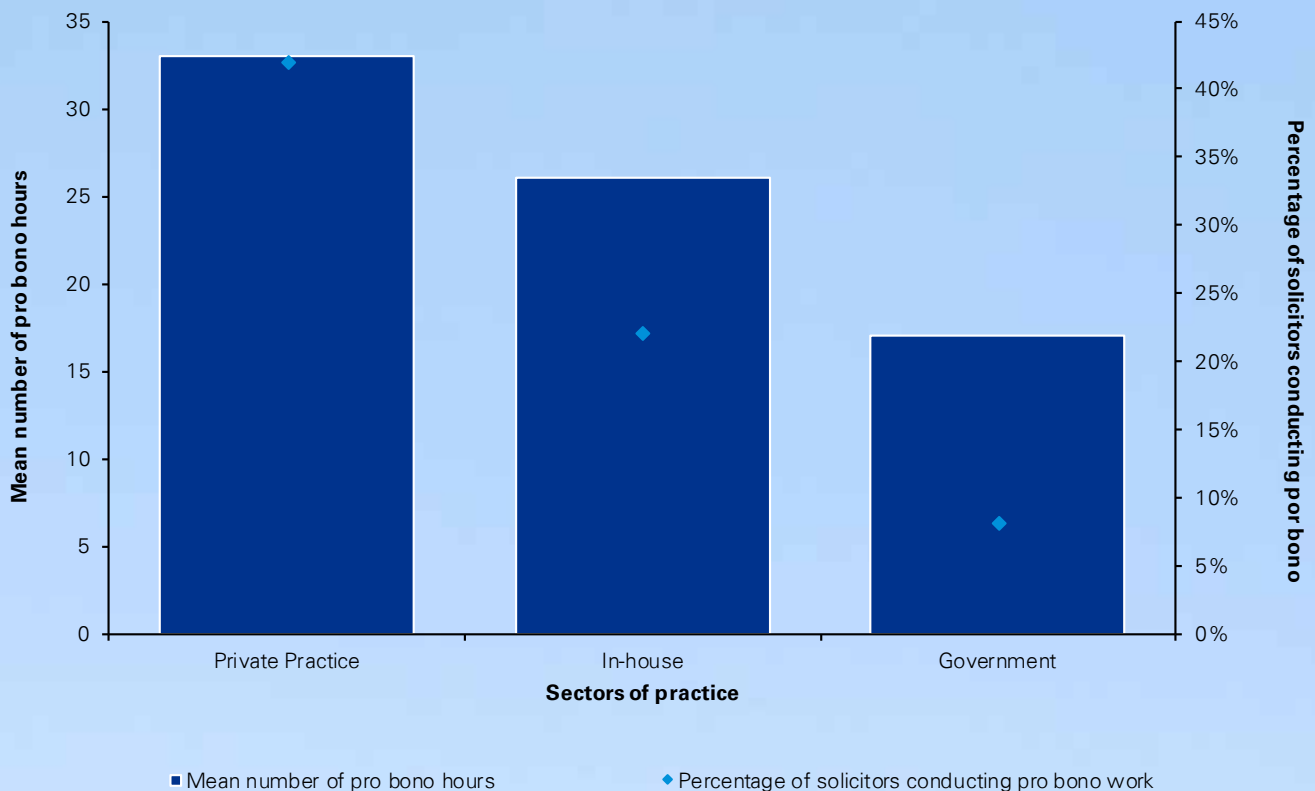
In an effort increase collaboration across the provision of pro bono legal services, the Law Society also offers free and confidential support for its members and employees of law firms<sup>(138)</sup>.

### Estimated scale of pro bono work provided

To better understand the contribution that legal services firms and employees within the sector make in terms of pro bono work, since 2012, the Law Society has conducted an annual survey (the PC Holder Survey) to collect information on the provision of pro bono services in England and Wales. The survey is conducted based on a statistically significant random sample of solicitors and is conducted via telephone interviews. Approximately 1,500 solicitors, segmented by sector, are asked about the pro bono work they undertook over a 12-month period.

Our analysis of the scale and value of pro bono work conducted by solicitors, set out below, relates to 2017 using the results from the PC Holder Survey conducted in this year.

**Figure 22: Pro bono work of solicitors, by sector (2017)**



Source: Law Society PC Holder Survey (2017).

Law Society data shows that, from 2013 to 2017, private practitioners registered the highest number of mean hours dedicated to pro bono work (33 hours in 2017), compared to lawyers working in government (17 hours) and in-house<sup>(139)</sup> (26 hours). Moreover, data suggests that in 2017 the percentage of solicitors conducting pro bono work was higher in private practice (42%) compared to professionals working in government (8%) and in-house (22%).

This variation in the scale of pro-bono services provided by different segments of the sector may be associated with the availability of opportunities as results from the Law Society survey show that in 2016, solicitors working in government and in-house were most likely to report they did not have adequate opportunities to conduct pro bono work. Specifically, 61% of non pro bono solicitors working in government and 51% solicitors working in house reported not having adequate opportunities to conduct pro bono work, compared to a lower 32% of solicitors working in private practices<sup>(140)</sup>. The reason behind the difference in opportunities may be due to the fact that Private Practices, compared to government and in-house, have more resources to coordinate and organise pro bono work.

Based on data provided by the Law Society<sup>(141)</sup>, covering a representative sample of its members, we estimate that in England and Wales in 2017 approximately 43,800 solicitors<sup>(142)</sup> dedicated time to supporting pro bono legal services, spending a total of approximately 1,446,000 working hours. By converting this time into a monetary value using average charge out rate data as a proxy for the opportunity cost and value of providing these services, we estimate that this pro bono time is equivalent to approximately £439m in value<sup>(143)</sup>.

### The importance of pro bono work

Article 6(1) under the European Convention of Human Rights (ECHR) protects an individual's right to a fair trial in the determination of his civil rights and obligations, or of any criminal charge against him<sup>(144)</sup>. In relation to criminal offences, Article 6(3)(c) everyone has the right 'to defend himself in person or through legal assistance of his own choosing or, if he has not sufficient means to pay for legal assistance, to be given it free when the interests of justice so require'.

