The Law Society's Law Management Section

Financial Benchmarking Survey 2021

The Law Society

In association with Hazlewoods LLP

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DRIVING LIFELONG PROSPERITY

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Foreword

This year, 145 firms participated, making the LMS Survey one of the largest of its kind in England and Wales. The COVID pandemic has brought to bear new challenges, ways of working and of course opportunities, which we expect you will spot reflected here and in the next few years. I am delighted to write the introduction for the 2021 Law Management Section Financial Benchmarking Survey, because it gives the LMS the chance to help firms improve profitability year on year.

The combined turnover of firms involved amounts to £765million. We can confidently say that the LMS Financial Benchmarking Survey continues to increase in importance as a valuable tool for all law firm managers, enabling them to benchmark results against a wide range of other law firms. It enables firms to objectively test their internal perceptions against their peers.

The team behind the survey have worked to improve the layout and formulation of the results. The design is aimed at making the survey user-friendly and easy to understand. Many of the charts contain results over two years.

I would strongly encourage firms who are not members of LMS to look at our website and consider joining the section; and for those LMS member firms who have not yet joined in the survey, hopefully next year you will be encouraged enough to do so, making the results stronger than ever. Our objective is to support you with training, our magazine and our conferences to make a day-to-day positive impact through excellence of management.

The survey is a labour of love for those who deliver it, and I know the profession is always keen to see the trends. A huge thank you to Andy Harris and everyone at the accountancy practice Hazlewoods, for their hard work in pulling together and compiling all of the survey results. Thanks also to Andrew Otterburn for his efforts throughout the year, and to Joanne Cox and Steve King at the Law Society for their invaluable assistance.

More thanks also go to Lloyds Bank Commercial Banking for their sponsorship of the survey, and to Darren Cable from Lloyds for his support and encouragement.

Final thanks go to all who have taken the time to participate in the survey, which makes the report possible. Please contribute again next year, and encourage your peers to do so at every opportunity – it will help us to support more firms.

I hope that you find this year's survey useful in improving the profitability of your firm. Please keep a look out for the survey later in the year, so that you can include your statistics in next year's report, and do join one of our conferences to get ideas arising from this year's trends.

Paul Bennett
Chair, Law Management Section Executive Committee
April 2021

About the Law Management Section

The Law Management Section (LMS) is the community for partners, leaders and practice managers in legal businesses. Established in 1998, the Section provides law firm managers with support, advice and opportunities to network and share best practice with peers.

It provides practical guidance, information and support on the full range of practice management disciplines, including HR, finance, marketing, IT, business development, client care, quality and risk.

The comprehensive range of services and benefits includes:

- *Managing for Success quarterly magazine;*
- *regular Law Management e-newsletter;*
- *website featuring news and events, members-only discussion forum, downloadable documents, secure payment facility and suggested links;*
- *national and regional CPD-accredited events programme covering all management disciplines;*
- *the LMS Financial Benchmarking Survey;*
- *the LMS Quarterly Pulse Survey – real-time insights on key metrics four times a year;*
- *toolkits on internet policies, mergers, legal aid, risk management, HR and business development;*
- *networking opportunities;*
- *representation on the Council of the Law Society; and*
- *discounts on a range of events, texts and training packages.*

Membership is open to solicitors; those concerned or involved in the management of a legal practice / department (whether as HR, IT or marketing manager); or those habitually or frequently involved in the supply of services to legal practices which relate to the financing or management of such practices.

New Corporate Membership

Individual membership costs £199, but why not take advantage of even greater savings with our new corporate membership deal? For only £399 your firm can nominate up to six staff members (and £60 for additional people), who can all enjoy the individual benefits of being a Law Management Section member.

For more information, visit

www.lawsociety.org.uk/lawmanagement
email: MSadmin@lawsociety.org.uk
telephone: 0207 320 5804

Caitlin Padmore
Membership Engagement Manager
at the Law Society

Caitlin works with the Law Society's excellent Law Management Section Committee to plan and deliver the Section offering, identifying key areas of concern for the membership and providing practical guidance and know-how through events, webinars, editorial content and a quarterly magazine.

For any feedback in relation to the Section offering and for any ideas around future content or speakers, please contact Caitlin at MSadmin@lawsociety.org.uk

About Hazlewoods LLP

The *LMS Financial Benchmarking Survey* is written and produced by the Legal Team of Hazlewoods LLP.

Hazlewoods is a Top 25 accountancy practice with a niche specialism in advising the legal profession. We have worked with law firms since 1992, and we have a dedicated team of 34 individuals who focus only on this.

We are retained by over 170 law firms countrywide on a recurring basis, and advise at least 30 others each year on projects such as practice strategy, new practice start-ups, mergers and acquisitions, structure advice and implementation, external equity investment, breaking away from larger firms and dealings with the SRA. The scope of our service goes far beyond the normal compliance-based services provided by the majority of other accountancy practices, and we have a tremendous range of contacts in the sector. See more at **www.hazlewoods.co.uk/sectors/legal-accountants.aspx**

This is the 12th year that we have compiled the LMS Financial Benchmarking Survey. Over this period, our experience and understanding of the sector have enabled us to develop and constantly refine the questionnaires and interpret the results.

Should you have questions about anything at all in it, we would be delighted to hear from you (**legal@hazlewoods.co.uk**)

We would like to thank all law firms that took the time to complete and return the questionnaires, and we hope that you find the report both interesting and useful in your firm.

About Lloyds Bank Commercial Banking

We are delighted to once again sponsor the annual LMS Financial Benchmarking Survey, providing vital benchmarking data for law firms. It is the most in-depth of its kind, and an invaluable tool for law firm owners and managers to understand best practice and to make the right business decisions.

We work closely with solicitors to provide funding and support that meets the specific needs of your business. Our specialist managers are Lexcel-trained; understand practice management standards; and know the opportunities and threats that face the profession. They are also trained in the SRA Accounts Rules to ensure we complete the housekeeping processes correctly. We have a range of support available to the legal profession, from funding professional indemnity insurance to providing card payment solutions. We also support firms to bring in new partners through partner capital loans, and to manage client money through a range of secure accounts.

During 2020, we have supported businesses through the pandemic with our own £2bn COVID fund, which saw us grant more than 56,000 repayment holidays and overdraft extensions to businesses. We were also an active supporter of the government schemes to help businesses through any interruptions they faced, providing additional finance facilities to those businesses that needed them. As a result, we finished the year lending £31bn in total to businesses in 2020.

Through 2021, we will be working with businesses to support the recovery.

Darren Cable
UK Head of Legal
Lloyds Bank Commercial Banking
www.lloydsbank.com/solicitors

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Introduction

Members of the Law Society's Law Management Section (LMS) are represented in law firms across England and Wales. For the past 20 years, the LMS has produced the annual LMS Financial Benchmarking Survey with the active participation of that membership, and the recent growth in support from the wider legal practice community. The survey is widely regarded as one of the leading annual health check reports for smaller and mid-sized practices.

This report is unique in providing detailed accounting and business metrics collected directly from solicitor firms across England Wales, allowing those firms and others – particularly from the mid-market – to benchmark their performance against peers and to an extent over time.

The 2021 survey was carried out between July and October 2020, at a time when society as a whole was battling with the COVID-19 pandemic. As detailed in the following section, the majority of participants have either a 31 March or 30 April accounting date, and therefore their 2020 results are likely to have been relatively unaffected by COVID-19.   We will not see the full impact of COVID-19 on law firms until next year's survey.

Participants were, however, asked a range of questions to assess how COVID-19 had impacted on them in the months leading up to the time that they completed the questionnaire.

145 law firms from across England and Wales, concentrated in the mid-market, with a combined turnover of almost £765million have taken part in this year's survey. We anticipate that most of the participants' income will relate to domestic work. For reference, in 2019-20, total domestic turnover for all firms in England and Wales was £27.2billion, although over half of this amount was earned by the 100 largest firms, which are not the subject of this survey.

As in previous years, all participants provided two years' data, i.e. the most recent accounting period and the previous one, which has allowed us to compare two years' results on a true like for like basis.

Many of the charts throughout this report include the results for two accounting years. Most charts include three figures for each turnover band; the lower quartile, median and upper quartile. The results for 2020 are shown as columns and numbers, and the like-for-like results for 2019 are shown as a dash, i.e. - .

Participants are analysed in more detail in the following section.

We consider that the response rates that we have seen for this voluntary survey are very good, compared to other financial surveys of professional firms. The response is particularly pleasing, given that it was carried out during the COVID-19 pandemic, when staff across all firms were working predominantly from home.

In order to allow the findings to be statistically valid, we have only provided full results for categories where at least 30 firms participated in the survey. Although we have a particularly strong representation from mid-sized firms this year, as detailed in the following section, fewer than 30 participants were in the £10million to £35million turnover band, and therefore the charts and statistics quoted throughout this report only reflect the median figures for those firms. Please also note that the overall results should not be taken as being representative of the profession as a whole. The sample is self-selecting, and this may introduce bias into the results in a manner that is not directly quantifiable.

For ease, throughout this report we refer to the owners of the practices as Equity Partners.

Participants

145 law firms from across England and Wales, comprising over 9,000 partners and employees, took part in this year's survey. The fee income of all participants totals £765million - an average of £5.3million per practice – and combined net profits of £169million.

As in previous years, we have categorised firms based on turnover. The turnover bands and the number of participants in each band are shown in the table below.

The total number of firms in England and Wales in each band is also shown.

Turnover band	Total number of practices	Number of participating practices	%
Up to £2million	8,820	52	0.6%
£2million to under £5million	721	44	6.1%
£5million to under £10million	259	31	12.0%
£10million to under £35million	186	16	8.6%
£35million+	128	2	1.6%
Total	**10,014**	**145**	**1.4%**

There was a good participation amongst firms with a turnover greater than £5million, and an under-participation of firms with turnover below £2million.

The locations of the participants are as follows:

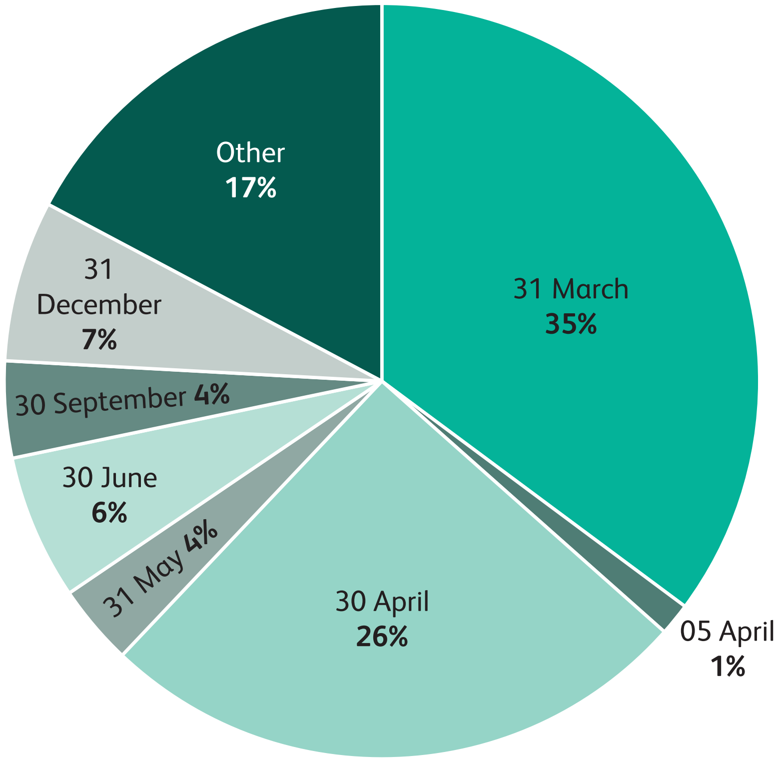
Region	Number of participating practices
Eastern	7
Greater London	48
Midlands	21
North East	6
North West	10
South East	11
South West	35
Wales	4
Yorkshire	3
Total	**145**

82% of participants traded as either an LLP or limited company. This is significantly higher than, and in different proportions to, the percentages for the legal sector as a whole – according to SRA statistics, 50% of law firms were operating as a limited company, and 14% were operating as an LLP at 28 February 2021. These statistics, and more, can be viewed here:
www.sra.org.uk/sra/how-we-work/reports/statistics/regulated-community-statistics/

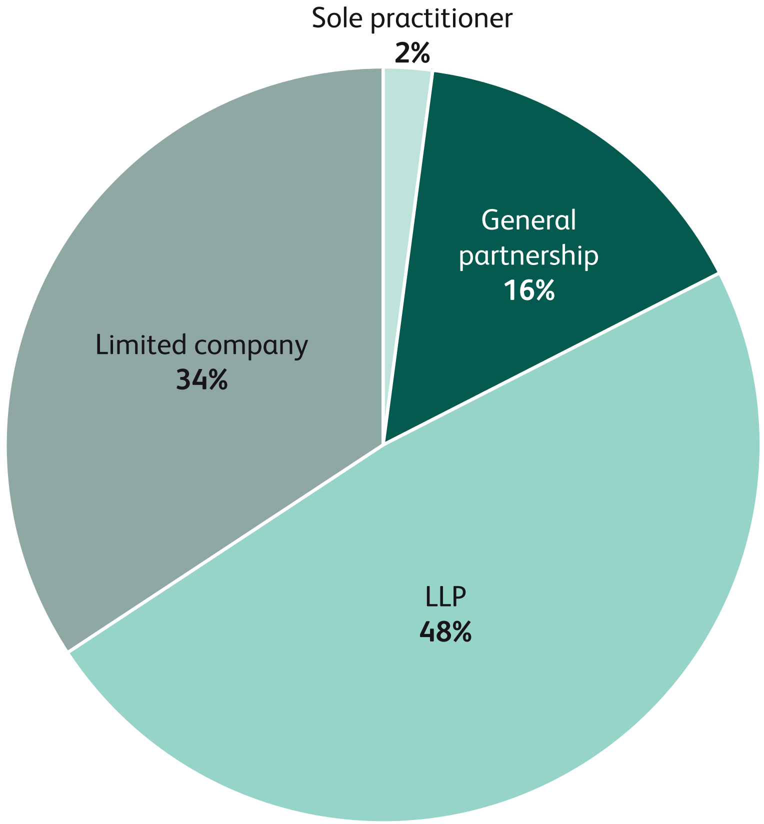
This difference between the survey participants and the sector as a whole reflects the fact that a greater proportion of mid-sized firms have taken part this year as the majority of the Top 200 law firms are either an LLP or limited company.

The SRA's statistics show that the number of limited companies has increased by 221 in the last two years, whilst the total number of firms of all types has fallen by 342 firms over the same period.

Financial year end of participating practices



Structure of participating practices



1. Using benchmarking information to improve your performance

Before the arrival of COVID-19, many firms were performing well, with fee income up across most work types, staff and partner numbers on the rise, and steadily improving control over lock-up (work in progress and debtors). Participants in last year's survey predicted a median 4% fee growth for their 2019/20 financial year.

The findings from the 2021 survey, based on firms' 2019/20 financial year ends, support this and are generally positive. Median practice fee income is up for the 11th consecutive year, though not by 4%, fee earner gearing has increased again, and WIP and debtor balances have held steady.

However, last year we reported that some firms were struggling despite a generally positive outlook on the whole, and it is perhaps unsurprising that this has continued. For the second consecutive year, we have seen firms' overheads growing more quickly than fees, leading to another reduction in net profits per partner.

As noted before, the full impact of COVID-19 will not be seen until next year's survey, but our experience is that many firms have struggled to maintain profitability in their 2020/21 financial year, and therefore we anticipate a third year of reduced profits.

This needs to be addressed quickly, as future investment in a firm and its people is only sustainable if profits are growing. Benchmarking information can be very helpful in identifying key areas for improvement.

Fee earner breakeven point

By combining some of our findings throughout this report we are able to calculate the expected breakeven point for a fee earner. This is defined as the fees a firm must generate per fee earner before any profit (sometimes also referred to as fee earner contribution) is earned. As illustrated below, this is substantially more than simply the median cost of a fee earner.

	2020 £	2019 £
Median fee earner cost, including notional salaries for equity partners (Figure 4.4)	57,838	57,076
Median support staff cost per fee earner (Figure 4.9)	22,471	24,102
	80,309	81,178
Median non-salary overheads per fee earner (Figure 5.9)	43,648	41,752
Breakeven point per fee earner	**£123,957**	**£122,930**

Working on an average of say 1,100 chargeable hours per annum per fee earner, or 220 chargeable days per annum, this equates to the following:

	2020 £	2019 £
Cost per hour	£112.69	£111.75
Cost per day	£563.45	£558.75

In Figure 3.4 we see that the median fee income per fee earner in 2020 was £138,675. This means that just under 90% of fees earned by a fee earner are used to cover their costs. Looking at it another way, if a firm has a 31 March year end, on average it takes until 20 February for a fee earner to earn sufficient fees to cover his or her total costs for the year, and for the practice to start earning 'super-profits' for the partners.

These figures assume an average of five chargeable hours per day, but in reality, fee earners in many firms do not record anywhere near 1,100 chargeable hours per annum, while others may find they exceed that.

