

LMS Quarterly Pulse survey - January to March 2023

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 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 1 (January to March). 77 firms participated.

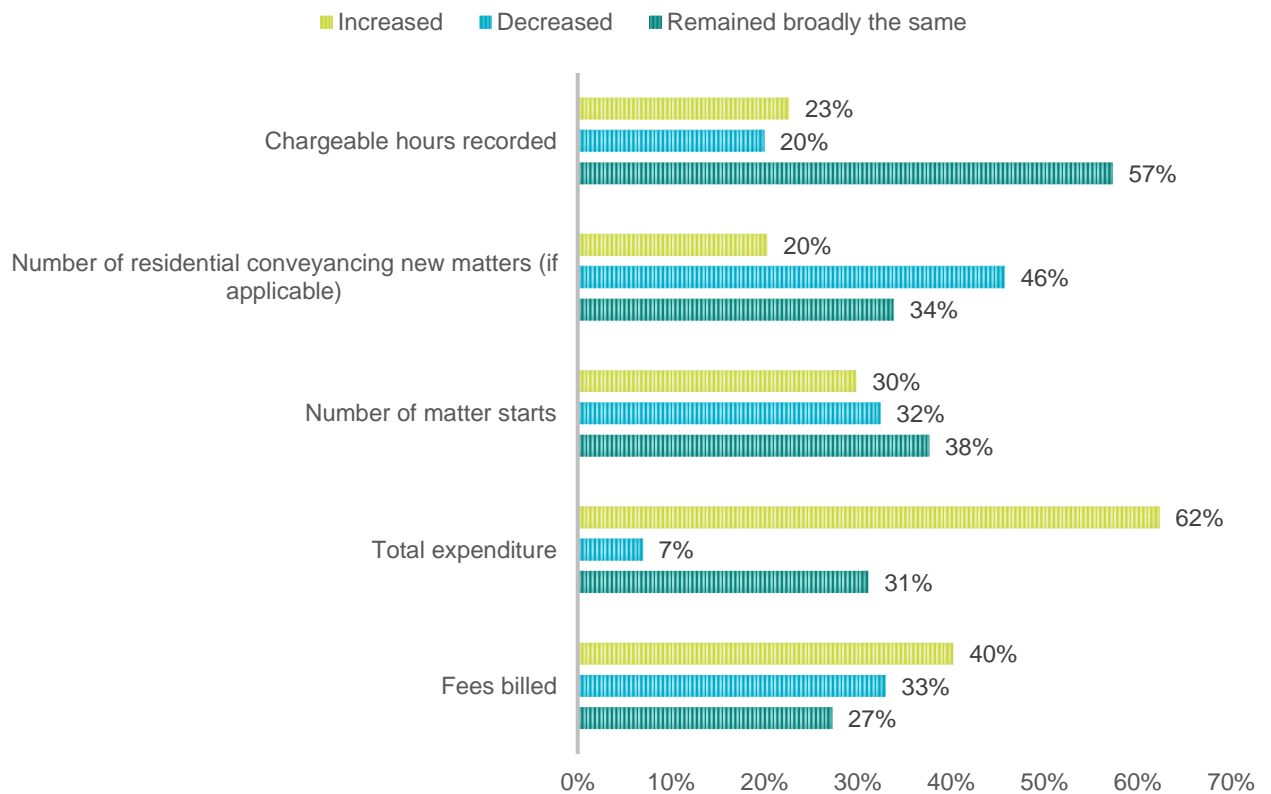
Main points from Quarter 1 Survey

- General activity levels in the participants' results in Q1 show some improvement on Q4. Whilst chargeable hours remain static, 40% of firms saw an increase in fees billed compared to 32% in Q4. The proportion of firms reporting an increase in matter starts has almost doubled on Q4 figures to 30% in Q1. The percentage of firms reporting an increase in residential conveyancing matter starts jumped from a low of 2% in Q4 to 20% in Q1.
- The proportion of firms reporting an increase in overall expenditure increased sharply from 53% in Q4 to 62% in Q1.
- Firms continue to offer hybrid working arrangements to staff: a higher proportion of fee earners than support staff are hybrid working. Headcount had been stable over the previous quarter and the outlook was the same for the next six months. Sixteen percent of firms anticipated the standard inflationary pay rise to be more than 7.5%, 39% expected their total payroll costs to increase in excess of 7.5% in 2023.
- Cash positions have remained stable for over two-thirds of firms (69%). 73% of firms anticipate their cash position will either not improve or will worsen in the next quarter.
- 70% of firms anticipated firm's fees would either increase or remain the same over the next 12 months. Forty percent of firms predicted profitability would either increase or remain the same. 20% expected profitability to worsen over the next year, down on the 41% in Q3.
- Around two-thirds of Pulse Survey firms were aware of the Leadership & Management Section's Annual Financial Benchmarking Survey - 44% had taken part in the past and 25% were aware but had not participated. The fieldwork for the 2024 is now [live](#), take part and get a free 16-page bespoke report for your firm. Find out more [here](#).

Income, expenditure, and new work

- A smaller proportion of firms (27%) reported fees billed had remained static compared to those reporting an increase (40%) or had decreased (33%) compared to the previous quarter.
- Almost half of firms reported residential conveyancing matter starts had decreased (46%).
- 62% of firms reported an increase in total expenditure.

