

LMS Quarterly Pulse survey – April to June 2022

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

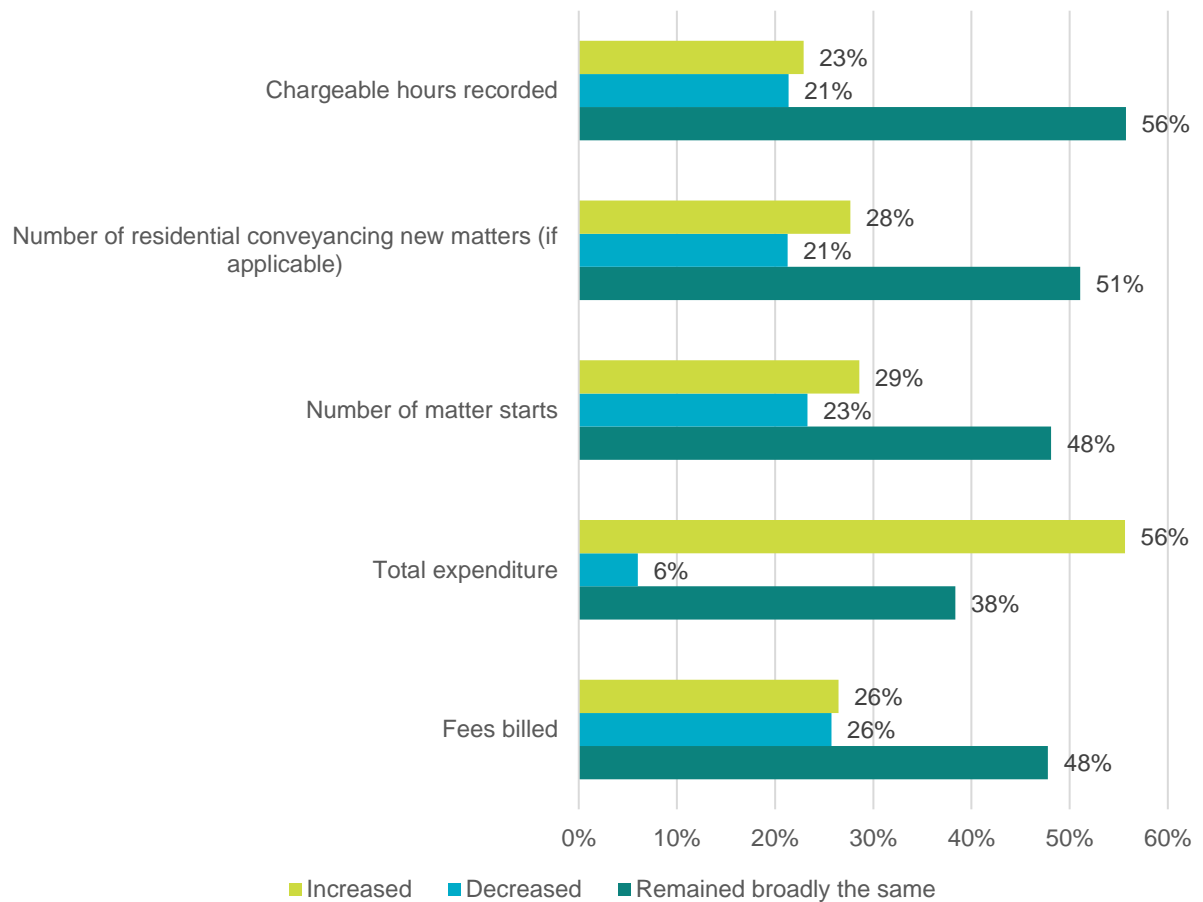
To compliment insights from the annual survey, the LMS and the Law Society's Futures & Insights team have developed a quarterly pulse survey to provide a timely barometer of business conditions for small and medium sized solicitor firms. This paper reports on firms' experiences of Quarter 2 (April to June 2022). 136 firms participated.