Areas to focus on

Sections 4 (Employment costs) and 5 (Profitability) include some pointers on key overheads, such as fee earner costs, support staff costs and accommodation costs, and these may help to identify areas for potential savings.

However, we expect the breakeven point to continue to increase – five years ago the breakeven point was £107,504. Despite the impact of COVID-19, salary expectations remain robust and so salary costs are generally only going one way. Furthermore, overheads in many firms have already been cut back as far as possible and so further cuts may not be possible without having implications for efficiency.

Section 3 (Fee income) is therefore the key section for firms looking to increase profitability.

Fee earner performance

Fee income is driven by a combination of fee earner numbers per partner (fee earner gearing), chargeable hours recorded (productivity) and recovery rate achieved per chargeable hour.

While fee earner gearing is an important metric when the industry is growing, COVID-19 has meant that firms have had to look much more closely at fee earners' capacity for chargeable work and the availability of that work. Put simply however, the greater the productivity and recovery of fee earners, the higher the income.

For example, let's assume a firm with 20 fee earners, all with an hourly chargeout rate of £175. Fee earners record an average of 1,100 chargeable hours each per year, and recover (i.e. bill) 80% of the recorded WIP value, resulting in total fee income of:

20 x £175 x 1,100 x 80% = £3.08million

If the fee earners are able to increase the recovery rate by just 1%, annual fee income and profitability will increase by £38,500.

A 1% improvement in productivity represents just one additional 6-minute unit per fee earner per day.

A 1% improvement in both productivity and recovery increases income and profits by almost £70,000.

Time recording

In our experience, fee earners in many firms do not fully time record. This is often the case where the work is fixed fee, for example in residential conveyancing.

We frequently see firms adopting a policy whereby fee earners are only required to record chargeable time, which can result in a lack of accountability for non-chargeable time, and this can also have a negative impact on overall time recording.

Where fee earners do fully time record, it is fairly common to see fee earners recording somewhere around four or five chargeable hours per day.

This raises an important question: if you do not know how long it takes to do a job, because your fee earners do not record their time, how will you be able to tell if it is profitable and therefore worth doing at all or whether individual fee earners are working efficiently? If fee earners are making the decision to not record all of the time they have taken on a matter, you also risk a further reduction being made at the point of billing, or "double discounting" and, while this will make an individual fee earner's recoverability statistics look good, it will damage underlying profitability.

In these situations, firms need to consider why time is not being fully recorded. Is it because work is being pushed down too much and fee earners feel out of their depth, or is there a deeper cultural point that needs to be addressed, with staff members feeling under pressure to charge less time to a particular matter?

Capturing all time spent on a client matter, for all work types, is essential, as too is capturing non chargeable time. Fee earners should be provided with targets for both productivity and recovery, which can then be monitored, and the process of recording time and billing should be made as simple as possible. Where fee earners are seen as 'rain makers', their use of business development time should also form part of the monitoring process.

Coming up with a suitable productivity/chargeable hours target for each grade of fee earner can be difficult. Generally speaking, we would expect more senior people, with non-fee earning responsibilities, to have a reduced productivity target, whereas more junior people with no other responsibilities at all could be looking at a target of upwards of 1,200 or 1,300 hours. In some cases, where matter volumes are high, and the nature of work is more routine / transactional, this could go even higher.

This may sound like a lot, but even after allowing for holidays, sickness and other absences, it amounts to under six chargeable hours per day.

Once you arrive at a target level of productivity and recovery, this should allow you to calculate target fees per fee earner, and for the firm as a whole, and compare them to our findings in section 3. You should be aiming to be in the upper quartile for your turnover band, which will hopefully move you into the upper quartile in section 5 (Profitability).

Management information

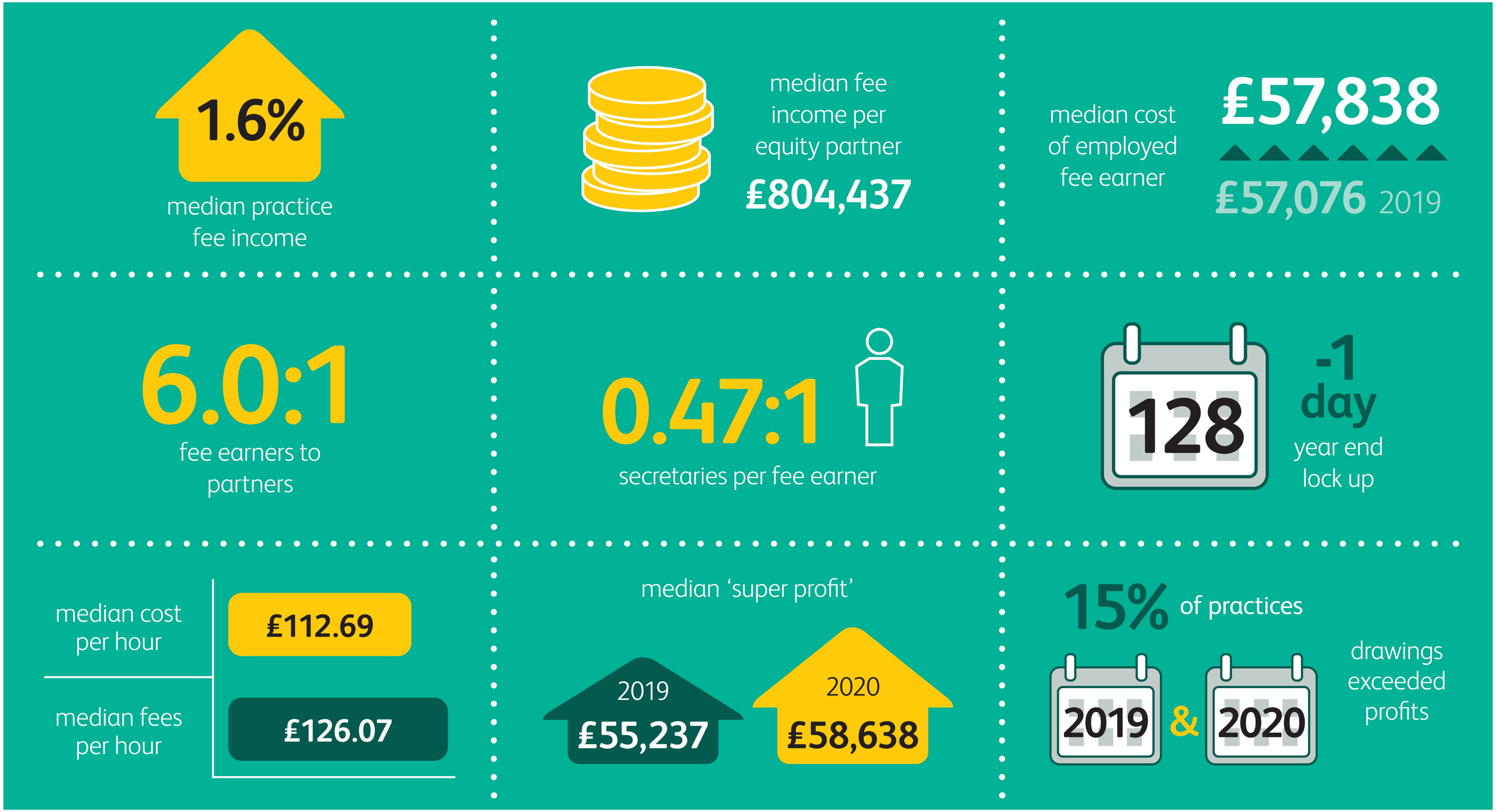
Monitoring the performance of individual fee earners and the firm as a whole is only possible if you have accurate and reliable management information (MI). In our experience, many firms struggle to extract useful data from their practice management software, either because they do not know how or because their software has very poor functionality and reporting.

Firms should use good quality MI to measure, and track, a small number of meaningful key performance indicators (KPIs). While there is no 'one size fits all' approach to measuring success in a business, and KPIs will commonly measure both financial and non-financial factors, there are common themes that will allow firms to benchmark themselves against their peers, and that is what this report explores.

If you already have good MI, consider sharing it with all fee earners. In our experience, the potential upsides from doing this usually outweigh any potential drawbacks and individuals that understand how they can have a positive impact on a firm's performance will often adapt their behaviours accordingly.

Summary of findings

Key headlines in this year's survey (explanations for all of these will follow later):



- Median practice fee income increased by 1.6% - the smallest increase for nine years.
- Median fee income per equity partner of £804,437 (2019: £775,515).
- The median cost of a fee earner, including fixed share partners and notional salaries for equity partners, was £57,838 per fee earner, compared to £57,076 in 2019.
- The ratio of fee earners to equity partners increased to 6.0 : 1 – a rise of 3.0%.
- The median spend on support staff, including secretaries, reception, HR, finance and other back office functions, was £22,471 per fee earner, compared to £24,102 in 2019.
- The median spend on non-salary overheads per fee earner was £43,648 compared with £41,752 in 2019, and as a proportion of fee income, non-salary overheads increased slightly, to 30.6%.
- Total year end lock-up days (WIP and debtors combined) dropped slightly, from 129 days to 128 days.
- Median equity partner capital (combined total of capital account, current account and tax reserves in a partnership, or retained profits in a limited company) rose by 8.3% to £229,994 per partner.
- The median hourly cost of a fee earner (based on 1,100 chargeable hours per year) was £112.69, compared to median hourly fees per fee earner of £126.07.

Median net profit per equity partner (before deducting notional salaries for partners) firms dropped from £166,312 in 2019 to £154,867 this year – a fall of 6.9%.

However, when we adjust the net profit figure to include a cost for equity partners, and also notional interest on partner capital, the median 'super-profit' for the year was £58,638 compared to £55,237 in 2019.

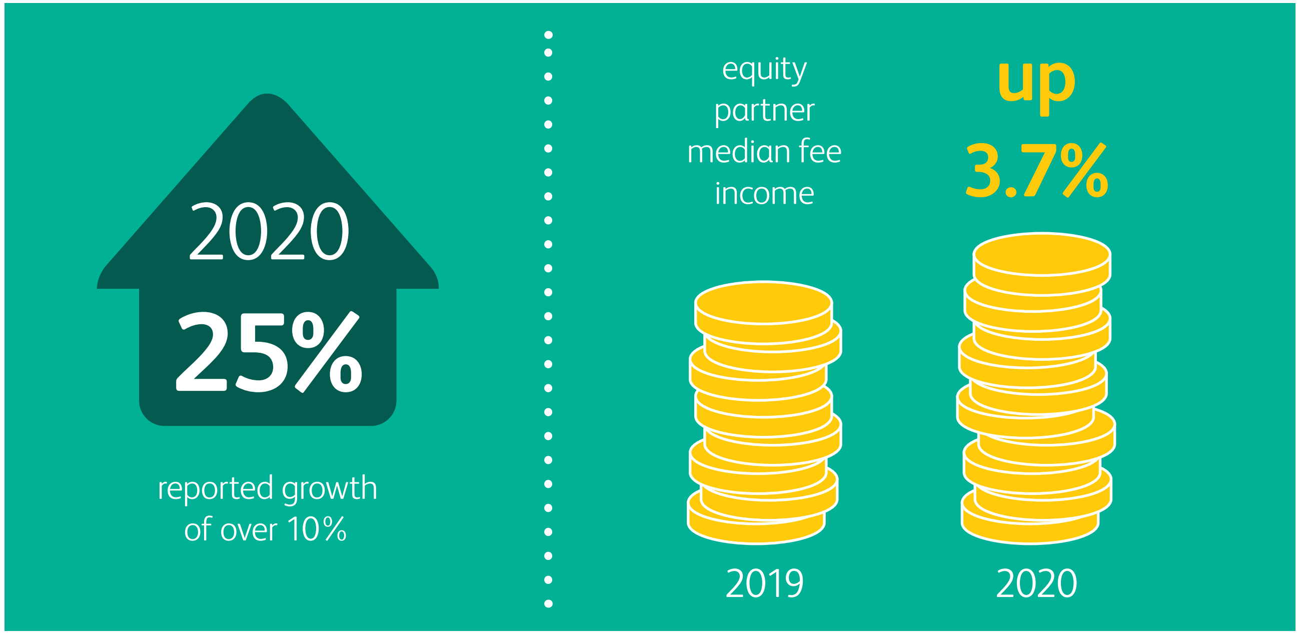
A quarter of participants reported a 'super-loss' for the year.

3. Fee income

We start our analysis by reviewing income growth. We have measured income performance by equity partner and by individual fee earner. We reveal the effects on revenue from changing the gearing in a practice; that is the ratio of fee earners to equity partners.

Most of the charts throughout this and later sections include the results for two accounting years, and the results are analysed into turnover bands. Most charts include three figures for each turnover band; the lower quartile, median and upper quartile. The results for 2020 are shown as columns and numbers, and the results for 2019 are shown as a dash, i.e. - . The dashes show the like-for-like 2019 results for the participants in this year's survey, so may not correlate exactly with the findings from last year's survey.

As there were fewer than 30 participants in the greater than £10million turnover band, we have only included the median results for those firms in all of the charts in this report.



Key points are:

- 60% of the participants in the survey reported year-on-year fee growth in 2020, with a quarter seeing growth of over 10%. Smaller practices in the survey saw a wider range of fee change than other turnover groups, as shown in Figure 3.1, possibly due to the fact that a modest increase in £ terms can represent a large proportion of overall fees for those practices.
- This is the 11th consecutive year that we have reported a median fee increase, although it should be noted that the composition of the sample across those 11 years will have varied. The last time we saw a general reduction in fees was in 2009, when firms were struggling with the impact of the global recession of the time. Across the last five years we have reported a mean average increase of 4.4%, which is well above UK inflation rates over the same period, and therefore many participants have experienced growth in real terms.
- Participants reported a median fee income per equity partner of £804,437 compared to £775,515 in 2019 – an increase of 3.7% - although smaller firms in the survey generally saw lower results.

Figure 3.1: Change in fee income compared to previous year's fee income (%)

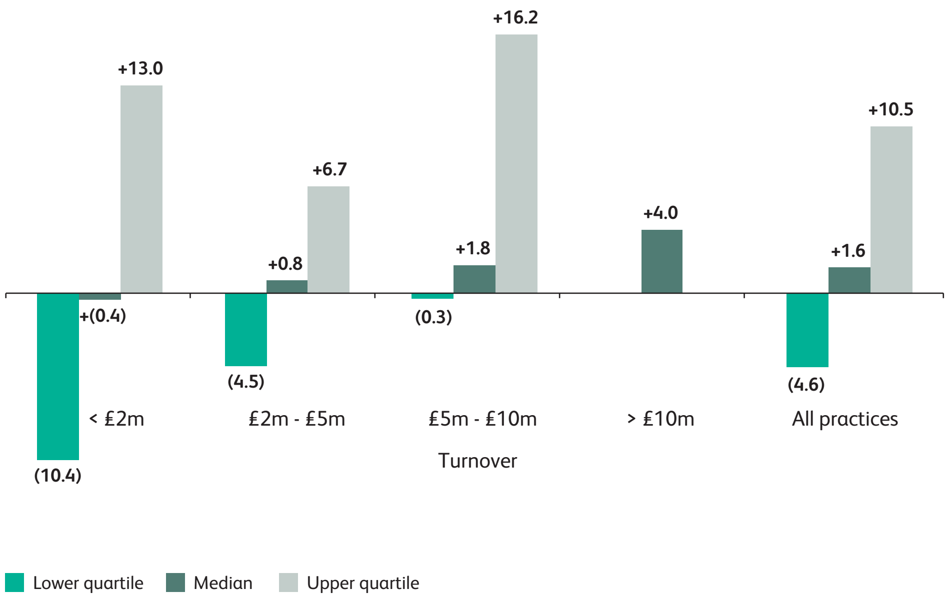
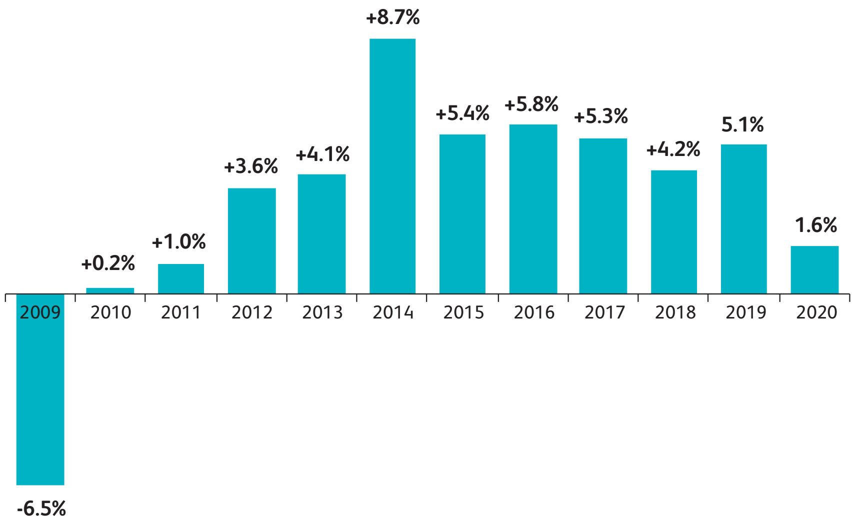


Figure 3.2: Median changes in fee income over the last 12 years (%)

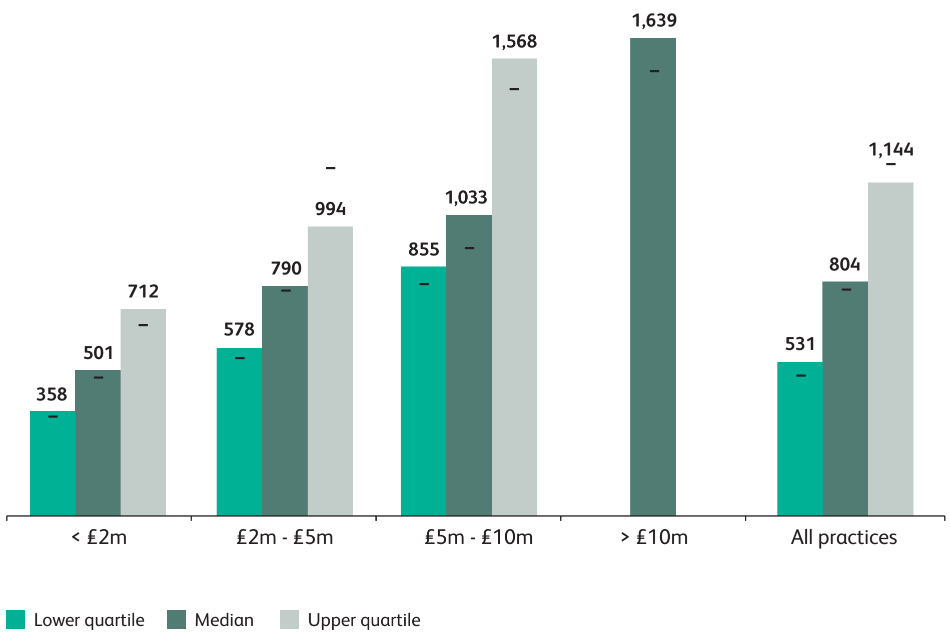


Equity partner performance

The majority of participants in the survey reported minimal change to the number of partners between 2019 and 2020. In fact, the total number of equity partners across all participants was unchanged, at 708.

