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Wales Governance
Centre



The Legal Economy in Wales

Guto Ifan

Canolfan Llywodraethiant Cymru, Prifysgol Caerdydd
Wales Governance Centre, Cardiff University

MAY 2019

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Preface

About us

The Wales Governance Centre is a research centre that forms part of Cardiff University's School of Law and Politics undertaking innovative research into all aspects of the law, politics, government and political economy of Wales, as well the wider UK and European contexts of territorial governance. A key objective of the Centre is to facilitate and encourage informed public debate of key developments in Welsh governance not only through its research, but also through events and postgraduate teaching.

About this project

Cardiff University's Wales Governance Centre launched the *Justice and Jurisdiction* project in July 2018. It brings together an interdisciplinary group of academic researchers consisting of political scientists, criminologists, constitutional law experts and political economists to investigate the operation of the legal and justice system in Wales. The project is funded by a combination of the Economic and Social Research Council, the Welsh Government and Cardiff University.

As well as producing high quality academic outputs, the project will generate a series of reports intended to inform the work of Commission on Justice in Wales as well as encourage an informed public debate on the organisation and operation of the legal and justice system in Wales. Whilst the research team continues to benefit from comments and suggestions from our external partners, the programme itself has been conceived of and is being delivered wholly independently of them.

About the author

Guto Ifan is a Research Associate at the Wales Governance Centre at Cardiff University.

ifandg@cardiff.ac.uk

Wales Governance Centre
Cardiff University
21 Park Place
Cardiff CF10 3DQ

www.cardiff.ac.uk/wales-governance-centre

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1

Introduction

The legal services sector plays an important part in a functioning economy. Its services are accessed by consumers, impacting on living standards and access to justice directly. It is used by businesses as an intermediate good, affecting the productive health of businesses and the economy. The provision of legal services in general also underpins the integrity of a jurisdiction. In the case of Wales, devolution has created the need for adequate legal expertise to successfully service the development of a distinct jurisdiction.

This report details the available data on the legal sector in Wales, to analyse its size, structure and interactions with the rest of the Welsh economy and beyond. The strength of the Welsh legal economy will also be assessed in comparison with the other countries and regions of the UK. Where data is available, the report analyses legal services across local authority areas in Wales, highlighting the differences between Wales' cities - in particular Cardiff - and other areas. Outside of London, legal services across the UK also tends to be clustered in certain cities and regional hubs. This report therefore analyses how legal services in Wales' cities compare with cities elsewhere in the UK.

This report has been produced to support the work of the Commission on Justice in Wales. Our other work in this strand has analysed trends in public spending on justice functions in Wales. Some of the analysed trends in public spending will have heavily impacted the legal services sector - for example, the large cuts to civil and criminal legal aid spending in Wales.

This report is structured as follows. Section 2 analyses available data on the size of the legal sector in Wales, exploring in turn the legal activities firms located in Wales, the number of employees and their earnings in the legal sector, legal education, and finally the gross value added (GVA) from legal services in Wales. Section 3 compares the legal sector in Wales with other countries and regions, while section 4 focuses on city-level comparisons of the legal sector of Wales' cities and other cities across the UK. Section 5 concludes.

2

The size of the legal economy in Wales

This section outlines available data on the legal economy in Wales. In turn, it analyses the composition and trends in the number of legal services firms located in Wales, employment and earnings in the legal sector, the nature of legal education in Wales, and the revenue and Gross Value Added (GVA) derived from legal activities in Wales. As well as assessing the overall size and strength of the legal economy in Wales, this section analyses available data at a local authority level to highlight the differences in the sector between the cities – and in particular Cardiff - and the rest of Wales.

2.1 Legal services firms in Wales

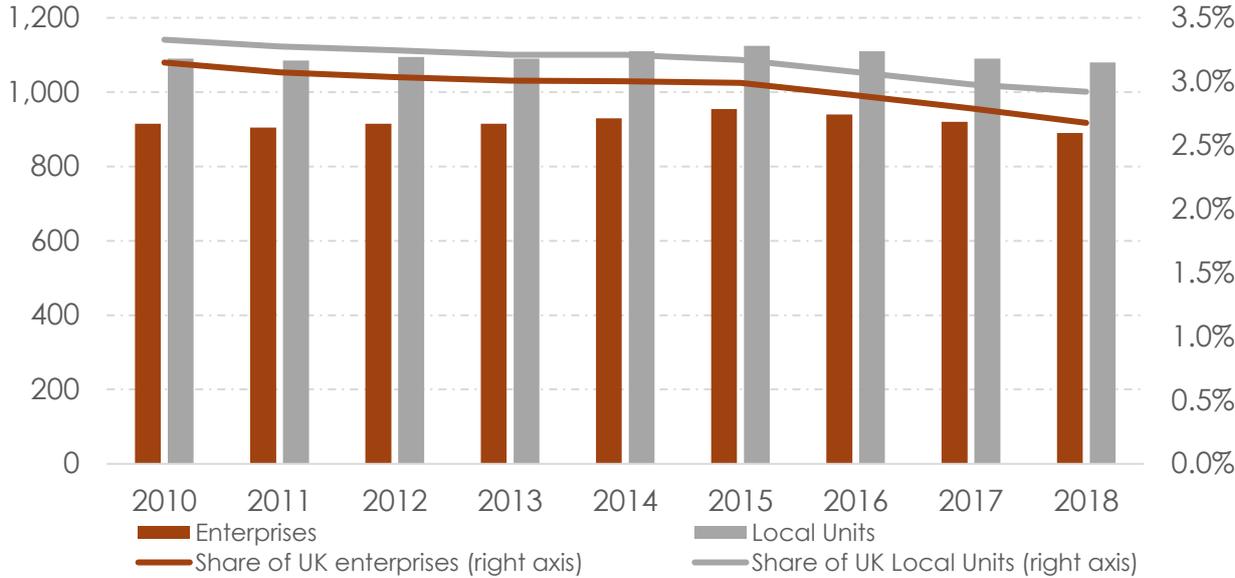
In relation to data on legal services firms in Wales, the Office for National Statistics (ONS) provides data on the activity, size and location of UK businesses that have registered for VAT and/or PAYE, based on an extract of the Inter-Departmental Business Register (IDBR).

There were around 890 *enterprises* in legal activities in Wales in 2018. An enterprise is defined as the smallest combination of legal units which has a certain degree of autonomy within an *enterprise group* (defined as a group of legal units under common ownership). This figure has fallen from a peak of 955 in 2015. Wales' share of legal activities enterprises across the UK has also been falling, from 3.1% in 2010 to 2.7% in 2018.

Meanwhile, there were 1,080 *local units* in the legal activities industry in 2018. Local units are defined as individual sites that belong to an enterprise. Wales' share of UK local units in legal activities is slightly higher than its share of enterprises, but has also been falling since 2010.

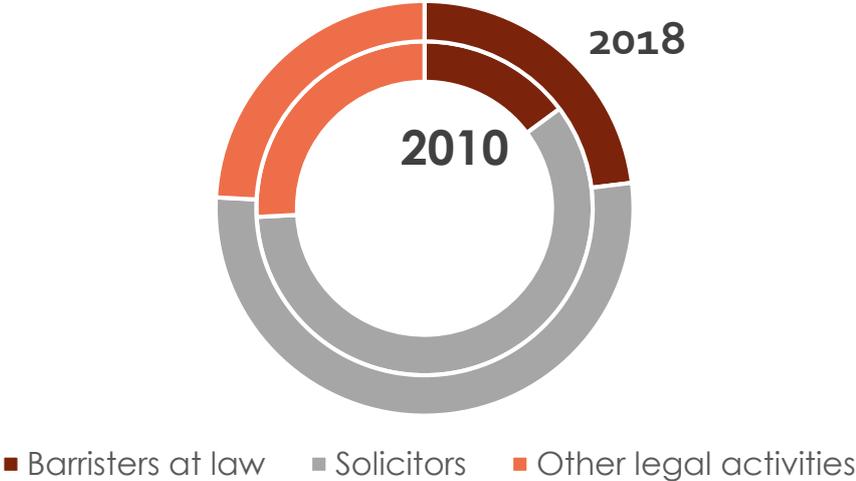
Firms registered as part of the legal activities industry can also be broken down by industry subclasses, namely Barristers at law, Solicitors, and Other legal activities (shown in figure 2.2). There were 205 enterprises recorded as barristers at law in Wales in 2018, only 1.8% of the UK total. This figure has increased quite substantially since 2010 from an estimated 135. The number of solicitors businesses in Wales however has fallen from 540 in 2010 to 470 in 2018 (3.4% of the UK total).

Figure 2.1: Number of legal activities enterprises and local units in Wales, 2014 to 2018



Source: ONS (2018) Inter Departmental Business Register

Figure 2.2: Legal activities enterprises in Wales, by industry



Source: ONS (2018) Inter Departmental Business Register

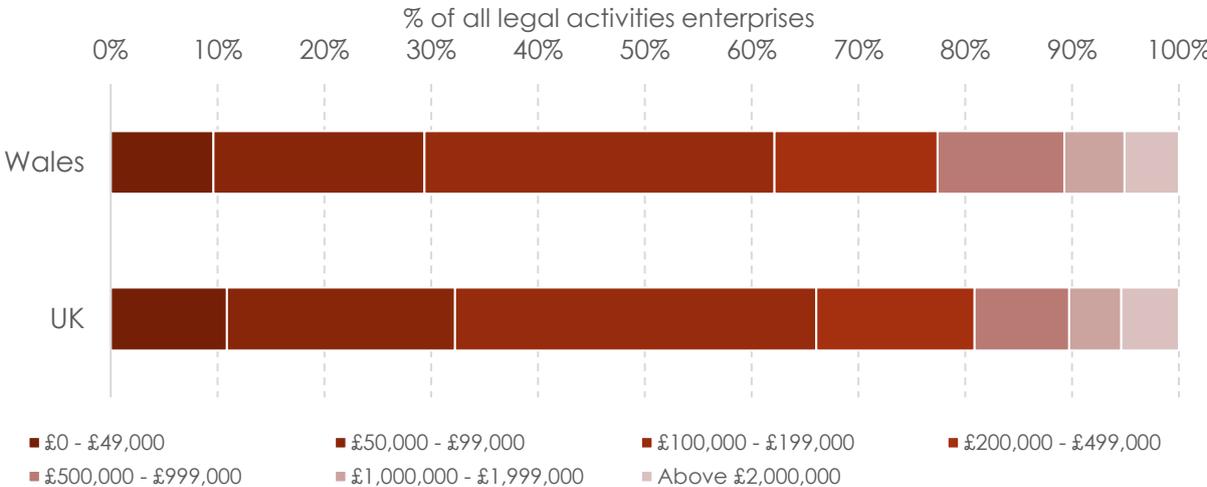
Data supplied by the Solicitors Regulator Authority (SRA) to the Welsh Government (2018) cited a lower number of head offices of law firms based in Wales, of 438 in 2017, a figure which has fallen slightly since 2015. The SRA’s 2017 Annual Review estimates that around 4% of England and Wales’ law firm head offices are based in Wales.