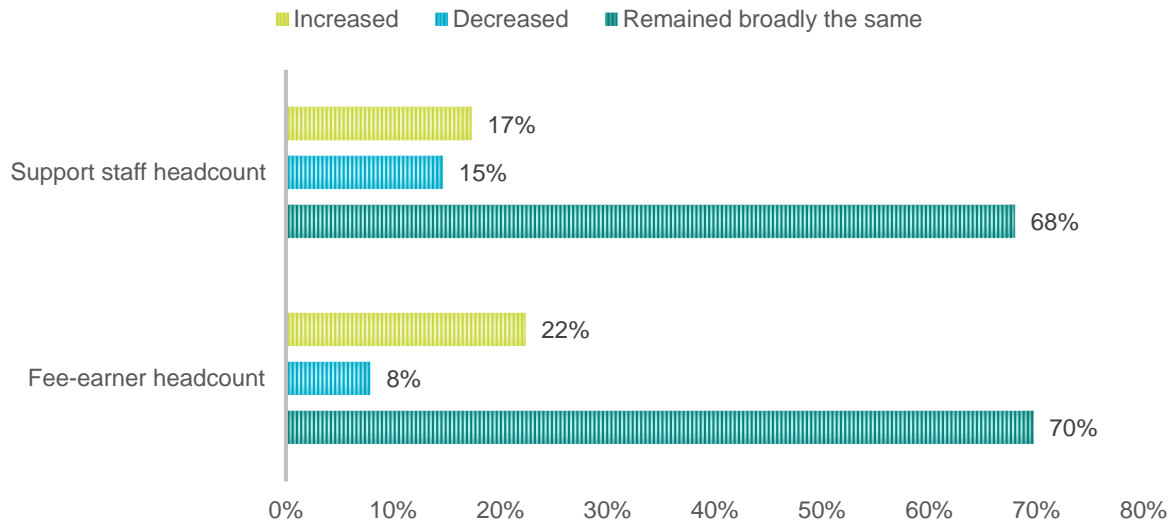
INCOME, EXPENDITURE AND NEW WORK



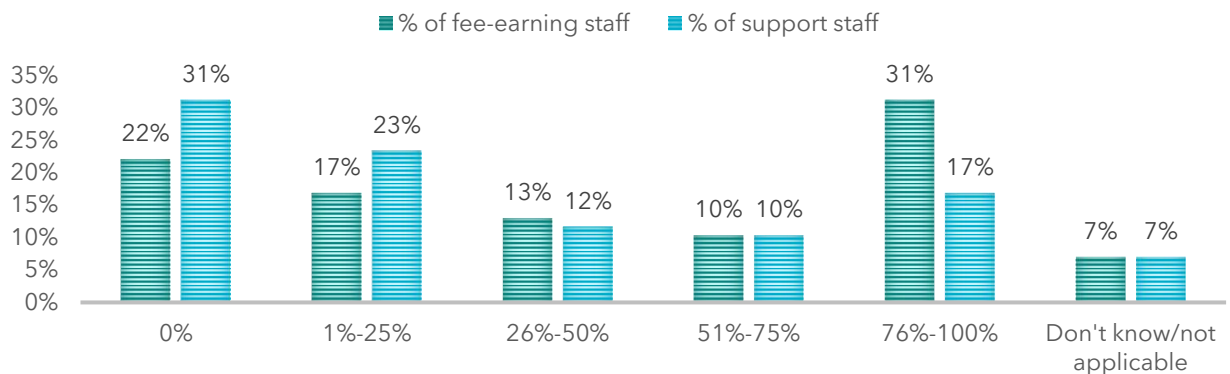
Staffing (headcount and working arrangements)

- Headcounts remained stable.
- 27% of firms reported that over 50% of their support staff are operating under hybrid working arrangements.
