

## LMS Quarterly Pulse survey - October to December 2022

For the last 20 years the Leadership and 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 complement 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 4 (October to December 2022). 95 firms participated.

### Main points from Quarter 4 Survey

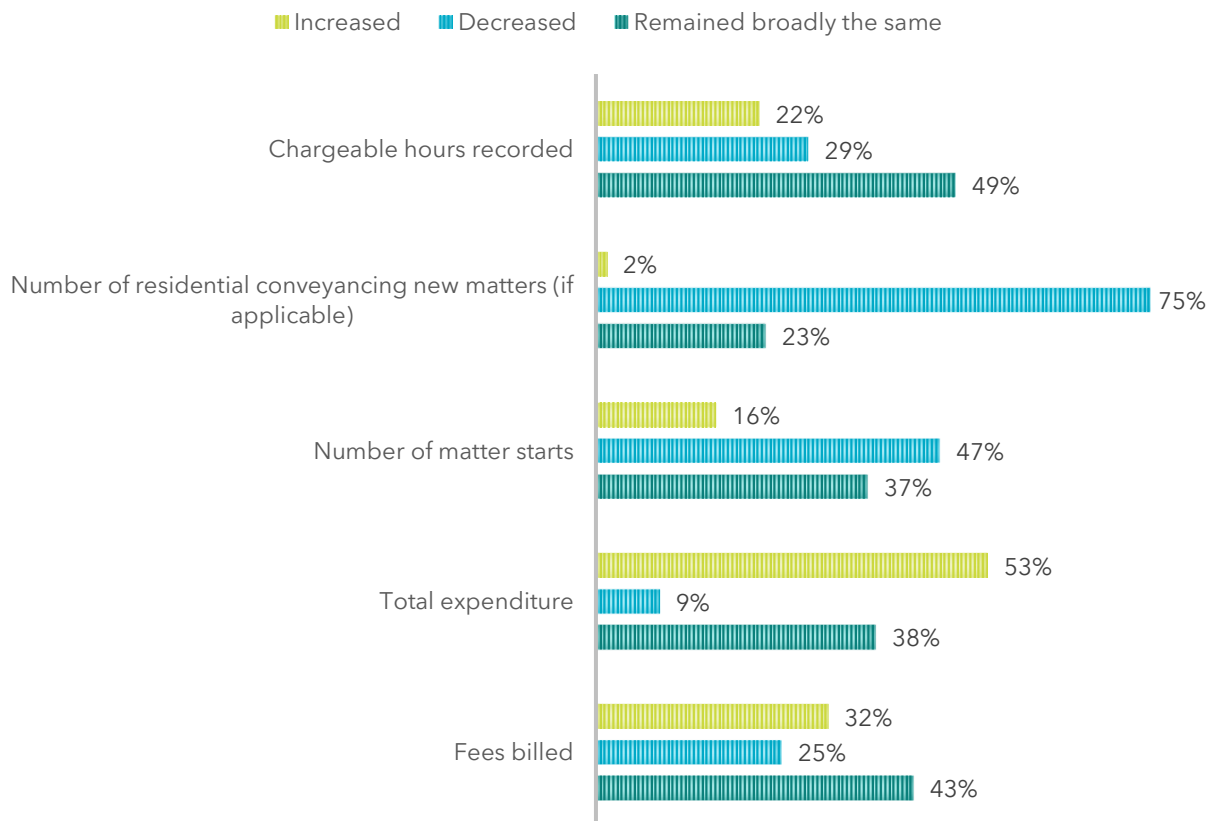
- General activity levels in the participants' results in Q4 continue to be muted. 22% of firms reported a quarter-on-quarter increase in chargeable hours on Q3, compared to 33% in Q1. 29% of firms in Q4 reported a decrease in chargeable hours compared to 16% in Q1. Chargeable hours had remained the same for 48% of firms, slightly down on the 51% reported in Q1.
- 75% of residential conveyancing firms reported a decrease in residential conveyancing matter starts, as higher energy and household bills and rising mortgage interest rates put pressure on homeowners and homebuyers. Just 2% of firms in Q4 reported an increase in residential conveyancing matter starts, down on the 17% reported in the previous quarter. The proportion of firms reporting that matter starts had remained the same decreased from 43% in Q3 to 23% in Q4.
- The proportion of firms reporting an increase in overall expenditure decreased in Q4 (53%), from 59% in Q3.
- Firms continue to offer hybrid working arrangements to staff: a higher proportion of fee earners than support staff are hybrid working.
- Cash positions have remained stable for three-quarters (75%). 78% of firms anticipate their cash position will either not improve or will worsen in the next quarter.
- 59% of firms anticipated firm's fees would either increase or remain the same over the next 12 months. The same proportion (59%) predicted profitability would either increase or remain the same. 41% expected profitability to worsen over the next year, down on the 47% in Q3.
- Looking forward to the next six months headcount is predicted to remain stable with a similar proportion of firms anticipating increases in the number of fee earners (13%) compared to increases the number of support staff (16%).

