

## LMS Quarterly Pulse survey - July to September 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 3 (July to September 2022). 68 firms participated.

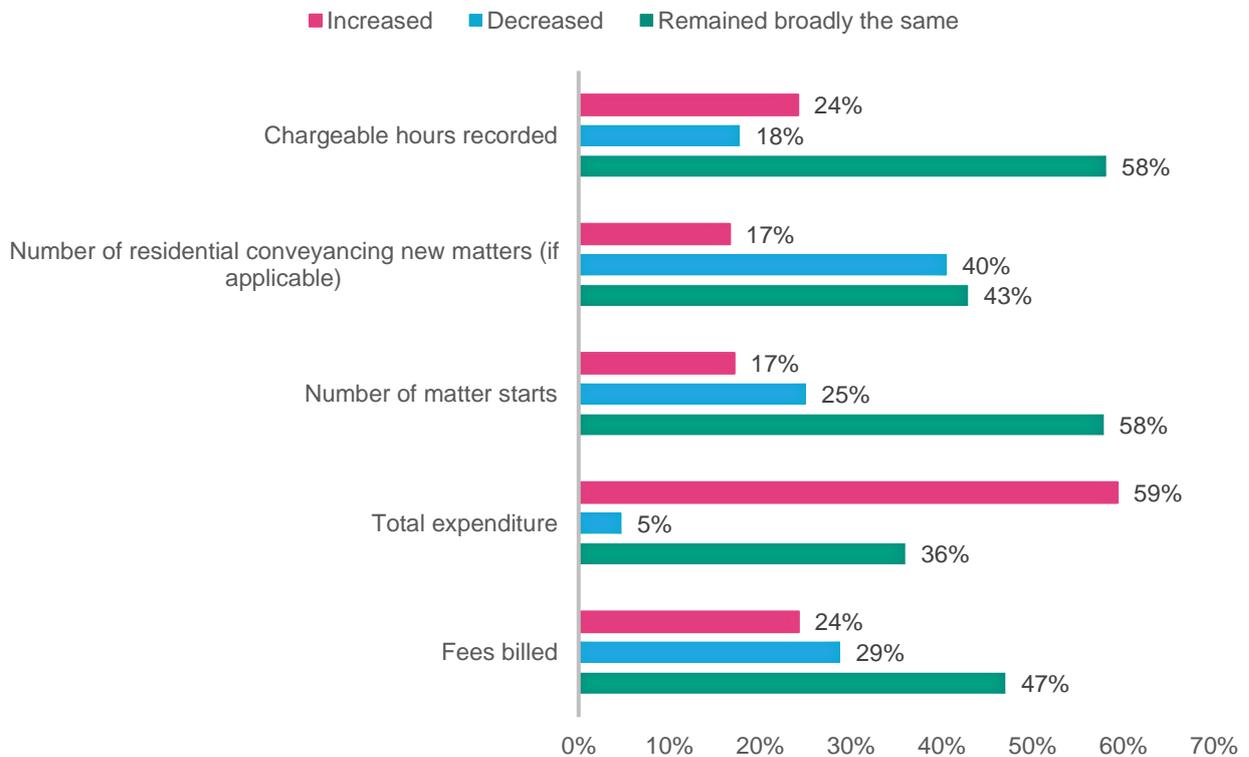
### Main points from Quarter 3 Survey

- General activity levels amongst participants in Q3 continue to be muted. 24% of firms reported a quarter-on-quarter increase in chargeable hours, compared to 33% in Q1. However, there were still more firms reporting an increase than a decrease.
- 17% of firms reported an increase in residential conveyancing matter starts, which is down on the 28% reported in the previous quarter. A higher proportion of firms in Q3 reported a decrease in residential conveyancing matter starts, 40% compared to 21% in Q2.
- Following a slight levelling off in Q2 2022, the proportion of firms reporting an increase in overall expenditure continues to rise, from 56% in Q2 to 59% in Q3.
- 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 (37%) remains higher compared to those with a similar arrangement for support staff (23%).
- Cash positions have remained stable or improved for over two thirds of firms (58%), with a higher proportion expecting the same for the next quarter (70%).
- 67% of firms anticipated firm's fees would either improve or remain the same over the next 12 months. 53% of firms predicted profitability would either increase or remain the same. 47% expected profitability to worsen over the next year.
- Looking forward to the next six months headcount is predicted to remain stable with a higher proportion of firms anticipating increases in the number of fee earners (30%) compared to the number of support staff (12%).
- The average interest rate firms are getting on their client fund accounts is 0.65%. Interest rates varied within the band range of client funds held, suggesting that some firms could benefit from negotiating better rates.

