

Leadership and Management Section

Q3 pulse survey (July to September 2023)

For the last 20 years, the Leadership and Management Section has carried out an annual Financial Benchmarking Survey. It is the leading survey for medium-sized and smaller firms in England and Wales, providing participants with a bespoke report showing how their firm compares to similar firms.

To compliment insights from the annual survey, the quarterly pulse surveys provide a timely barometer of business conditions for small and medium-sized solicitor firms.

This survey reports on firms' experiences of quarter three (July to September 2023). 55 firms took part.

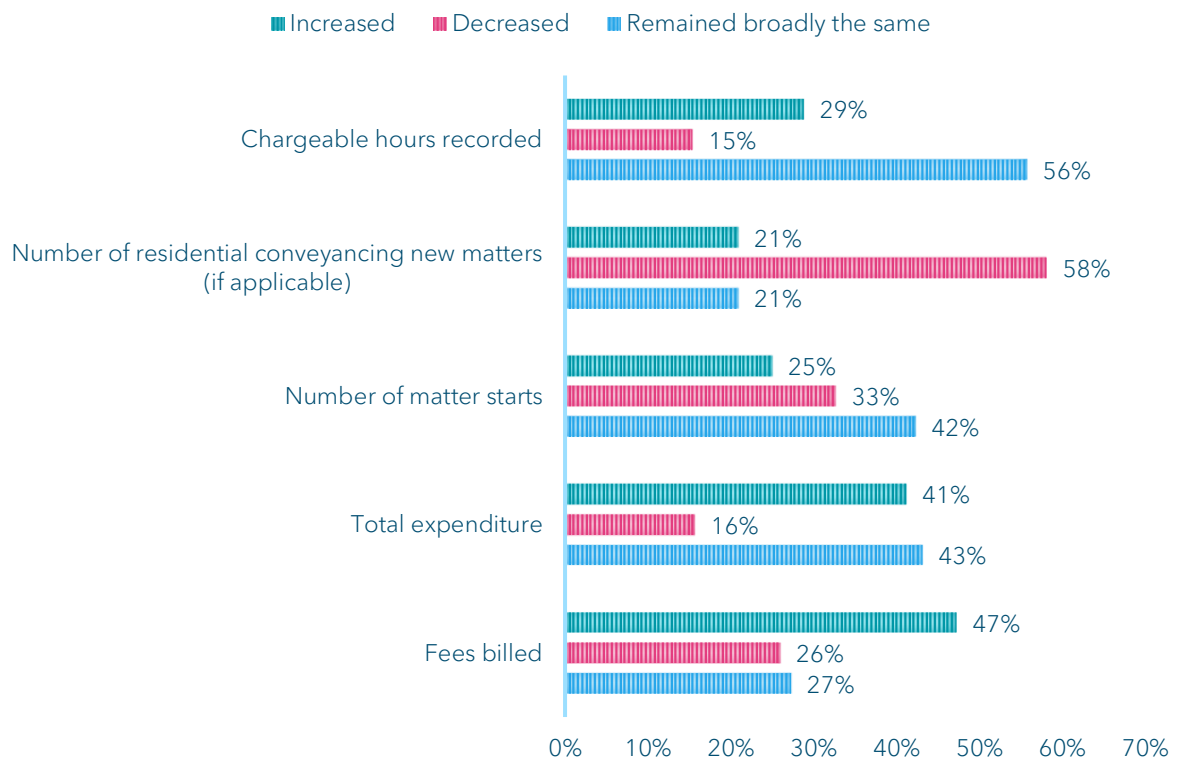
Key findings

- General activity levels remained stable, with a continued increase in the percentage of firms reporting growth in chargeable hours. Billing also saw an increase on Q2
- The overall proportion of firms reporting an increase in matter starts (25%) was slightly higher than for conveyancing (21%)
- Total expenditure increased or remained the same for most firms (84%). However, the proportion reporting an increase in expenditure continued to decline (41%) in Q3 compared to 58% in Q2
- Headcount remained stable, with 15% of firms increasing their fee-earner headcount over the last quarter
- 42% of participating firms expected their standard inflationary pay rise to be between 5% and 7.5%. Around a quarter of firms expected their total fee earner costs to increase by more than 7.5%
- Cash positions have improved or remained stable for almost three-quarters of firms (71%), and most firms expect the same for Q3 (89%). 11% of firms expected cash position to worsen in Q4
- 93% of firms anticipated firm's fees would either increase or remain the same over the next 12 months. 44% of firms predicted profitability would increase over the next 12 months, 16% expected profitability to worsen
- The average interest rate firms are currently getting on the majority of client funds held by the firm is 3.11%, which is an increase on the 0.65% reported in Q3 2022.
- The range of interest rates varies between and within the range of client funds held, suggesting some firms could be negotiating a better rate
- A range of government support schemes are available to assist SMEs in the legal sector. Except for legal apprenticeships through the apprenticeship levy, less than half of firms are aware of each scheme and levels of use are low