Figures 2.3 and 2.4 provide a breakdown of legal activities enterprises in Wales and the UK as a whole by turnover size band and employment size band respectively. This data should be interpreted with

caution since many enterprises will belong to a wider enterprise group, with higher turnover and employee numbers. The median turnover for Welsh legal activities firms is between £100,000 and £200,000 per year. Compared with the UK as a whole, a slightly larger share of Welsh firms have turnover above £200,000 a year (38% compared with 34%).

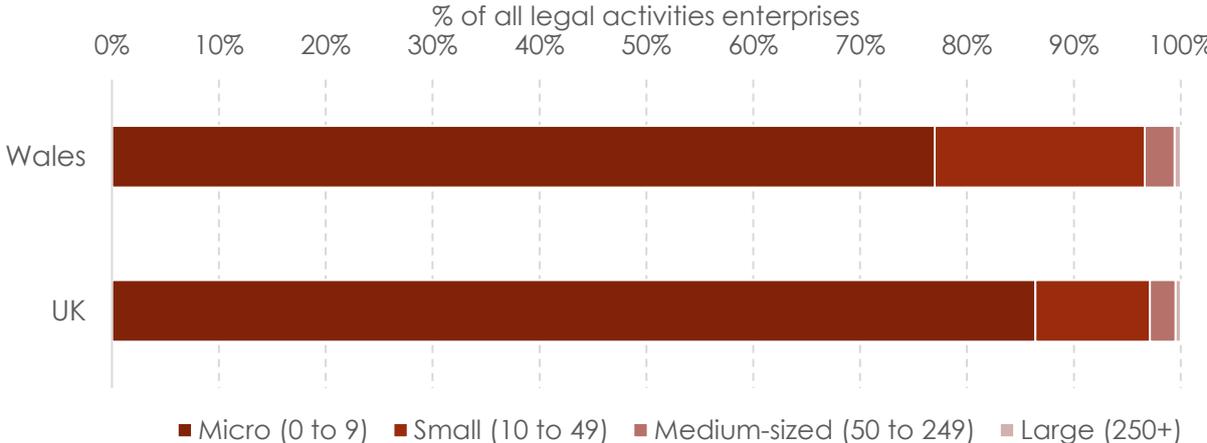
In terms of employment, most legal activities enterprises in Wales (as across the UK) are classed as micro-enterprises, employing fewer 10 employees. A larger share of Welsh enterprises employ more than 10 employees (23%) compared with the UK as a whole (14%). Only around 30 legal activities enterprises employed 50 or more employees in 2018.¹

Figure 2.3: Legal activities enterprises by turnover size, 2018



Source: ONS (2018) Inter Departmental Business Register

Figure 2.4: Legal activities enterprises by employment size band, 2018



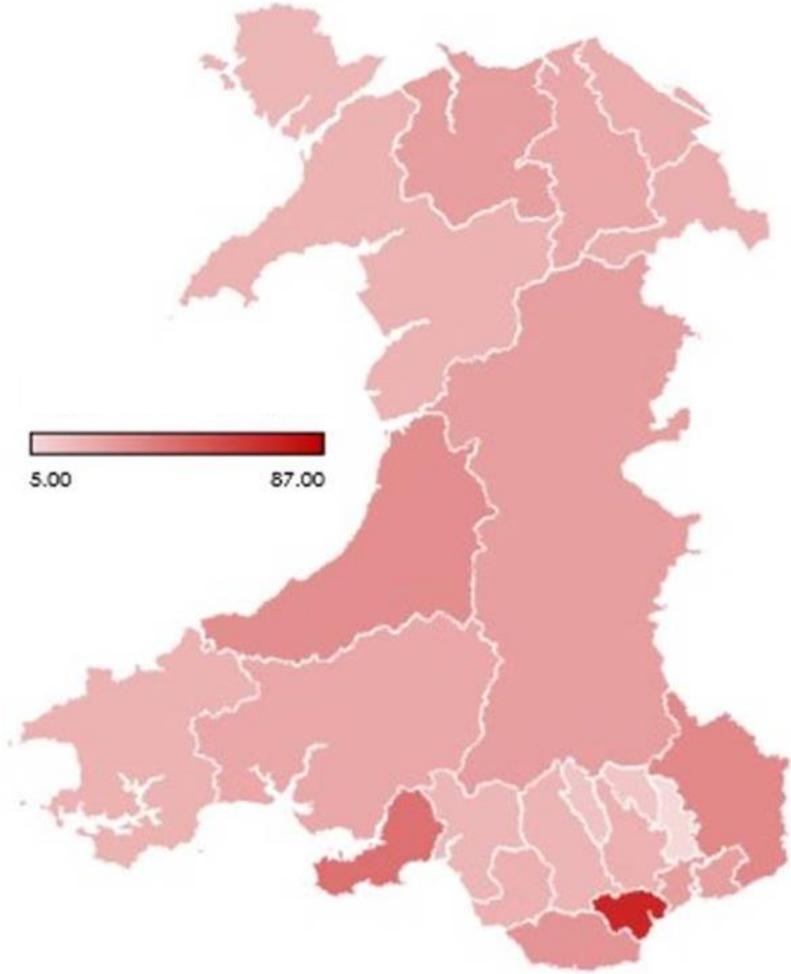
Source: ONS (2018) Inter Departmental Business Register

¹ Figures rounded to nearest 5.

The UK Legal 500 (2019), an organisation which researches the legal market, notes that many of the large commercial law firms in Wales are located along the M4 corridor. Poor transport links mean clients in other parts of the country, unable to source help from local firms, often instruct firms in England. The geographic distribution of legal activity firms across Wales has been a long-standing concern, with implications for economic development and access to justice for those in more rural areas (Davies and Mainwaring 2006; Franklin and Lee 2007).

Figure 2.5 maps legal activities enterprises per 100,000 of population by local authority in Wales in 2018. Cardiff is a clear outlier in the data, with a total of 305 enterprises equating to 87 per 100,000 of population, or 34% of all Welsh legal activities enterprises. A further 13% of firms are located in Swansea, where there are 49 enterprises per 100,000 of population.

Figure 2.5: Legal activities enterprises per 100,000 of population by local authority, 2017



There are three local authority areas which have fewer than 10 legal services enterprises per 100,000 people – Torfaen, Blaenau Gwent and Merthyr Tydfil – and a further ten local authorities with fewer than 20.

Barristers at law enterprises are even more heavily concentrated than other legal activities enterprises, with over half of the 205 enterprises in Wales based in Cardiff.

The Lawyer's dataset of the top 200 UK law firms by revenue contains 11 firms who have a presence in Wales, all of which are based in Cardiff. All but two (Hugh James and Geldards LLP) have branch rather than head offices in Wales.

2.2 Employment and earnings in legal services in Wales

Although legal services is a significant source of employment in Wales, data limitations make it difficult to gain a clear picture of the overall size of the sector relative to the Welsh economy as a whole.

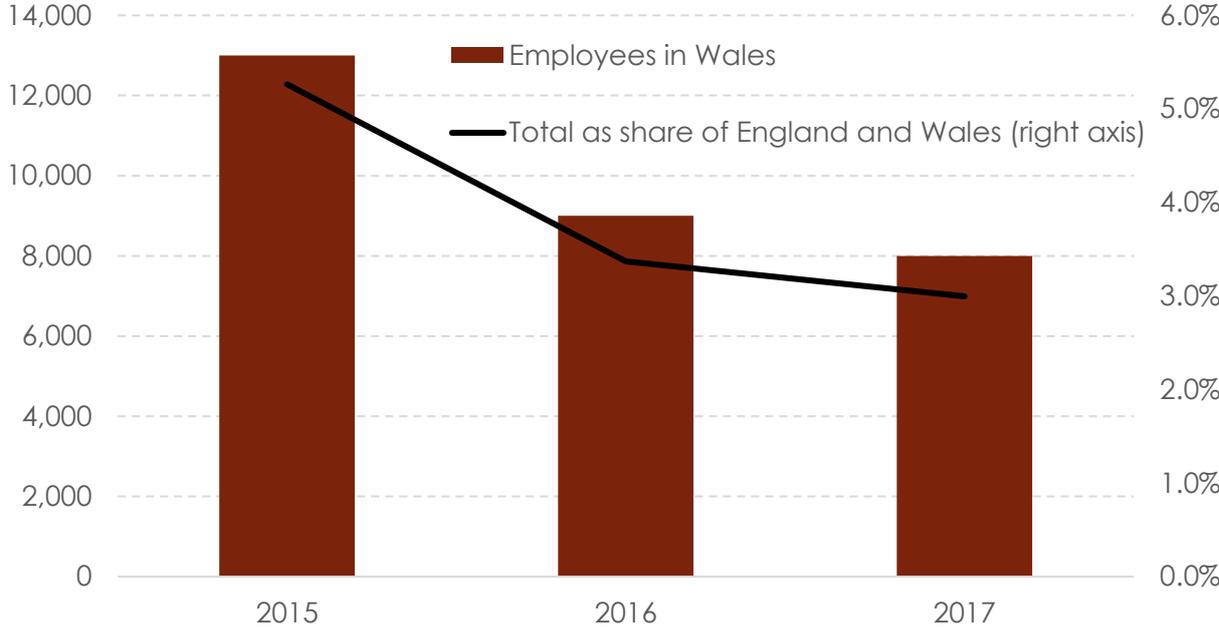
One source of employment data that can shed light on the size of the sector is the **ONS Business Register and Employment Survey (BRES)**, which is the primary source for detailed employee estimates at the regional and industrial level. The survey collects data from businesses registered for VAT and/or PAYE schemes on employees. The latest data available is for September 2017.