- Around three-quarters of firms reported an increase in their recent PII renewal. Data shows a wide positive spread in premium increases. The average change in premiums was 22.7%.

## Income, expenditure and new work

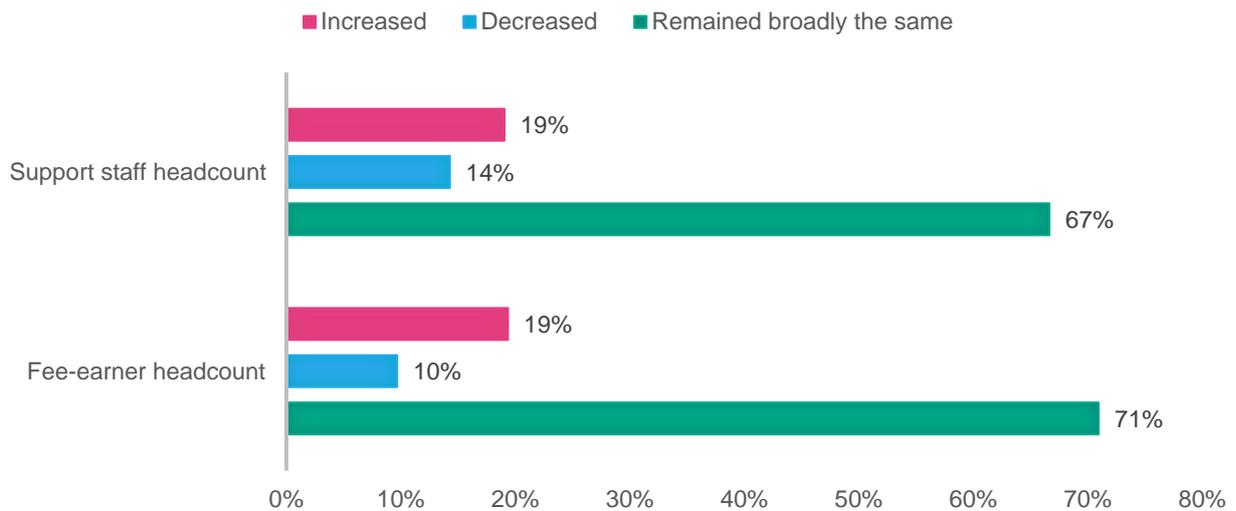
- In total 71% of firms reported fees issued either remained consistent or were higher than the previous quarter. Almost three-fifths (58%) of firms reported the number of chargeable hours recorded had remained static.
- 17% of firms offering residential conveyancing reported an increase of new matter starts.
- 59% of firms reported an increase in total expenditure.



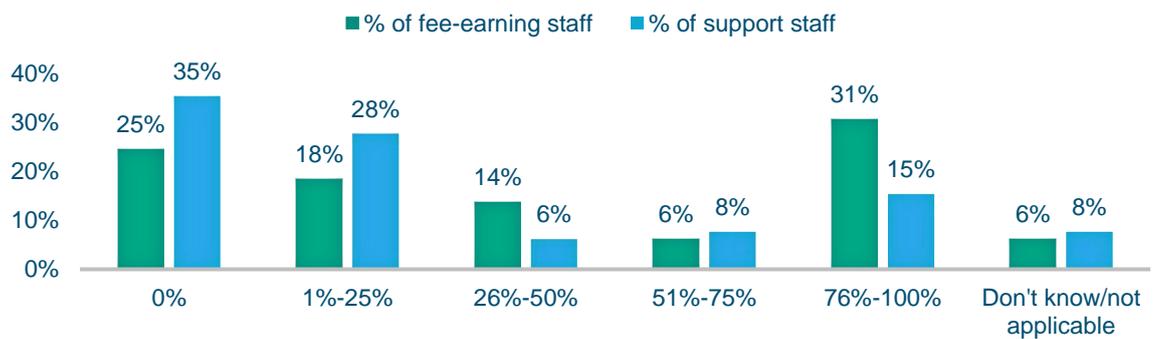
## Staffing (working arrangements and pay)