- 68% of firms are developing the legal profession’s talent pipeline by providing work experience to school and university students, trainee placements, qualifying work experience, legal apprenticeships and internships.
- The economic downturn (60%), professional indemnity insurance costs (54%) and cashflow (31%) were the most commonly identified challenges for the year ahead. Look out for the Law Society’s research on the latest PII renewals, coming Spring 2023!

## Income, expenditure, and new work

- In total 75% of firms reported fees issued either remained consistent or were higher than the previous quarter. Around half (49%) of firms reported the number of chargeable hours recorded had remained static.
- 75% of firms offering residential conveyancing reported a decrease in the number of new matter starts.
- 53% of firms reported an increase in total expenditure.

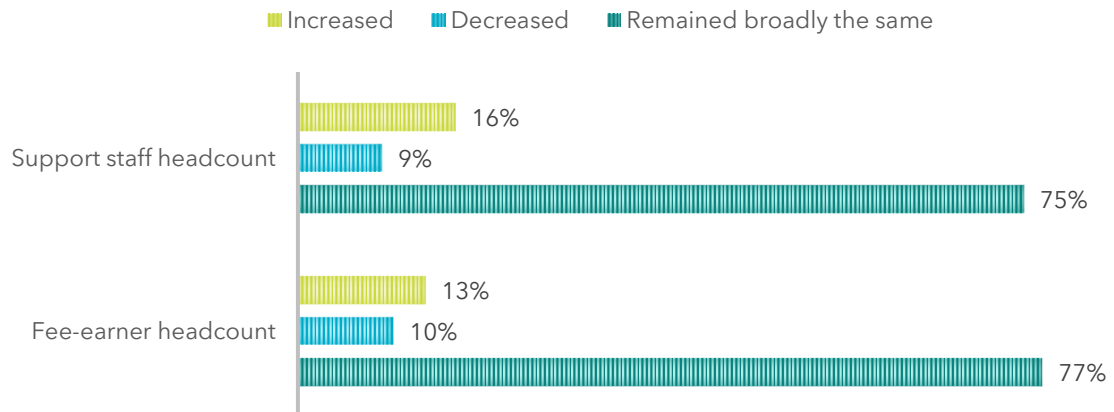
## Income, expenditure, and new work



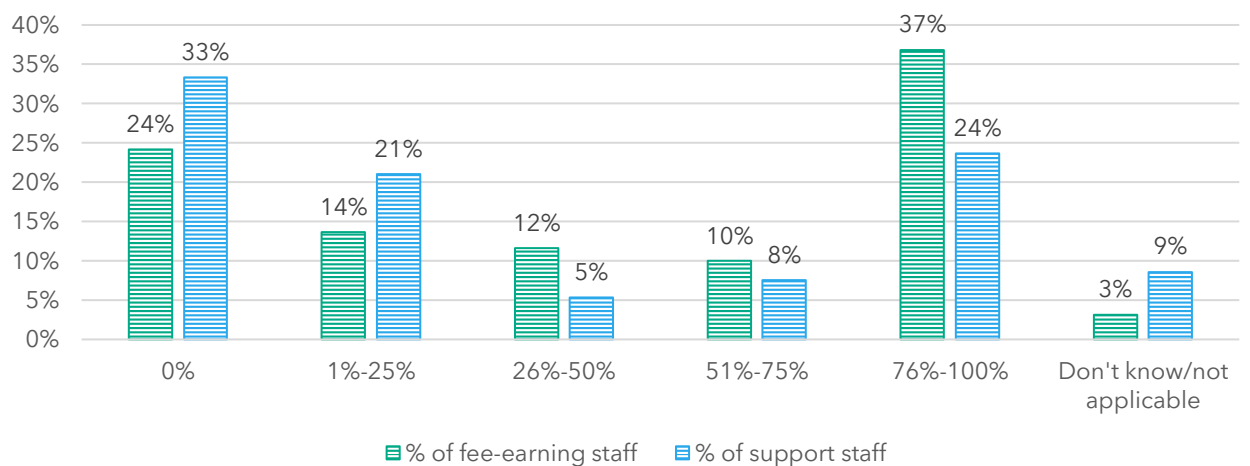
## Staffing (headcount and working arrangement)

- Headcounts remained stable.
- 32% of firms reported that over 50% of their support staff are operating under hybrid working arrangements.
- 48% of firms reported that over 50% of their fee earners are operating under hybrid working arrangements.