Beyond the core human right, a body of evidence has demonstrated that the inability to access legal services may result in disadvantage, poverty and inequality<sup>(145)</sup>. Although income inequality is the primary contributor to inequality in accessing legal services, unequal access to legal services is likely to further perpetuate inequalities in other non-income outcomes, such as education attainment, health and



well-being conditions and employment opportunities, all of which are important determinants of growth and well-being<sup>(146)</sup>.

Reinforcing this, the 2012 Legal Needs Survey<sup>(147)</sup> conducted by Ipsos MORI on behalf of the Law Society and the Legal Services Board found that certain groups of individuals are significantly less likely to access legal services, with social grade DE (i.e. semi-skilled and unskilled manual occupations, unemployed and lowest grade occupations) less likely to seek legal services compared to those in social grade AB (i.e. higher and intermediate managerial, administrative, professional occupations)<sup>(148)</sup>.

For the last 60 years, the UK government has dedicated public resources to the provision of free legal advice to eligible individuals in civil and criminal proceedings (i.e. legal aid). Other than the right to free legal advice if questioned at a police station, which is available to all, eligibility for legal aid is determined by the type of case, the financial circumstances of the individual, and their age, with all individuals under 16 years of age automatically qualifying for legal aid<sup>(149)</sup>.

The scope of legal aid provision in civil cases has become much more limited since reforms to legislation governing legal aid<sup>(150)</sup>. In an effort to increase the efficiency of the legal aid system and to focus on the highest priority cases, the Legal Aid, Sentencing and Punishment of Offenders Act 2012 (LASPO) brought forward reforms to reduce the costs and burden on the legal system. As a result its enactment in April 2013, England and Wales experienced<sup>(151)</sup>:

- 80% decrease in the number of social welfare cases granted legal aid;
- 62% decrease in the number of civil cases granted legal aid; and
- 60% decrease in the number of family law cases granted legal aid.

The need for pro bono work is not new. However, the current landscape brought about through the newly reformed public legal aid system has led to a further increased demand for free legal services outside of state provision. Furthermore, the Legal Services Board<sup>(152)</sup> research indicates that, beyond the unmet demand from those seeking free legal services, a high share of individuals (44%) with legal issues do not seek legal advice, and over half of small businesses that encounter a legal issue attempt to resolve it themselves rather than seek professional help<sup>(153)</sup>. This is considered an 'access gap' and refers to the part of the population that experience a legal issue but do not access advice and therefore have an unmet legal need.



Beyond affordability, the research conducted by the Legal Services Board indicates that potential barriers in accessing legal services are<sup>(154)</sup>:

- failure to provide services to the susceptible demographics;
- lack of trust in the legal system; and
- inaccessible language.

This suggests a role for pro bono work, not only in filling the gap in the provision of legal services to those not able to afford it, but also in outreach work to improve information and understanding of legal services among more vulnerable segments of society.



### Wider contributions of the legal services sector to UK economic growth

The analysis so far in this report has focused on the quantifiable aspects of the legal services sector contribution to the UK economy. In terms of economic growth, this has focused on the observable transactions generated through the activity in the sector, the trickle-through effects of this in the economy through its supply chain, as well as the dynamic analysis of a hypothetical improvement to the legal services productivity and how this flows through other sectors of the economy.

However, the legal regime – that is the structure of laws and market regulations, and the conduct of lawyers in both the development and enforcement of those laws and regulations and in supplying legal services to individual market participants – also has a significant impact on economic growth in the UK through the enabling role it provides, particularly for key sectors such as financial services, and its role in facilitating the efficient and effective functioning of the overall economy.



While it is not possible to quantify the scale of such impacts in the same way as, for example, the employment and GVA impacts, in this section of the report we provide a qualitative assessment of the enabling role legal service provision plays in the economy. We explain the routes through which the legal system and the activity of the legal services sector are critical to the creation of an environment that facilitates growth in the wider economy. And we present evidence in relation to how the core set of activities provided by the legal services sector facilitates market activity throughout the economy as well as influencing economic behaviour, which in turn drives economic performance and growth<sup>(155)</sup>.

In the field of economics, it is widely acknowledged that output per capita of a society is closely related to the amount of human capital (quantity and quality of labour), physical capital (land, resources, machinery) and technology that it holds. And that economic growth is related to the ability of society to increase or improve each of these factors.

However, understanding the reasons for differences in these factors across economies, requires consideration of additional underlying factors.

It is argued by a number of academics and research institutes that economic institutions (those that support first order economic principles such as the protection of property rights, competition, and appropriate incentives) underpin long run economic growth<sup>(156),(157),(158),(159)</sup>. Empirical evidence suggests that the quality of economic institutions positively affects the level of GDP per capita, the growth of GDP per capita and the volatility of growth via its effect on investment<sup>(160),(161),(162)</sup>.

A report by the World Bank draws on the following defining characteristics of institutions based on commonly cited literature by North (1990)<sup>(163)</sup>:

1. they are 'humanly devised,' (in contrast to other potential fundamental causes, like geographic factors which are outside human control);
2. they are 'the rules of the game' setting 'constraints' on human behaviour;
3. they affect human interaction.

Within this broader definition of institutions, economic institutions refer to the arrangements and structures in place that impact the allocation of scarce resources, a component of which is a dependable legal system<sup>(164)</sup>.

“

Among the institutions that are most crucial to economic growth are those that enable a country to allocate capital to its most productive uses. Such institutions establish and maintain strong property rights, an effective legal system, and a sound and efficient financial system<sup>(165)</sup>.

**Mishkin (2007)**

Economic institutions provide a set of functions that are identified by Mishkin (2007) among others, with the main functions classified in an IPPG<sup>(166)</sup> paper as follows:

## 1 Establishing and protecting property rights

A property right is the exclusive authority to determine how a resource is used, whether that resource is owned by government or by individuals. Private property rights have two other attributes in addition to determining the use of a resource. The first is the exclusive right to the services of the resource (e.g. whether to rent it to others, and if so, to whom). The second is the right to delegate, rent or sell any portion of the rights by exchange or gift at whatever price the owner determines (provided someone is willing to pay that price)<sup>(167)</sup>.

The function of establishing and protecting property rights covers examples such as land tenure and intellectual property rights, among others<sup>(168)</sup>.

Certainty around property rights provides the basis for individuals and firms to make productive investments which would not be undertaken if the returns on investment could be taken away by the government or others. Therefore, when property rights are well defined and protected, people can focus their activities on entrepreneurial activities and innovation rather than focusing time and resources on preventing potential expropriation or predation.