Income, expenditure, and new work

- The number of matter starts remained stable for around two-fifths of firms. For the remainder, a higher proportion reported a decrease, than an increase
- More change had been experienced by residential conveyancing firms: 21% reported matter starts had remained the same, 58% had experienced a decrease
- Total expenditure increased for 41% of firms; 16% experienced a reduction in costs

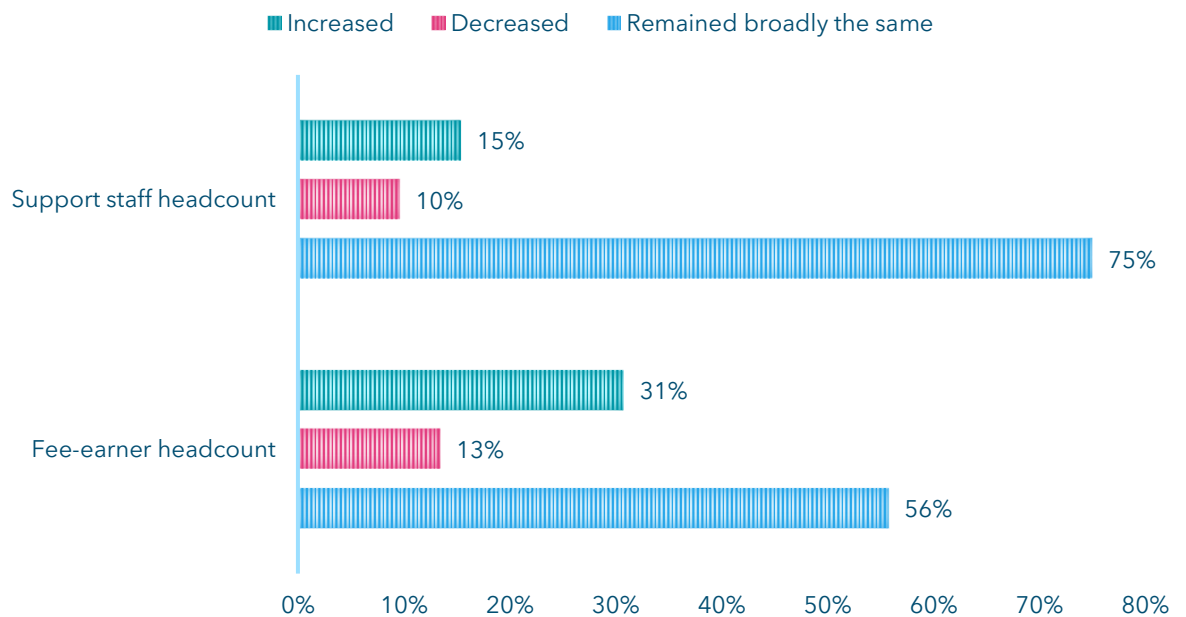
Income, expenditure and new work



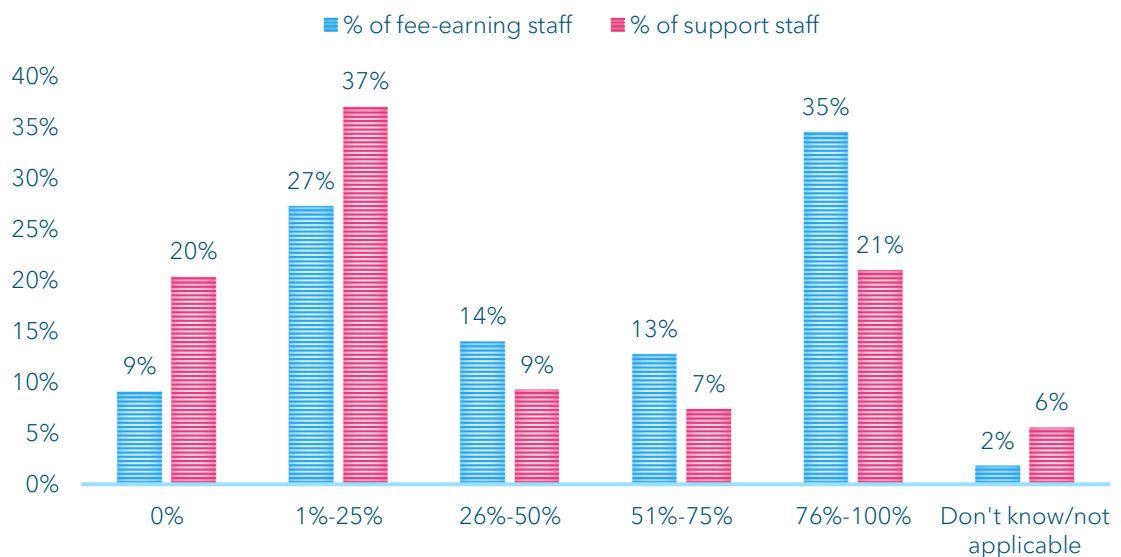
Staffing (headcount and working arrangements)