### Headcount

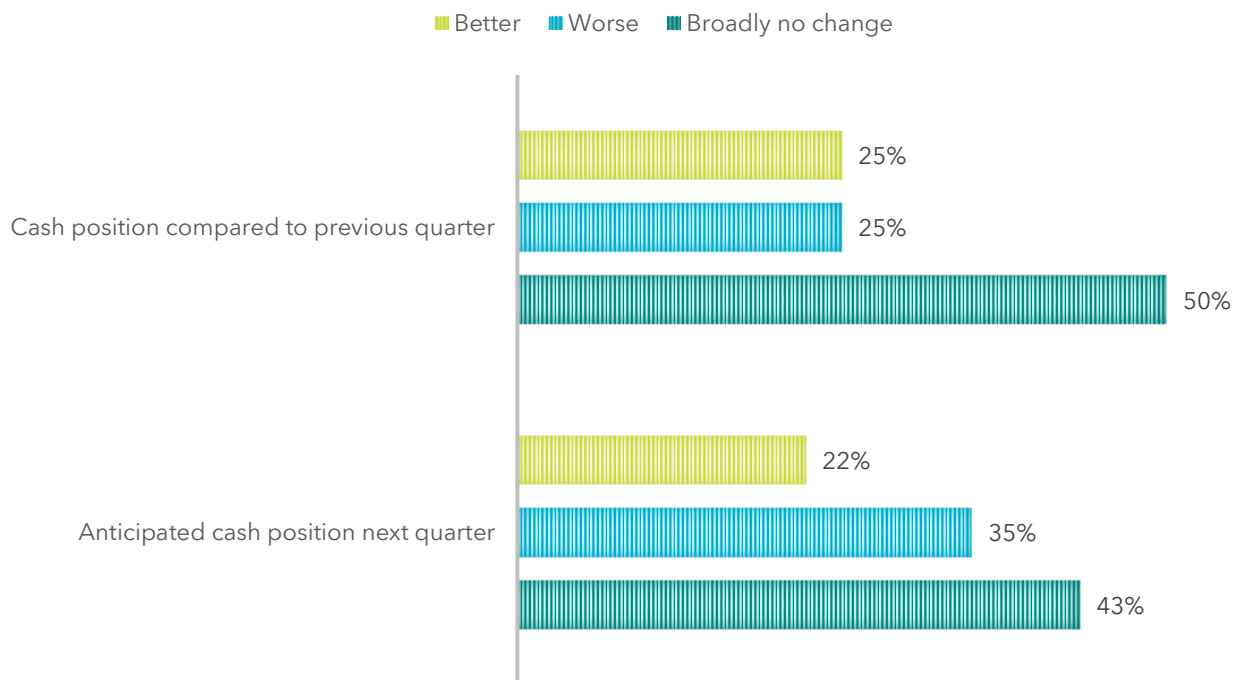


### Proportion of fee-earning and support staff working in some form of hybrid arrangement



## Cash position

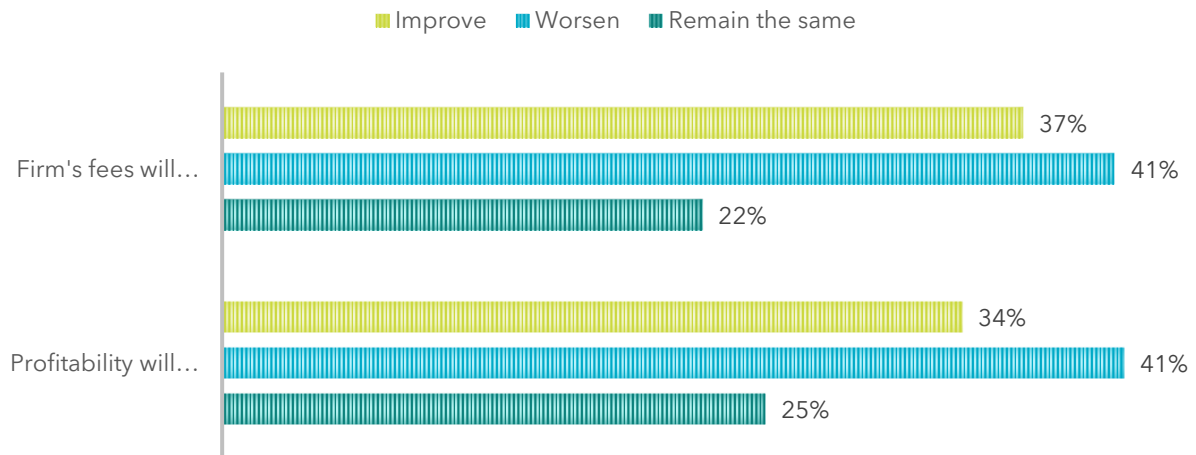
- 25% of firms reported a worse cash position in Q4 compared to Q4 (July to September).
- 35% of responding firms anticipated a worse cash position next quarter, 43% anticipated their cash position to remain broadly the same.



## Business confidence

- 59% of firms anticipated their firm's fees would improve or remain the same over the next 12 months, while 41% expected fees to decline.