BRES data estimate that there were approximately 8,000 employees in legal activities in 2017. The data suggests that there has been a reduction in the number of employees in the legal services sector over recent years, from 13,000 in 2015, even though employment rose across England and Wales over the same period. This change may reflect the uncertainty surrounding these survey-based estimates, rather than actual trends in legal activities employment. Data from the BRES in previous years shows the number of employees in Wales in legal activities fluctuating around 10,000 from 2009 to 2014.²

Taking an average over the period of 2015 to 2017, Wales accounted for 3.8% of legal activities employees across England and Wales, corresponding to approximately 0.9% of all employees in Wales over this period. More than three quarters of these employees worked in solicitors' firms, with the rest employed in other legal activities and a smaller number of barristers at law firms.

² Figures for years before 2015 are not directly comparable as the BRES excluded units registered for PAYE only whereas these are included in years after 2014.

Figure 2.6: Legal activities employees in Wales, 2015 to 2017



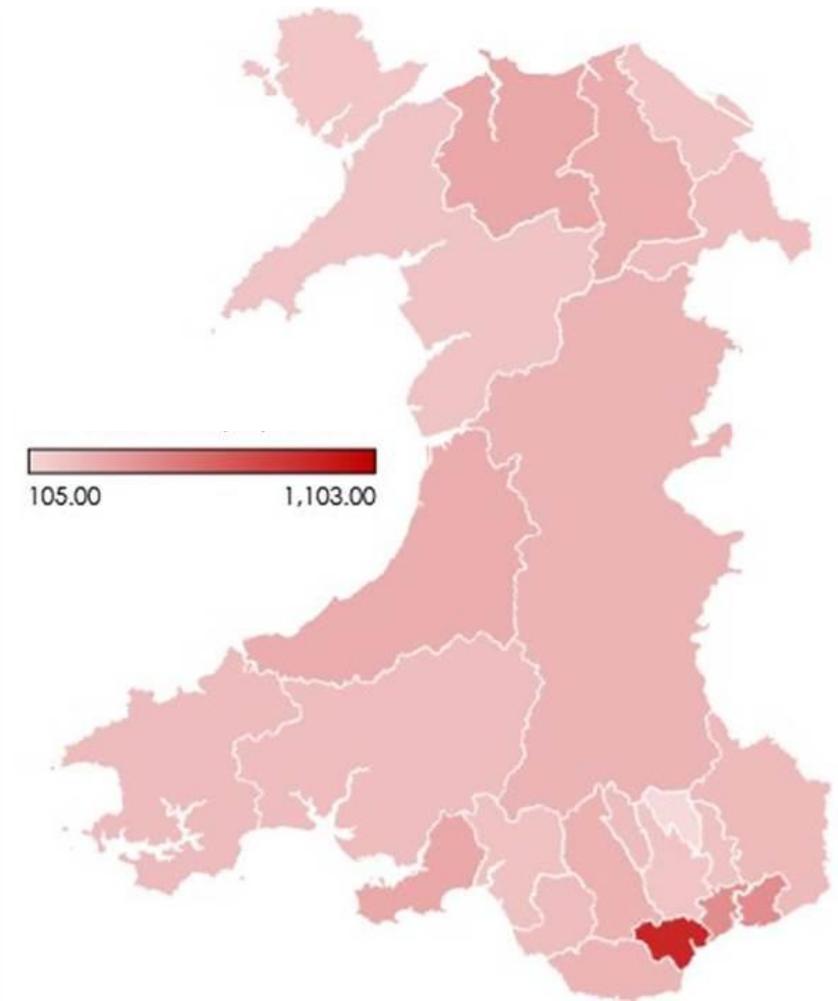
Source: ONS (2018) Business Register and Employment Survey 2017

As would be expected given the location of legal services firms in Wales, legal services employment is highly concentrated geographically. Approximately, 40% of legal activities employees in Wales are located in Cardiff, where legal activities make up 2% of total employees in the local authority area. Swansea and Newport each account for approximately 7% of the Wales-wide total. As shown in figure 2.7, the number of legal activities firms per 100,000 of population is substantially higher in Cardiff (at 1,100) than anywhere else in Wales. The lowest levels are estimated in Blaenau Gwent, Isle of Anglesey, Caerphilly, Gwynedd and Flintshire.

Alternative employment estimates are available from the **Annual Population Survey (APS)**, which combines Labour Force Survey data with additional data for Wales, England and Scotland. Although estimates of employment in the legal services industry are not available, data by occupation is available for legal professionals, including solicitors, barristers and judges, and other legal professionals. These estimates would include legal professionals working in 'in-house' legal teams of companies in other industries, who would not otherwise be included in the industry-based estimates covered above.³

³ The Law Society (2017) Annual Statistics Report shows that around 22.2% of working solicitors in 2017 were based in the in-house sector, up from 18% a decade earlier.

Figure 2.7: Legal activities employees per 100,000 of population by local authority, average across 2015 to 2017



In 2017, the number of legal professionals employed in Wales was estimated at 7,700. This equates to around 4.1% of the figure for England and Wales as a whole, meaning the level of legal professionals per person in Wales was 76% of the level in England. Of the Welsh total, approximately 4,200 were solicitors.⁴

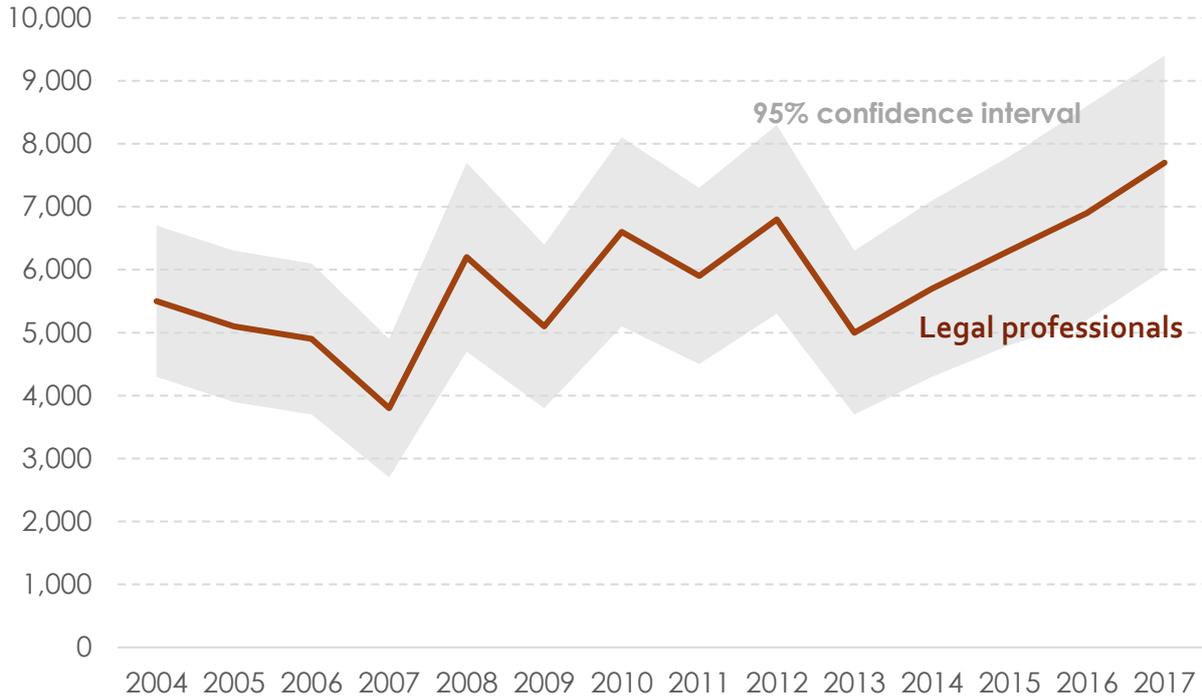
In contrast with the industry-based estimates from the BRES, the APS shows the number of legal professionals has risen over recent years – though the large confidence interval shown in figure 2.8, suggests that caution is needed in analysing these trends.

Data supplied by the Solicitors Regulatory Authority (SRA) to the Welsh Government (2018) suggested there were 3,778 practising solicitors in Wales in 2017, a figure that has increased since 2015.⁵ Of this total, approximately 1,100 were at Partner level or equivalent.

⁴ A 95% confidence interval of 1,300 means this figure is in line with the SRA data.

⁵ This figure includes in-house solicitors (those working for non-solicitor employers).

Figure 2.8: Employment of legal professionals in Wales, 2004 to 2017



Source: ONS (2018) Annual Population Survey

A lower cost base has been cited by many financial and professional services firms as crucial in their decision to establish operations in Wales (Welsh Government 2018), a factor which is reflected in lower wage levels for employees. The most comprehensive source of information on the structure and distribution of earnings in the UK is the Annual Survey of Hours and Earnings (ONS 2018). Due to the sample size, reasonably precise estimates of earnings in Wales are only available for legal and accounting activities employees taken together.⁶

Figure 2.9 illustrates the mean and median gross weekly pay for legal and accounting activities employees in Wales and the UK since 2011.