## 2 Facilitating transactions

Transactions are facilitated through the establishment of rules of exchange and respect for contracts, and the reduction of or appropriate allocation of risk<sup>(169)</sup>.

The function of facilitating transactions covers examples such as contract law, dispute arbitration, banking conventions and financial instruments, and insurance<sup>(170)</sup>.

Certainty that contracts can be enforced quickly and fairly, if needed, is essential for parties to have confidence in undertaking transactions. A critical example of this for financial services is the structuring of financial instruments sold on the capital markets. For capital markets to operate effectively, banks/issuers and investors need the confidence that contracts are fit for purpose and can be enforced<sup>(171)</sup>. Without this confidence, all transactions would carry much greater risk. This would either reduce prices or reduce the number of transactions and in practice it is likely to have an impact on both, leading to a reduction in the value of transactions<sup>(172)</sup>.

Similarly, lenders write restrictive covenants into loan contracts to prevent borrowers from taking on too much risk, but such covenants have value only if they can be legally enforced. An inefficient legal system in which loan contracts cannot be enforced would prevent productive lending from taking place, leading to lower investment and growth<sup>(173)</sup>.

Thus, if it is easy to trade, obtain credit, and to insure against risks, transactions and investment in the market will be encouraged, leading to greater economic growth. Furthermore, the benefits that particular individuals or firms derive from participation in a market tend, at least up to a point, to be higher the greater the number of potential counterparties to be found in the market, and the greater the levels of transactional activities of those potential counterparties. This increases opportunities for gains from trade and reduces risk. This is particularly evident in capital markets where increased market participation leads to greater competition and less price volatility, in turn further reducing risks for participants<sup>(174)</sup>.



### 3 Permitting economic co-operation and organisation

This function allows for effective interactions between organisations, collective action and cooperation.

The function of permitting economic co-operation and organisation covers examples such as the legal status of businesses and firm behaviour, competition law, and employment law<sup>(175)</sup>.

Economic organisation is likely to be more effective and efficient when institutions facilitate transactions and co-operation between individuals. This helps enable and deliver the benefits of specialisation and economies of scale where they apply.

In addition, firm behaviour in terms of adherence to rules and regulations, will be influenced by the strength of the institutions overseeing their behaviour as well as norms and expectations established through both economic and social institutions<sup>(176)</sup>.

Across these three sets of functions, it is clear that the legal regime has a central and critical role in delivering these functions. For example, it is not only important to have property rights assigned, but investors have to have confidence that the legal system will protect their property rights<sup>(177)</sup>.

“ Among the institutions that have the greatest impact on economic performance, the legal and judicial system plays a prominent role.

(Lorizio & Gurrieri, 2014)<sup>(178)</sup>

This is largely through the impact a well-functioning legal regime has on lowering the ‘transaction costs’ associated with interactions, transactions and co-operation between market participants. Such transaction costs include information costs, bargaining and decision costs, policing and enforcement costs<sup>(179)</sup>. The legal services sector also impacts the incentives for, and behaviours of, firms and individuals, leading to greater adherence to norms and conventions.

To effectively support the three functions described above, and to deliver the resultant benefits in terms of investment and economic growth, a legal regime needs to be ‘*stable and provide certainty to market participants at reasonable cost, allowing them to transact in confidence. In addition, it also needs to be sufficiently adaptable to new and evolving circumstances, and to the new opportunities for social and economic transactions that such evolution frequently brings*<sup>(180)</sup>’.

# Appendix 1

## Endnotes

1. Law Society 2019, Lawtech Adoption Research, See: <https://www.lawsociety.org.uk/support-services/research-trends/documents/law-society-lawtech-adoption-research-2019/>
2. Law Society, 2016. Economic value of the legal services sector. See: <https://www.lawsociety.org.uk/support-services/research-trends/a-25-billion-legal-sector-supports-a-healthy-economy/>
3. Gross effects reflect the total effect of an intervention or activity. Net impacts take into account only those impacts that are additional, i.e. impacts that are brought about, over and above what would happen anyway. These excludes any impacts that would occur in the absence of the activity or intervention under consideration. See: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/191511/Additionality\\_Guide\\_0.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/191511/Additionality_Guide_0.pdf)
4. The scope of impacts analysed in this study were agreed with the Law Society at the outset of the project based on the impacts generally included within such studies and with a focus on the main channels through which the Legal Sector contributes to the UK.
5. Direct economic impacts are the first round effect where the demand creates economic activity.
6. GVA measures the contribution to the economy of an individual producer, industry or sector, net of intermediate consumption (for example goods and services that are used in the production process). It is a measure of the economic value of the activity.
7. See section 4 for an explanation of static impact analysis.
8. Indirect impacts are the effects generated through the activity and output supported in the UK based supply chain as a result of procurement of inputs of goods and services (both for construction and ongoing operations). Induced impacts are multiplier effects that arise in the UK economy as a result of direct employees and employees in the UK supply chain spending a proportion of their wages in the UK. This spending generates additional economic activity for those businesses from which these employees buy goods and services and in these businesses' own wider supply chains.
9. See section 4 for an explanation of dynamic impact modelling.
10. Comprised of the 'Legal activities' sector' as classified by the ONS (SIC 69.1) and legal professionals in sectors other than the 'Legal activities' sector classified by the ONS (SOC 2412, 2413, 2419, 3520, 4212). See section 4.1 for more details.
11. The split of legal services GVA contribution across the UK countries is approximated based on SIC code 69 (Legal and accounting services) due to lack of country level data for GVA for SIC code 69.1 (Legal activities).
12. Numbers do not sum up to 552,000 due to rounding.
13. As classified by the ONS (SIC 69.1)
14. As classified by the ONS (SOC 2412, 2413, 2419, 3520, 4212)
15. As classified by the ONS (SIC 69.1).
16. This is based on ONS LFS data (2018) for the legal services sector.
17. ONS, UK labour market: December 2018, See: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/december2018>.
18. ONS. 2018, Productivity measures. See: <https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures>
19. Parliament Briefing Paper. 2017, Productivity in the UK. See: <https://researchbriefings.files.parliament.uk/documents/SN06492/SN06492.pdf>
20. ONS 2019, Subregional productivity: labour productivity indices by UK NUTS2 and NUTS3 subregions, See: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/datasets/subregionalproductivitylabourproductivitygvaperhourworkedandgvaperfilledjobindicesbyuknuts2andnuts3subregions>
21. <https://www.lawgazette.co.uk/comment-and-opinion/rise-of-specialist-law-firms/5041463.article>
22. ONS 2018, Input-output supply and use tables, See: <https://www.ons.gov.uk/economy/nationalaccounts/supplyandusetables/datasets/inputoutputsupplyandusetables>