- 41% of firms reported that over 50% of their fee earners are operating under hybrid working arrangements.

HEADCOUNT



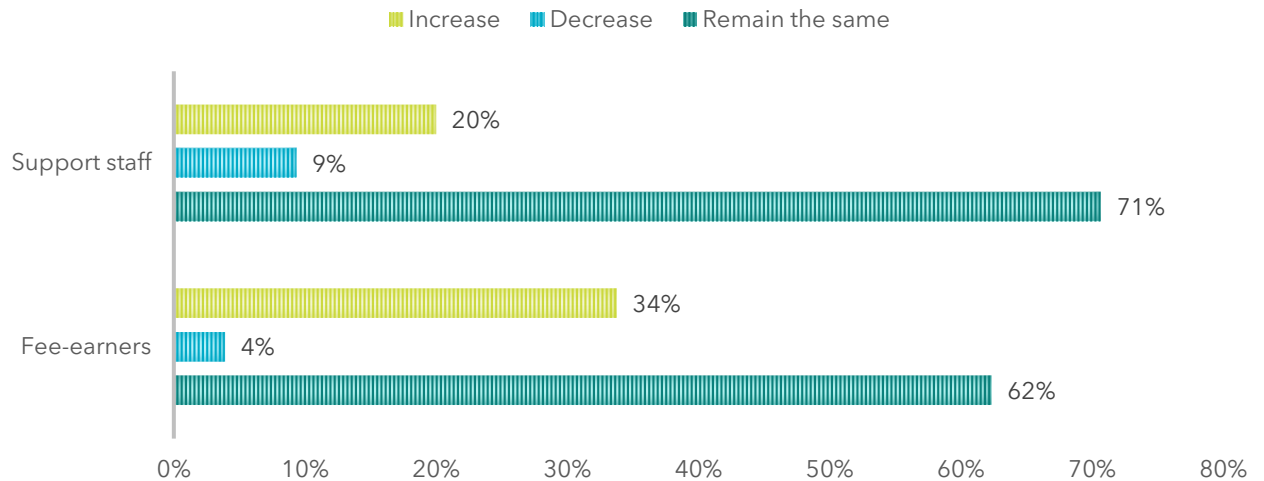
PROPORTION OF FEE-EARNING AND SUPPORT STAFF WORKING IN SOME FORM OF HYBRID ARRANGEMENT