- Headcounts remained stable.
- 23% of firms reported that over 50% of their support staff are operating under hybrid working arrangements.
- 37% of firms reported that over 50% of their fee earners are operating under hybrid working arrangements.

### Headcount

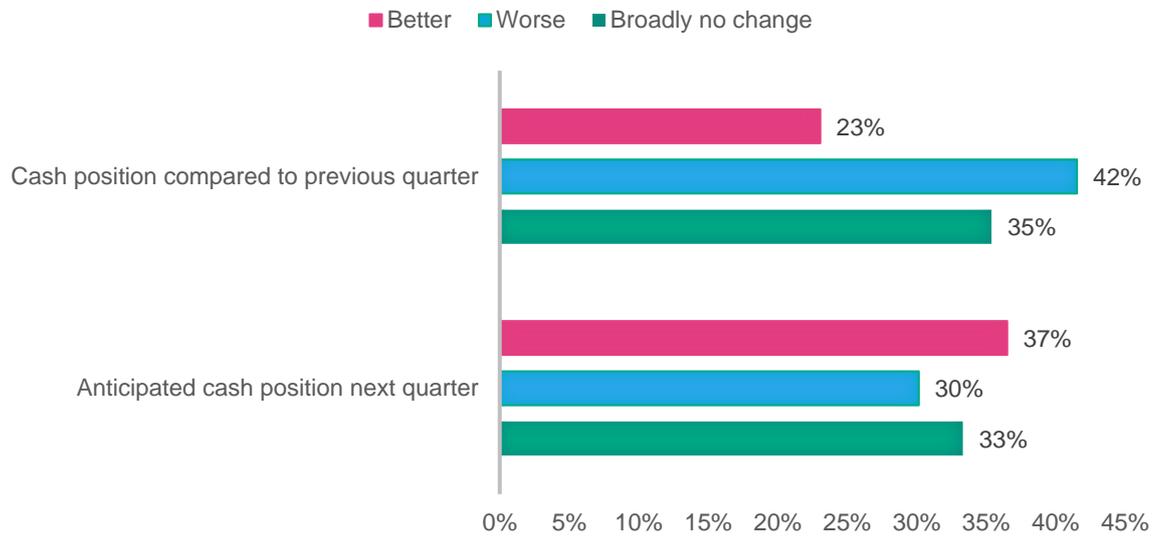


### Proportion of fee-earning and support staff working in some form of hybrid arrangement



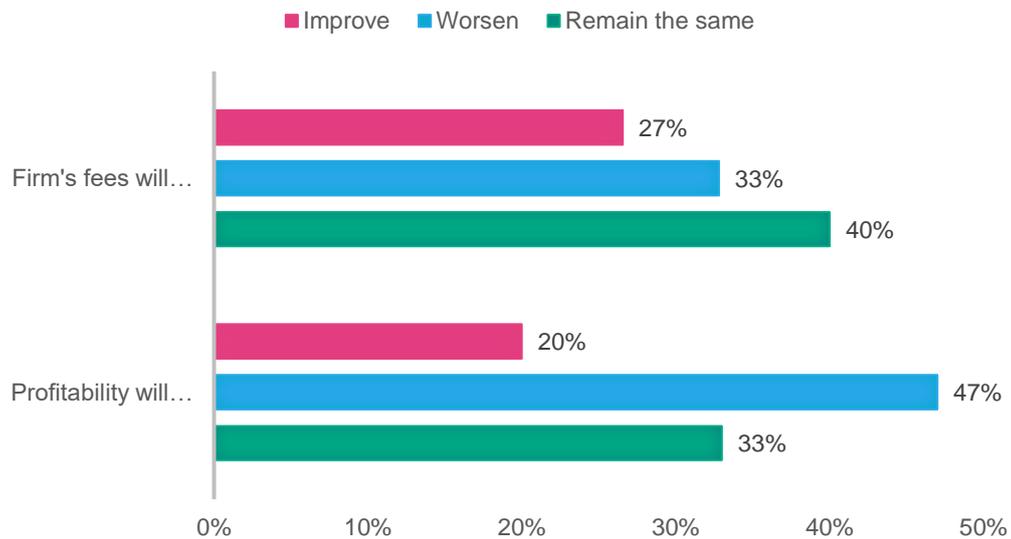
## Cash position

- 42% of firms reported a worse cash position in Q3 compared to Q2 (April to June).
- 37% of responding firms anticipated a better cash position next quarter, compared with 30% expecting a worse position.



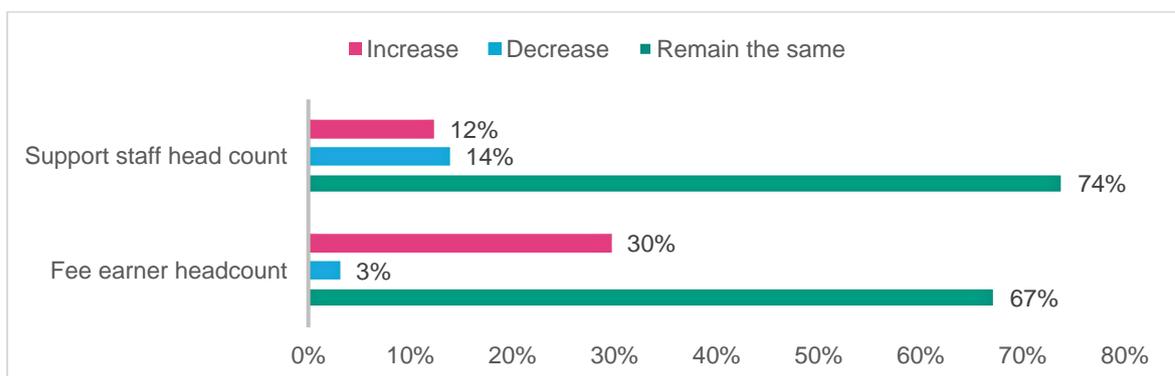