- Headcounts remained stable
- 47% of firms had half or more of their fee-earners operating under hybrid arrangements, down on the 59% in Q2
- Similarly, 28% of firms reported having half or more of their support staff working under a hybrid arrangement compared to 37% in the previous sweep

Headcount

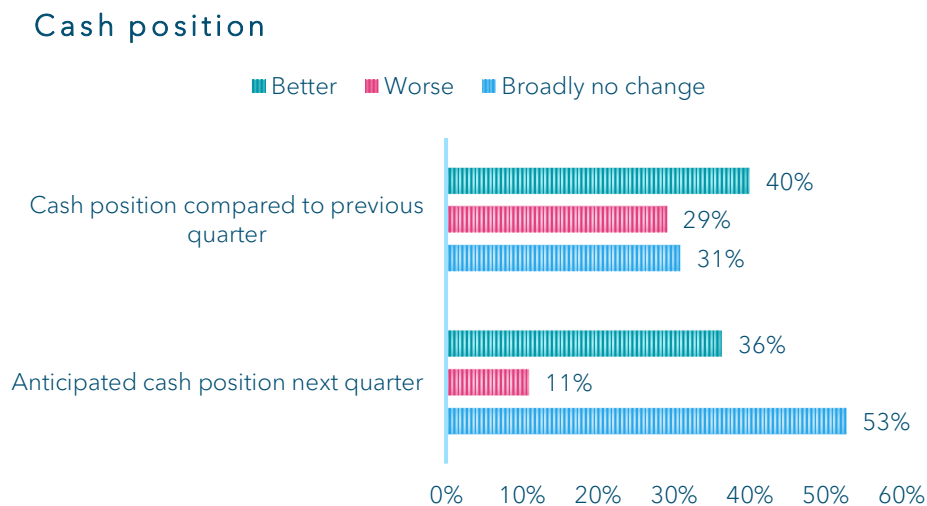


% of staff working in some form of hybrid arrangement



Cash position

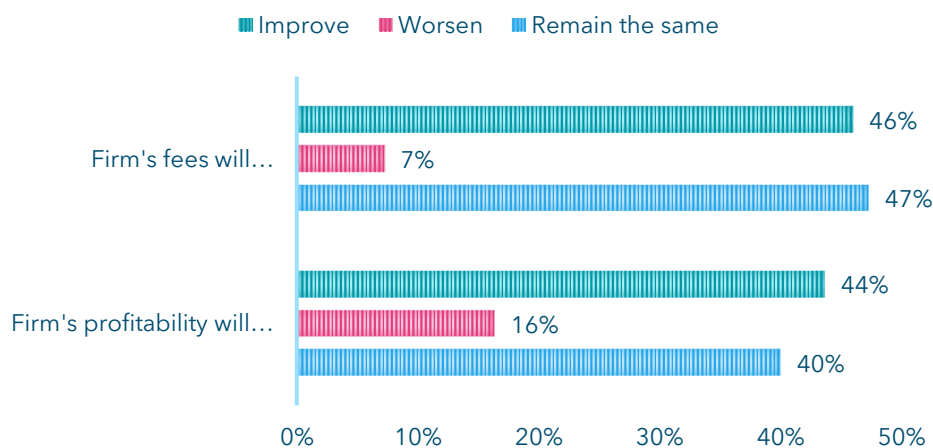
- 40% of firms reported an improved cash position compared to the previous quarter. A similar proportion reported either no change (31%) or a worse cash position
- Looking forward to Q4, 53% anticipated their cash position would remain the same, 36% anticipated an increase, and 11% a decrease



Business confidence

- Most firms anticipated fees would increase, or remain the same over the next 12 months. 7% of firms expected fees to decline
- 44% of firms expected profitability to improve, 16% expected a decrease over the next 12 months
- Firms expecting profitability were more likely to report that fees would either increase or remain the same over the coming year