Main points from Quarter 2 Survey

- General activity levels in the participants' results in Q2 continue to be muted. 23% of firms reported a quarter-on-quarter increase in chargeable hours in Q2, compared to 36% in Q1.
- 28% of firms reported an increase in residential conveyancing matter starts, which is up from the low of 21% reported in Q4, 2021.
- Following a large increase in the proportion of firms reporting an increase in overall expenditure, from 37% in Q4 to 57% in Q1, a similar proportion of firms (56%) reported an increase in Q2.
- Firms continue to offer hybrid working arrangements to staff; the proportion of firms with 50% or more of their fee earners working in a hybrid relationship (33%) remains higher compared to those with a similar arrangement for support staff (23%).
- Firms' expectations around the standard inflationary pay rise have shifted. In Q1, 18% of firms anticipated pay rises over 5% simply to reflect inflation; this had increased to 27% in Q2. Correspondingly, 18% of firms in Q1 anticipated their total payroll costs to increase by 7.5% or more, compared to 29% in Q2.
- Cash positions have remained stable or improved for over two thirds of firms (69%), with the same proportion expecting the same for the next quarter.
- 73% of firms anticipated firm's fees would either improve or remain the same over the next 12 months. 63% of firms predicted profitability would either increase or remain the same. 37% expected profitability to worsen over the next year.
- Regular catchups or appraisals were identified as the most helpful workplace measure to support staff's wellbeing in LawCare's 2022 research. 31% of firms provided management training to all their managers, 69% reported that all their staff had regular catch ups and appraisals.

Income, expenditure and new work

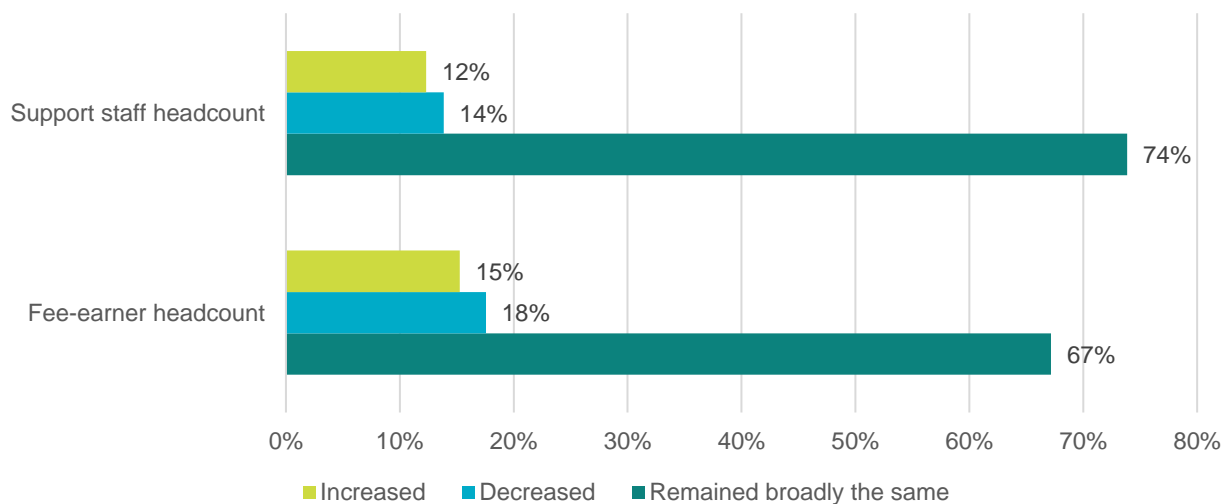
- In total 79% of firms reported fees issued either remained consistent or were higher than the previous quarter. Almost three-fifths (56%) of firms reported the number of chargeable hours recorded had remained static.
- 28% of firms offering residential conveyancing reported an increase of new matter starts. 56% of firms reported an increase in total expenditure, a slight levelling off on rising expenditure from Q3, 2021.