## Business confidence

- Around two-thirds (67%) of firms anticipated their firm's fees would improve or remain the same over the next 12 months, while 33% expected fees to decline.
- Around half (47%) of firms in Q3 expected profitability to decrease over the next 12 months, compared to those who thought profitability would increase (20%) or remain the same (27%).



## Headcount over the next six months

- Looking forward to the next six months, most firms predict headcount remaining stable.
- A higher proportion of firms predicted their fee-earner headcount would increase (30%), compared to headcount for support staff (12%).

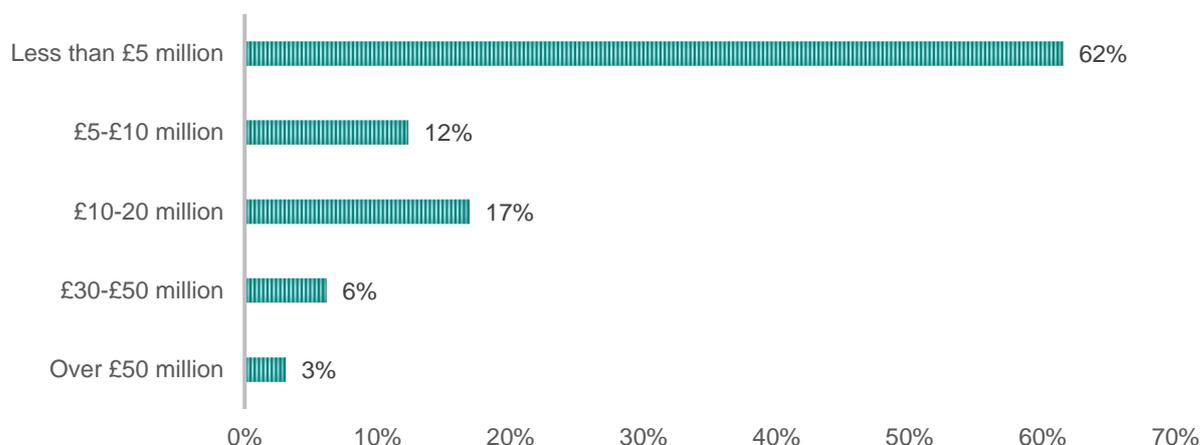


## Interest rate on client funds

Firms were asked about the value of and interest rate on their client accounts, to identify the scope for firms to negotiate more favourable rates.