For most firms, the growth shown in Figure 3.1 has resulted from increased fee income per equity partner, rather than an increase in partner numbers. All turnover groups saw a rise in fee income per equity partner, with a median growth of 3.7%.

Figure 3.3: Fee income per equity partner (£'000)



Income by individual fee earner

Key points here are as follows:

- The total number of fee earners for participating firms was 5,312 compared to 5,261 in those same firms in 2019, an increase of 1%.
- Average fees per fee earner were £138,264, compared to £135,061 in 2019, an increase of 2.4%.
- Whilst any growth in the number of fee earners is positive news, the increase is the smallest we have seen for several years.
- The increase in average fees per fee earner is also positive news, although firms in the largest turnover group will be concerned to see a median reduction of 6.5%, and firms are likely to have struggled to address this further during the pandemic.
- Fees per fee earner is a key issue for all firms to focus on, and alongside this there needs to be close monitoring of productivity and recovery rates as discussed previously. Our view is that if fee earners are not fully time recording both chargeable and non-chargeable time, then it is very difficult to know whether work is being carried out efficiently and profitably.
- Increasing numbers of firms are giving their fee earners training on issues such as pricing and lock-up management, and we have seen some very positive results from this, both from an income generation and cash management perspective.

Figure 3.4: Fee income per fee earner (£'000)

Fee earner gearing

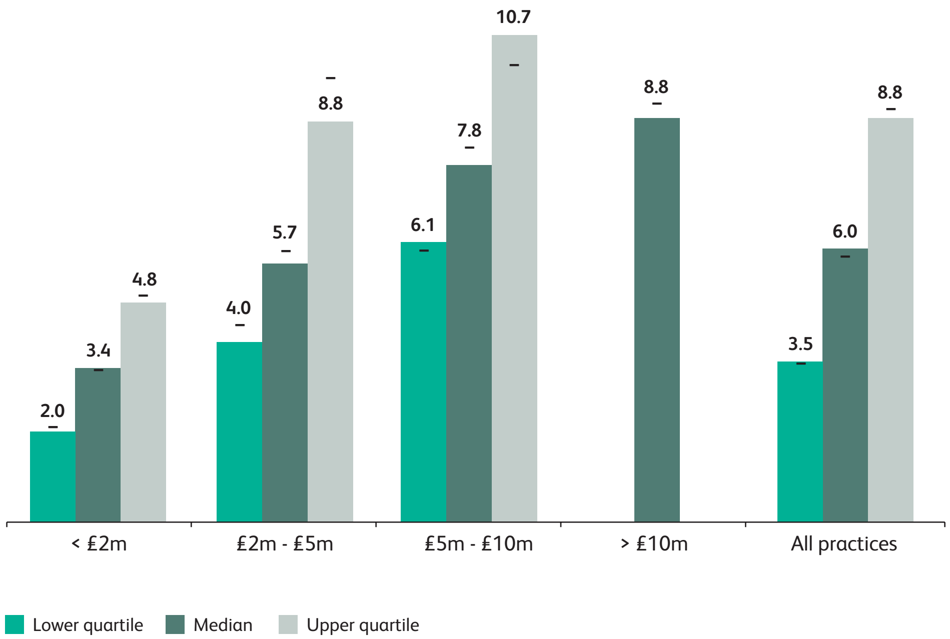
Fee earner gearing (the ratio of fee earners to equity partners) is a key indicator, not only as an absolute measure, but also as a trend over time. In our calculations we have included equity partners in the number of fee earners (unless they are non-lawyer managers). For example, if a firm comprises two equity partners and three other fee earners then the ratio is 2.5:1 (i.e. five divided by two).

In improving economic conditions, the ratio of fee earners to equity partners tends to increase as firms grow, with the opposite happening in times of recession.

This is certainly true in our surveys. Back in 2009, when Hazlewoods first carried out the LMS survey, the median ratio was 4:1, and the general economic climate then was fairly bleak. Since then, we have seen a steady rise in fee income, and the gearing ratio has gradually crept up to 6.0:1. The increase has contributed to the rise in fees per equity partner that we saw in figure 3.3.

Another factor to be aware of is that fee earner gearing can vary between different departments in the same firm, and we tend to see higher gearing in teams such as residential conveyancing and high volume personal injury work, and lower gearing in more specialised technical teams. The ratios expressed here look at the average across firms in total rather than individual teams.

Figure 3.5: Number of fee earners per equity partner



Fee earners

People represent the primary cost of all law firms. The total costs are broken down into three principal categories:

- Equity partners
- Fee earners
- Support staff

Figure 4.1 compares the total cost of these people against fee income. This includes notional salaries for equity partners, which we have set at a level of the median highest employed fee earner's salary for the size of practice, plus 15%, to reflect Employer's NIC and pension contributions.

The median 2020 total is 63.1%, compared to 61.5% in 2019, giving a median gross margin/contribution of 36.9%. The drop in margin indicates that fee earner costs have risen ahead of the increase in fee income.

The issue does not appear to have been restricted to a particular size of firm, with most turnover bands seeing an increase in total salary costs.

It is worth noting however that a key challenge facing all law firms is the need to attract and retain high quality staff. While the increase in staff costs relative to income will be a concern to many firms, and is a theme that we expect to see repeated throughout the latter part of 2020 and into 2021, it is encouraging that we have not seen immediate signs of firms taking short term staffing decisions at the expense of long term growth potential.

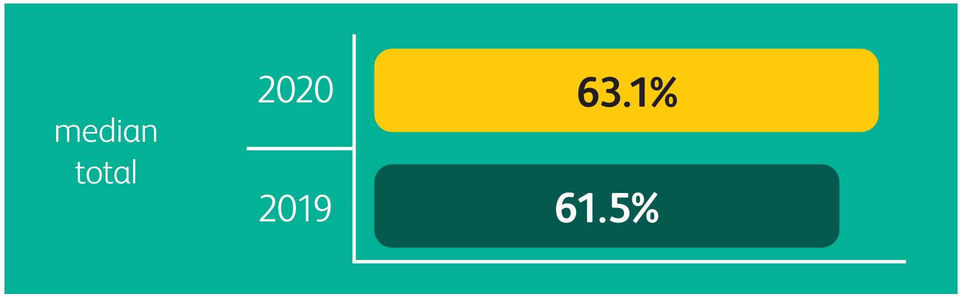
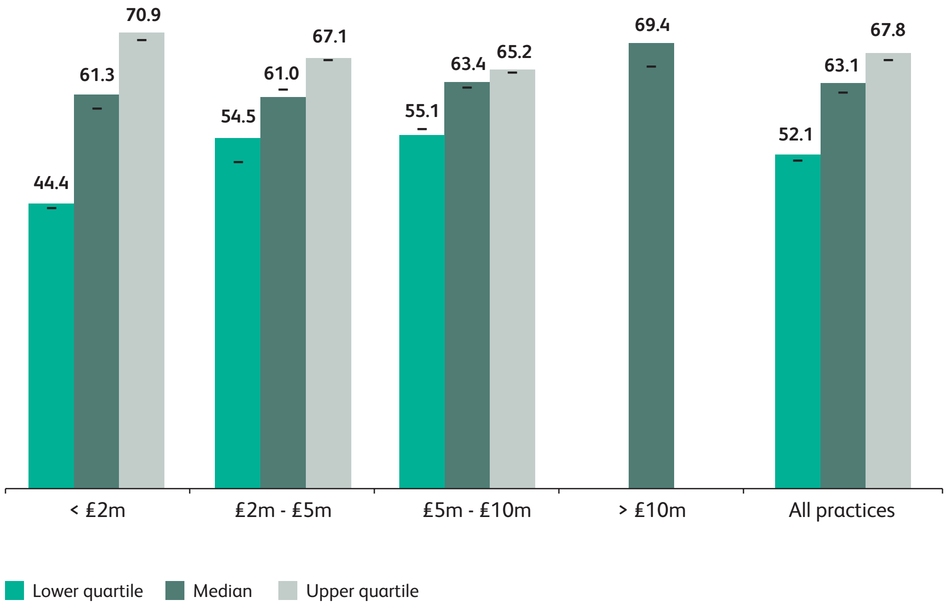
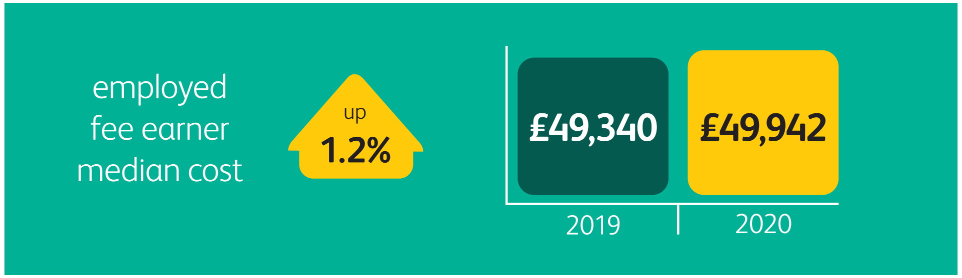


Figure 4.1: Total salary costs, including notional salaries, as a percentage of fee income (%)



Employment costs – employed fee earners

Having established the contribution margin, we can now look in more detail at how much firms are actually spending on their employees. In Figure 4.2 we include salaries, fixed share partners, consultants, temporary staff and all usual payroll and pension costs. However, no redundancy or recruitment costs are included here, or any notional salaries for equity partners.



Key findings are:

- Expenditure on fee earners as a percentage of fee income is consistent for most firms, across all turnover bands.
- The median cost of an employed fee earner increased by 1.2%, from £49,340 in 2019 to £49,942.
- As in recent years, part of this increase will have resulted from the increased level of employer pension contributions payable under pensions auto-enrolment (minimum of 3% employer contribution from 6 April 2019), but the driving factor here is that recruitment and staff retention remained very challenging for most firms throughout 2019/20, increasing pressure to increase salary levels.
- The average fee earner cost is not consistent across all turnover bands, and as you might expect, rises in line with firm size. Firms with the highest fee income are generally employing more expensive staff, as shown by the notional salaries detailed in section 5.

Figure 4.2: Expenditure on employed fee earners as a percentage of fee income (%)

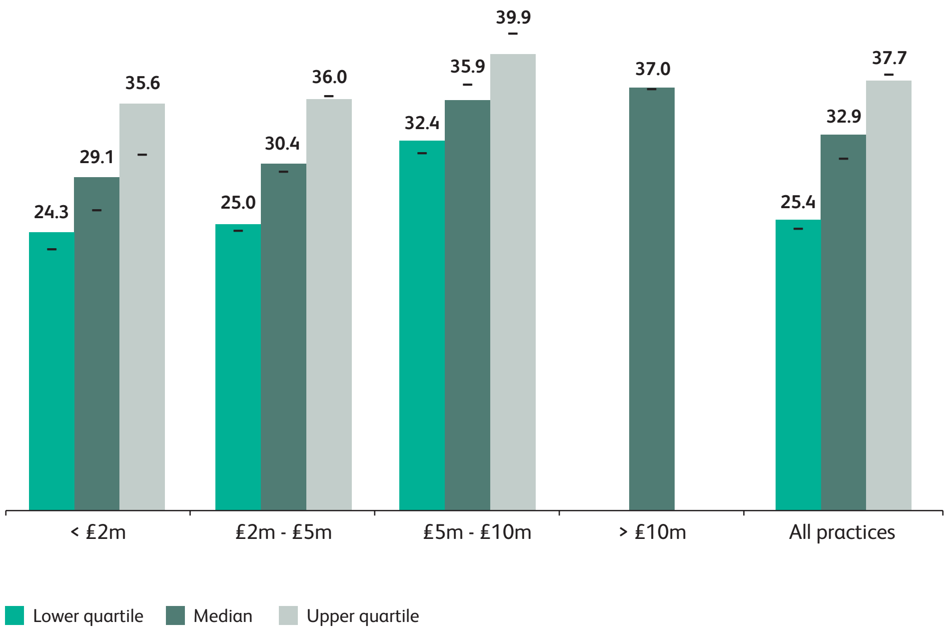
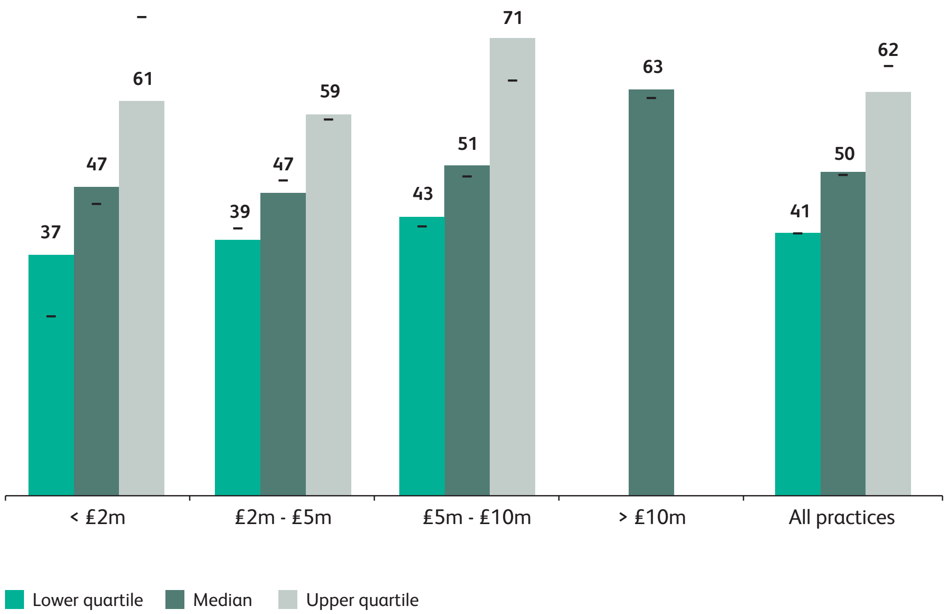


Figure 4.3: Cost per employed fee earner (excluding notional salaries for equity partners) (£'000)



Employment costs – all fee earners, including equity partners

Building on the results in Figure 4.3, we now show the cost per fee earner, including a notional salary cost for equity partners. This graph shows the “true” cost of a fee earner, combining employee salaries, fixed share partners, consultants, temporary staff and normal payroll and pension costs, and a notional cost for the equity partners.

Notional salaries are based on the median highest fee earner salary for the turnover band, plus an extra 15%, partly to reflect the additional costs that would have been incurred if the equity partners had been employed, such as employer’s NIC and pension contributions.