- 41% of firms in Q4 expected profitability to decrease over the next 12 months, compared to those who thought profitability would increase (25%) or remain the same (34%).

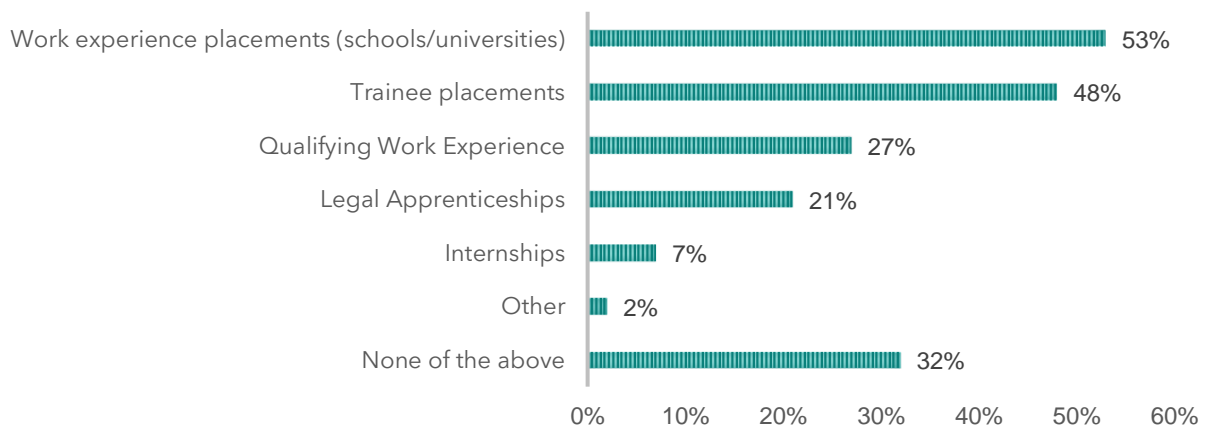
## Business confidence



## Developing the talent pipeline

- 68% of firms are developing the legal profession's talent pipeline by providing work experience placement to school and university students, trainee placements, qualifying work experience, legal apprenticeships and internships.
- 53% of firms are providing work experience for school and university students. A higher proportion of firms are offering training placements (48%) compared to qualifying work experience (27%).