Business confidence over the next 12 months

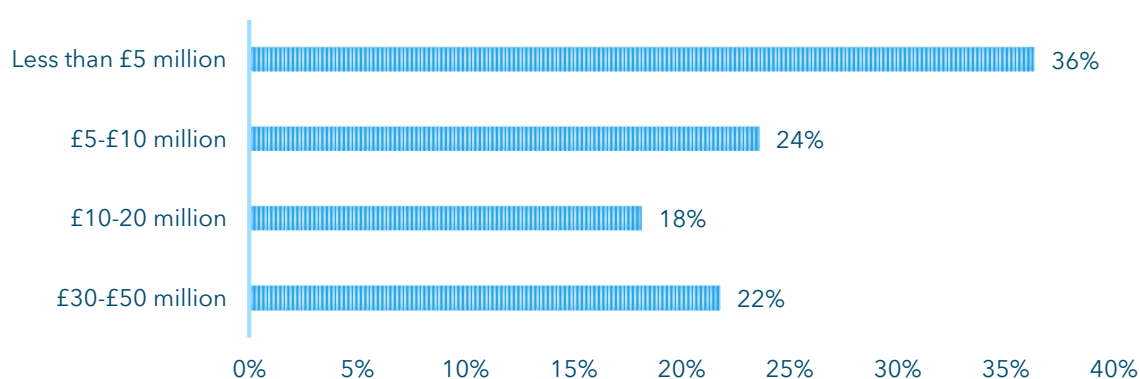


Interest rates on client funds

To identify whether firms have been able to negotiate more favourable rates, firms were asked about the value of client accounts and the interest rate being applied:

- just under two-fifths of firms held less than £5 million in their client fund accounts
- the average interest rate firms are currently getting on the majority of client funds is 3.11%, which is an increase on the 0.65% reported in Q3 2022
- the range of interest rates varies between and within the range of client funds held, suggesting some firms could be negotiating a better rate

% of respondents by amounts held in client accounts



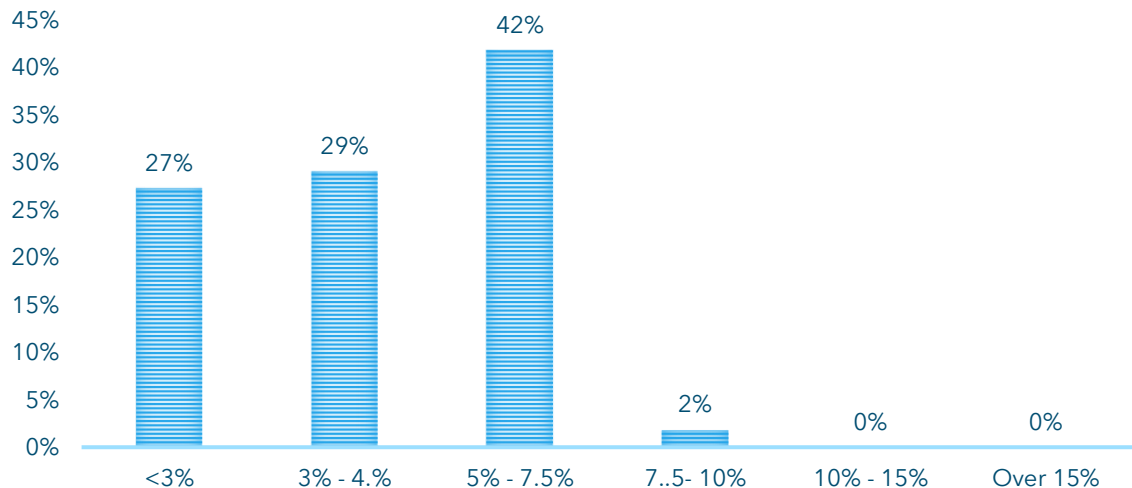
Interest rates paid on the majority of client funds, by range of client funds held

Average range of client funds held	Minimum	Mean	Maximum	Number of firms	Mean q3, 2022
Less than £5 million	0.00%	1.77%	6.00%	20	0.42%
£5 - £10 million	0.50%	2.93%	5.10%	13	0.65%
£10 - £20 million	1.70%	3.57%	5.10%	10	1.33%
£30 - £50 million	2.00%	4.45%	5.15%	12	0.95%
All	0.00%	3.11%	6.00%	57	0.65%