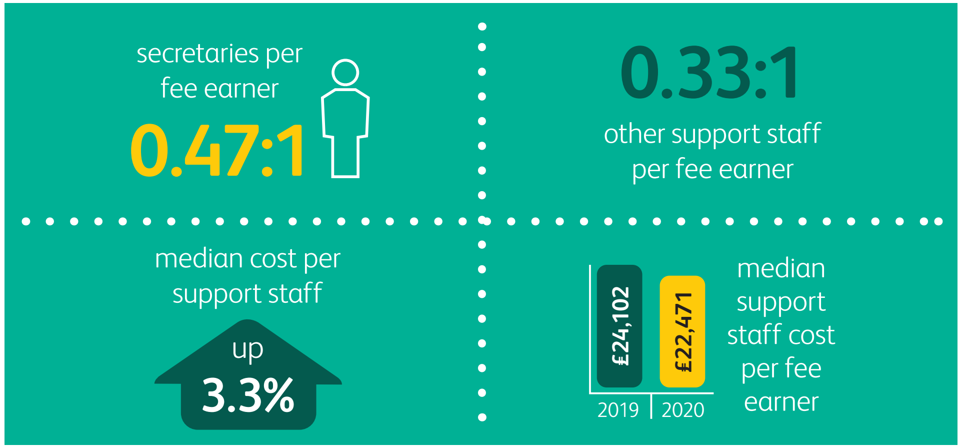
When equity partners are included, the median ‘true’ cost of a fee earner increases to £57,838, up slightly from £57,076 in 2019.

Notional salary rates are shown on Figure 5.4. The median notional salary across all turnover bands is £86,000, although as with other staff costs, notional salaries vary depending on the size of the firm.

Figure 4.4: Cost per fee earner (including notional salaries for equity partners) (£’000)

Employment costs - support staff

In terms of actual head count on a full-time equivalent basis, the total number of people employed in a non-fee earning capacity across all participants in our survey was 4,221 in 2020, compared to 4,203 in 2019 – an increase of just 18 people (0.4%).



Within that total we looked in more detail at their specific roles and identified the following statistics:

- The number of secretaries per fee earner fell very slightly, from 0.48 : 1 to 0.47 : 1. If we look back ten years ago, the same ratio was 0.77 secretaries per fee earner, so 50% higher than we see now.
- The number of other support staff per fee earner (accounts, administration, marketing, receptionists, IT, etc.) remained static at 0.33 : 1.
- The median cost per member of support staff (including secretaries) rose from £24,129 in 2019 to £24,932. However, the median support staff cost per fee earner, including secretarial support, was £22,471 in 2020, compared to £24,102 in 2019, reflecting the reduction in reliance on secretarial support.
- These two combined have reduced the median spend on support staff slightly, from 17.5% to 17.3% of fee income.

It will be interesting to see how these measures have changed in next year's survey, as many firms have transformed their working practices over the past 12 months, with fee earners even less reliant on support staff than they were before. Many of the redundancies currently being reported in the legal press involve support staff, whose roles are no longer required, and this may be a longer term pattern that we see emerging as all firms critically assess what role the traditional 'head office' plays in their future working practices.

Figure 4.5: Expenditure on support staff as a percentage of fee income (%)

Figure 4.6: Cost per support staff member (£'000)

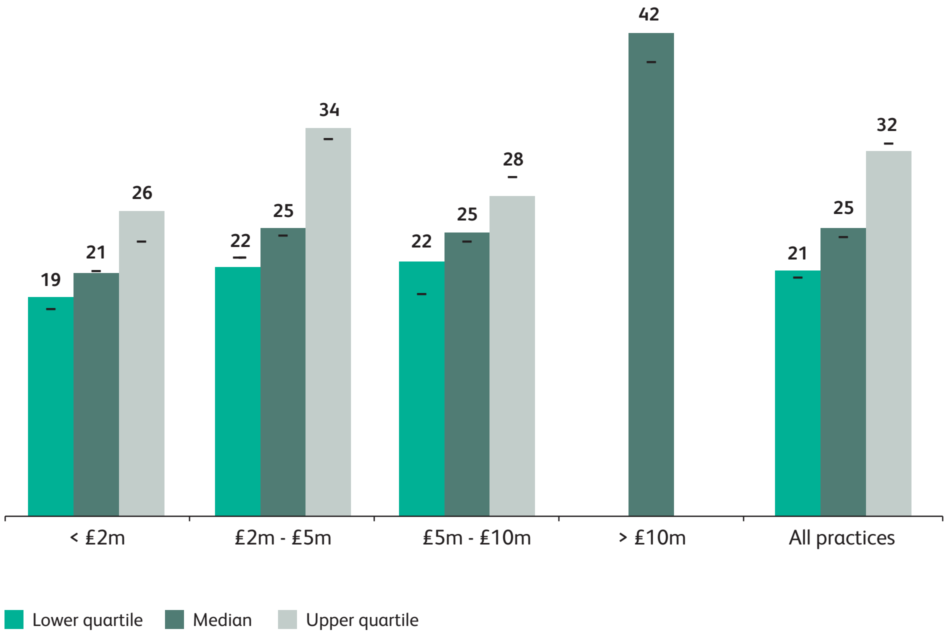


Figure 4.7: Number of secretaries per fee earner

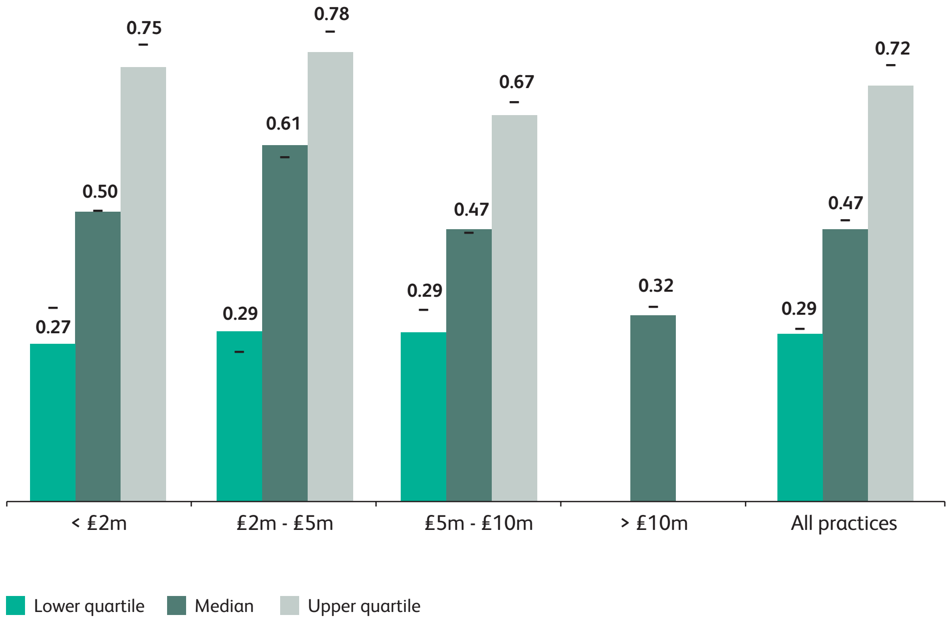


Figure 4.8: Number of other support staff per fee earner

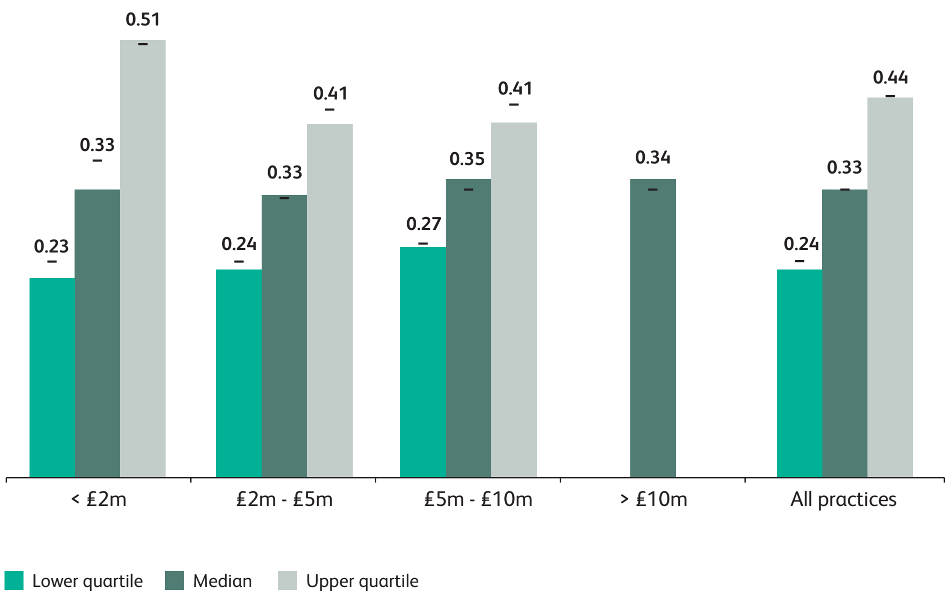
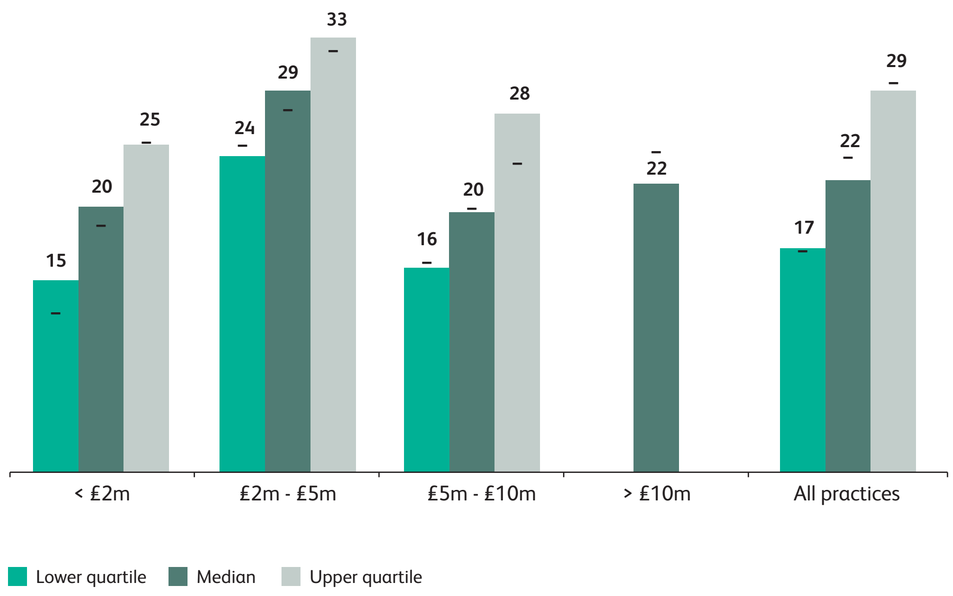


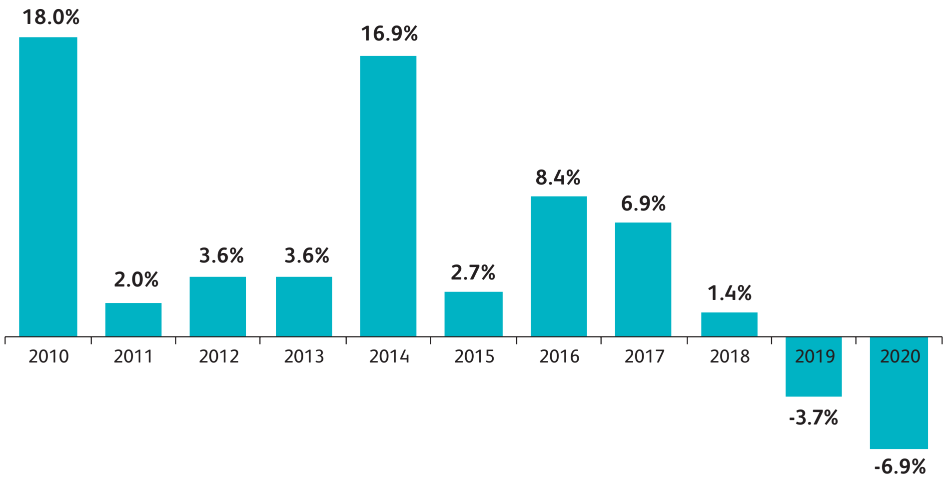
Figure 4.9: Cost of support staff per fee earner (£'000)



5. Profitability

In last year's survey, we reported that median profit per equity partner (PEP) for participating firms had fallen for the first time since 2010. This trend has continued for a second year, with an even larger reduction as shown in the graph below. Median profit per equity partner fell to £154,145 from £166,175 in 2019. It should be noted that the composition of the sample across those 11 years will have varied.

Median changes in PEP (%)



In addition, the net profit margin has also fallen, from a median of 20.8% to 20.7%, mainly as a result of the increasing staff costs that we saw in section 4. The reduced margin was particularly pronounced in the larger firms in the survey.

Almost a third of fee income was spent on non-salary overheads with a median cost per fee earner of £43,648, compared to £41,752 in 2019. We have looked in further detail at the breakdown of this expenditure, and in particular specific costs such as professional indemnity insurance cover, marketing, accommodation costs, and staff recruitment.

For many years, the general rule of thumb for staff costs, non-salary overheads and profit compared to income was 33%:33%:33%, but this ratio is no longer appropriate for the majority of firms. This is mainly as a result of increasing staff costs, although non-salary overheads are also increasing year on year.

If we combine the findings in sections 3, 4 and 5 of this survey, we arrive at the proportions shown on the following pie chart.

What this demonstrates is that law firms have, over a number of years now, adapted to how they work and where they derive value from their investments. Firms are increasingly more willing to invest in human capital to drive growth, while controlling other costs more tightly to maintain profitability.

Overheads and profitability as a proportion of fee income (median results only)

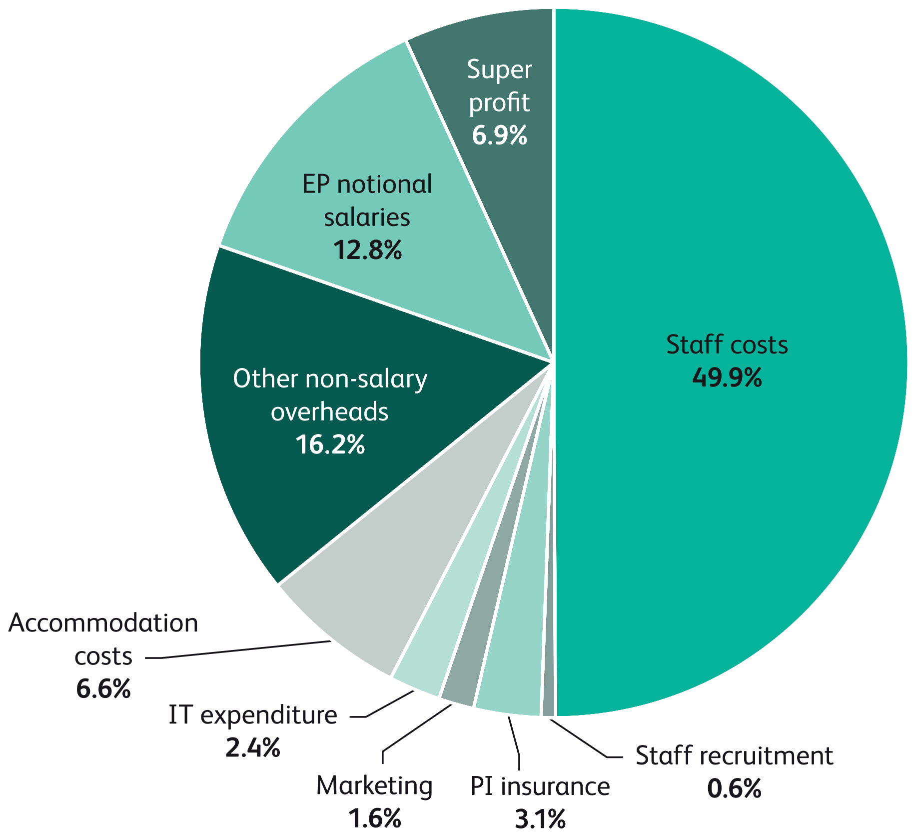


Figure 5.1: Profit per equity partner (£'000)

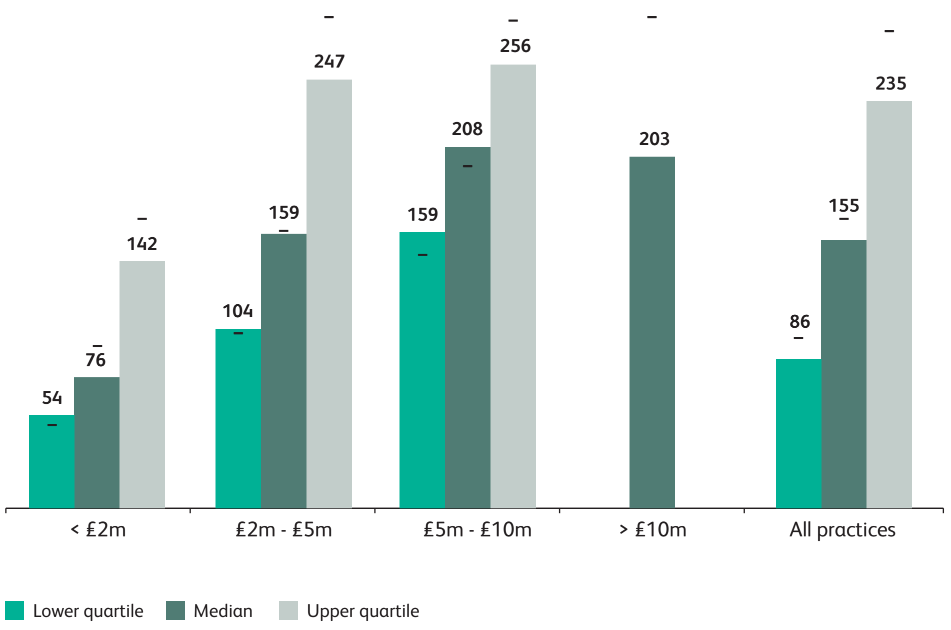


Figure 5.2: Profit per fee earner (£'000)