23. ONS 2019, International trade in services, See: <https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/datasets/internationaltradeinservicesreferencetables>
24. The Pro Bono Protocol, developed under the Attorney Generals' Pro Bono Coordinating Committee defines the pro bono services as 'legal advice or representation provided free of charge by legal professionals in the public interest.'
25. The Law Society, The pro bono work of solicitors PC Holder Survey 2012-17.
26. In calculating this based on number of hours recorded in the PC Holder Survey we should note after discussion with the Law Society that some firms will not want to disclose their pro bono hours as they do not want pro bono to be seen by the government as replacing legal aid. This is particularly true since LASPO came in. As a result, our total figure based on number of hours might be an underestimation of the full volume and therefore value of pro bono work that occurred in 2017.
27. Rodrik et al. (2004). Institutions rule: The primacy of institutions over geography and integration in economic development. Journal of Economic Growth
28. Lorizio & Gurrieri (2014). Efficiency of Justice and Economic Systems. Procedia Economics and Finance
29. Mishkin (2007). Globalisation and financial development. New Perspectives on Financial Globalisation Conference, Washington D.C.
30. A property right is the exclusive authority to determine how a resource is used, whether that resource is owned by government or by individuals. Private property rights have two other attributes in addition to determining the use of a resource. The first is the exclusive right to the services of the resource (e.g. whether to rent it to others, and if so, to whom). The second is the right to delegate, rent or sell any portion of the rights by exchange or gift at whatever price the owner determines (provided someone is willing to pay that price).
31. Regulatory Policy Institute (2012). Assessing the economic significance of the professional legal services sector in the European Union. See: [https://www.ccbe.eu/fileadmin/speciality\\_distribution/public/documents/FREE\\_MOVEMENT\\_OF\\_LAWYERS/FML\\_Reports\\_studies/EN\\_FML\\_20120926\\_Assessing\\_the\\_economic\\_significance\\_of\\_the\\_professional\\_legal\\_services\\_sector\\_in\\_the\\_European\\_Union.pdf](https://www.ccbe.eu/fileadmin/speciality_distribution/public/documents/FREE_MOVEMENT_OF_LAWYERS/FML_Reports_studies/EN_FML_20120926_Assessing_the_economic_significance_of_the_professional_legal_services_sector_in_the_European_Union.pdf)
32. Law Society 2019, Lawtech Adoption Research, See: <https://www.lawsociety.org.uk/support-services/research-trends/documents/law-society-lawtech-adoption-research-2019/>
33. See: <https://www.lawsociety.org.uk/about-us/>
34. See: <https://www.lawsociety.org.uk/about-us/>
35. Americas Society and Council of the Americas 2007, Rule Law, Economic Growth Prosperity, See: <http://www.as-coa.org/sites/default/files/Rule%20of%20Law.pdf>  
University of Manchester 2004, The Importance Of Legal Infrastructure For Regulation (And Deregulation) In Developing Countries, See: <https://assets.publishing.service.gov.uk/media/57a08cbced915d622c001535/CRCwp65.pdf>
36. Gross effects reflect the total effect of an intervention or activity. Net impacts take into account only those impacts that are additional, i.e. impacts that are brought about, over and above what would happen anyway. These excludes any impacts that would occur in the absence of the activity or intervention under consideration. See: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/191511/Additionality\\_Guide\\_0.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/191511/Additionality_Guide_0.pdf)
37. Direct economic impacts are the first round effect where the demand creates economic activity.
38. GVA measures the contribution to the economy of an individual producer, industry or sector, net of intermediate consumption (for example goods and services that are used in the production process). It is a measure of the economic value of the activity.
39. Indirect impacts are the effects generated through the activity and output supported in the UK based supply chain as a result of procurement of inputs of goods and services (both for construction and ongoing operations). Induced impacts are multiplier effects that arise in the UK economy as a result of direct employees and employees in the UK supply chain spending a proportion of their wages in the UK. This spending generates additional economic activity for those businesses from which these employees buy goods and services and in these businesses' own wider supply chains.
40. See section 4 for an explanation of static impact analysis.
41. See section 4 for an explanation of dynamic impact modelling.
42. Defined in terms of the industry classification of business establishments based on the main activity in which they are engaged. See <https://www.ons.gov.uk/methodology/classificationsandstandards/ukstandardindustrialclassificationofeconomicactivities/uksic2007>
43. Law Society Research Unit 2017.
44. In order to be a solicitor in England and Wales, an individual must hold a practising certificate issued by the Solicitors Regulation Authority (SRA). This is a licence to practise as a solicitor. See: <https://www.gov.uk/solicitor-s-practising-certificate-england-wales>
45. Lawyers working in the corporate and public sectors, not-for-profit organisations and charities, outside of private practices.
46. Law Society Research Unit 2017.
47. See: <https://www.lawsociety.org.uk/practice-areas/>
48. Mixture of work for businesses and work for consumers.