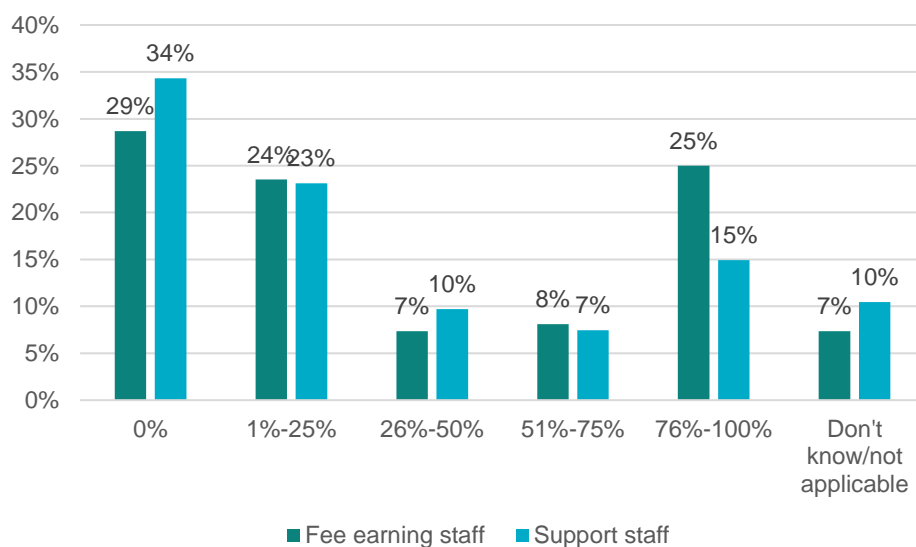
Staffing (working arrangements and pay)

- Headcounts remained stable.
- 23% of firms reported that over 50% of their support staff are operating under hybrid working arrangements.
- 33% of firms reported that over 50% of their fee earners are operating under hybrid working arrangements.
- In Q1, 18% of firms anticipated pay rises over 5%, this had increased to 27% in Q2. Correspondingly, 18% of firms in Q1 anticipated their total payroll costs to increase by 7.5% or more, compared to 29% in Q2.