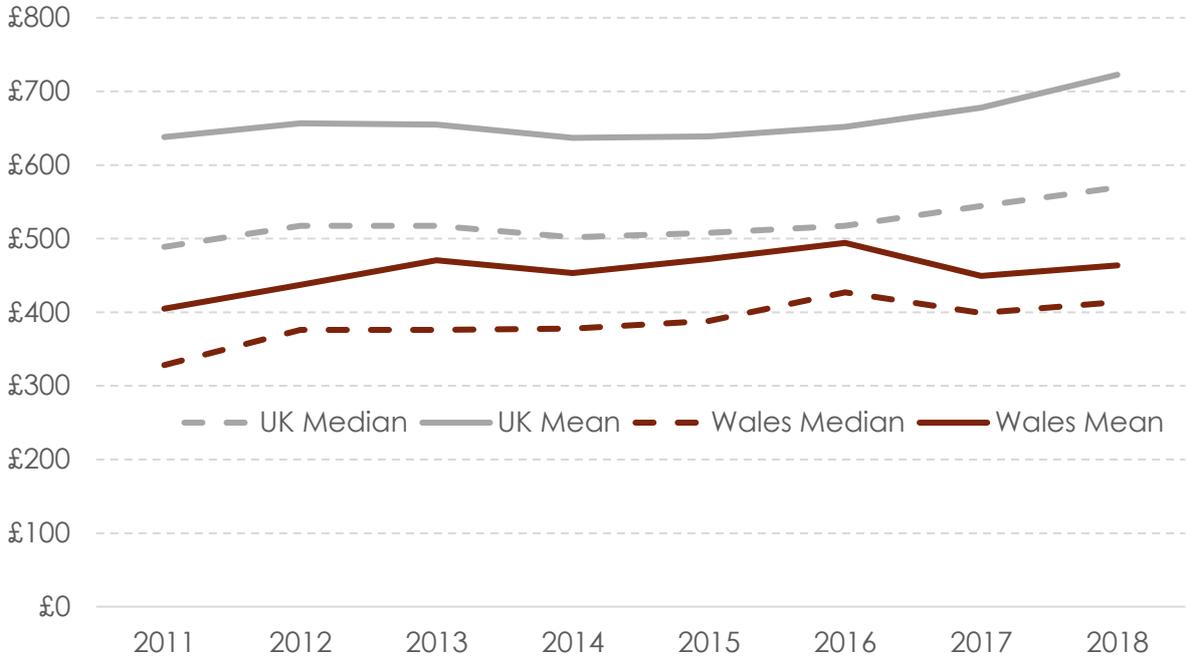
The median weekly pay in these sectors in Wales stands at £414, while the mean is £464. This means that median earnings for Welsh employees are 73% of the median for the UK as a whole (£570), while mean earnings in Wales are just 64% of the UK level (£723). This discrepancy reflects the very high wages at the top of the income distribution elsewhere in the UK.

At the UK level, employees in legal and accounting activities can expect to earn around 30% more on average than employees across other industries. However, this premium doesn't appear to exist in

⁶ Reasonably precise is defined as estimates with Coefficient of Variation (CV) of between 5% and 10%, meaning the ratio between the standard error for the estimate to the estimate itself lies between these values.

Wales; mean pay for legal and accounting activities employees in Wales is slightly lower than the mean pay across all industries.

Figure 2.9: Gross weekly pay for legal and accounting activities employees, 2011 to 2018



Source: ONS (2018) Annual Survey of Hours and Earnings

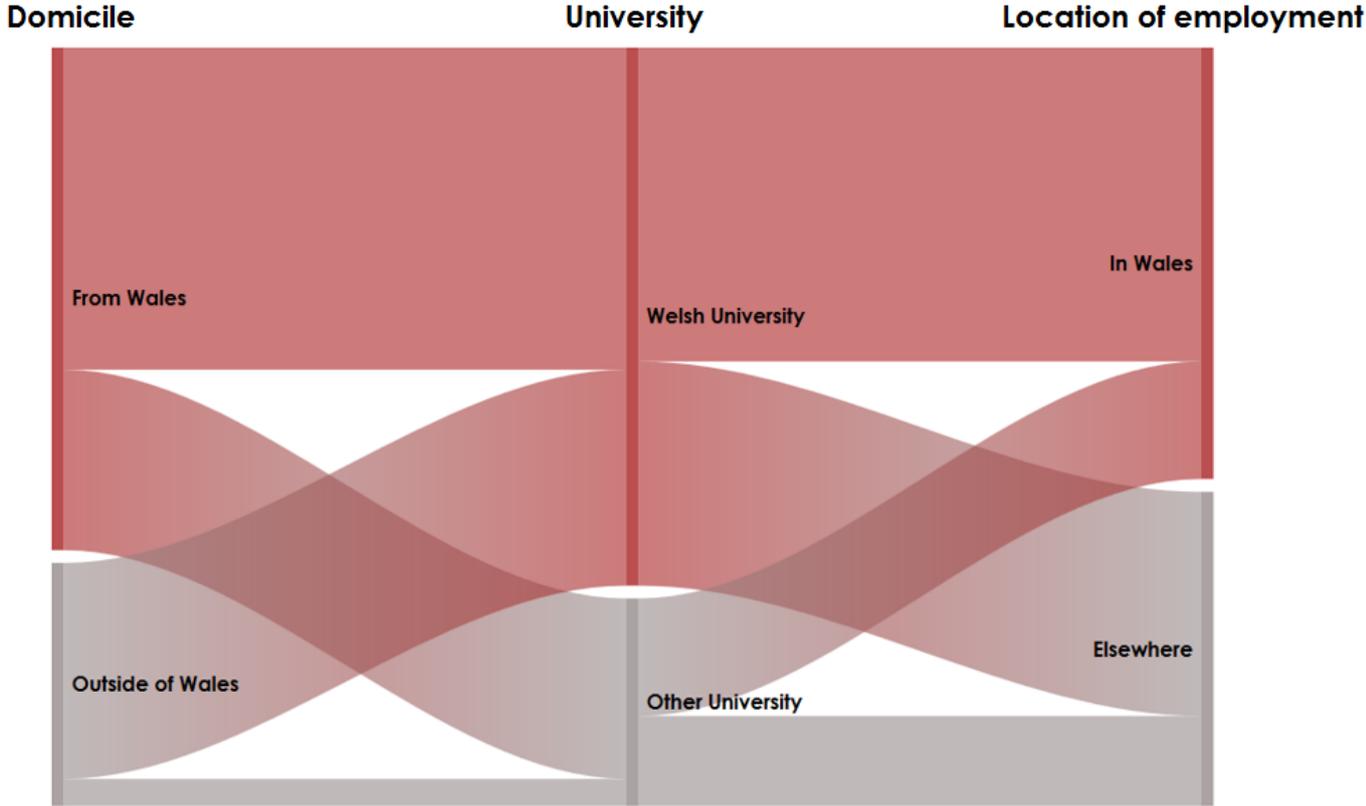
2.3 Legal education in Wales

Access to graduates and the depth of legal talent is a key consideration in location and investment decisions of legal services firms. Legal education is therefore a key factor underpinning the legal economy in Wales.

There are a number of prominent institutions in Wales offering courses and degrees in legal education. The latest data from the Higher Education Statistics Agency suggests there were 3,270 undergraduate students and 940 postgraduate students studying Law in Welsh higher education providers in 2017-18. This equated to around 5% of the UK’s law students. The number of students domiciled in Wales studying Law at a UK Higher Education institution was lower – there were 2,605 undergraduate students and 550 postgraduate students from Wales studying Law in 2017-18.

There are significant flows of students and graduates between Wales and Welsh universities and the rest of the UK. Figure 2.10 shows the flow of law graduates by country of domicile (prior to commencement of the course), country of higher education provider and location of employment after leaving higher education.

Figure 2.10: Flows of law graduates by domicile and location of employment, 2016-17



Source: HESA (2019) Destinations of Leavers Survey and Student Record, 2016-17

In 2016-17, over a third of law graduates originally domiciled in Wales graduated from universities outside of Wales. Meanwhile, around 40% of law graduates from Welsh universities were originally domiciled outside of Wales. Similarly, of those entering employment after graduating from Welsh universities, around 42% did so outside of Wales.

As a result of these flows, the share of UK law graduates working in Wales after graduation (3.7%) is lower than both the share of UK law graduates originally from Wales (4.3%) and the share of UK graduates attending Welsh universities (4.6%).

2.4 Gross value added from legal services in Wales

The contribution of the legal services sector to the Welsh economy can be measured in terms of Gross Value Added (GVA). GVA measures the output of an industry, after accounting for its consumption of goods and services used up in order to produce that output. The ONS definition of legal services covers legal representation, advice services in a range of areas, retail work and social welfare work. The main exclusions from the ONS definition are the activities of law courts, and lawyers employed by non-legal firms whose activity would be credited to the sector of their employer.

In November 2018, **TheCityUK** (2018a) published a report on the legal services sector of the UK. The report estimated GVA from legal services in Wales in 2016 at £431 million, or 1.7% of the total for the UK as a whole. This estimate is based on ONS regional GVA for 2016, which is only available by industry at the level of legal and accounting activities. This data has been allocated to legal services by adjusting for employment (using the BRES data outlined above) and mean wages found in the Annual Survey of Hours and Earnings (ASHE) data.⁷

An alternative source for data on revenue and approximate GVA (aGVA) of legal services at the regional level is the ONS (2018) **Annual Business Survey (ABS)**. This is an annual survey of approximately 62,000 businesses across England, Scotland and Wales, which reports on a number of indicators of economic activity - including the total value of sales and work completed by businesses; the value of purchases of goods, materials and services; and total employment costs - by calendar year.

The latest ONS data estimate total turnover for legal activities firms in Wales in 2016 at £571 million in 2016, and total employment costs of £234 million. After accounting for intermediate consumption, approximate GVA for legal activities firms was £447 million.