49. Law Society 2018, Legal Services Sector Forecasts, See: <https://www.lawsociety.org.uk/support-services/research-trends/documents/law-society-legal-sector-forecast-august-2018/>
50. Law Society 2018, Legal Services Sector Forecasts, See: <https://www.lawsociety.org.uk/support-services/research-trends/documents/law-society-legal-sector-forecast-august-2018/>
51. See: [https://www.llmstudy.com/editorial/llm\\_advice/legal\\_careers/uk\\_legal\\_system/](https://www.llmstudy.com/editorial/llm_advice/legal_careers/uk_legal_system/)
52. Law Society Research Unit 2019.
53. See: [https://www.llmstudy.com/editorial/llm\\_advice/legal\\_careers/uk\\_legal\\_system/](https://www.llmstudy.com/editorial/llm_advice/legal_careers/uk_legal_system/)
54. See: <https://www.barcouncil.org.uk/about-the-bar/>
55. See: <https://www.ethnicity-facts-figures.service.gov.uk/workforce-and-business/workforce-diversity/judges-and-non-legal-members-of-courts-and-tribunals-in-the-workforce/latest>
56. Legal Services Act 2007, Available at: <https://www.lawsociety.org.uk/support-services/advice/practice-notes/freelance-solicitors/>
57. Law Society, see: <https://www.lawsociety.org.uk/support-services/advice/articles/legal-aid-changes-key-information-and-advice/>
58. Law Society, see: <https://www.lawsociety.org.uk/support-services/advice/practice-notes/freelance-solicitors/>
59. PWC (2018). Annual Law Firm's Survey 2018. See: <https://www.pwc.co.uk/industries/business-services/law-firms/survey.html>
60. KPMG 2018, Unlocking the value of artificial intelligence, See: <https://assets.kpmg/content/dam/kpmg/nl/pdf/2018/advisory/unlocking-the-value-of-artificial-intelligence.pdf>
61. ONS 2019, Which occupations are at highest risk of being automated?, See: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/whichoccupationsareathighestriskofbeingautomated/2019-03-25>
62. MIT Technology Review 2017, See: <https://www.technologyreview.com/s/609556/lawyer-bots-are-shaking-up-jobs/>
63. Lawtech in the context of the report cited 'should be seen as AI, Machine learning, RPA, advanced analytics, and algorithm-driven functions rather than Microsoft Office or long-established case management systems, for example.' See: <https://www.lawsociety.org.uk/support-services/research-trends/documents/law-society-lawtech-adoption-research-2019/>
64. Law Society 2019, Lawtech Adoption Research, See: <https://www.lawsociety.org.uk/support-services/research-trends/documents/law-society-lawtech-adoption-research-2019/>
65. WIPO, Role of Intellectual Property in Innovation and New Product Development, See: [https://www.wipo.int/sme/en/documents/ip\\_innovation\\_development\\_fulltext.html](https://www.wipo.int/sme/en/documents/ip_innovation_development_fulltext.html)
66. Orchard Reports 2019, UK Legal Services Market Trends Report 2019, [https://www.researchandmarkets.com/research/pcpfr/uk\\_legal\\_services?w=4](https://www.researchandmarkets.com/research/pcpfr/uk_legal_services?w=4)
67. ONS. 2018, Productivity measures. See: <https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures>
68. Parliament Briefing Paper. 2017, Productivity in the UK. See: <https://researchbriefings.files.parliament.uk/documents/SN06492/SN06492.pdf>
69. Type I multipliers capture the direct and indirect effects. Type II multipliers also include the induced impacts.
70. ONS 2015 Input-Output Analytical Tables, Multipliers and effects. Available at: <https://www.ons.gov.uk/economy/nationalaccounts/supplyandusetables/datasets/ukinputoutputanalyticaltablesdsdetailed>
71. Scottish Government Type I & Type II, output, income, employment and GVA multipliers Scotland 1998-2015 (SIC 2007 basis). See: <https://www2.gov.scot/Topics/Statistics/Browse/Economy/Input-Output/Multipliers>
72. ONS 2019, Non-financial business economy, UK: Sections A to S, See: <https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/datasets/uknonfinancialbusinesseconomyannualbusinesssurveysectionsas>
73. Using Standard Industrial Classification (SIC) codes.
74. 'Legal activities' SIC code 69.1.
75. SIC code 69.1 excludes law court activities. These are included in SIC code 84.23.
76. ONS, UK Standard Industrial Classification of Economic Activities 2007 (SIC 2007): Structure and explanatory notes, See: <http://www.siccodesupport.co.uk/>
77. Sourced from the UK Data Service, See: <https://www.ukdataservice.ac.uk/>
78. Standard Occupational Classification (SOC) code.
79. See: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/methodologies/labourforcesurveyifsgmi>