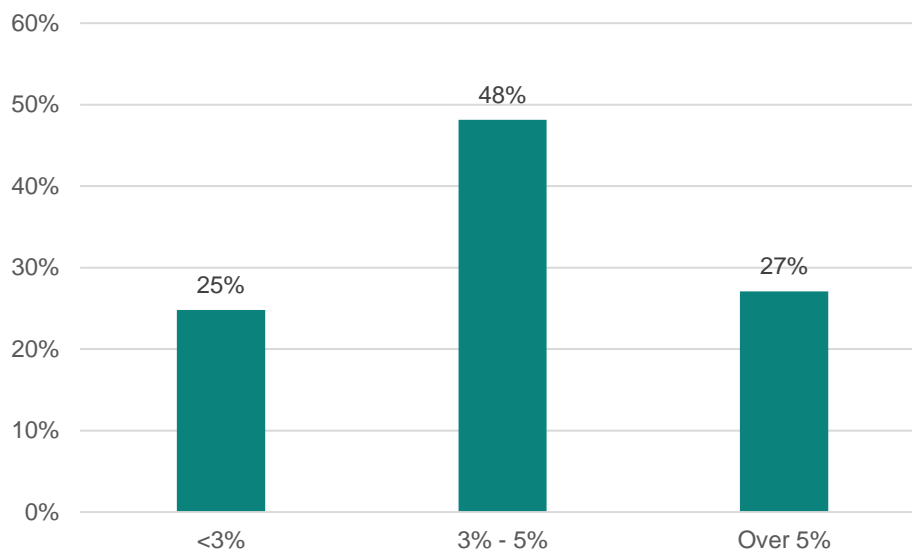
Headcount



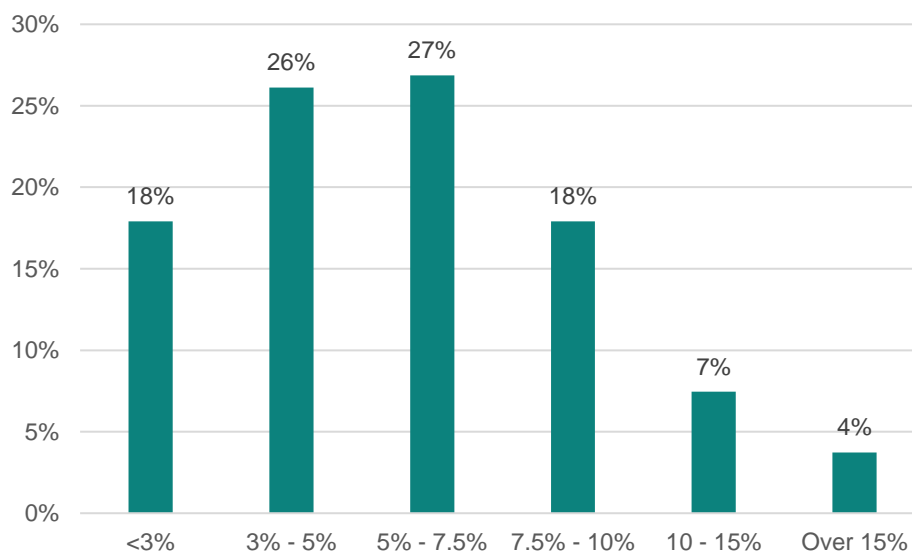
Proportion of fee-earning and support staff working in some form of hybrid arrangement