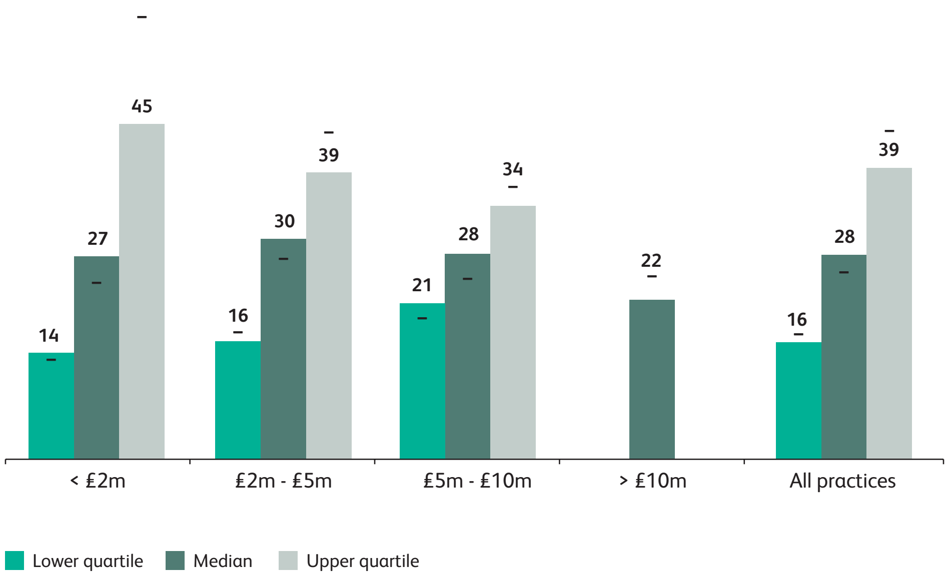
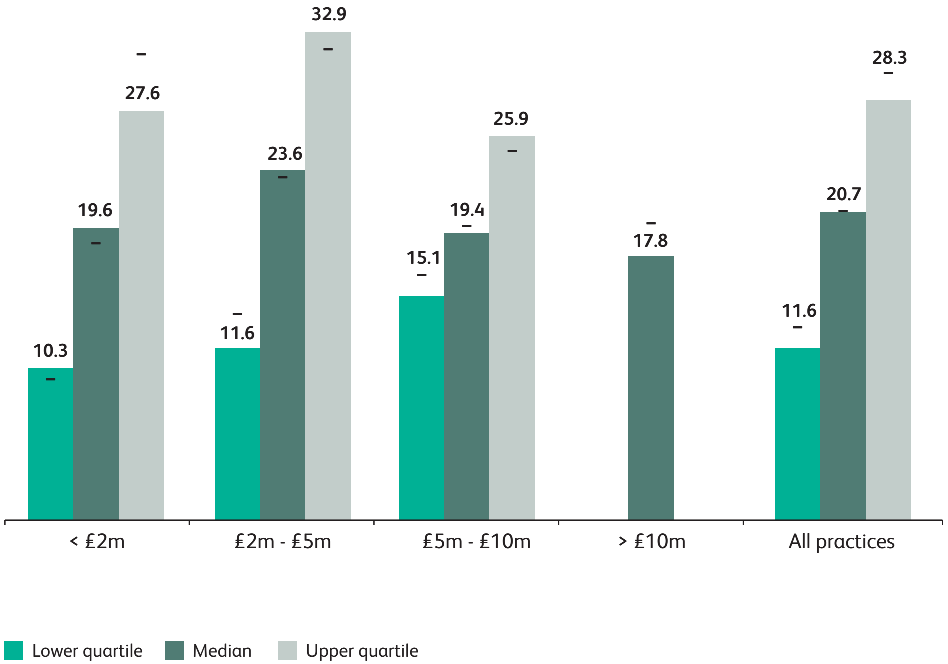


Figure 5.3: Profit as a percentage of total income (%)



Profitability – return on investment, i.e. super-profit

As law firm owners, equity partners expect to be rewarded with a 'salary' equivalent for the work that they do. They also expect a return for their capital invested in the practice and an additional "super-profit" for the additional risk that they face through being business owners rather than employees. We refer to these three layers of remuneration as notional salary, notional interest and super-profit.

As noted in section 5, equity partner notional salaries have been calculated based on firms' highest fee earner salary plus an extra 15% to reflect the incidental costs of employment such as employer's NIC and pension contributions.

Notional interest is set at 3% of partner capital/company reserves.

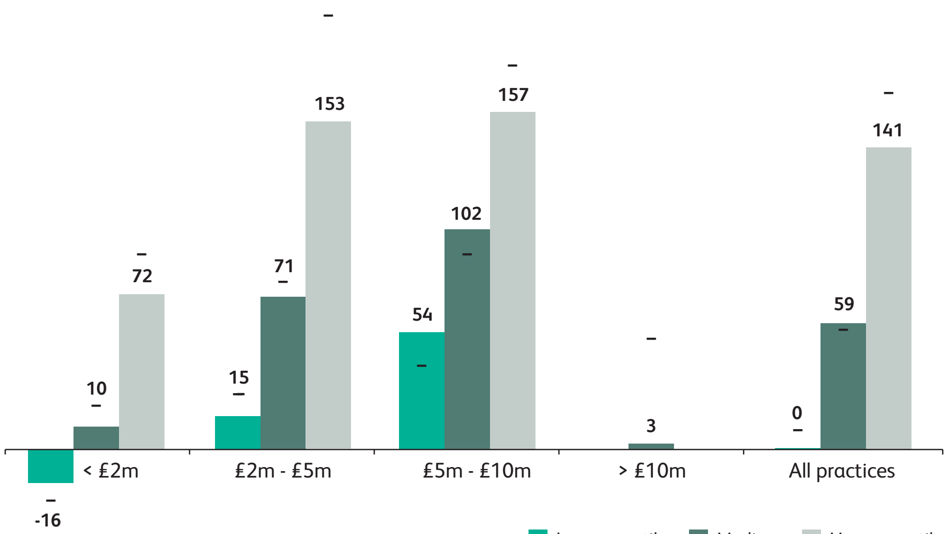
Super-profits are simply the net profit less notional salaries and notional interest.

In Figure 5.4 we show the "super-profit" per equity partner. In 2020, the median 'super profit' was £58,638, compared to £55,237 in 2019, which may seem surprising given that we also saw a 6.9% drop in net profit per equity partner over the same period. However, this is largely due to a large gap between the average notional salary per partner in the £2million - £10million turnover brackets and the highest turnover bracket, with those firms in the £5million - £10million bracket seeing an overall increase in net profits per equity partner. Over 60% of participants reported a lower super-profit in 2020 than in 2019.

We also noted that super-profits per fee earner have reduced, from a median of £10,214 in 2019 to £8,677 in 2020. This, along with other staffing statistics noted previously, suggests that fee earner numbers continued to rise during the period while partner numbers remained flat. This is another theme that we have seen emerging over a number of years, whereby the route to partnership in law firms is not as linear as it once was, with a growing number of senior employees preferring the flexibility of employment rather than the commitment of partnership.

With that in mind, 25% of firms in our survey reported a super loss, suggesting that partners in those firms could in theory have earned more by being employed somewhere else.

Figure 5.4: Super-profit per equity partner (£'000)



Notional salaries

	< £2m	£2m - £5m	£5m - £10m	> £10m	All practices
2020	69	79	96	183	86
2019	68	74	96	178	83

Figure 5.5: Super-profit per fee earner (£'000)

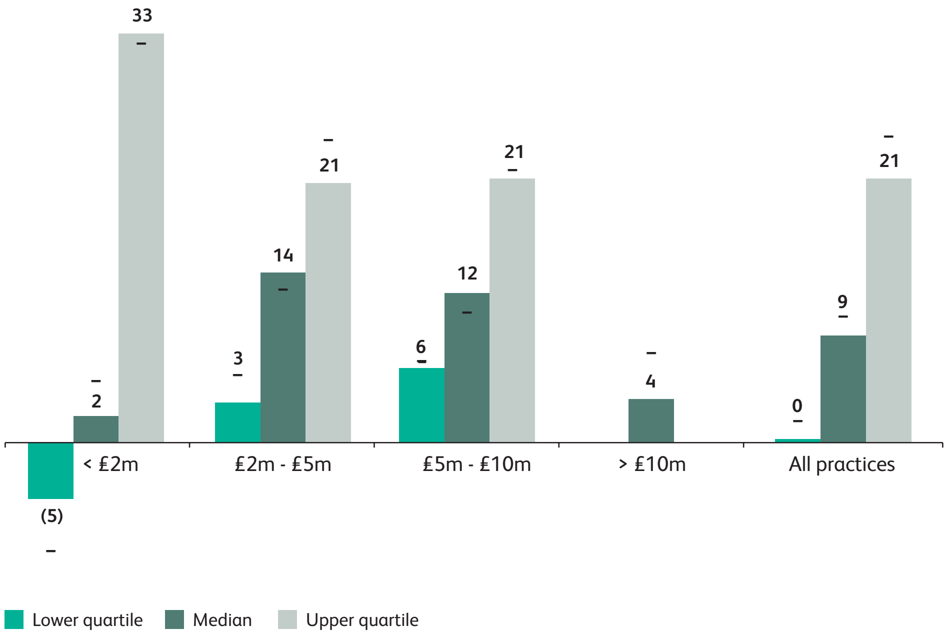
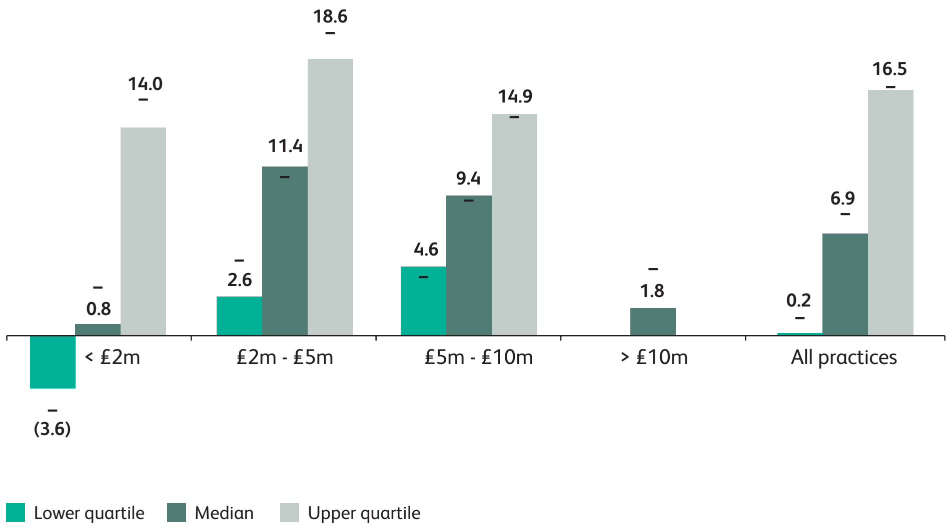


Figure 5.6: Super-profit as a percentage of total income (%)



Return on capital employed (ROCE)

ROCE is a measure of the returns made by a firm on the resources available to it. For a law firm, ROCE is measured in terms of super-profits as a percentage of partner capital in a partnership or LLP, or retained profits and share capital in a limited company.

In the context of the returns made to the owners of a law firm, we use super-profit, as this takes account of notional salaries for partners, and also notional interest on partners' capital and so is representative of the reward to the partners for the risk they take in being owners of the business.

The results show a median ROCE of 25.3% for 2020. Naturally, firms looking to attract new partners will be more successful with higher levels of ROCE and the range of returns between the lower performers and the higher performing firms is apparent.

In an industry climate where M&A activity is on the increase, ROCE is a key measure, as potential investors or acquirers will pay more when a practice is achieving ROCE in line with the best performers in their size category.

The chart on this page shows that some of the smaller firms in the survey experienced a negative ROCE, which is a result of super-losses reported in the previous section.

Figure 5.7: Return on Capital Employed (super-profit as a percentage of partner capital) (%)

Non-salary overheads

The graphs over the next few pages reveal that firms have continued to work hard to control their overheads, with non-salary overheads remaining consistent across firms in all turnover bands.

The professional indemnity insurance costs shown in figure 5.10 are based on firms' renewals from either late 2019 or early 2020 and were during a period when the professional insurance market was hardening, and more firms were reporting difficulties in obtaining competitively priced premiums. Although not captured in these results, October 2020 in particular saw significant premium increases for many firms, and similar increases are expected for the April 2021 renewal. We will see the full impact of these in next year's survey.

We can also expect to see a significant rise in IT spend in next year's survey, as firms had to quickly take action in the first half 2020 to enable their staff to work from home during the national lockdowns. The view from many firms that we have spoken with is that this action was more an acceleration of longer term IT plans and, while the short term financial impact of these measures will be felt in the current year results, we may well see longer term financial benefits making their way into 2021 results and beyond.

Median spend on non-salary overheads as a percentage of fee income

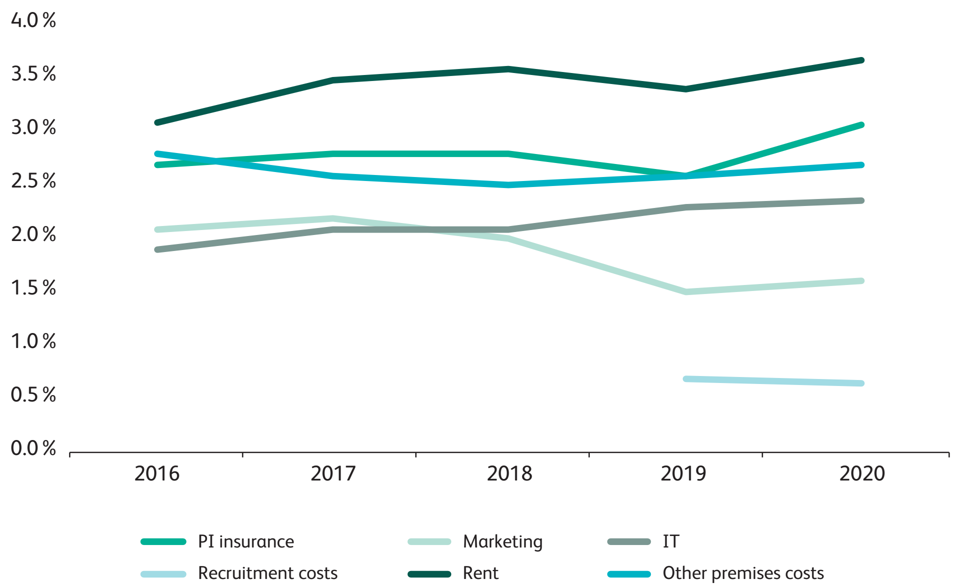


Figure 5.8: Non-salary overheads as a percentage of fee income (%)

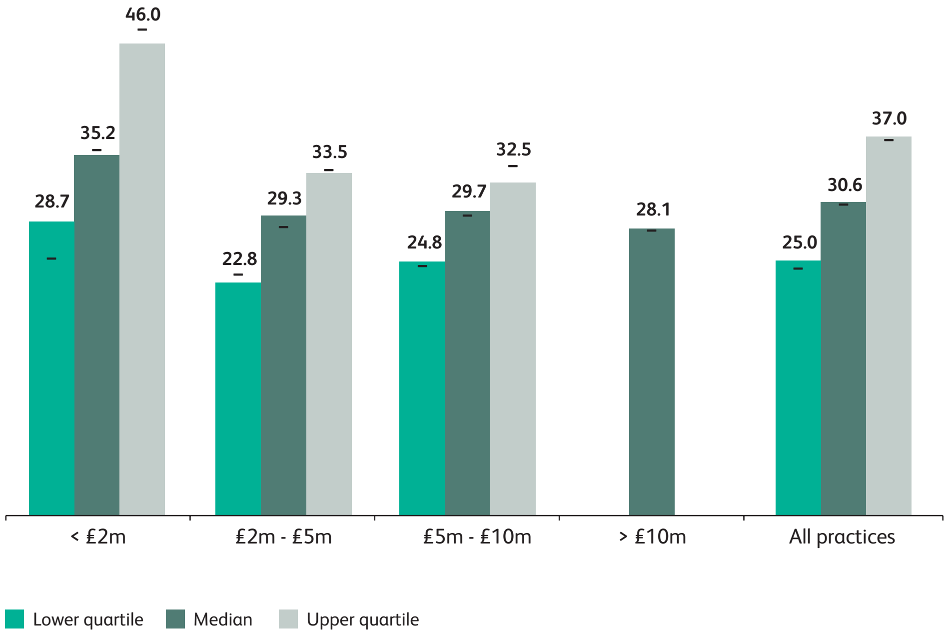


Figure 5.9: Non-salary overheads per fee earner (£'000)