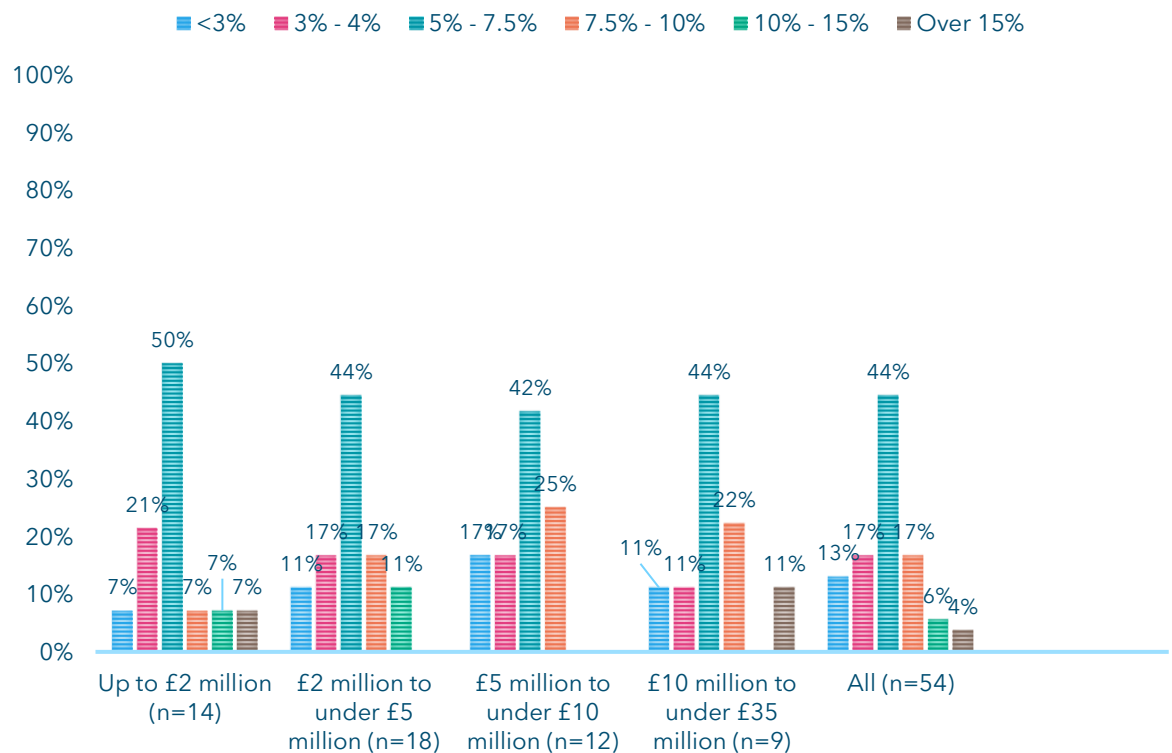
Standard inflationary payrise

- 42% of responding firms expected their standard inflationary pay rise in 2023 to be between 5% and 7.5%
- 27% of firms expected fee earner total payroll costs to increase by more than 7.5%

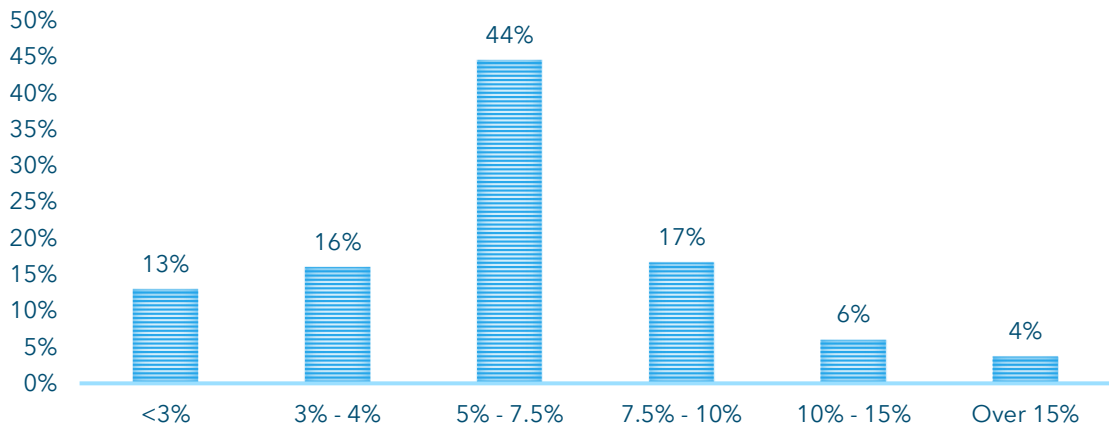
Expected standard inflationary pay rise in 2023



Anticipated total payroll cost increase in 2023 (fee earners only) ** low cell counts