The aGVA measure differs from the GVA measures used in the ONS regional accounts, which is subject to a number of coverage adjustments, and conceptual and coherence adjustments.⁸

⁷ The methodology is set out in the report '*Enabling growth across the UK 2018*' (TheCityUK 2018b).

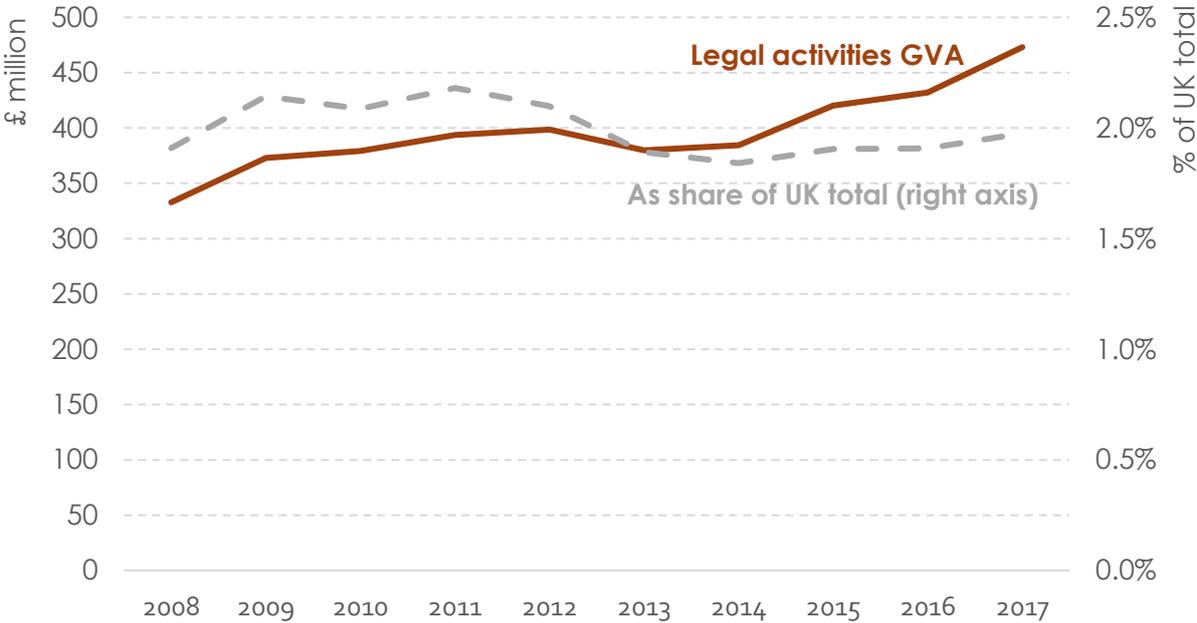
⁸ For a full comparison between these measures see ONS (2014) *A Comparison between ABS and National Accounts Measures of Value Added*, Available here:

<https://webarchive.nationalarchives.gov.uk/20160106210631/http://www.ons.gov.uk/ons/guide-method/method-quality/specific/business-and-energy/annual-business-survey/quality-and-methods/a-comparison-between-abs-and-national-accounts-measures-of-value-added.pdf>

To produce an estimate of GVA (as opposed to aGVA) in legal activities for Wales, I use GVA data for legal and accounting activities in Wales published by the ONS in December 2018.⁹ I then allocate this to legal activities according to the split implied by the aGVA figures from the ABS each year.

Estimated GVA in legal activities in Wales in 2017 was £473 million, or £151 per person.¹⁰ As shown in figure 2.10, growth in legal activities GVA has been relatively rapid since 2013, growing by more than a quarter (before accounting for inflation). Wales’ share of legal activities GVA for the UK as a whole has fluctuated at approximately 2% through this period (the grey line in figure 2.10). This estimate implies that legal activities account for approximately 0.8% of the Welsh economy.

Figure 2.10: Estimated Gross Value Added in legal activities in Wales, 2008 to 2017



Source: ONS (2018) Annual Business Survey, ONS (2018) Regional gross value added

⁹ Available at: <https://www.ons.gov.uk/economy/grossvalueaddedgva/bulletins/regionalgrossvalueaddedbalanceduk/1998to2017>

¹⁰ Estimated GVA for 2016 was £432 million – relatively close to TheCityUK (2018) estimated produced by the methodology outlined earlier.

3

Cross-country and regional comparison

This section compares the relative size of the legal services economy in Wales with those of the other countries and regions of the UK, and it explores how the legal economy interacts with other sectors in Wales and the rest of the UK.

The distribution of UK legal activities businesses and employees is heavily concentrated in London. Approximately 38% of the UK's legal activities local units are based in London alongside 30% of legal activities employees in England, Scotland and Wales. Levels of legal activities firms and employees per person are therefore much higher in London than other regions (showed in figure 3.1 and 3.2).

Figure 3.1: Legal services local units per 100,000 of population, 2017



Source: ONS (2018) Inter Departmental Business Survey

This reflects the overall relative strength of London's economy, with a co-location and clustering effect from other financial and professional services underpinning its role as a centre for international legal services (TheCityUK 2018a). There is also an argument that the 'London-centric' England and

Wales jurisdiction, with all institutions based in London, has inhibited growth of legal expertise elsewhere.¹¹

Figure 3.2: Legal activities employees (2015-2017 average) and legal professionals (2017) per 100,000 of population



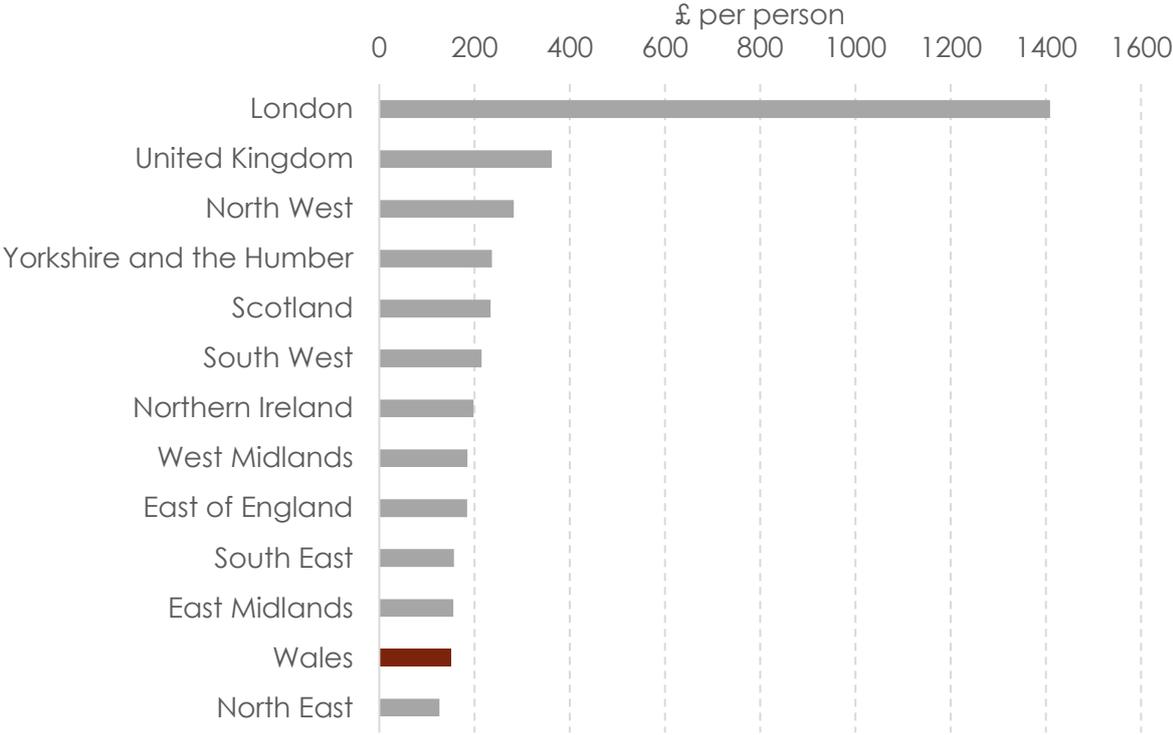
Source: ONS (2018) Business Register and Employment Survey

Outside of London, the North West of England has the largest legal economy, with growing practice areas in maritime and environmental law (TheCityUK 2018a). The devolved nations of Scotland and Northern Ireland also have relatively high levels of legal activities firms and employees per person. Although Wales has only the eighth highest level of legal professionals per person and ninth highest level of legal activities firms per person, these levels compare quite favourably with suitable comparator regions in England, such as the North East of England.

However, the estimated GVA derived from legal services in Wales is low. Legal activities GVA per person of £151 is only 42% of the UK average of (£362.6), as shown in figure 3.3. The UK average is heavily skewed by London, which on its own accounts for over a half of legal activities GVA. However, even after excluding London from the average, the Welsh level is only 75% of the level in the rest of the UK.

¹¹ For example, see comments from Justice Roderick Evans to the National Assembly for Wales Constitutional and Legislative Affairs Committee (2012).

Figure 3.3: Legal activities GVA per person by UK country and region (2017)



Source: Author's calculations – see section 2.4

Figure 3.4: Legal activities GVA per legal activities employee (2015-2017 average)



Source: Author's calculations – see section 2.4

Wales’ relatively high level of legal activities employees but low level of GVA leads to a low estimate of GVA per employee - a crude measure of productivity in the sector - of approximately £44,000. This is lower than all other countries and regions of the UK.

This may reflect the fact that survey data overestimates the number of legal activities employees in Wales (see section 2.2). However, it may also reflect the relatively low-value added nature of the legal activities employment which exists in Wales. It also consistent with the fact that pay in the sector is comparatively low compared to both the UK average and pay in other industries in Wales (see section 2.2).

The strength and nature of the legal sector across UK countries and regions tends to adapt to regional economic conditions as it shapes the demand for legal services. For example, lawyers in Scotland have developed expertise in energy law to service the 2,000 companies which operate in that sector (TheCityUK 2018a).