- Just under two-thirds of responding 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 held by the firm is 0.65%.
- This varies between and within the range of client funds held, suggesting that some firms could be negotiating a better rate.
- Nine firms reported getting 0% interest on their client fund accounts. One firm reported their interest rate was tied to the Bank of England base rate.

%s of respondents by amounts held in client accounts



What interest rate are you currently getting on the majority of your client funds?

Average range of client funds held	Minimum	Mean	Maximum	Number of firms
Less than £5 million	0.00%	0.42%	2.00%	40
£5 - £10 million	0.01%	0.65%	1.95%	8
£10 - £20 million	0.10%	1.33%	4.25%	11
£30 - £50 million	0.50%	0.95%	1.85%	4
Over £50 million	0.30%	0.30%	0.30%	2
All	0.00%	0.65%	4.25%	65



## Changes to Professional Indemnity Insurance premium

From the Financial Benchmarking Survey, we know PII costs represent the third largest cost after staff costs. After the recent PII renewal round, firms were asked about changes to their PII premiums compared to their previous renewal.

- Around one-fifth of firms (21%) had seen no change
- 74% of firms reported an increase in PII premiums
- 5% of firms saw a decrease in premiums.

The average change was 22.7%

No significant correlation was found between changes to PII premiums and changes to gross fee income, suggesting other factors were impacting on PII premiums.

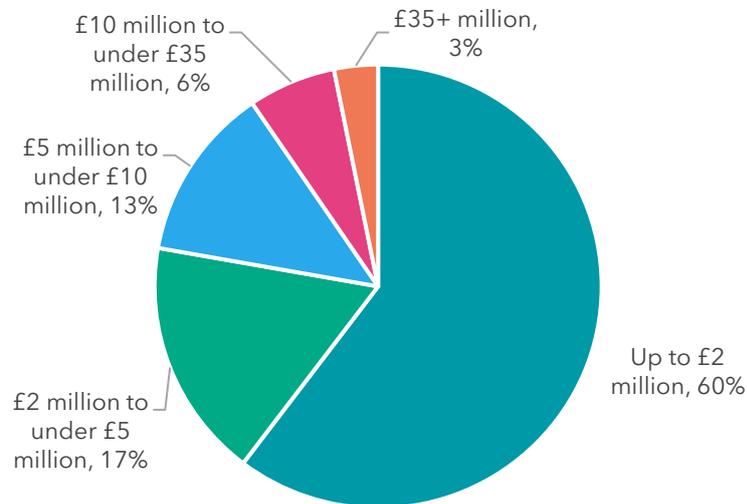
- 7% of firms reported no movement in fee income in the last financial year ending in 2022.
- 83% reported an increase in fee income
- 10% reported a decrease.

The Law Society has recently commissioned Mustard Research to survey law firms on their experiences of the PII renewal period. The research, to be published in spring 2023 will help us to identify the importance of factors impacting on premiums.



## Participating firms in Quarter 3

A big thank you to the 68 firms who took part in the quarter 3 pulse survey.



### ***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 3 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 Q3, 60% of firms had turnover of up to £2m, compared to 92% of in Q1 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).
- Q3 2022, comparing change between July to September 2022, with the previous quarter (April to June 2022).