Standard inflationary payrise expected in 2022

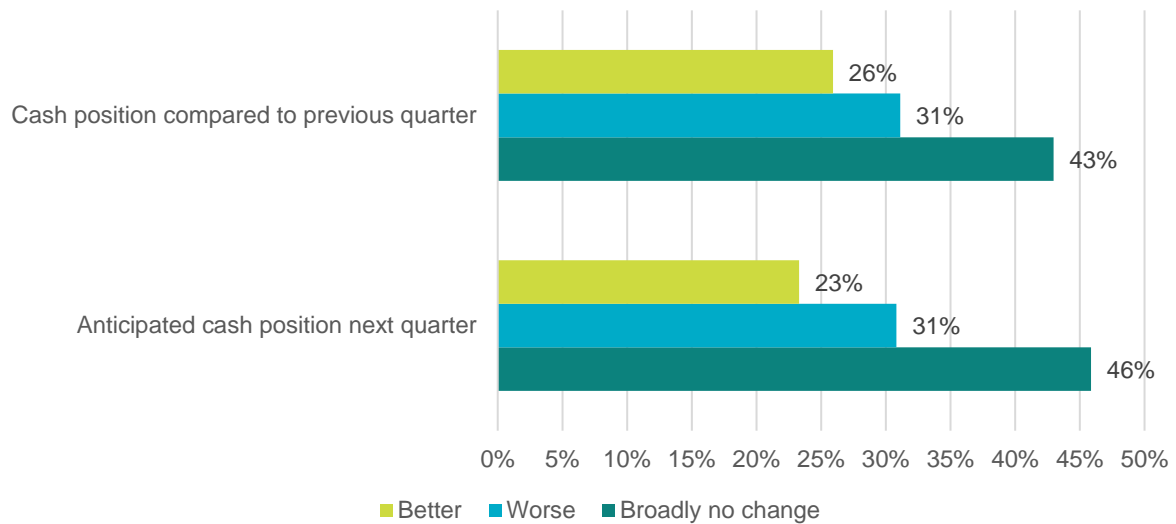


Estimated total payroll cost increases in 2022



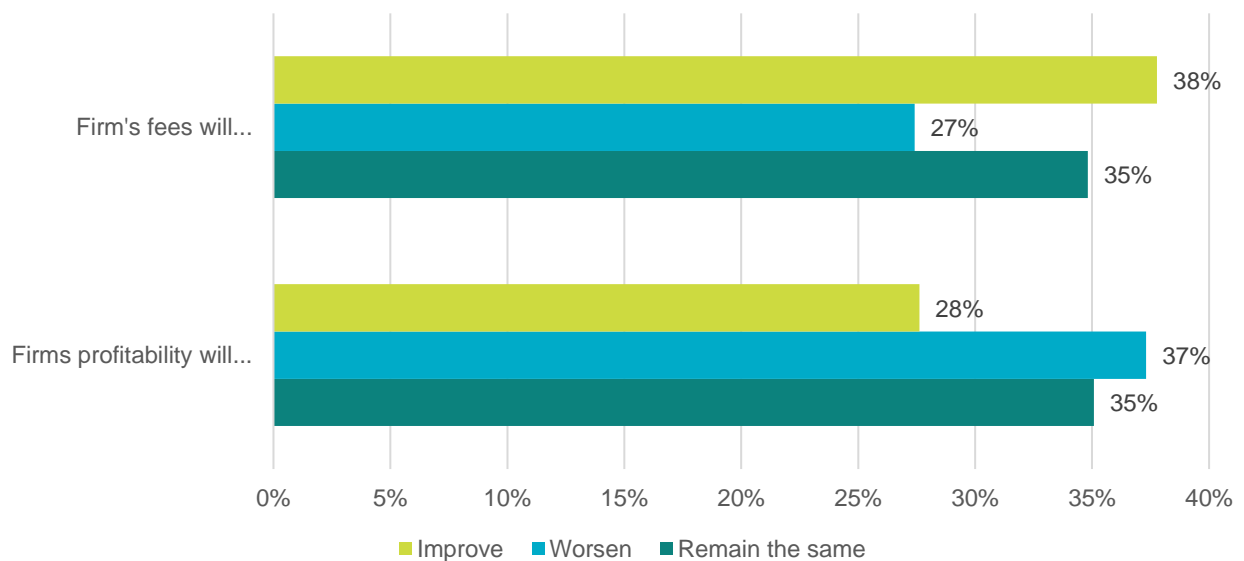
Cash position

- While 26% of the participating firms reported a better cash position compared to Q1, a higher proportion reported a worse position (31%).
- 23% of responding firms anticipated a better cash position next quarter, compared with 31% expecting a worse position.



Business confidence

- Around three-quarters (73%) of firms anticipated their firm's fees would increase or remain the same over the next 12 months, while 27% expected fees to decline.
- A larger proportion of firms in Q2 expected profitability to worsen over the next 12 months, compared to those who thought profitability would increase (28%) or remain the same (35%).