Anticipated total payroll cost (fee-earners only) increase in 2023



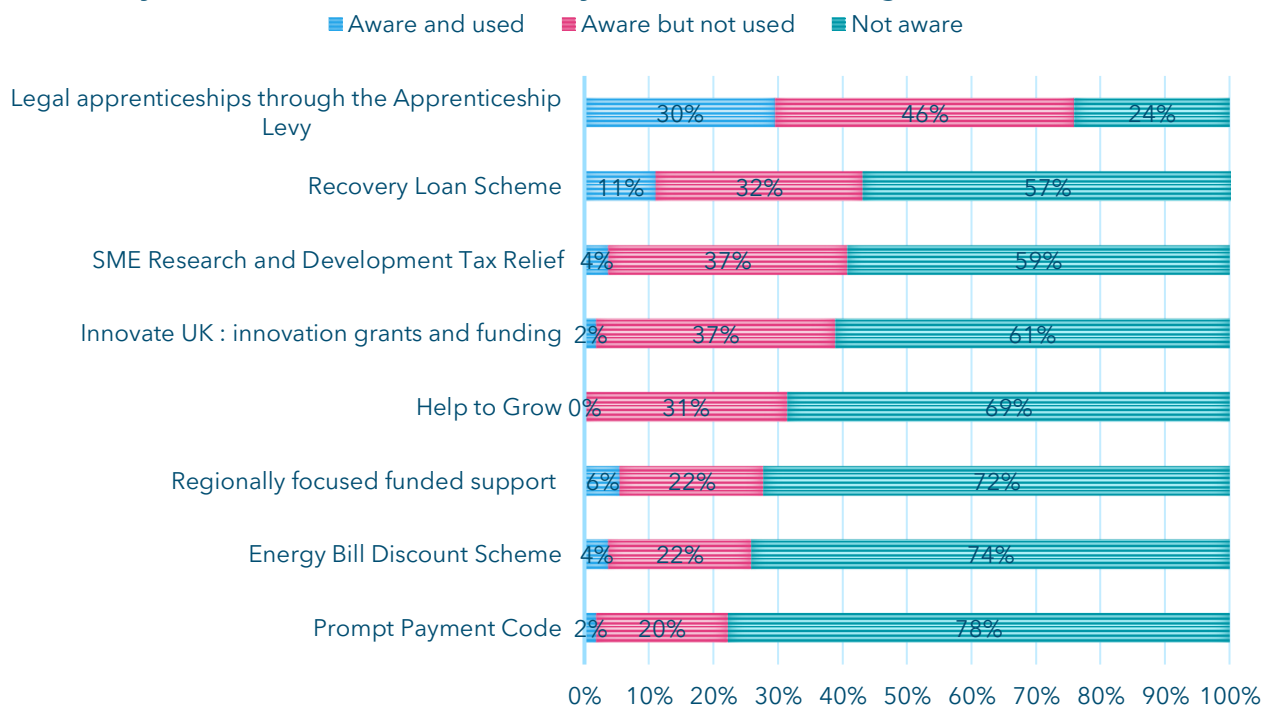
Awareness and use of government support schemes

There is a range of government support schemes available to assist SMEs in the legal sector. Awareness of these schemes varies.

There are higher levels of awareness and use in relation to legal apprentices and the Recovery Loan Schemes.

There is lower awareness of the Prompt Payment Code, the Energy Bill Discount Scheme, regional schemes and Help to Grow.

Have you heard of, or used any of the following? (N=54)



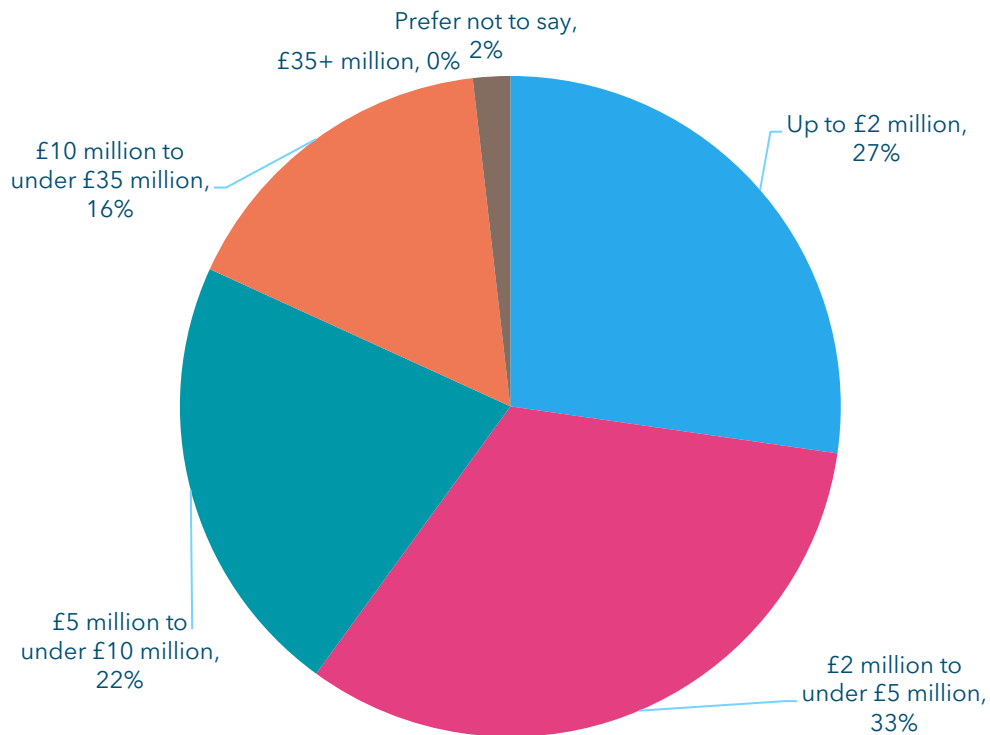
Links to schemes:

- [Grow your business - Help to Grow](#)
- [Energy Bills Discount Scheme](#)
- [Recovery Loan Scheme](#)
- [Research and Development \(R&D\) tax relief for small and medium-sized enterprises](#)
- [Innovate UK - UKRI](#)
- [Apprenticeships: how do they work?](#)
- [Find your Local Enterprise Partnership](#)

Thank you to participating firms in Quarter 3!

We appreciate you taking the time to complete the survey.

If you have suggestions on how we can improve the survey/reporting or have any ideas about what topics you would be interested in, email joanne.cox@lawsociety.org.uk.



Timeseries data

Additional insights can be gained by looking for changes between the quarterly surveys.

Some caution needs to be applied as the number and profile of participating firms may differ between quarters.

In Q3 2023, 27% of firms had turnover of up to £2m, compared to 92% in Q1 2022. This difference may have an impact on aggregated findings.

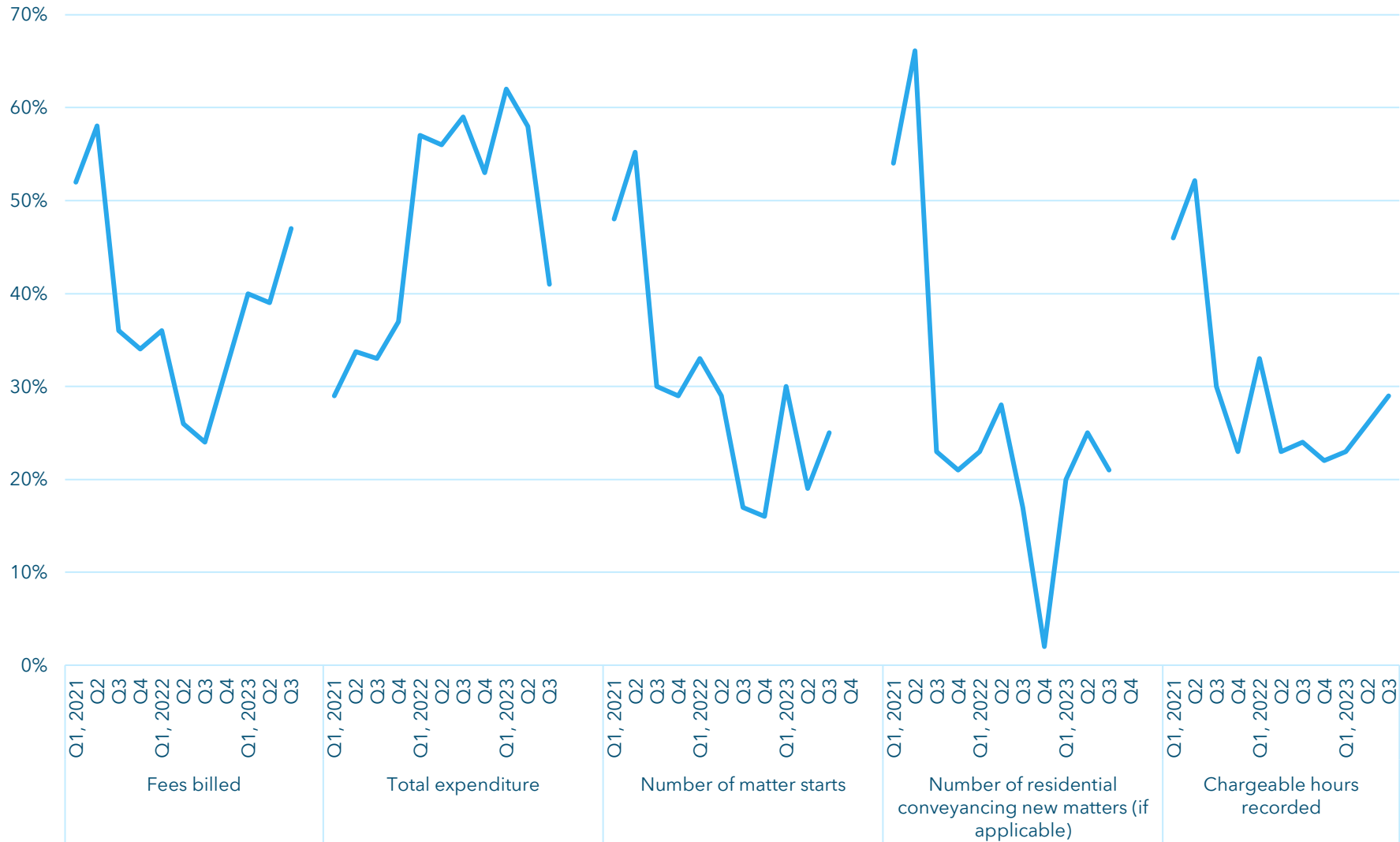
As further data is collected, analysis will be conducted to look differences by size of firm and for any seasonal affects. The more firms taking part, the more robust our evidence base.