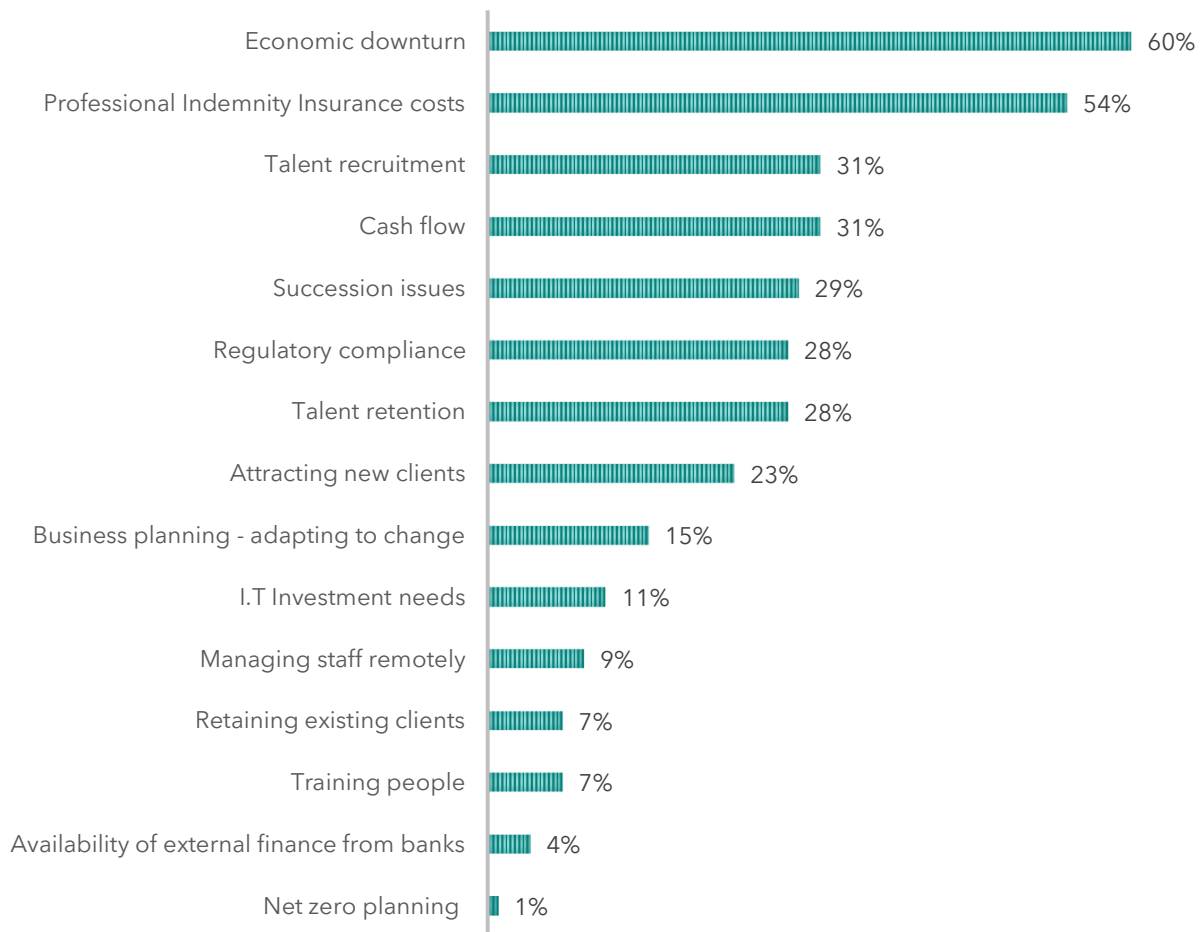
## Activities to develop the talent pipeline