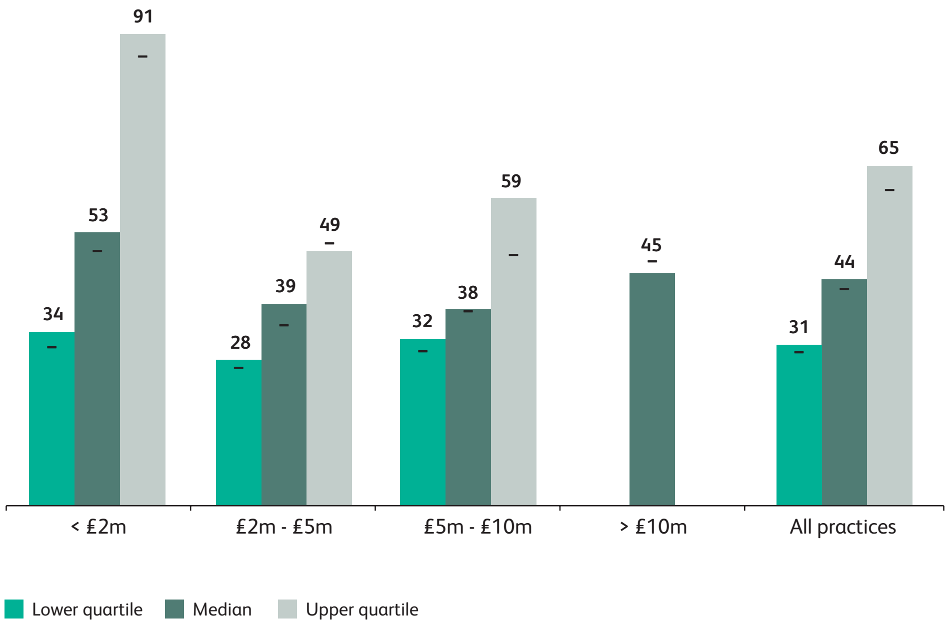


Figure 5.10: PI insurance premium expenditure as a percentage of fee income (%)

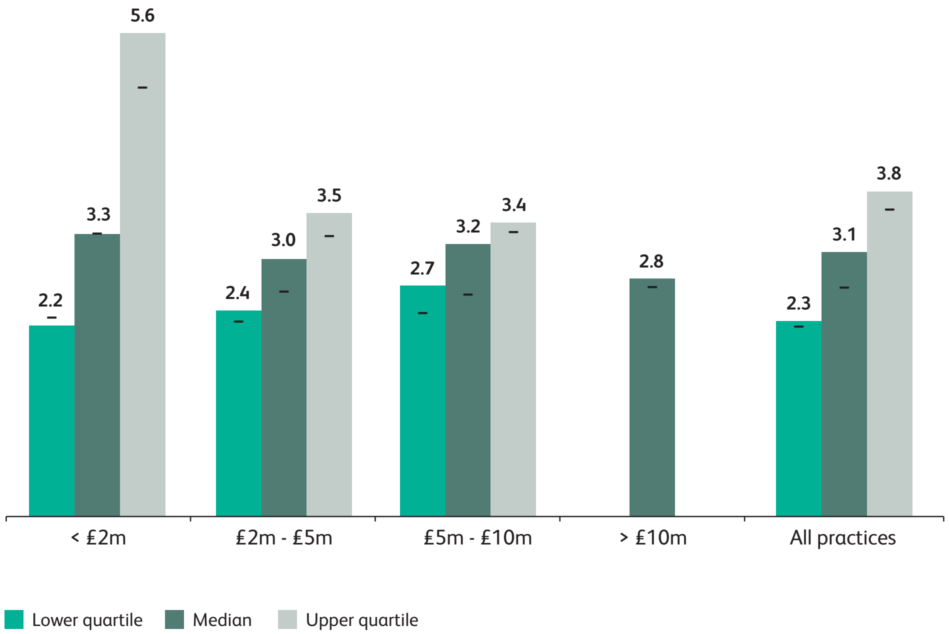


Figure 5.11: Marketing expenditure (including staff costs) as a percentage of fee income (%)

Figure 5.12: IT expenditure (including IT support, IT consultants and cloud-based storage) as a percentage of fee income (%)

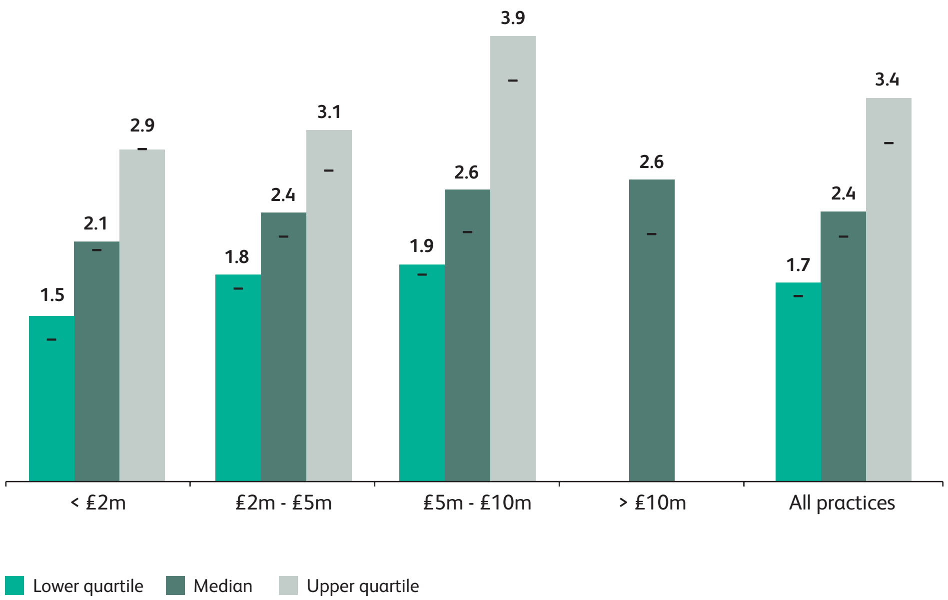
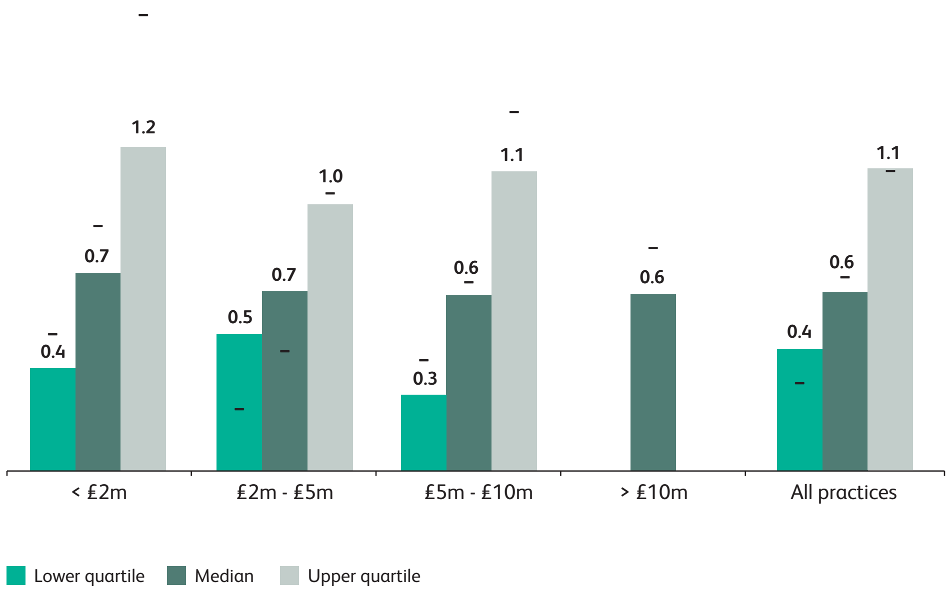


Figure 5.13: Staff recruitment costs (external or in-house) as a percentage of fee income (%)



Accommodation costs

After staff-related costs, accommodation costs are usually the next largest expense for any law firm. Accommodation costs typically consist of rent, rates, office insurances and office running costs such as day to day utilities.

The results here show a median spend on accommodation costs of 6.6% of fee income, up from 5.9% in 2019.

Many firms are paying considerably more than this though, either due to prime locations (e.g. those in city centres or brand new offices), as a result of surplus office space, or both.

A few firms in the survey pay a reduced rent on their premises, either because the property is owned by the principals or former principals of the firm, or because they have managed to negotiate reduced rent with their landlords. Where this is the case, those firms have provided us with a current market rental value, so that the results shown are comparable across the board.

As considered previously, the COVID-19 pandemic forced all firms to take urgent action to enable staff to work effectively from home, with lots investing in IT equipment and in some cases furniture too. Most staff seem to like the idea of remote working, and our experience is that most firms will look to retain some flexibility when we emerge from the pandemic, perhaps adopting a hybrid approach, with some time spent in the office and some time working from home.

There are mixed views on how this might impact on firms' use of existing office space, with some firms wishing to scale back as much as possible, whilst others are looking to use their offices in different ways.

In any case, for now, many firms will find that they are tied into lease agreements that extend beyond the realistic limit of the current pandemic, and so the true cost savings of remote working may not be fully unlocked for a number of years.

Figure 5.14: Accommodation costs as a percentage of fee income (%)

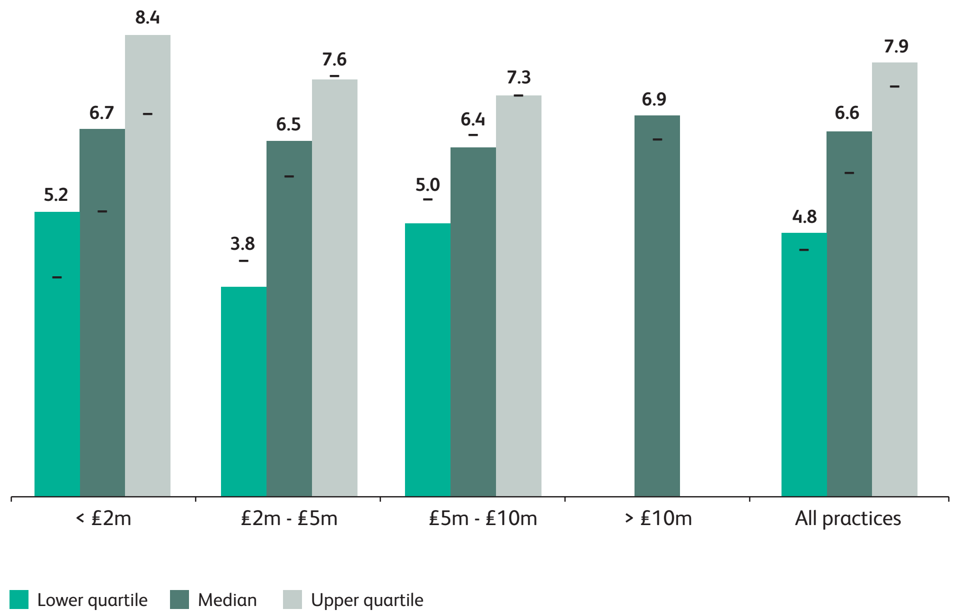
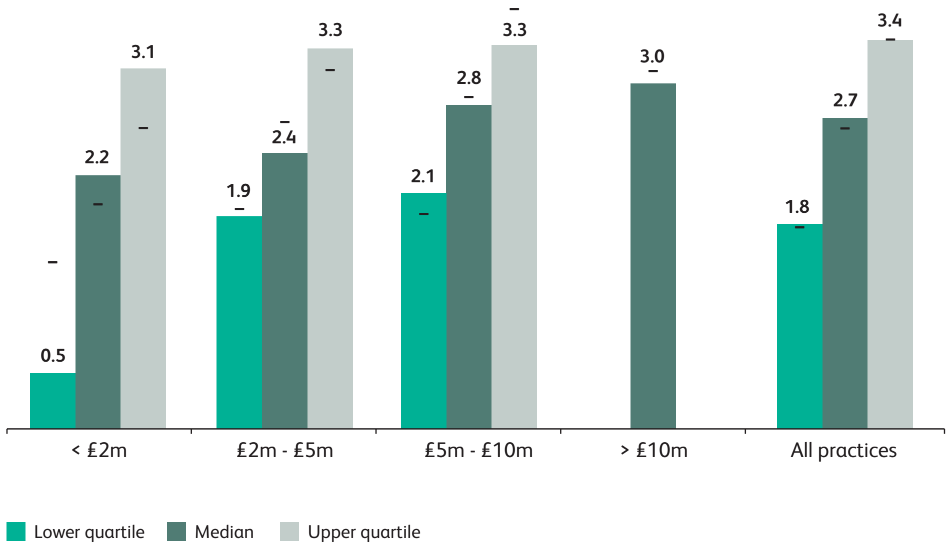


Figure 5.15: Premises rental payments as a percentage of fee income (%)

Figure 5.16: Other premises costs (rates, light and heat and maintenance) as a percentage of fee income (%)



6. Characteristics of profitable firms

In this section we examine the characteristics of the firms that achieved above-average levels of profitability in this year's survey and compare them against the same characteristics of the firms that achieved lower than average levels of profitability. We have focused on four key areas:

- Fee earner gearing;
- Fee income per equity partner;
- Total salary costs, including notional salaries for equity partners;
- Non-salary overheads.

The figures shown in the following charts have been calculated by separating all participants into two groups: those with net profit per partner above the median shown in Figure 5.1, and those with net profit per partner below the median, in each turnover band. We then reanalysed these two groups, to calculate new median figures, so that we can more easily represent what a well performing firm looks like relative to a firm that is underperforming.

The four Figures in this section show two bars for each turnover band. The bars on the left are the figures for the firms with above-average levels of profitability, and the bars on the right are for the firms with lower than average levels of profitability.

Interestingly, higher fee earner gearing does not translate into higher profitability in a linear fashion, and larger practices appear to benefit from lower gearing. This may be a reflection of different mixes of work, with larger firms leaning more towards specialised technical areas of work, as well as higher partner numbers generally.

A common theme across all firms is the correlation between higher salary costs and lower profitability, with the smallest and the largest firms having the most pronounced gap between the good and the not so good.

Figure 6.1: Fee earner gearing (median figure only)

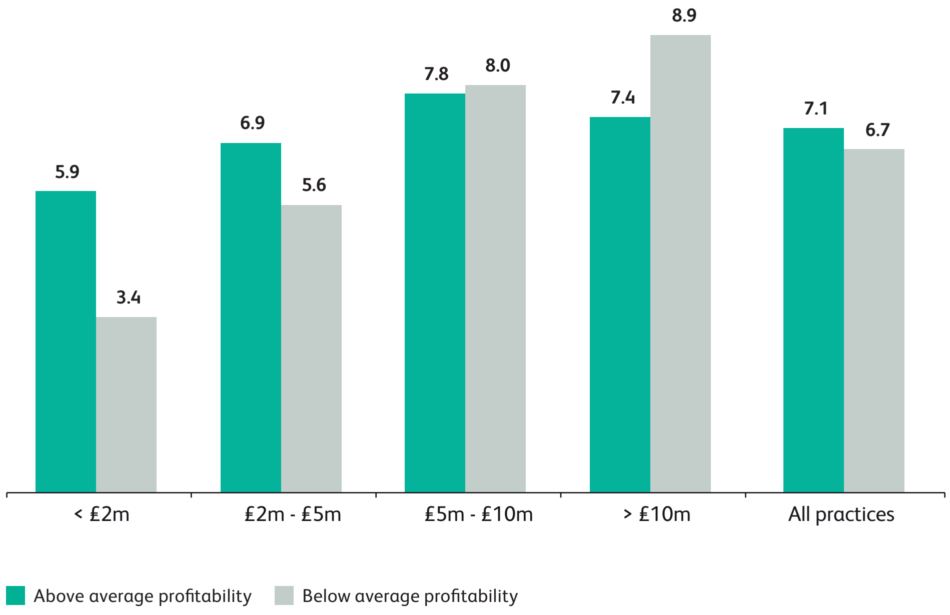


Figure 6.2: Fee income per equity partner (£'000) (median figure only)