80. In the 2018 ONS 'Labour Force Survey: User Guide. Volume 6', the ONS states that prior to 2005 thresholds were applied to the sample estimates for quarterly and annual LFS estimates, and any sample estimate smaller than the threshold was considered unreliable and was therefore not published. Since 2005, no estimates go unpublished, however the thresholds still provide an indication of the reliability of the estimates. The threshold for sample estimates applied to quarterly data was 10,000.
81. This includes Standard Industrial Classification ('SIC') code 'Legal activities' (69.10); as well as Standard Occupational Classification ('SOC') to cover legal professionals in all sectors outside the core legal industry, specifically: 'Barristers and Judges' (2412), 'Solicitors' (2413), 'Legal professionals' (2419), 'Legal associate professionals' (3520), 'Legal secretaries' (4212).
82. As classified by the ONS (SIC 69.1)
83. As classified by the ONS (SIC M)
84. Based on compounded annual growth rate of ONS experimental estimates of TFP over the past 20 years (1999-2018). See: <https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/datasets/multifactorproductivityexperimental estimatesreferencetables>
85. As classified by the ONS (SIC 71).
86. As classified by the ONS (SIC 70.2).
87. See: HMRC. 2013. CGE model documentation. Retrieved from [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/263652/CGE\\_model\\_doc\\_131204\\_new.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/263652/CGE_model_doc_131204_new.pdf), and HMG. 2018. EU Exit: Long-Term Economic Analysis Technical Reference Paper. Retrieved from [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/759763/28\\_November\\_EU\\_Exit\\_Long-Term\\_Economic\\_Analysis\\_Technical\\_Reference\\_Paper.PDF](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/759763/28_November_EU_Exit_Long-Term_Economic_Analysis_Technical_Reference_Paper.PDF)
88. GVA is a key component of gross domestic product (GDP), which is a measure of the value of production and is a key indicator of the state of the economy. GVA is used in the estimation of GDP, by aggregating GVA across all industries and sectors in the economy and adjusting for taxes and subsidies at the whole economy level.
89. The split of legal services GVA contribution across the UK countries is approximated based on SIC code 69 (Legal and accounting services) due to lack of country level data for GVA for SIC code 69.1 (Legal activities).
90. ONS 2019, Gross Domestic Product (GDP) Gross Domestic Product: Year on Year growth: CVM SA %, See: <https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/ihyp/pn2>
91. This includes Standard Industrial Classification ('SIC') code 'Legal activities' (69.10); as well as Standard Occupational Classification ('SOC') to cover legal professionals in all sectors outside the core legal industry, specifically: 'Barristers and Judges' (2412), 'Solicitors' (2413), 'Legal professionals' (2419), 'Legal associate professionals' (3520), 'Legal secretaries' (4212).
92. Barristers and Judges, Solicitors, Legal professionals, Legal associate professionals, Legal secretaries.
93. As the LFS data is published quarterly, this is an estimate based on the average across the 2018 quarters.
94. As classified by the ONS (SIC 69.1).
95. As classified by the ONS (SOC 2412, 2413, 2419, 3520, 4212).
96. As classified by the ONS (SIC 69.1).
97. The country breakdown of the GVA contribution is based on ONS LFS data (2018) for the legal services sector.
98. We assess productivity of the legal services sector in terms of the economic output of its UK workforce. Labour productivity can be measured by the value of economic output (GVA) per full-time equivalent (FTE) or per employee. This productivity analysis draws on the results of our analysis of the legal services sector direct GVA and direct employment in 2018 in UK.
99. ONS. 2018, Productivity measures. See: <https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures>
100. Parliament Briefing Paper. 2017, Productivity in the UK. See: <https://researchbriefings.files.parliament.uk/documents/SN06492/SN06492.pdf>
101. ONS 2019, Subregional productivity: labour productivity indices by UK NUTS2 and NUTS3 subregions, table B4. See: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/datasets/subregionalproductivitylabourproductivitygvaperhourworkedandgvaperfilledjobindicesbyuknuts2andnuts3subregions>
102. Comparison undertaken with the following sectors: 'Management consultancy activities', 'Advertising', 'Activities of head offices', 'Accounting, bookkeeping and auditing activities; tax consultancy', 'Architectural and engineering activities and related technical consultancy', 'Technical testing and analysis', 'Market research and public opinion polling', 'Research and experimental development on natural sciences and engineering', 'Specialised design activities', 'Photographic activities', 'Translation and interpretation activities', 'Research and experimental development on social sciences and humanities'.
103. ONS 2017 Input-output supply and use tables, See: <https://www.ons.gov.uk/economy/nationalaccounts/supplyandusetables/datasets/inputoutputsupplyandusetables>
104. See: <https://www.barcouncil.org.uk/about-the-bar/what-is-the-bar/>
105. See: <https://www.lawgazette.co.uk/comment-and-opinion/rise-of-specialist-law-firms/5041463.article>

106. The Solicitors Regulation Authority mandates that all solicitors must adopt its approach to continuing competence, meaning they must reflect on their practice and undertake regular learning and development so their skills and knowledge remain up to date. This may include accredited training.
107. NISRA, See: <https://www.nisra.gov.uk/statistics/economic-accounts-project/multipliers-derived-input-output-tables>
108. The indirect GVA multiplier for the legal activities sector is 1.30, and the induced GVA multiplier is 0.21.
109. The average for the indirect GVA multiplier across sectors in the UK is 1.80.
110. ONS 2017 Input-output supply and use tables, See: <https://www.ons.gov.uk/economy/nationalaccounts/supplyandusetables/datasets/inputoutputsupplyandusetables>
111. <https://www.gov.uk/government/organisations/government-legal-department/about>
112. Law Society Gazette 2019, See: <https://www.lawgazette.co.uk/practice/government-reduces-external-legal-spend-by-10/5070279.article>
113. City of London Economic Research 2017, The value of the UK's legal services sector and its importance to the City's economy, See: <https://colresearch.typepad.com/colresearch/2017/07/the-value-of-the-uks-legal-services-sector-and-its-importance-to-the-citys-economy.html>
114. Law Society 2018, Legal Services Sector Forecasts, See: <https://www.lawsociety.org.uk/support-services/research-trends/documents/law-society-legal-sector-forecast-august-2018/>
115. This refers to the period between 2017 and 2025. See: <https://www.lawsociety.org.uk/support-services/research-trends/documents/law-society-legal-sector-forecast-august-2018/>
116. ONS, See: <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/unitedkingdombalanceofpaymentsthepinkbook/2018>
117. UK Government, Department for International Trade (2019). The UK legal sector. [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/668334/legal-services-are-great-brochure.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/668334/legal-services-are-great-brochure.pdf)
118. Ministry of Justice 2012, Plan for Growth: Promoting the UK's Legal Services Sector, See: <https://www.justice.gov.uk/downloads/publications/corporate-reports/MoJ/legal-services-action-plan.pdf>
119. ONS 2019, International trade in services, See: <https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/datasets/internationaltradeinservicesreferencetables>
120. Total exports in services in 2017 was £277 billion, and total imports £165.5 billion. See: <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/unitedkingdombalanceofpaymentsthepinkbook/2018>
121. ONS 2018, International trade in services by partner country, UK: October to December 2017, See: <https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/bulletins/exportsandimportsstatisticsbycountryforuktradeinservices/quarter4octobertodecember2017>
122. Total exports in services in 2017 was £277 billion, and total imports £165.5 billion. See: <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/unitedkingdombalanceofpaymentsthepinkbook/2018>
123. The balance of trade is the difference between a sector's import and export payments.
124. As discussed earlier, GDP is made up of GVA of the whole economy plus an adjustment for taxes and subsidies. An alternative way to view GDP is all the expenditure the economy, including purchases by households, spending by government, investment and exports less imports.
125. The degree at which cost savings are passed onto customers will depend on a range of factors, including how competitive the market is.
126. This is based on the 1% TFP improvement in 2020 saving £282m in labour and capital costs of the legal services sector (SIC69.1), or £367m in labour and capital costs across both legal firms and legal professionals working in other sectors.
127. As classified by the ONS (SIC 84, 64 and 86).
128. 2019 prices.
129. 2019 prices.
130. This definition has been endorsed by the Law Society of England and Wales, the Bar Council of England and Wales and the Chartered Institute of Legal Executives.
131. The Law Society (2016). Pro Bono Manual: A practical guide and resource kit for solicitors. <https://www.lawsociety.org.uk/support-services/practice-management/pro-bono/pro-bono-manual/>
132. This refers to solicitors with 10-19 year since admission.
133. This refers to solicitors with 20+ years since admission.
134. Law Society (2017). The pro bono work of solicitors: PC Holder Survey 2012-2017.