## Business challenges for the year ahead

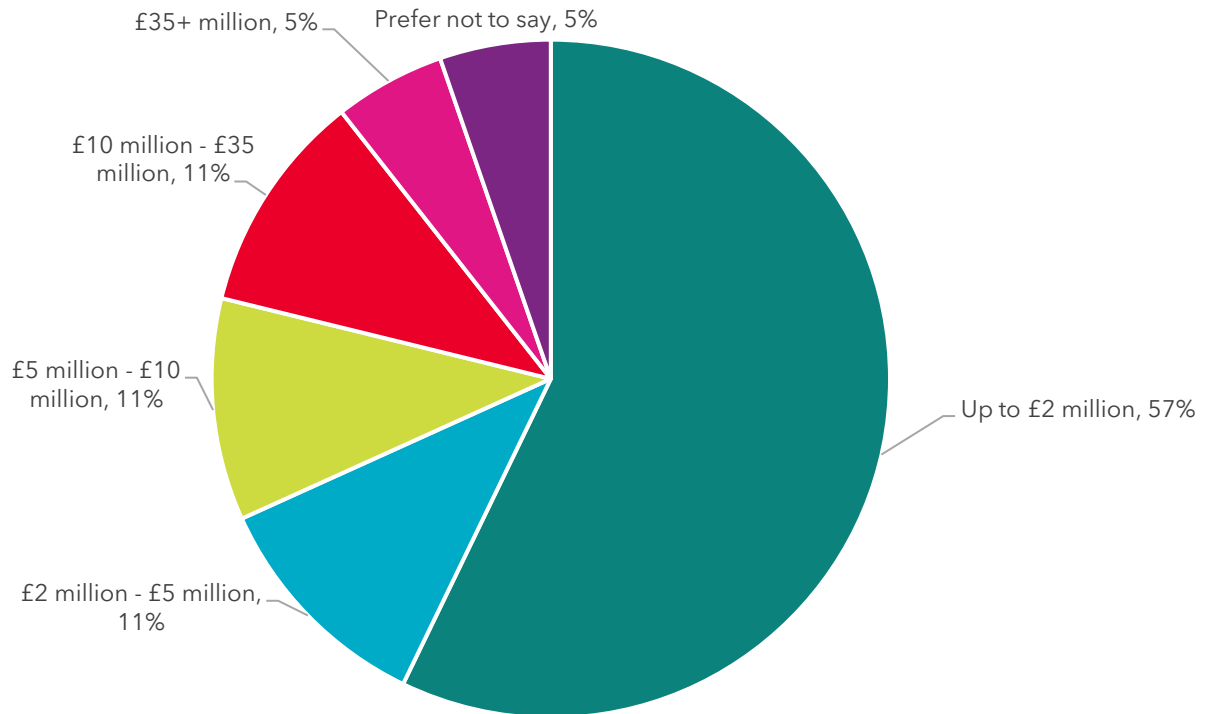
- Economic downturn (60%), professional indemnity insurance costs (54%) and cashflow (31%) and talent recruitment were the most common challenges identified by firms.
- Around one-third of firms reported staffing challenges, in relation to talent recruitment (31%), succession issues (29%) and retention (28%).

## Challenges over the next 12 months



## Participating firms in Quarter 4

A big thank you to the 95 firms who took part in the quarter 4 pulse survey.



### ***Paul Bennett, Chair of the Leadership and Management Section***

'The Leadership and Management Section Pulse Survey is 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 4 compared to 2021/22 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 Q4, 57% 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).
- Q4, 2022 comparing change between October to December 2022, with previous quarter (July to September)