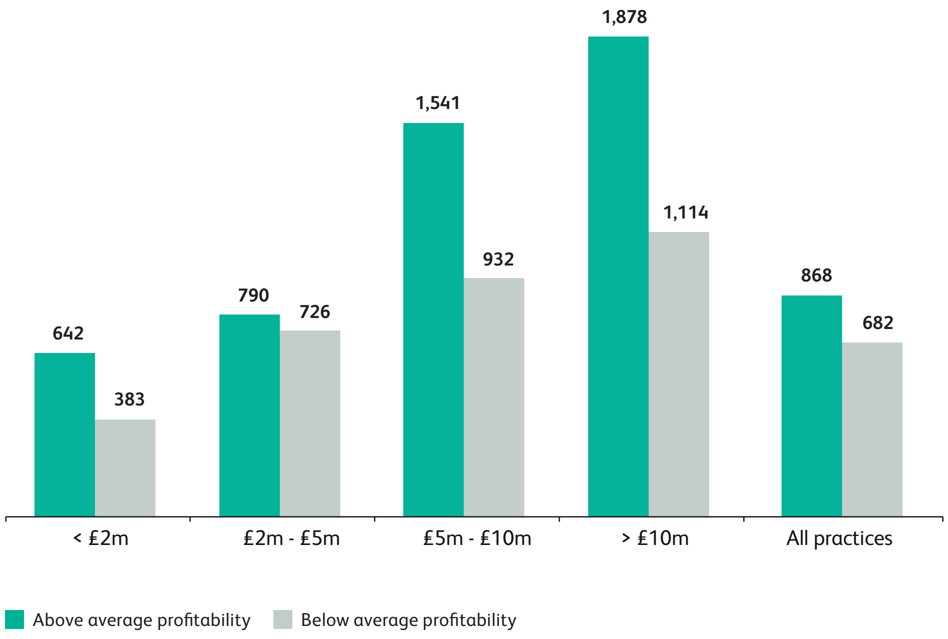


Figure 6.3: Total salary costs, including notional salaries, as a percentage of fee income (median figure only)

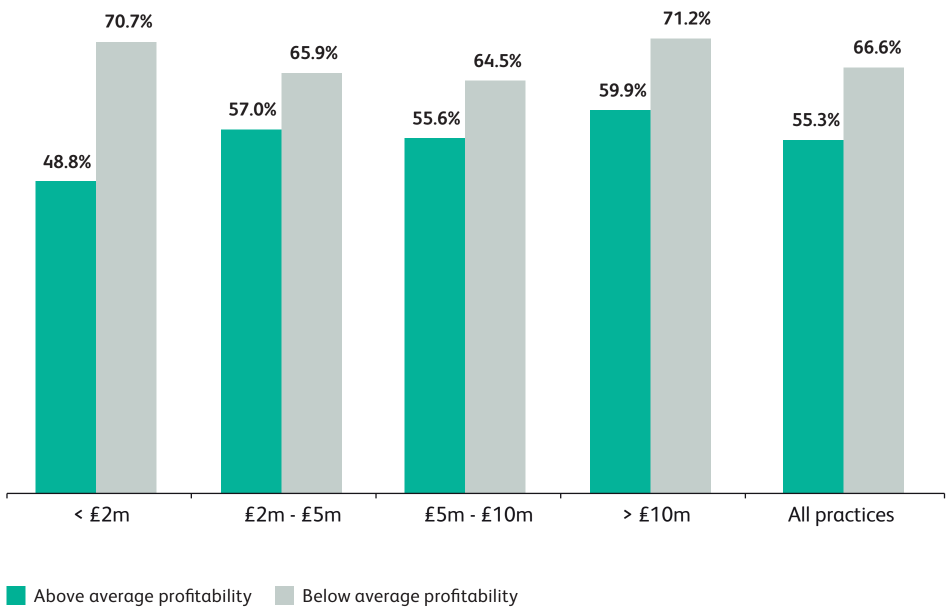


Figure 6.4: Non-salary overheads as a percentage of fee income (median figure only)

It is challenging to conclude on trends on working capital management in a survey of law firms, as lock up (work in progress and debtors combined) varies so dramatically in differing areas of law.

This is particularly true this year, where some firms in the survey will have had their financial year ends after the first COVID-19 lockdown, and others will not. The early stages of lockdown were characterised by firms and clients alike pushing particularly hard to progress matters in the pipeline, and this had an early impact on lockup as firms struggled to keep pace with their WIP management processes. In some cases, this initial flurry of activity stalled as quickly as it started, and so a firm's year end date had a more pronounced impact on reported financial performance than ever before.

However, the median number of days for combined lock up has remained steady between 2019 and 2020, falling by just one day to 128 days. Both WIP days and debtor days have changed very little. It is important to remember that our data is collected for balances at the year-end date only, which may not be reflective of a full twelve-month period, and may not capture the impacts of COVID-19 as mentioned above.

Regardless of the ongoing challenges facing firms, and as a matter of general good procedure, firms need to ensure that they continue to focus on reducing lock up where at all possible, as high lock up can not only lead to adverse cash flow issues but often also leads to increased bad debt exposure too.

Even a small reduction in lock up can make a significant difference to cash flow. For a firm with turnover of £5m, a one-week reduction in lock up would free up £100k of cash. For many firms, that can make the difference between operating close to their overdraft limit and operating with no overdraft at all.

Figure 7.1: Total lock up (days)

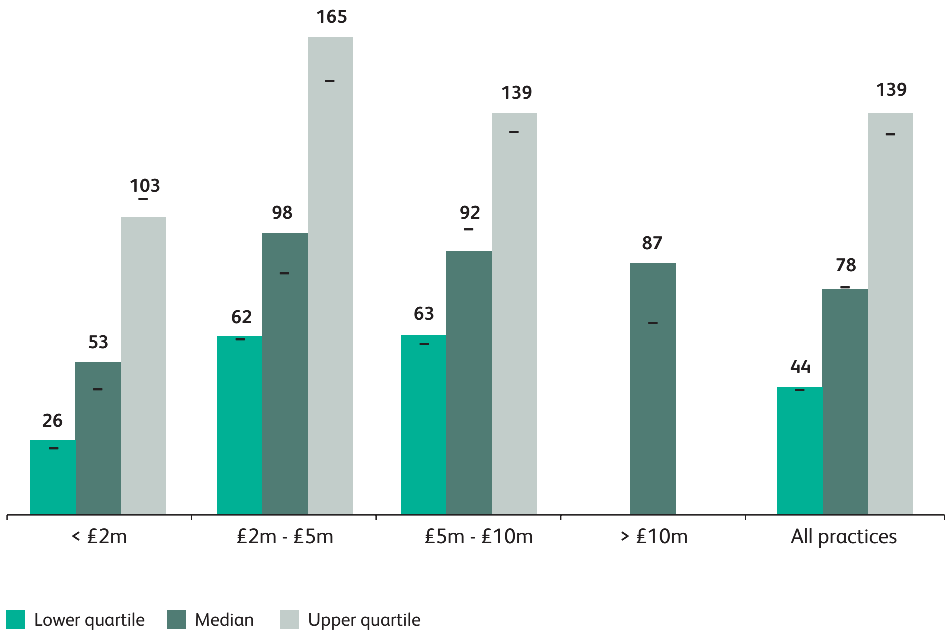
WIP days

Work in progress (WIP) days have been calculated based on total WIP per participants' time records, as opposed to the figure included in their accounts, as for many firms the figure in the accounts does not include large amounts of contingent WIP.

We typically see firms operating conditional fee agreements carrying large amount of contingent WIP that is not reflected in their year end accounts, and it is just as important for those firms to be able to monitor that WIP as it is for firms that raise interim bills as matters progress.

While firms tend to focus on credit control as the primary tool to manage lock up, good financial hygiene starts at an earlier stage than chasing debts, and the best performing firms have robust polices that ensure that all time is captured properly, in a timely manner, and that the time is billed throughout the month rather than waiting until the month, or quarter, end.

Figure 7.2: WIP days (days)



Debtor days

Consistent with last year, the survey shows a small change in debtor days between 2019 and 2020, with a reduction from 34 to 32 days.

Many clients will be struggling with cash flow at the moment, and so it is essential that firms keep a close eye on debtor days, to keep exposure to potential bad debts to a minimum. As we have noted in previous years:

- Fee earner training on managing lock-up can make a huge difference.
- Small changes to standard practice, such as raising bills as soon as the work is complete, can make a big difference to how soon you get paid. Moving away from billing at month-end to billing across the month can also result in clients paying a full month earlier. A client who is happy with the outcome of a case may well pay more quickly if they receive the bill promptly.
- Many practices continue to carry large amounts of unbilled disbursements, and often do not ask for money on account of them, even in areas where it should be straightforward for them to do so, e.g. property work. Too many firms continue to extend unnecessary free credit to clients by funding disbursements from the office account rather than using the client's own money.
- It can often be helpful to remove fee earners from the credit control function entirely. Fee earners generally do not like having difficult conversations with clients, and appointing a dedicated credit controller can allow balances to be chased sooner and more effectively, and will allow fee earners to focus on fee earning. However, any policy should allow some degree of flexibility, and in some cases it is the fee earner who is better positioned to negotiate a favourable outcome.
- Finally, the SRA introduced new Accounts Rules in November 2019, which permit some firms to hold money received on account of fees and disbursements in their office account, even before the work is carried out. Our experience is that very few firms have been able to take advantage of this, and therefore there has been minimal impact on cash flow and debtor days.

Figure 7.3: Debtor days (days)

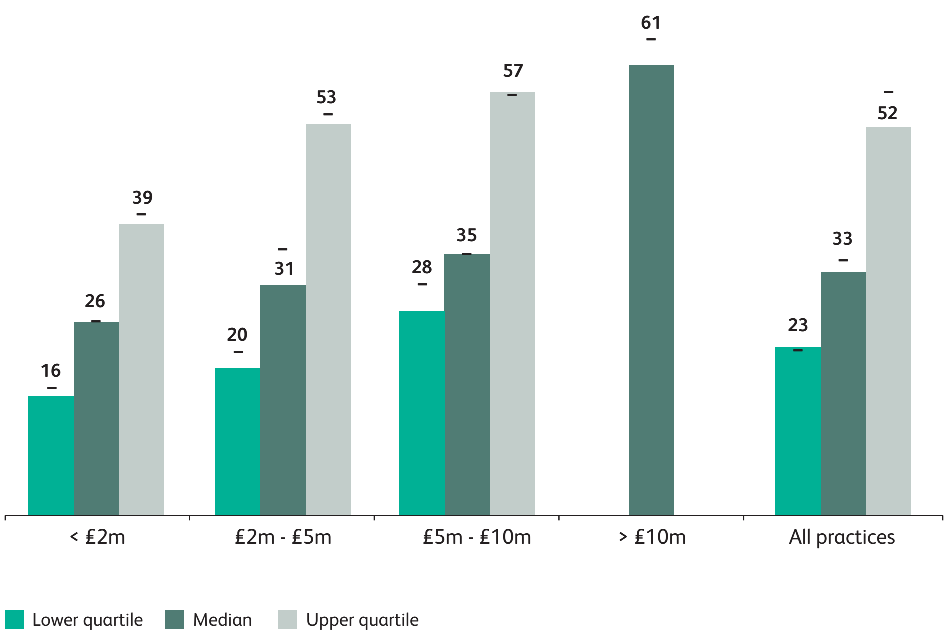
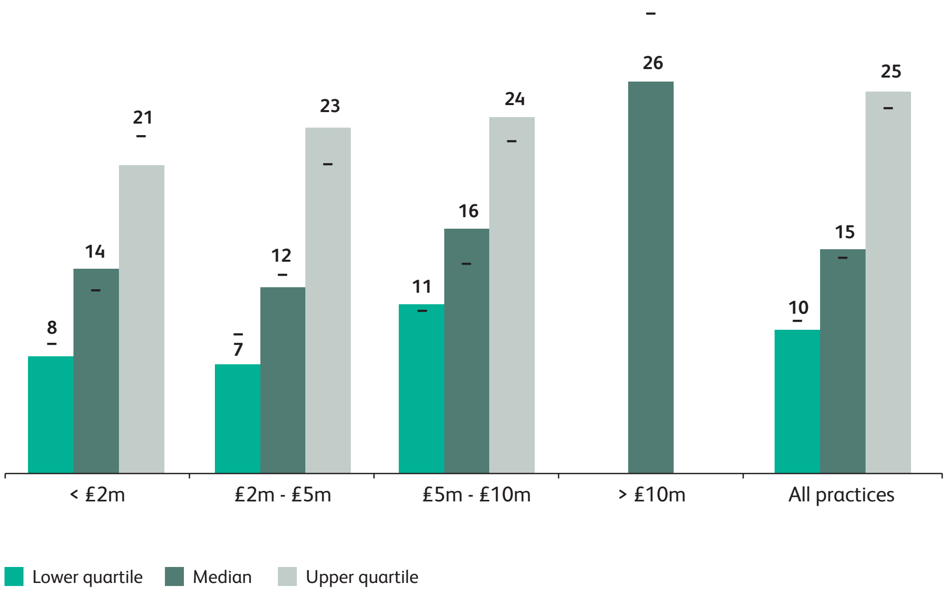


Figure 7.4: Debtors per fee earner (£'000)



Working capital – equity partner funding

Equity partner capital in a partnership or LLP is the total combination of capital account, current account and tax reserves. In a limited company, capital comprises share capital and retained profits.

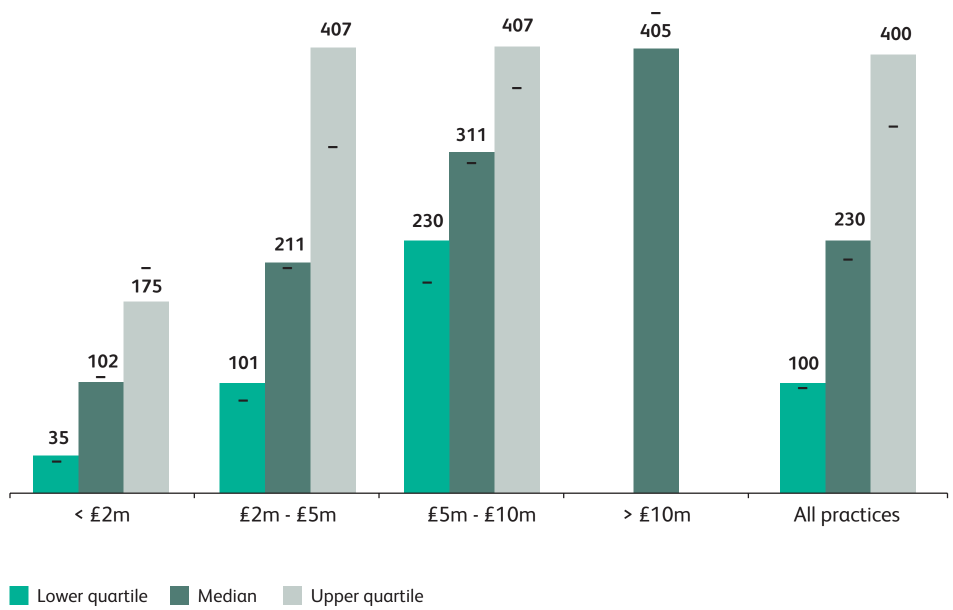
The participants in this year's survey reported a median 9.2% increase in individual partner capital in 2020, with a median of £228,381. As you might expect, partners' capital increases in line with the size of firm.

One of the first actions that many firms took when the COVID-19 pandemic began in March 2020 was to put a stop on partner profit distributions or, at the very least, restrict the drawings to some degree. Whilst this helped with cashflow, it also means that partners' account balances at their financial year end will have increased and, as the financial difficulties begin to ease, partners will be looking to access those balances and we may see a decrease over the current and future years.

£228,231

9.2% median equity partner capital

Figure 7.5: Partners' account balances per equity partner (£'000)



Bank and other borrowings

Just over three quarters of participants reported a positive office account balance at their most recent accounting date. This was an improvement on the previous year, when two thirds of the same firms had a positive office account balance. The median office account balance across all participants was £203,000, with all turnover bands reporting a positive median balance.

The median year end balances were significantly higher than in the previous year across all turnover bands. Reasons for this include:

- With the arrival of the COVID-19 pandemic, many firms stopped making profit distributions from around March 2020, and some stopped paying partner drawings too. This was largely in anticipation of future challenges rather than immediate cash shortages, and so some firms reported very strong balance sheet positions in their 2020 year end accounts.
- The Coronavirus Business Interruption Loan Scheme (CBILS) was launched in March 2020, and lots of firms took advantage of the Government-backed guarantee, attractive repayment terms and interest rates.
- VAT liabilities falling due between 20 March and 30 June 2020 were deferred until 2021.
- Some firms were able to claim cash grants from their local authorities.

Just over one in five participants reported that they operated with no overdraft or borrowings at all. For those firms that had bank borrowings and/or a bank overdraft, the median amount per equity partner was £42,173.

Approximately a third of the participants had non-bank borrowings such as hire purchase or finance agreements. The median amount per equity partner was £35,111.

Finally, a third of firms told us that they used secondary funding to finance payments such as the firm's VAT, partners' tax bills and annual practicing certificate renewals.