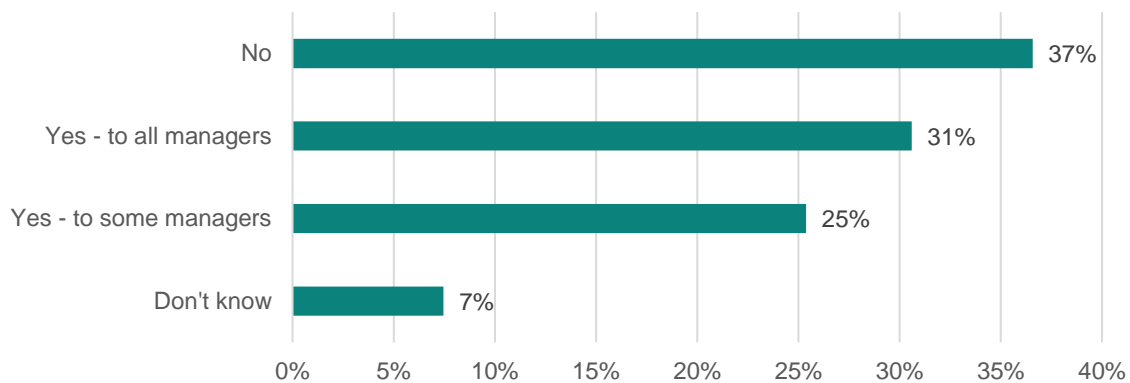


Staff wellbeing

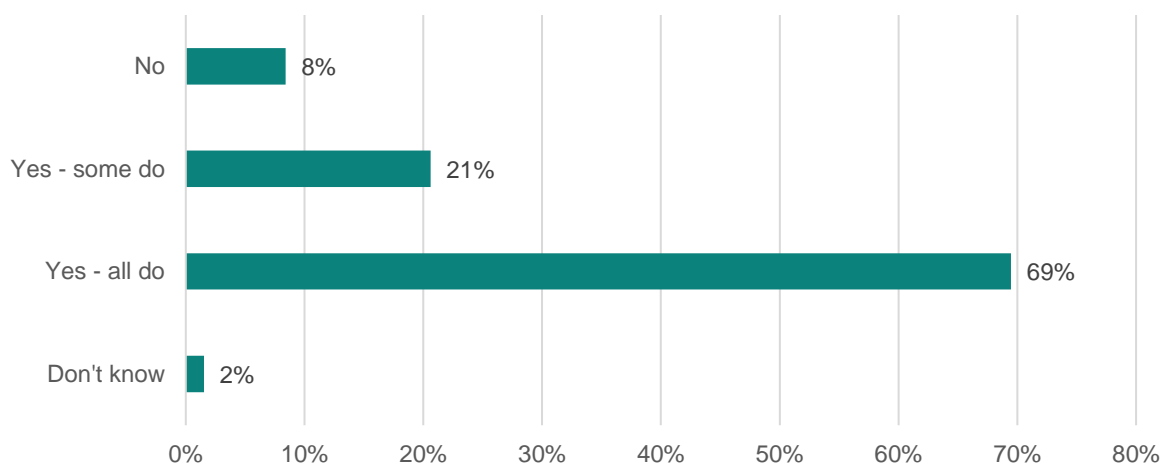
In LawCare’s recent [‘Life in the Law’](#) report, regular catch-ups or appraisals were identified as the most helpful workplace measure to support staff’s wellbeing. We know from this year’s Law Society PC Holder Survey that 62% of private practitioners manage other staff within their organisation. Previous Law Society research has found that solicitors are perhaps unsurprisingly, independent learners, identifying their own training needs, which tend to favour technical legal skills over soft skills. Demonstrating the firm values management training at both junior and senior levels, may help solicitors to adjust their training choices, and at an earlier point in the career pathway.

- 56% of firms provided management training, either to all managers (31%) or to some managers (25%).
- 69% of firms reported that all their staff have regular catchups with their managers, and 21% reported that some staff do.

Does your firm provide management training for those who manage people?