Figure 3.5: Correlation between Legal activities GVA per person and Financial and insurance activities GVA per person, by region (excluding London, 2017)



Source: ONS (2018) Regional Gross Value Added (Balanced)

Across the countries and regions of the UK outside of London, there is no obvious relationship between the overall levels of GVA per person and the level of legal activities GVA per person. The South East of England for example has the highest level of GVA per person but a relatively low level of legal activities GVA per person. There is a correlation however between the levels of legal activities GVA and the prominence of financial and insurance activities across UK regions (shown in figure 3.5). This reflects the interlinkages between the two sectors and that their growth may be influenced by similar factors.

As is the case across other industries, the Welsh legal economy is interlinked with that in other parts of the UK. Much of the instruction for some of the largest offices in Cardiff originates from outside of Wales (Welsh Government 2018). Likewise, in areas away from the M4 corridor, clients may be limited in local options and instead instruct firms in England.

One source of information on the interdependencies between different industries and national or regional economies are input-output tables. These tables are an economic model which allow the examination of the type of inputs used for each industry, the destination of commodities, and the contribution of different industries to total GVA. The Input-Output Table for Wales produced at Cardiff University by Jones et al. (2010) allows us to analyse the destination of legal services from Welsh firms. Unfortunately, the latest available data for Wales are for 2007. Since then, there will have been significant, economic and ownership changes in the legal sector in Wales. Moreover, although data on the final demands for industries' products is derived from published ONS sources, the level of inter-regional exports (for which no official data exist), is based on business survey data (with a limited number of survey responses¹²).

Bearing these points in mind, the available tables suggest a large source of demand for legal services products comes from the rest of the UK and outside the UK (see figure A.1 in Annex A). A comparison with Scotland suggests a greater share of Scottish legal services products are consumed by other firms in Scotland rather than outside of Scotland. It should be noted that this difference between Wales and Scotland could be because of statistical inaccuracy. However, this picture would be expected, given the higher level of economic interlinkages between Wales and England in general, the fact that Wales shares a legal jurisdiction with England, and the relative weakness of other sectors in the Welsh economy which limits internal intermediate demand for legal firms in Wales.

¹² Correspondence with one of the authors of the report confirmed that around 12 Welsh legal firms returned survey responses for the study.

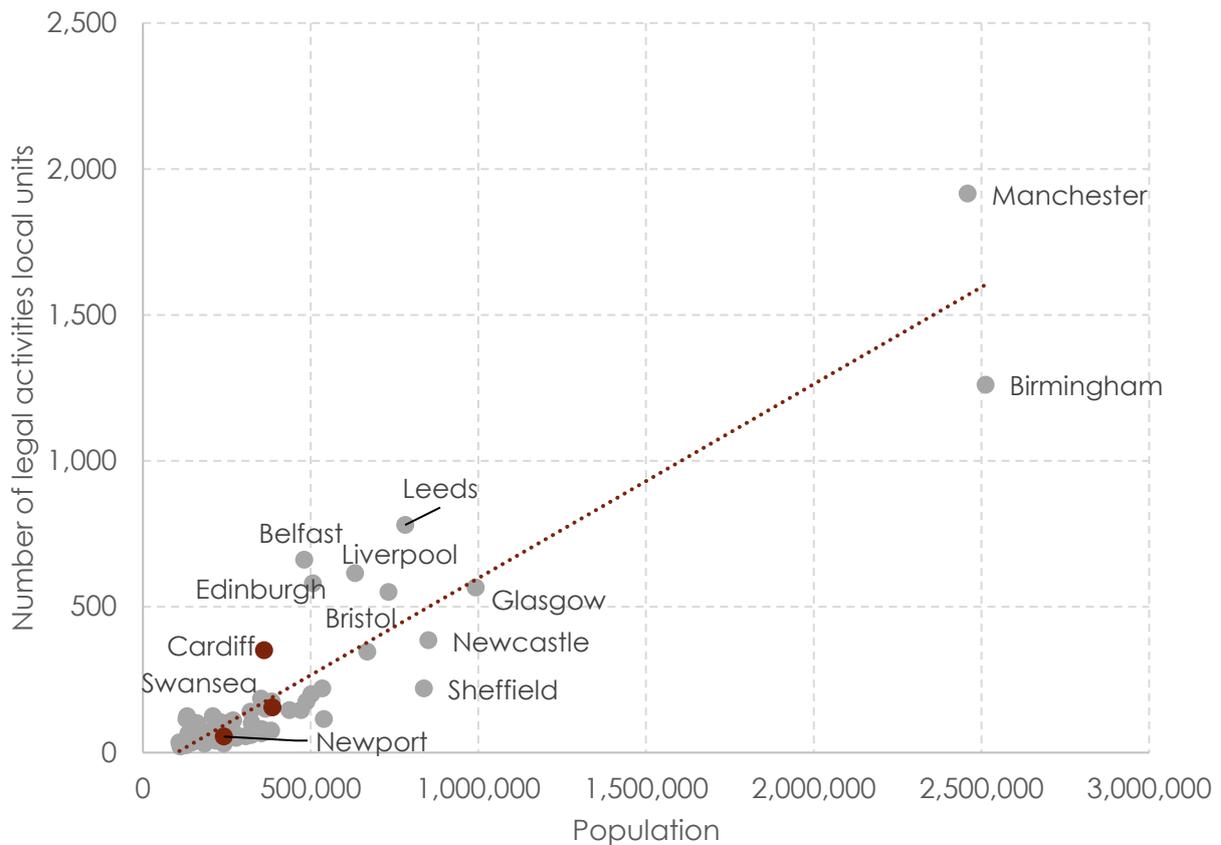
4

Legal services across cities

It is clear from figures 2.5 and 2.7 that there are vast differences between the legal economy in Cardiff and the rest of Wales. Across the UK, legal services also tend to cluster in cities and regional hubs. This section therefore explores data on legal services firms and employees across 62 UK cities. The aim is to explore what determines the prevalence of legal services across the UK and to assess the relative performance of the legal sector in Cardiff, Swansea and Newport.

In this analysis, I use the Primary Urban Areas (PUA) definition for cities, as this provides a consistent measure to compare concentrations of economic activity across the UK.¹³ PUAs are a measure of the “built-up” area of a city, and often includes more than one local authority district. Given the much higher levels of legal services local units and legal activities employees in London, it is excluded from the analysis.

Figure 4.1: City population size and number of legal services local units, 2016



Source: see annex

¹³ For details of which local authority areas are included in each PUA, see Centre for Cities (2015).

As would be expected, there is a clear relationship between a city’s population size and the number of legal activities firms (figure 4.1). Cardiff is the tenth largest city for the number of legal activities businesses in the UK (outside of London), and has a relatively high level of legal activities businesses and employees for a city of its size.

Table 4.1 ranks UK cities by the prevalence of legal activities businesses in the city per 10,000 of population. On this measure, Cardiff appears in the top 5 of UK cities, behind the other devolved capitals, Belfast and Edinburgh, and the northern English cities of Leeds and Liverpool. Cardiff also ranks highly in terms of the number of legal activities employees per 10,000 of population.

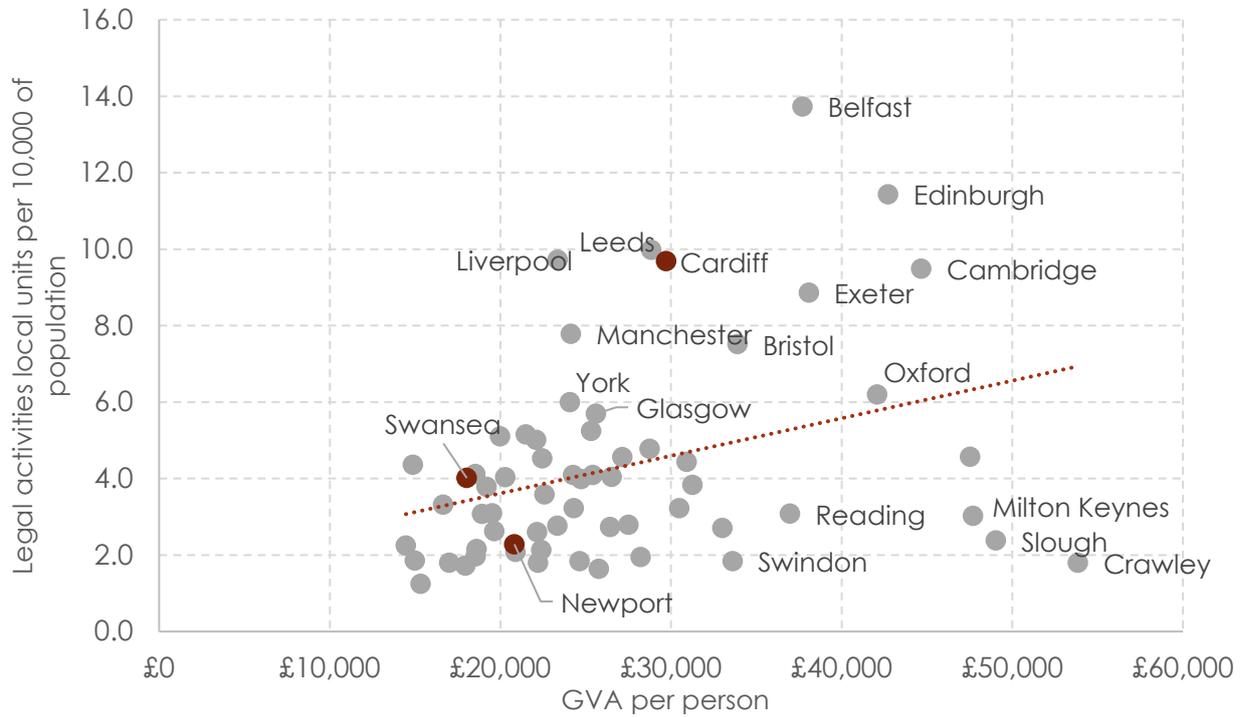
Table 4.1: UK cities (excluding London) by number of legal activities businesses per 10,000 of population