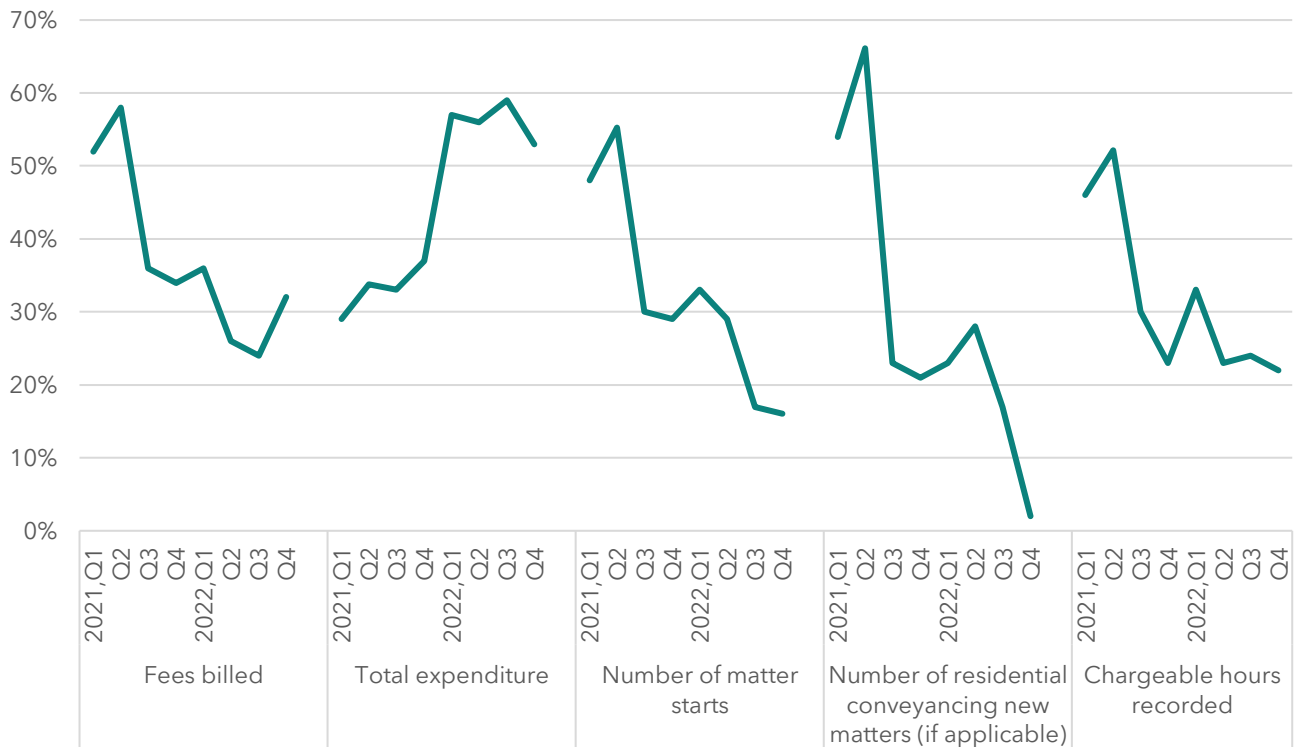
These charts suggest that over the last 8 quarters:

- Slight increase in Q4 on fees billed. A sharper decrease in relation to number of conveyancing matter starts compared to all matter starts. Levelling off in chargeable hours recorded in Q3 and Q4 compared to Q2 (2022).
- Until Q4, expenditure levels quarter on quarter had 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. Q4 saw a decrease in the proportion of firms reporting expenditure increases.