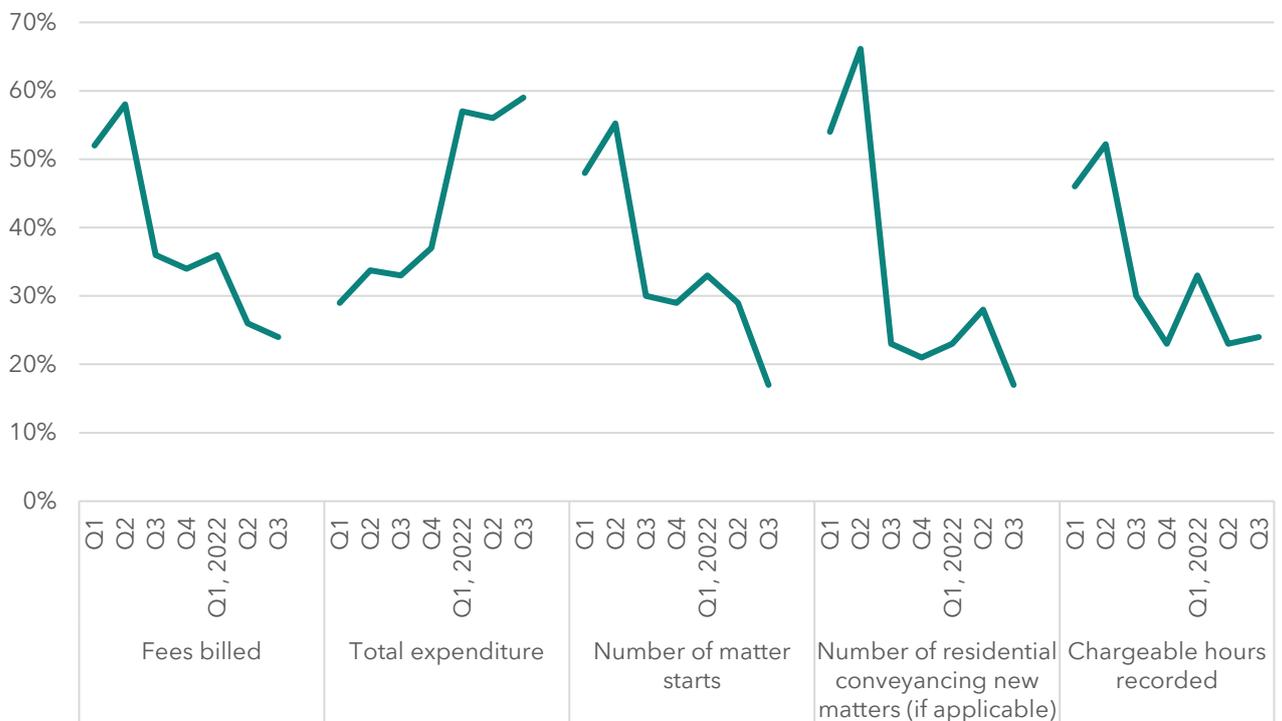
These charts suggest that over the last 7 quarters:

- Growth rates in fee levels, matter starts and chargeable hours have notably reduced. Levelling off in chargeable hours recorded in Q3 compared to Q2 (2022).
- 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. Recent increases may be driven by higher inflation and energy prices.
- 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 and support staff hires.