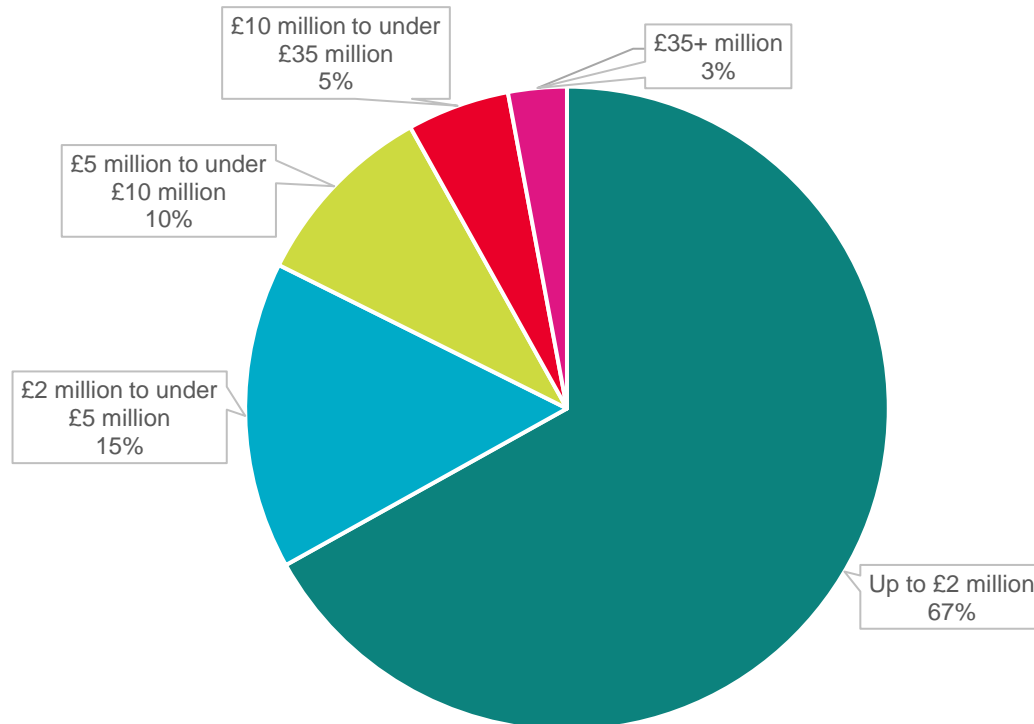


Do staff have regular catchups/appraisals with their managers?



Participating firms in Quarter 2

A big thank you to the 136 firms who took part in the quarter 2 pulse survey. This survey provides insight into how your firm compares with other SMEs in the sector.



Paul Bennett, Chair of the Law Management Section

'The Law Management Section Pulse Survey is new and intended to support the profession with some detailed data collection on current issues every quarter. We are delighted with the level of response and would encourage firms to participate next time and to help us grow the survey so they have the chance to help shape the knowledge of the current issues'.

Quarter 2 compared to 2021 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 Q2, 67% of firms had turnover of up to £2m, compared to 92% of in Q 1 in 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.

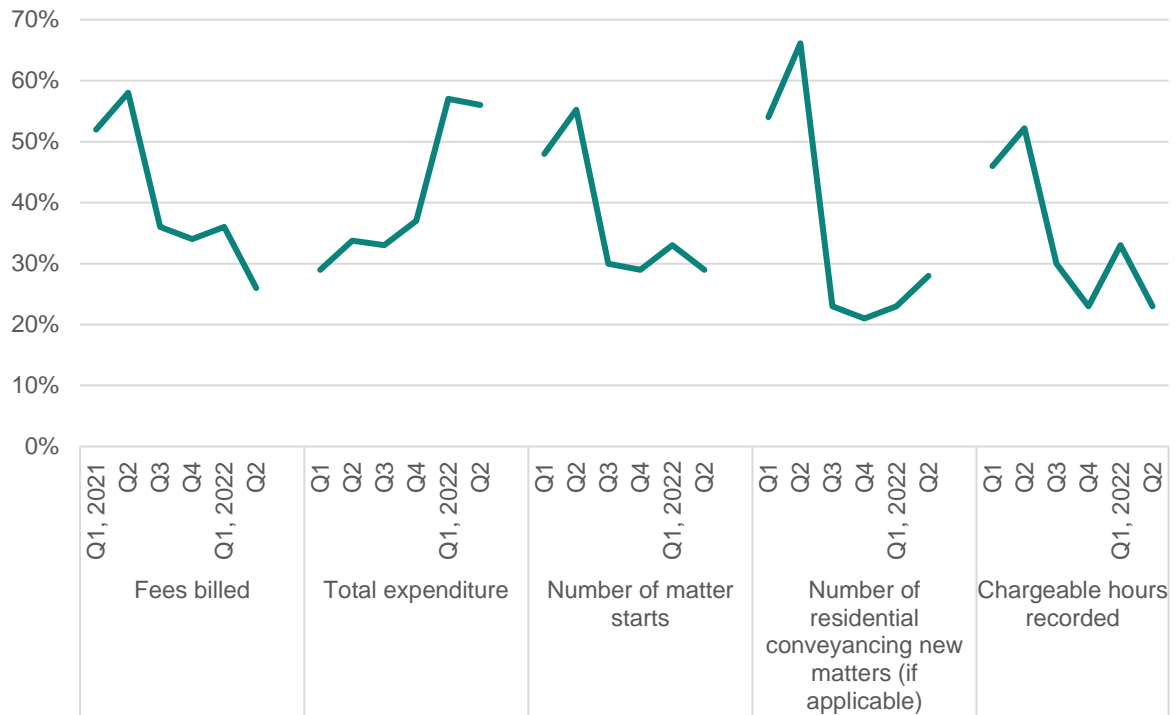
The following charts compare data from

- Q1 2021, comparing change between the January to March 2021, with the previous quarter (October-December 2020)
- Q2, 2021 comparing change between April to June 2021, with the previous quarter (January to March 2021)
- Q3, 2021 comparing change between July to September 2021, with the previous quarter (April to June 2021)
- Q4, 2021 comparing change between October to December 2021, with previous quarter (July to September)
- Q1 2022, comparing change between January to March 2022, with the previous quarter (October-December 2021)
- Q2 2022, comparing change between April to June 2022, with the previous quarter (January to March 2022).