We'll continue to sense check results against other surveys and data sources.

These charts suggest that over the last 11 quarters:

- After a slight decrease in Q2 on fees billed, an increase in Q3. Number of matter starts improves following the decrease in Q2
- Whilst number of matters improves, matter starts for residential conveyancing drops slightly in Q3. Chargeable hours continue to increase from the low of Q4, 2022
- After expenditure levels quarter on quarter continuing to show a steady profile of increasing to Q1 2023, Q3 2023 continues a decline from the Q1 high
- Both fee-earner and support staff headcount increased in Q3, with a higher increase for fee-earner recruitment
- Continued increase in the percentage of firms reporting improved cash positions after three quarters where figures were static
- Anticipated cash position for the next quarter continues to increase from the low in Q4 2022
- Q3 shows a continued increase in firms fees from a low in Q4 2022. Following a drop from Q1 to Q2, Q3 shows expectations for firm profitability improve

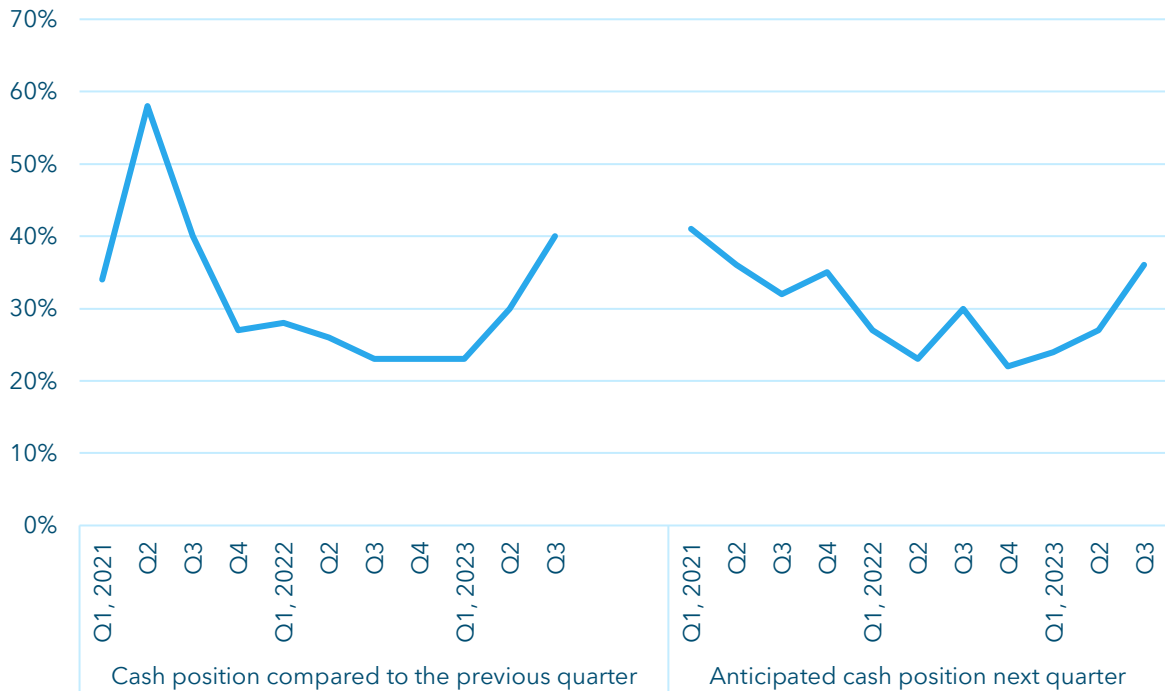
Percentage of firms reporting an increase Q1, 2021 to Q3, 2023



Percentage of firms reporting an increase in fee-earner and support staff head count (Q1, 2021 to Q3, 2023)



Percentage of firms reporting an increase in cash position and anticipated cash position for the next quarter (Q1, 2021 to Q3, 2023)



Percentage of firms predicting an increase in firm's fees and profitability (Q1, 2021 to Q3, 2023)