Figure 7.6: Year-end office account bank balance (£'000)

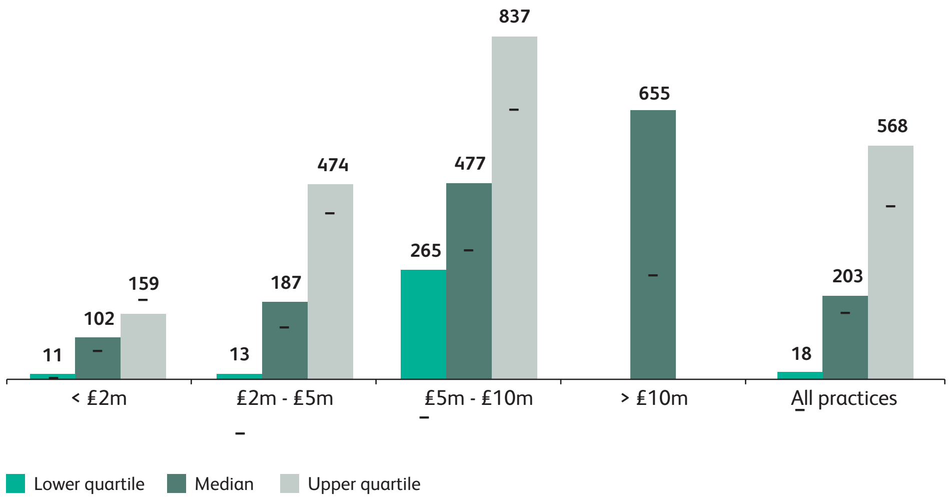


Figure 7.7: Bank borrowings per equity partner (£'000)

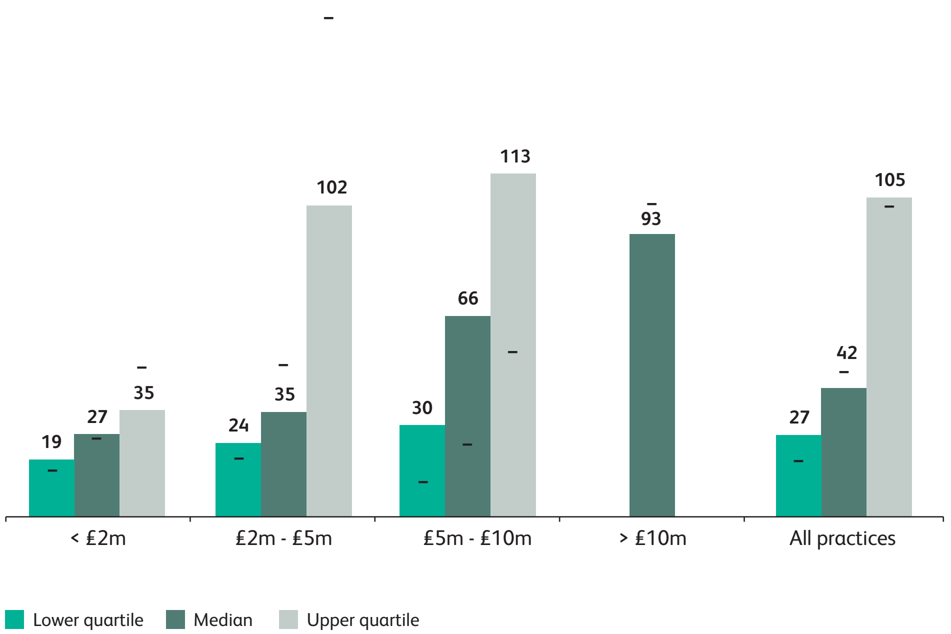
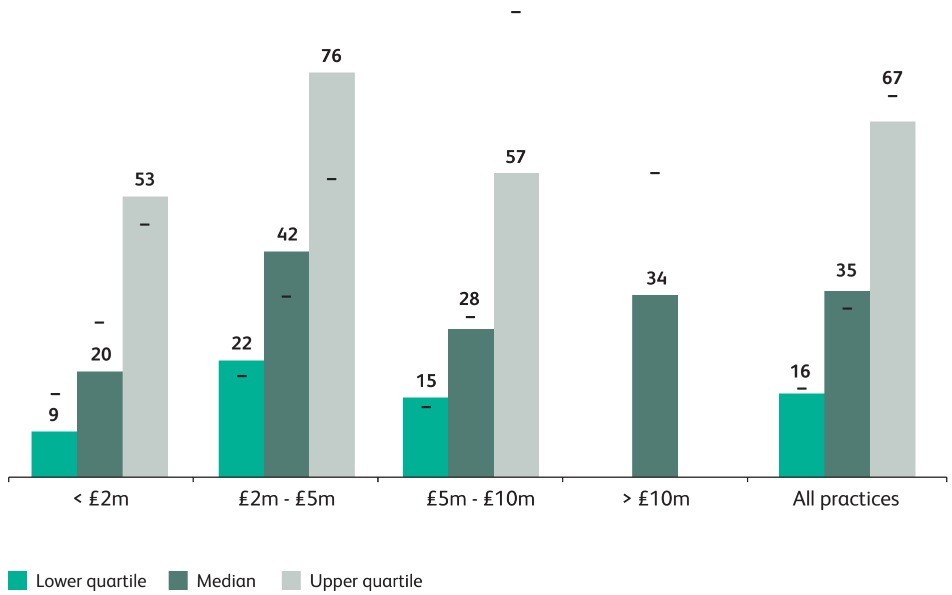


Figure 7.8: Other borrowings per equity partner (£'000)



Banks' attitude to lending

Banks continue to view the legal sector positively overall, although there is an increasing reluctance to lend to firms specialising in areas such as personal injury or clinical negligence work, where very high levels of WIP and disbursements often result in corresponding high levels of external working capital funding. Some banks have been hit quite badly by high profile firm collapses in recent years, and those experiences have had a lasting impact on some banks' appetite to lend, especially where a large proportion of borrowings are secured against contingent WIP.

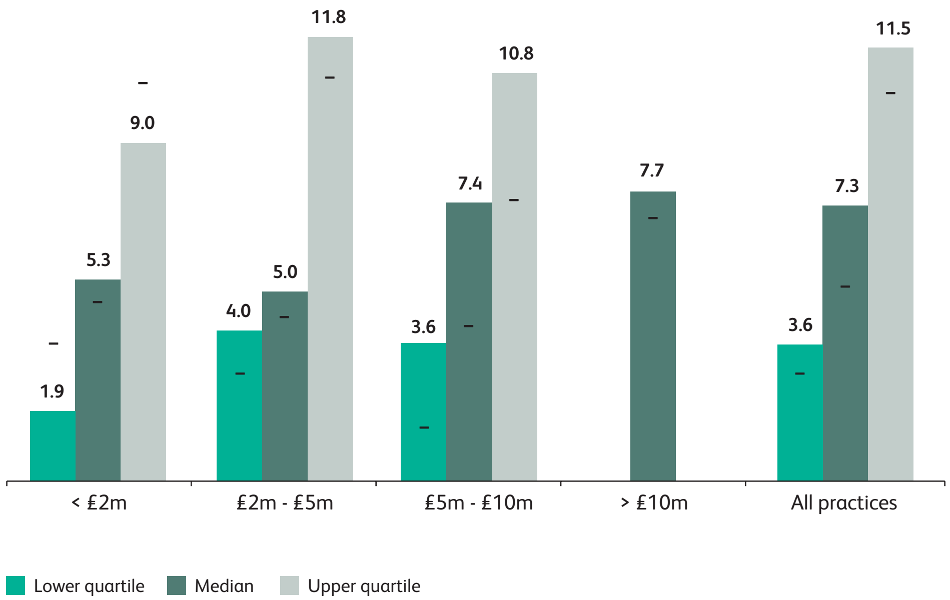
There have been other recent developments that are likely to impact on banks' attitudes to lending.

- From 1 December 2020, HMRC's status as a preferential creditor has been restored, which means that when a company goes into liquidation owing money to HMRC, they now take priority over other creditors for certain outstanding taxes. These taxes are those which have been 'paid' by employees and customers through the business, such as PAYE, VAT and employee NIC. The age of these tax debts does not matter, and all outstanding arrears will be given preferential status. Given the number of firms that have taken up HMRC's recent VAT payment deferral scheme, this will be a more acute consideration, at least in the short term.
- Many law firms have borrowed through the CBILS scheme, either from their main bank or a secondary lender. Whilst in many cases the funds have not been used, and are being held in a separate office reserve account 'just in case', the ratio of borrowings to partner capital in those firms will have risen sharply.

Both of these factors could mean that lenders will become more reluctant to lend on an unsecured or floating charge basis, as the chances of recovering funds on a liquidation will be reduced.

Many banks pay close attention to the ratio of borrowings to fee income when assessing ability to make repayments, and will be concerned to see an increase for the firms in the survey, with a median of 7.3% compared to 5.1% a year ago.

Figure 7.9: Bank borrowings as a percentage of fee income (%)



Financial stability 8.

In 2015, the SRA began risk-assessing law firms based on selected figures from their annual accounts. The three warning indicators identified by the SRA were:

- Drawings in excess of profits.
- Borrowings in excess of net assets, i.e. net liabilities.
- Borrowings over a certain (undefined) level.

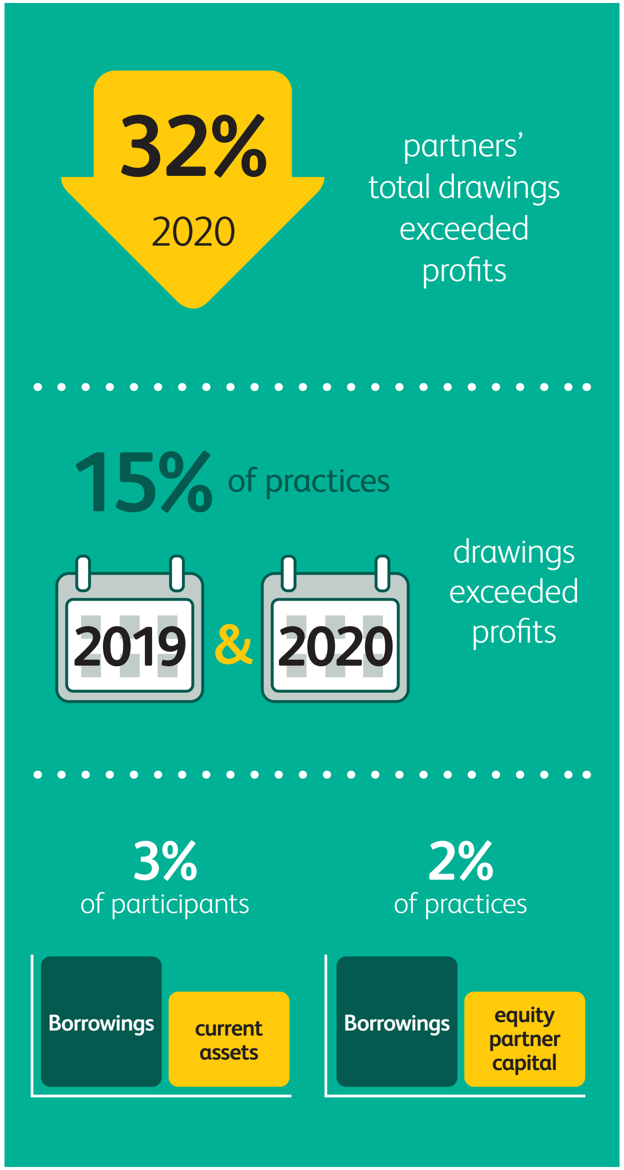
Based on these indicators, firms were assessed as red, amber or green, resulting in differing levels of supervision from the SRA. For example, red rated firms received intensive supervision from the SRA, were required to provide the SRA with regular management information and contingency plans, and were told to obtain professional insolvency advice.

Over the past few years, the SRA have moved their attention to other matters, and the majority of the firms that were initially assessed as red and amber are no longer required to provide the SRA with any financial information, and have little contact with them.

There is little doubt that the indicators used by the SRA were sensible, and the focus on financial stability encouraged partners in many firms to take action.

Every year since 2015 we have analysed the information provided by participants to see how they fared. This year's findings are as follows:

- In 2015 and 2016, partners' total drawings (including income tax) exceeded profits for a quarter of participants. In 2017, this increased to 30%, and the upward trend continued in 2018, with partners in 36% of practices taking drawing in excess of profits. The figure fell fallen back slightly in 2019, to 32%, and we have seen a similar position in 2020. As we have noted in previous years, sometimes this is no more than a timing difference, i.e. when partners decide to withdraw profits, so is not necessarily a cause for concern.
- Of more concern is that in each of the last five years we have found that partners in 15% of practices had taken drawings in excess of profits for two consecutive years. This is less likely to have arisen from timing differences.
- Borrowings exceeded current assets (WIP and debtors combined) for just 3% of participants, compared to 6% last year. Borrowings exceeded equity partner capital for 2% of firms this year, which is slightly better than last year.



9. COVID-19

As explained in the Introduction to this report, this survey was carried out between July and October 2020, at a time when society as a whole was battling with the COVID-19 pandemic. At the time, we felt that it was too early to ask firms lots of detailed questions on the financial impact of COVID-19, and instead firms were asked a small number of questions centred around how they were dealing with COVID-19 and lockdown.

We will assess the full impact of COVID-19 on firms' finances in next year's survey.

Participants were asked whether they had taken advantage of the assistance provided by the Government and HM Revenue & Customs ('HMRC') to help manage cashflow through the pandemic.

- 83% of participants reported that they had deferred their VAT liability from March to June 2020, which was fairly unsurprising, given that the deferral was automatic.
- 15% of firms had been able to agree a time to pay arrangement with HMRC to defer or spread the payment of the PAYE/NIC due on monthly salaries. Our experience is that HMRC have been very willing to accommodate time to pay requests, usually at very reasonable rates of interest.
- A small proportion of limited company firms were able to negotiate time to pay on their corporation tax bills.
- Finally, partners in half of the partnership/LLP participant firms deferred their July 2020 tax payments until January 2021. Again, this was automatic, and individuals did not need to apply for the payments to be deferred.

Firms were also asked whether they had furloughed any of their staff, even for a short period. Three quarters of participating firms furloughed fee earning staff for a time, with a median of one in eight fee earners placed on furlough.

When it came to support staff, 84% of participants placed members of their support teams on furlough for a time. The proportion of support staff placed on furlough was considerably higher than the proportion of fee earners, at a median of one in three. A quarter of participants reported that they had furloughed more than half of their support staff for a time.

We asked participants for details of the impact of COVID-19 on their projections for the 2020/21 financial year. The median drop in forecast income was 15%, resulting in a median reduction in forecast profits of 24%. Our experience is that the majority of firms initially produced overly pessimistic financial projections for the 2020/21 financial year, and whilst income has indeed fallen (although generally by less than first feared), overheads have too, helping to maintain profitability levels. As a result, many salary reviews and promotions that were originally deferred from early 2020 have since been implemented.

As noted in section 7, the majority of firms halted profit distributions from March 2020, in order to bolster cash flow, resulting in large increases in capital balances. In addition, many firms reduced their ordinary monthly draws, and survey participants reported a median reduction of 24%.

Participants were also asked about their views on staff redundancies. At the time of completing the survey questionnaires, a third of participants anticipated making redundancies amongst their fee earning staff, and where redundancies were expected, the median was two fee earners. 44% of firms expected to make some of their support staff redundant, and whilst the overall median was in line with fee earner redundancy rates, the range was considerably higher, perhaps reflecting a continued drive to push down support staff ratios and improve efficiency levels.

It is true to say that there have been redundancies in the sector, but nothing particularly widespread, and for many, it is fairly likely that COVID-19 merely gave rise to an opportunity to reassess staffing needs in certain teams, to a certain extent. Fee earners, in particular, are still leaving one firm to join another, and it remains challenging to recruit quality solicitors.

Moving on from COVID-19

One of the few upsides of COVID-19 is that it forced almost all law firms into a place where they are now able to operate effectively with either all or part of their workforce working remotely, either all of the time, or part of the time. As a result, the level of confidence in feeling that a more flexible way of approaching work in the longer-term is not only feasible, but desirable, has increased dramatically.

Given this, firms are now turning their attention to some very significant emerging opportunities for themselves, including:

- Genuine belief that the new efficiencies that remote working can bring are real.
- Noticing that the wellbeing and motivation of many staff is higher where they are offered more flexible working arrangements.
- Expectations of many clients have altered away from what can be long face-to-face meetings every time, and more towards swifter overall service levels.
- The upskilling in the use of technology by so many people has paved the way for greatly improved ways of both sharing and executing legal documents electronically.
- Communication methods have become more auditable, with improved electronic working, thereby improving service levels and reducing risk.
- Savings in certain overheads can continue in the longer term.
- There is a new willingness within those working in law firms to try new approaches, and as a result, belief has accelerated that they can give rise to efficiency gains, better service and a generally improved working life.
- The natural caution of law firm owners towards different ways of working has noticeably changed too, and therefore those running law firms are far more open to new ideas and ways of thinking as to how legal services can be delivered.

As a result of all of this, many firms are now starting to focus on designing client experiences to actually suit the client, and not just to suit themselves, and in doing this are finding that delivering services that suit the client better are actually more efficient anyway.

Therefore, if you have not done so already, start to ask yourself questions like:

- Is the format of the advice I provide to clients the easiest for them to understand and process?
- Can we use a completely different technology or process to produce it?
- Is my communication with my client as frequent as they would like?
- Am I communicating to clients in the way that they want to receive it (and have I asked them)?
- Do they really understand what exactly I am doing for them?
- And do they understand why?

Now is the time to reappraise both work delivery and service levels in your firm. The easiest way to improve your firm's financial performance will always be to efficiently provide the best possible client service, and charge for it accordingly.