These charts suggest that over the last 6 quarters:

- Growth rates in fee levels, matter starts and chargeable hours have notably reduced.
- Expenditure levels quarter on quarter have showed a steady profile of increasing, primarily assumed to be the result of both inflationary salary pressures and offices returning to normal operating costs as people have returned to work. Q2 shows a levelling off compared to Q1.
- Growth in headcount of fee earners and to a lesser extent in support staffed has cooled, with a sign of improvement in relation to fee earner hires.
- The percentage of firms reporting improved cash positions have steadily declined quarter on quarter (as have expectations for the subsequent quarters).
- Confidence (in terms of firms expecting a growth in fees and profits over the next year) have steadily declined.

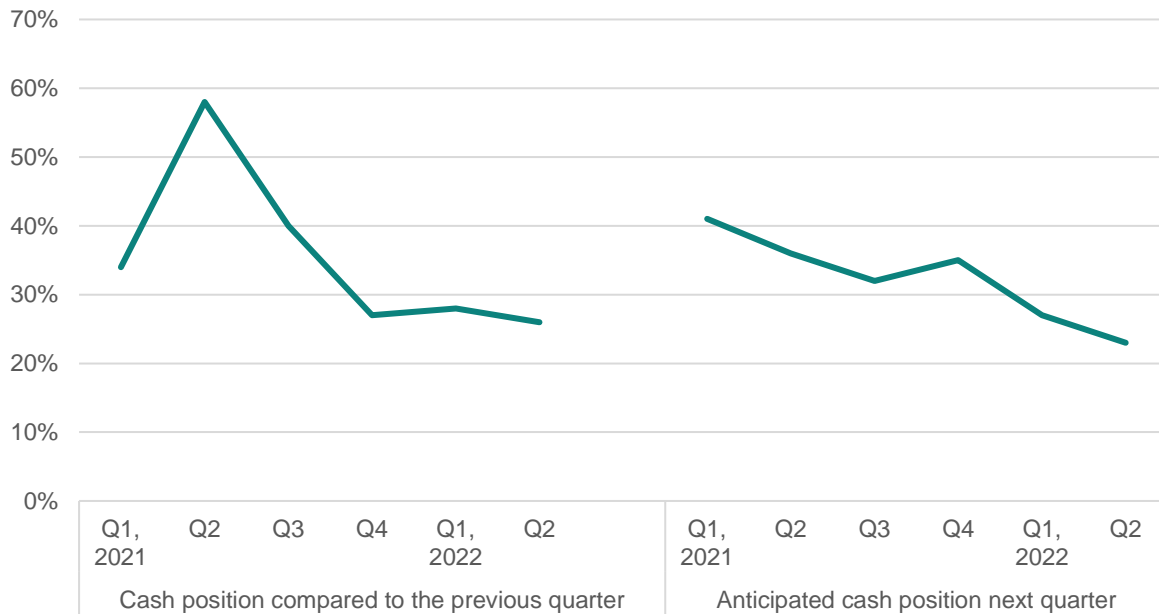
Percentage of firms reporting an increase (Q1 2021 to Q2, 2022)



Percentage of firms reporting an increase in feeearner and support staff head count (Q1, 2021 to Q2, 2022)



Percentage of firms reporting an increase in cash position and anticipated cash position for the next quarter (Q1,2021 to Q2, 2022)



Percentage of firms predicting an increase in firm's fees and profitability (Q1, 2021 to Q2, 2022)