Rank	City	Legal activities businesses (local units)		Legal activities employees		Legal and accounting services GVA	
		Per 10k population	Share of total local units	Per 10k population	Share of total employees	£m	Share of GVA
1	Belfast	13.7	3.5%	n/a	n/a	506	3%
2	Edinburgh	11.4	2.5%	118.3	1.9%	688	3%
3	Leeds	10.0	2.4%	115.1	2.1%	947	4%
4	Liverpool	9.7	3.1%	81.8	1.7%	525	4%
5	Cardiff	9.7	2.4%	110.7	1.9%	404	4%
6	Cambridge	9.5	1.9%	113.8	1.5%	231	4%
7	Exeter	8.9	2.1%	115.6	1.6%	121	2%
8	Manchester	7.8	1.9%	79.1	1.7%	1857	3%
9	Bristol	7.5	1.7%	86.8	1.6%	733	3%
10	Oxford	6.2	1.6%	43.4	0.6%	110	2%
11	York	6.0	1.4%	60.0	1.2%	61	1%
12	Glasgow	5.7	1.6%	77.6	1.4%	707	3%

Source: see annex

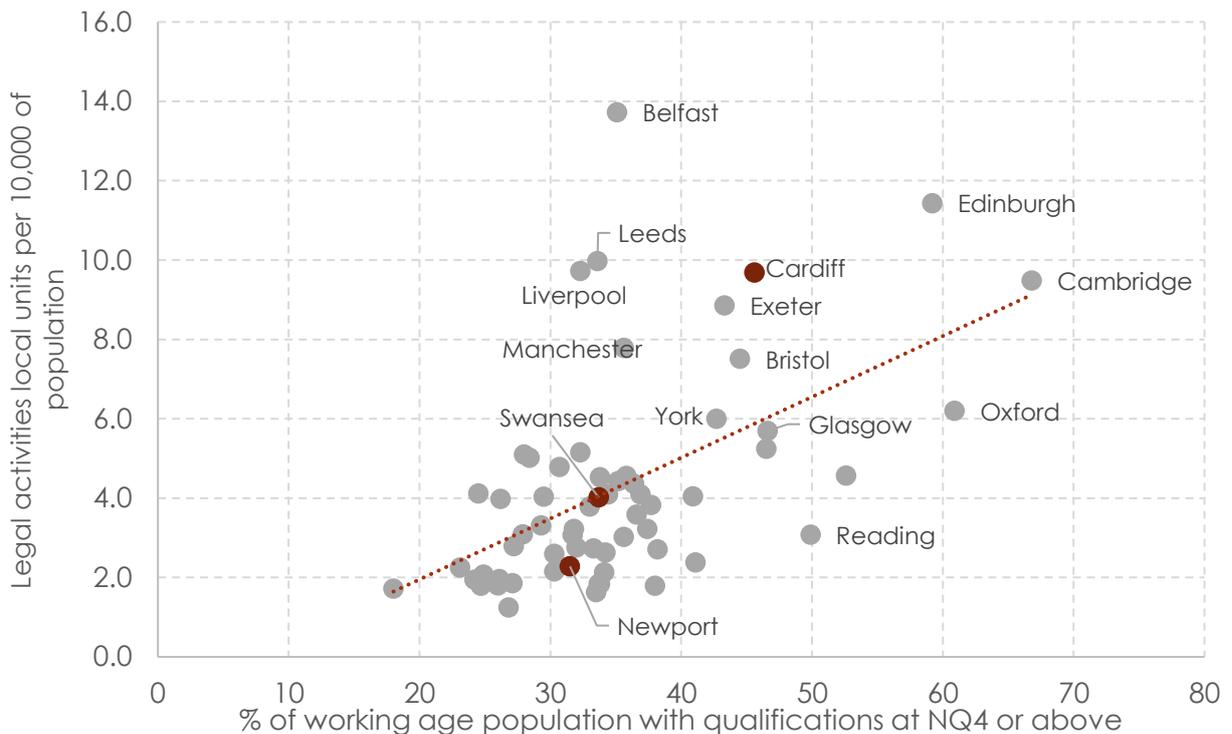
There is also a relationship between the prevalence of legal services firms and employees and overall economic activity by city. As shown in figure 4.2, higher levels of Gross Value Added (GVA) per person are associated with higher numbers of legal activities local units. Figure 4.2 also shows there are some notable exceptions to this. For example, Crawley and Slough are high-GVA cities with lower than expected levels of legal activities firms, perhaps explained by their proximity to London’s legal economy.

Figure 4.2: Legal services businesses per 10,000 of population and GVA per person, 2016



Source: see annex

Figure 4.3: Legal services businesses per 10,000 of population and share of graduates, 2016



Source: see annex

As was the case in the cross-regional analysis presented in the previous section, legal services tend to be stronger in cities with higher levels of GVA from financial and insurance activities.

There is also a correlation between the education levels of a city's workforce and the prevalence of legal services firms. Figure 4.3 shows the relationship between the legal activities local units per 10,000 of population and the share of the working-age population with graduate-level qualifications.

Annex B contains modelling of legal activities firms and employees across UK cities using a range of economic and demographic variables. Table B.1 shows the variables used in the analysis, while table B.2 displays the results of regression analysis.¹⁴ The results broadly confirm the earlier findings. After controlling for numerous characteristics of cities, we find a significant relationship between levels of legal activities firms and employees and GVA per person levels across cities. The share of GVA derived from financial and insurance activities is also a strong and statistically significant predictor of the location of legal firms and employees. A 5% increase in the share of GVA derived from financial and insurance activities in a city is associated with 1.1 more legal activities local units and 11 more legal activities employees per 10,000 of population. The share of the working-age population with graduate-level qualifications is also a strong and statistically significant predictor of legal activities firms and employees. It should be noted that these relationships indicated by the regression models signify associations between the variables rather than causal relationships.

An analysis of fitted values and residuals (the difference between each city's predicted levels and actual levels) shown in figures B.1 and B.2 also confirms previous analysis. Cardiff tends to outperform the level predicted by the model, while Newport and Swansea are in line or slightly below comparator cities. The English cities of Leeds, Liverpool and Exeter also notably outperform in terms of the number of legal activities firms and employees given their economic and demographic characteristics.

¹⁴ OLS regression with robust standard errors

5

Conclusion

This report has compiled available data on the legal economy in Wales, to assess its size, structure and recent trends. In comparison with the other regions of the UK, Wales' legal economy compares relatively favourably in terms of the number of legal activities firms and the number of employees. However, the earnings and the value-added of those employees are relatively low. Whereas Wales accounts for approximately 3.8% of the legal activities employees in England, Scotland and Wales, and 2.7% of the UK's legal activities firms, its estimated share of legal activities GVA is approximately 2.0%.

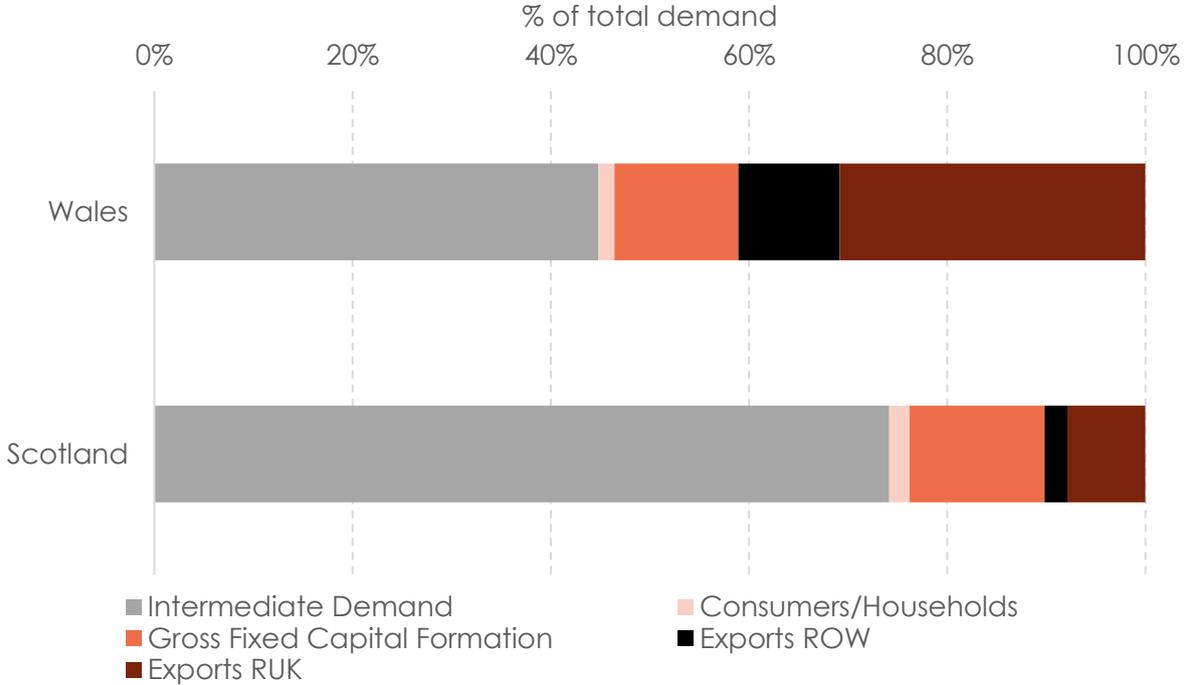
Outside the major conurbations in Wales, this report finds the number of legal services firms and employees is spread thinly, a finding which aligns with long-standing concern about access to legal services for businesses and individuals in more rural areas. The better news is that Cardiff's legal services sector, in terms of the number of firms and employees, is doing relatively well relative to its size and overall economy.