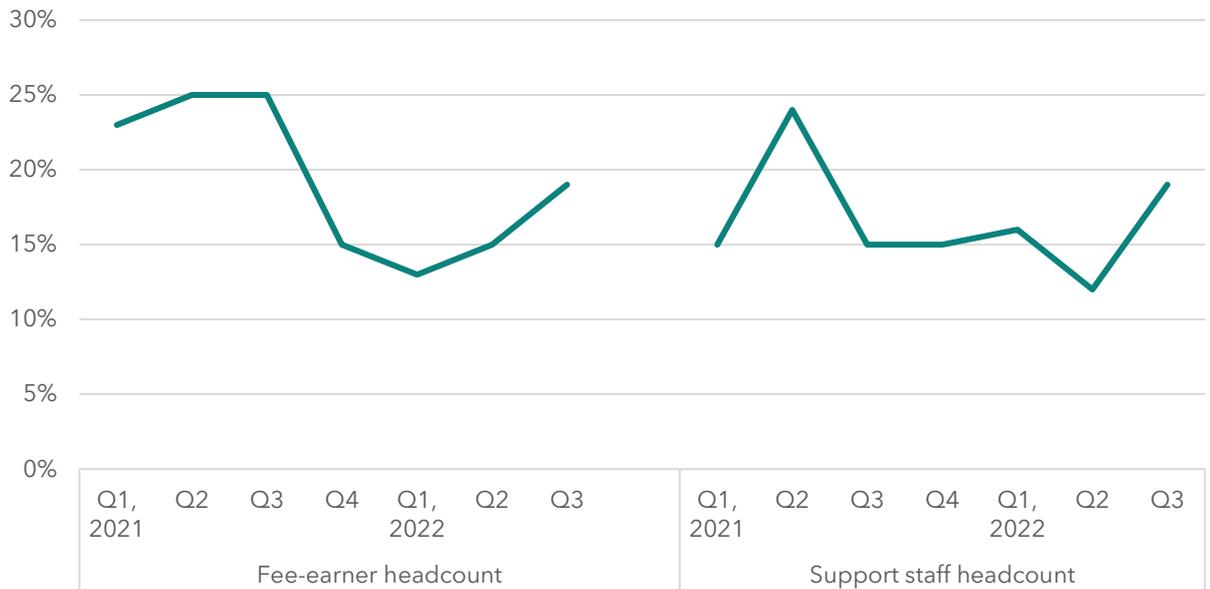


- The percentage of firms reporting improved cash positions have steadily declined quarter on quarter.
- Following six quarters of decline, anticipated cash position for Q3 has improved.
- Confidence (in terms of firms expecting a growth in fees and profits over the next year) have steadily declined.

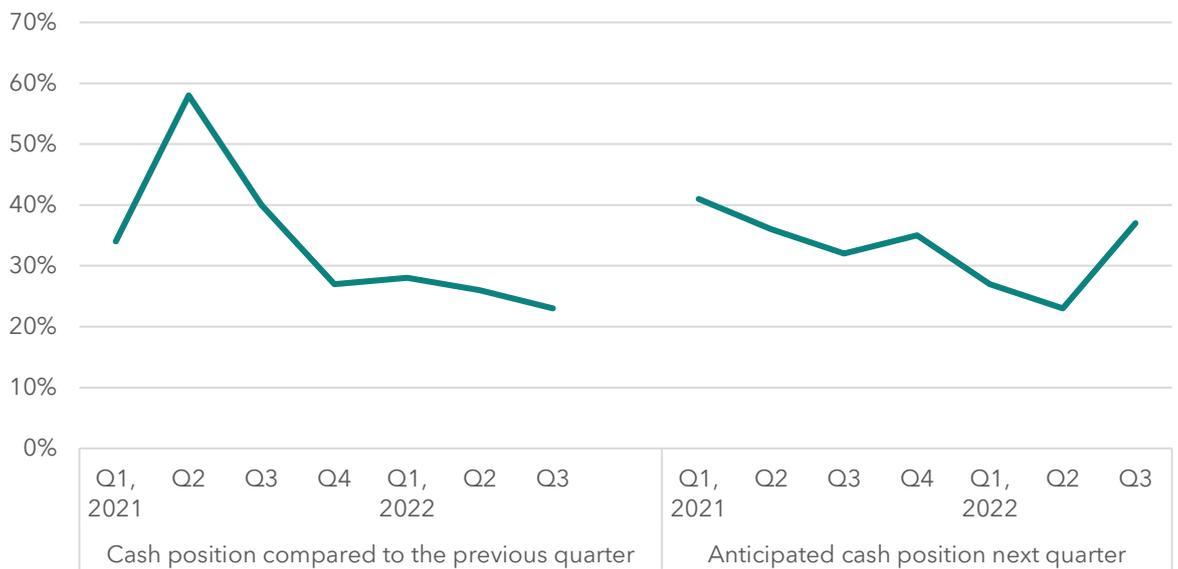
Percentage of firms reporting an increase Q1, 2021 to Q3, 2022



### Percentage of firms reporting an increase in feeearner and support staff head count (Q1, 2021 to Q3, 2022)



### Percentage of firms reporting an increase in cash position and anticipated cash position for the next quarter (Q1,2021 to Q3, 2022)



## Percentage of firms predicting an increase in firm's fees and profitability (Q1, 2021 to Q3, 2022)