135. Latham & Watkins LLP (2015). Pro Bono Practices and Opportunities in England & Wales. <https://www.lw.com/admin/Upload/Documents/Global%20Pro%20Bono%20Survey/pro-bono-in-England-and-wales.pdf>
136. The Law Society (2019). National Pro Bono Week. <https://www.lawsociety.org.uk/support-services/practice-management/pro-bono/national-pro-bono-week/>
137. Ibid
138. Confidence intervals of +/-2.51 % across the whole sample
139. Lawyers working in the corporate and public sectors, not-for-profit organisations and charities, outside of private practices.
140. The Law Society, The pro bono work of solicitors PC Holder Survey 2012-17.
141. The Law Society, The pro bono work of solicitors PC Holder Survey 2012-17.
142. All attached Practising certificate holders.
143. We estimated the monetary value by multiplying the pro bono hours provided by the Law Society to the average charge out rate of solicitors provided by the Law Society. In calculating this based on number of hours recorded in the PC Holder Survey we should note after discussion with the Law Society that some firms will not want to disclose their pro bono hours as they do not want pro bono to be seen by the government as replacing legal aid. This is particularly true since LASPO came in. As a result, our total figure based on number of hours might be an underestimation of the full volume and therefore value of pro bono work that occurred in 2017.
144. Human Rights Act 1998. See: <https://www.legislation.gov.uk/ukpga/1998/42/schedule/1>
145. OECD (2017). OECD Policy Roundtable on Equal Access to Justice. <https://www.oecd.org/gov/A2J-RT-Session-notes-May-2017.pdf>
146. OECD (2014). All on Board: Making Inclusive Growth Happen. <https://www.oecd.org/inclusive-growth/All-on-Board-Making-Inclusive-Growth-Happen.pdf>
147. The Legal Needs Survey is undertaken to understand the experiences of individuals undergoing legal issues, and their engagement with services providers.
148. Legal Services Board (2016). Lowering barriers to accessing services. [https://www.legalservicesboard.org.uk/news\\_publications/publications/pdf/2016/20160331\\_Lowering\\_Barriers\\_Final\\_Report.pdf](https://www.legalservicesboard.org.uk/news_publications/publications/pdf/2016/20160331_Lowering_Barriers_Final_Report.pdf)
149. See: <https://www.gov.uk/legal-aid/eligibility>
150. Latham & Watkins LLP (2015). Pro Bono Practices and Opportunities in England & Wales. <https://www.lw.com/admin/Upload/Documents/Global%20Pro%20Bono%20Survey/pro-bono-in-England-and-wales.pdf>
151. <http://www.theguardian.com/law/datablog/2014/sep/09/legal-aid-in-england-and-wales-what-is-changing>
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184. To estimate the sector average GVA per employee, in FTE terms, we had to first estimate the number of FTEs for each SIC code as the ONS does not publish FTE breakdown by industry. We estimated this using total employment figures from the ONS Business Register and Employment Survey 2014, which states both full-time and part-time employment figures which was converted to FTE using an FTE conversion factor based on the average number of hours work per week by part-time workers sourced from the ONS. This figure was then used to estimate the GVA per FTE.
185. Direct GVA for the 'Legal activities' sector (SIC code 69.1) sourced from the ONS ABS.
186. GVA per FTE for the 'Legal activities' sector (SIC code 69.1) is £90,184.
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195. Figures have been rounded to the nearest 1000. Figures may not sum to the totals presented in section 4 due to rounding.
196. In the 2018 ONS 'Labour Force Survey: User Guide. Volume 6', the ONS states that prior to 2005 thresholds were applied to the sample estimates for quarterly and annual LFS estimates, and any sample estimate smaller than the threshold was considered unreliable and was therefore not published. Since 2005, no estimates go unpublished, however the thresholds still provide an indication of the reliability of the estimates. The threshold for sample estimates applied to quarterly data was 10,000.
197. Figures have been rounded to the nearest 1000. Figures may not sum to the totals presented in section 4 due to rounding.
198. In the 2018 ONS 'Labour Force Survey: User Guide. Volume 6', the ONS states that prior to 2005 thresholds were applied to the sample estimates for quarterly and annual LFS estimates, and any sample estimate smaller than the threshold was considered unreliable and was therefore not published. Since 2005, no estimates go unpublished, however the thresholds still provide an indication of the reliability of the estimates. The threshold for sample estimates applied to quarterly data was 10,000.

# Appendix 2

## Methodology for the static economic impact analysis

### Approach to estimating GVA

Direct GVA at the industry level is provided by the Office for National Statistics (ONS) Annual Business Survey<sup>(181)</sup>. However, this underestimates the contribution of the UK 'Legal services' sector to the UK economy, as this classification excludes the contribution made by legal professionals who work in other sectors of the economy (e.g. legal professionals working in pharmaceutical businesses). Details on the categorisation of the UK 'Legal services' sector across SIC codes is provided in Appendix 2.

The ONS Labour Force Survey (LFS)<sup>(182)</sup> is the only source of official data on breakdown of workers in the UK by SIC and Standard Occupational Classification (SOC) code. Using the LFS data, we estimated the number of employees working as legal professionals outside of the 'Legal activities' sector<sup>(183)</sup>. As the LFS data is published quarterly, we took an average across the quarters of the estimated number of employees working in the 'Legal services' sector.

Using the GVA per FTE<sup>(184)</sup> multiplier for the 'Legal activities' sector (SIC code 69.1), we estimated the direct GVA contribution generated by legal professionals working outside the legal activities sector.

We then estimated the direct GVA contribution generated by legal services sector, in the following way:

$$\text{Direct GVA} = \text{Direct GVA (ONS for SIC 69.1)}^{(185)} + [(\text{GVA per FTE for SIC 69.1})^{(186)} * (\text{Number of FTEs (classified as legal professionals) working outside SIC 69.1})]$$

In order to estimate the indirect and induced GVA impact generated by the UK legal services sector in 2018, we used an input-output modelling approach, using multipliers sourced from the Office for National Statistics (ONS) and the Scottish Government.