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Annex A

Figure A.1: Source of final demand for legal services products from Wales and Scotland, 2007



Source: Jones et al. (2010), Scottish Government (2010) and author's calculations

Annex B

Table B.1: Summary statistics and source of variables used in section 4

Variable	Source	Observations	Mean	Std. Dev.	Min	Max
Legal activities local units per 10k of population	ONS (2018) Inter Departmental Business Survey	62	4.3	2.7	1.2	13.7
Legal activities employees per 10k of population	ONS (2018) Business Register and Employment Survey	61	45.5	28.2	10.8	118.3
GVA per person (£'000)	ONS (2018) Regional Gross Value Added (Balanced)	62	26.6	9.2	14.5	53.8
Financial and insurance activities GVA (%)	ONS (2018) Regional Gross Value Added (Balanced)	62	5.7	4.1	0.8	22.1
Professional, scientific and technical activities GVA (%)	ONS (2018) Regional Gross Value Added (Balanced)	62	5.7	3.1	0.9	21.2
Graduates share of working age population (%)	Centre for Cities (2018)	62	35.1	9.2	18.0	66.8
Businesses per 10k people	Centre for Cities (2018)	61	315	63	204	474
Employment rate (%)	Centre for Cities (2018)	62	73.0	4.8	63.8	84.8
Knowledge intensive business service jobs (%)	Centre for Cities (2018)	61	11.7	4.2	5.9	23.9
Services exports per job (£, 2014)	Centre for Cities (2018)	61	5261	2,741	1,800	13,100
Patent applications per 100k people	Centre for Cities (2018)	62	27.3	45.4	4.8	341.1
Mean house prices (£)	Centre for Cities (2018)	61	207,467	82,124	104,040	485,554
Ultrafast Broadband coverage (%)	Centre for Cities (2018)	62	70.8	19.5	0.1	93.3
Private to public sector jobs ratio	Centre for Cities (2018)	61	2.6	1.0	1.1	8.0

Table B.2: Model of legal activities firms and employees location across UK cities

Dependent variable:	Legal activities local units per 10k of population	Legal activities employees per 10k of population
Constant	5.278 (1.95)	50.590 (1.03)
GVA per person ('000)	0.088 * (3.02)	0.002 *** (2.75)
Financial and insurance activities GVA (%)	0.223 *** (2.39)	2.171 ** (2.32)
Professional, scientific and technical activities GVA (%)	0.326 ** (2.88)	3.208 * (1.85)
Graduates share of working age population (%)	0.127 *** (1.64)	1.390 ** (2.48)
Businesses per 10k people	0.011 (-2.43)	0.044 (0.5)
Employment rate (%)	-0.141 ** (-0.67)	-1.113 (-1.51)
Knowledge intensive business service jobs (%)	-0.087 * (-1.97)	0.439 (0.27)
Services exports per job	0.000 * (-2.2)	-0.004 ** (-2.58)
Patent applications per 100k people	-0.015 ** (-1.91)	-0.101 (-1.17)
Mean house price	0.000 * (2.22)	0.000 ** (-2.6)
Ultrafast Broadband coverage (%)	0.026 ** (-1.69)	0.124 (0.84)
Private to public sector jobs ratio	-0.566 * (1.36)	-5.372 (-1.27)
R-squared	0.6974	0.648
N	60	60.000

t statistics in parentheses
 *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Figure B.1: Plot of fitted values from model and residuals plot - legal activities local units per 10,000 of population across UK cities

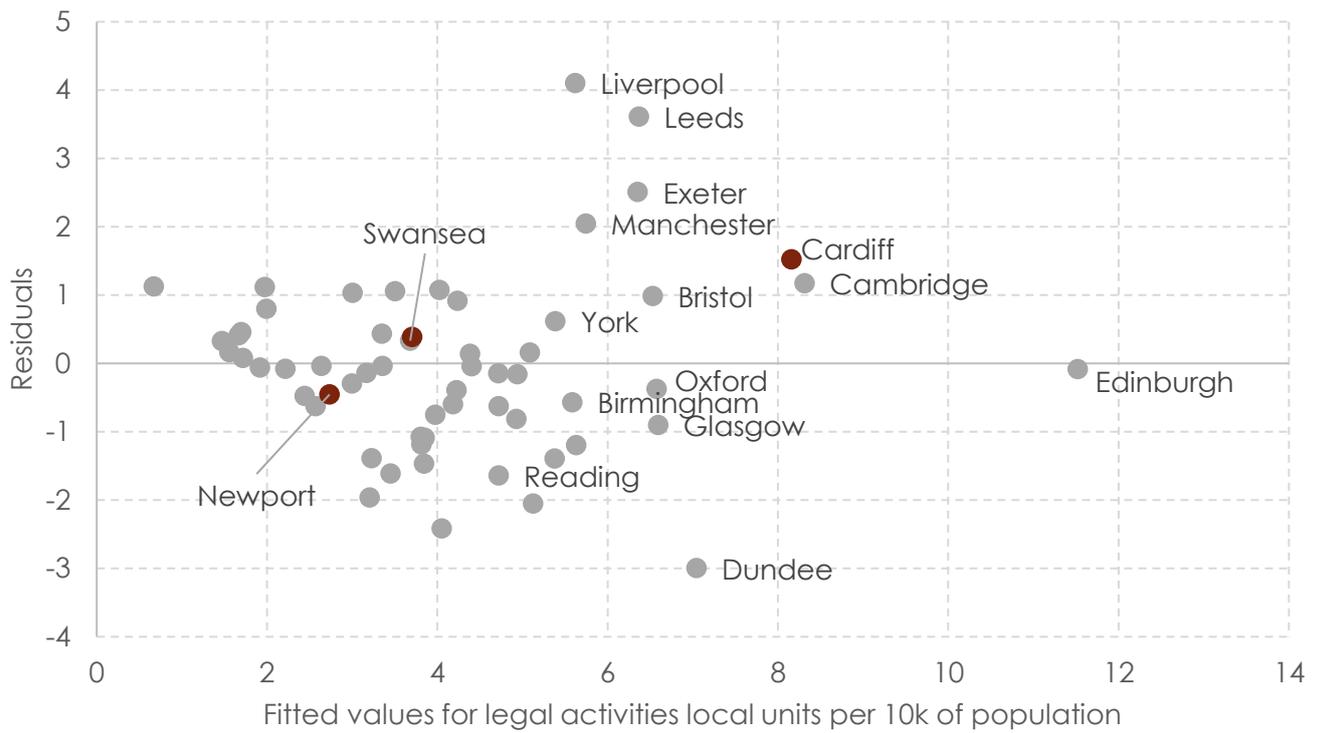
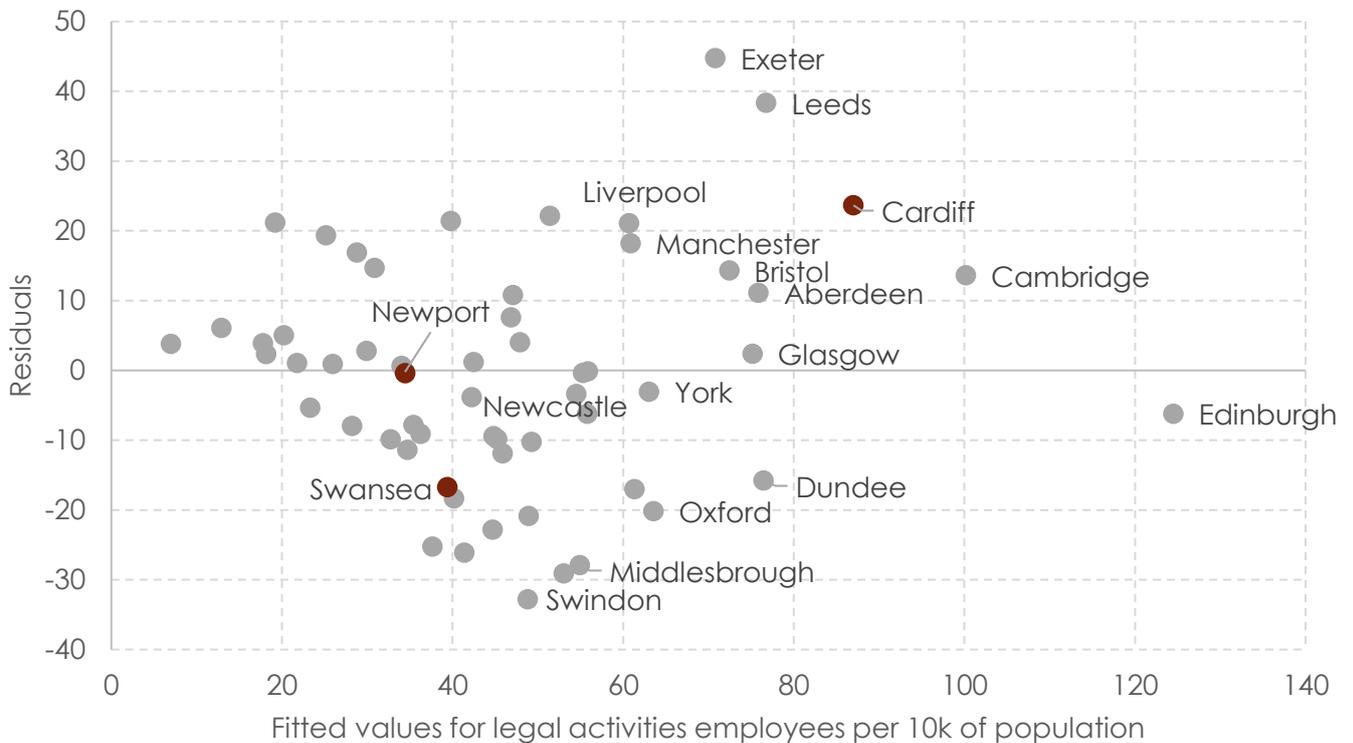


Figure B.2: Fitted values from model and residuals - legal activities employees per 10,000 of population across UK cities





Canolfan
Llywodraethiant Cymru

Wales Governance
Centre

Wales Governance Centre

Cardiff University

21 Park Place

Cardiff CF10 3DQ