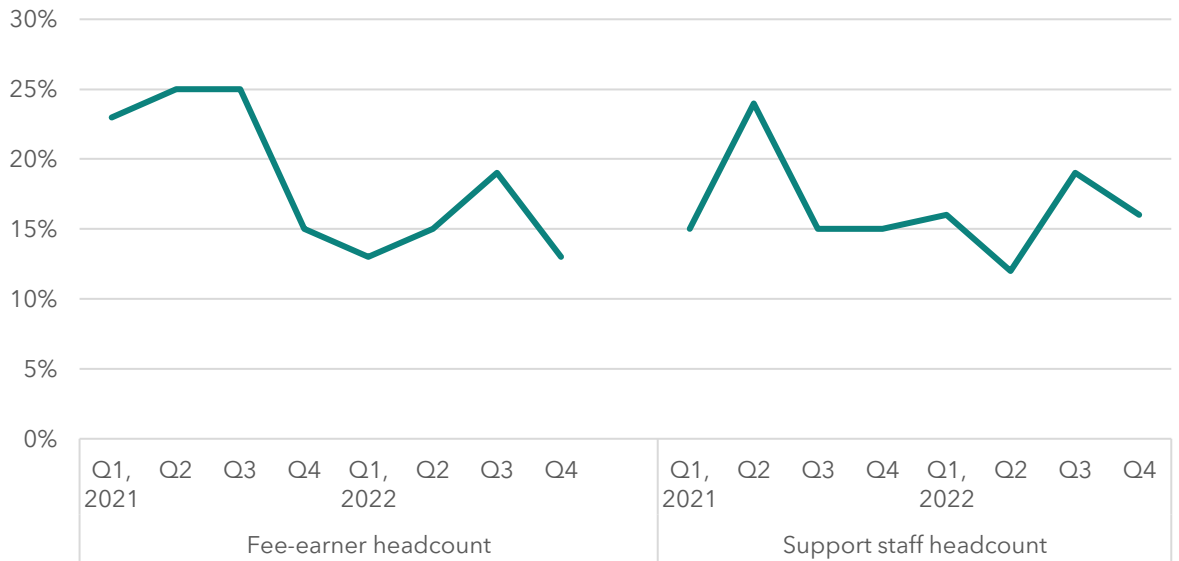


- Growth in headcount of fee earners and to a lesser extent in support staffed has cooled.
- The percentage of firms reporting improved cash positions have steadily declined quarter on quarter.
- Following six quarters of decline, and a slight increase in Q3, anticipated cash position for the next quarter returns to Q2 level.
- Confidence in expect growth in fees over the next year have steadily declined. After 3 quarters of decline, Q4 shows a slight improvement.

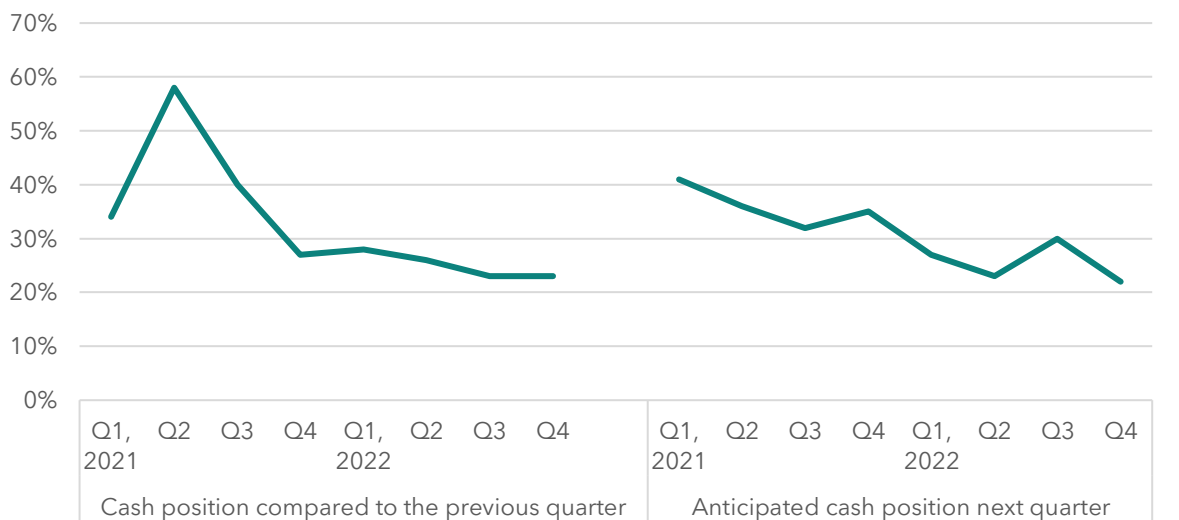
### Percentage of firms reporting an increase Q1, 2021 to Q4, 2022



### Percentage of firms reporting an increase in fee-earner and support staff head count (Q1, 2021 to Q4, 2022)



### Percentage of firms reporting an increase in cash position and anticipated cash position for the next quarter (Q1, 2021 to Q4, 2022)



### Percentage of firms predicting an increase in firm's fees and profitability (Q1, 2021 to Q4, 2022)