**Table 3: Indirect and induced GVA multipliers, 'Legal activities' sector (SIC 69.1)**

	ONS Type I GVA multiplier <sup>(187)</sup>	Scottish Government Type I GVA multiplier <sup>(188)</sup>	Scottish Government Type II GVA multiplier <sup>(189)</sup>
<b>SIC 69.1 'Legal activities'</b>	1.30	1.10	1.31

Source: ONS (2015) and Scottish Government (2015).

The indirect GVA was estimated using the following formula:

$$\text{Indirect GVA} = \text{Direct GVA} * (\text{Type I GVA multiplier} - 1)$$

The induced GVA was estimated using the following formula:

$$\text{Induced GVA} = [\text{Direct GVA} * (\text{Type II GVA multiplier} - 1)] - [\text{Direct GVA} * (\text{Type I GVA multiplier} - 1)]$$

### Approach to estimating employment

Direct employment in the UK legal services sector<sup>(190)</sup> was estimated by using ONS LFS data (2013 to 2018) and summing employees in the 'Legal activities' sector to the legal professionals (Barristers and Judges, Solicitors, Legal professionals, Legal associate professionals, Legal secretaries) working outside the 'Legal activities' sector.

The indirect employment generated by the legal professionals working outside the 'Legal activities' sector (SIC 69.1), was estimated using the 'Legal activities' sector employment multipliers.

**Table 4: Indirect and induced Employment multipliers, 'Legal activities' sector (SIC 69.1)**

	ONS Type I Employment multiplier <sup>(191)</sup>	Scottish Government Type I Employment multiplier <sup>(192)</sup>	Scottish Government Type II Employment multiplier <sup>(193)</sup>
<b>SIC 69.1 'Legal activities'</b>	1.42	1.09	1.21

Source: ONS (2015) and Scottish Government (2016).

We estimated indirect employment using the following formula:

$$\text{Indirect employment} = \text{Direct employment}^{(194)} * (\text{Type I employment multiplier} - 1)$$

The induced employment was estimated using the following formula:

$$\text{Induced employment} = [\text{Direct employment} * (\text{Scottish Government Type II employment multiplier} - 1)] - [\text{Direct employment} * (\text{Scottish Government Type I employment multiplier} - 1)]$$

### Approach to estimating the value of pro bono services

In order to estimate the monetary value of the time dedicated to pro bono work by the UK legal services sector, we sourced data from the Law Society 'PC Holder Survey 2012-17' and the Law Society Research Unit. Specifically, for the years between 2013 and 2017, we gathered data on:

- mean pro bono hours;
- number of solicitors in each sector (i.e. private practice, government, in-house);
- proportion of solicitors conducting pro bono work; and
- average charge out rate of solicitors.

We estimated the monetary value of the time dedicated to pro bono following the below formula:

$$\text{Monetary value} = (\text{Hours spent by solicitors working on pro bono work}) * [(\% \text{ of solicitors conducting pro bono work}) * (\text{total number of solicitors})] * (\text{Hourly charge out rate})$$



# Appendix 2

## LFS employment data

The LFS is the only source of official data that provides a breakdown of workers in the UK by industry and occupation. We have used this data to estimate the number of employees working as legal professionals outside of the 'Legal activities' sector in Section 4.

**Table 5: Number of FTEs working as legal professionals, by sector (2018)**

Standard Industrial Classification	FTEs <sup>(195)</sup>
Legal activities	225,000
Public administration and defence; compulsory social security	64,000
Financial and insurance activities	18,000
Other service activities	13,000
Manufacturing	7,000 <sup>(1)</sup>
Information and communication	6,000 <sup>(1)</sup>
Human health and social work activities	5,000 <sup>(1)</sup>
Professional, scientific and technical activities (excluding legal activities)	5,000 <sup>(1)</sup>
Administrative and support service activities	4,000 <sup>(1)</sup>
Real estate activities	4,000 <sup>(1)</sup>
Wholesale and retail trade; repair of motor vehicles and motorcycles	2,000 <sup>(1)</sup>
No answer	<1000 <sup>(1)</sup>
Transportation and Storage	<1000 <sup>(1)</sup>
Construction	<1000 <sup>(1)</sup>
Education	<1000 <sup>(1)</sup>
Activities of extraterritorial organisations and bodies	<1000 <sup>(1)</sup>
Arts, entertainment and recreation	<1,000 <sup>(1)</sup>
Water Supply; Sewerage, Waste Management and Remediation Activities	<1,000 <sup>(1)</sup>
Accommodation and Food Service Activities	<1000 <sup>(1)</sup>

Note: (1) These estimates are less reliable as their sample estimate is lower than 10,000<sup>(196)</sup>.

Source: KPMG analysis of LFS data 2018.

**Table 6: Number of FTEs working in the legal services sector, by occupation (2018)<sup>(197)</sup>**

SOC codes	FTEs
Solicitors	108,00
Legal associate professionals	66,000
Legal professionals n.e.c.	65,000
Legal secretaries	34,000
Barristers and judges	22,000
Administrative occupations	20,000
Business and public service associate professionals	8,000
Business, media and public service professionals	8,000
Corporate managers and directors	8,000
Secretarial and related occupations	7,000
Science, research, engineering and technology professionals	4,000
Elementary administration and service occupations	2,000
Science, engineering and technology associate	<1000 <sup>(1)</sup>
Culture, media and sports occupations	<1000 <sup>(1)</sup>
Customer service occupations	<1000 <sup>(1)</sup>
Sales occupations	<1000 <sup>(1)</sup>
Skilled metal, electrical and electronic trades	<1000 <sup>(1)</sup>
Other managers and proprietors	<1000 <sup>(1)</sup>
Protective service occupations	<1000 <sup>(1)</sup>
No answer	<1000 <sup>(1)</sup>
Skilled construction and building trades	<1000 <sup>(1)</sup>
Process, plant and machine operatives	<1000 <sup>(1)</sup>
Transport and mobile machine drivers and operatives	<1000 <sup>(1)</sup>
Leisure, travel and related personal service occupations	<1000 <sup>(1)</sup>
Health professionals	<1000 <sup>(1)</sup>
Caring personal service occupations	<1000 <sup>(1)</sup>
Teaching and educational professionals	<1000 <sup>(1)</sup>

Note: (1) These estimates are less reliable as their sample estimate is lower than 10,000<sup>(198)</sup>.

Source: KPMG analysis of LFS data 2018.

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