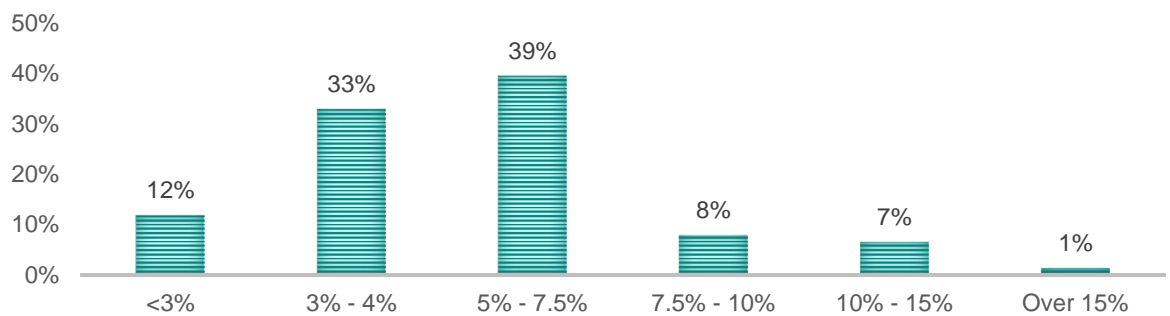
People and pay going forward

- The majority of firms indicated that the headcount for support staff and fee-earning staff over the next six months would remain the same or would increase.
- 16% of firms anticipated the standard inflationary payrise to be in excess of 7.5%. The majority of firms expected inflationary payraises to be between 3% and 7.5%.
- 39% of firms anticipated their total payroll costs to increase in excess of 7.5% in 2023.

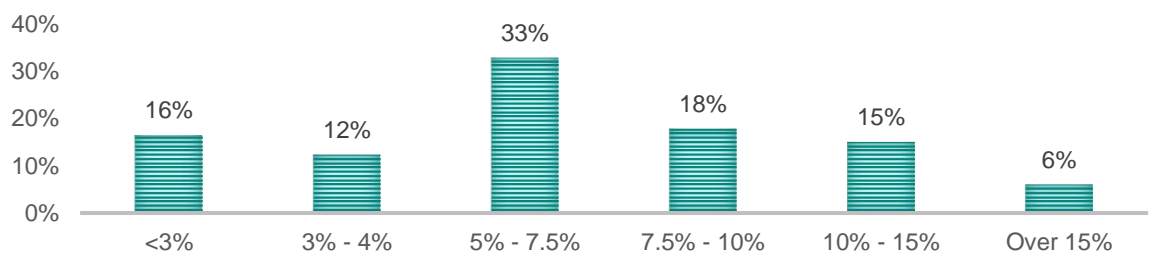
HEADCOUNT CHANGES OVER NEXT SIX MONTHS



STANDARD INFLATIONARY PAY RISE IN 2023



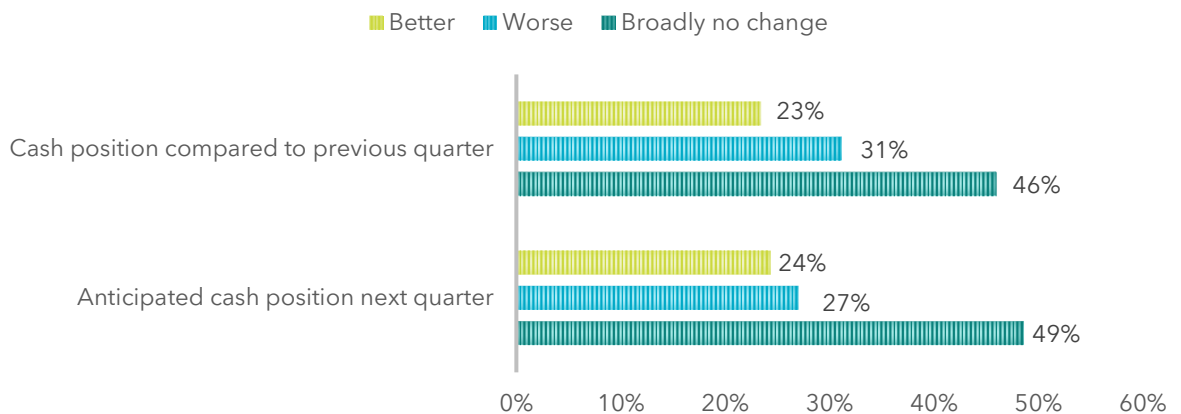
ANTICIPATED TOTAL PAYROLL COSTS INCREASE IN 2023



Cash position

- The majority of firms reported their cash position remained the same or had increased from the previous quarter (October to December 2022). Twenty-three percent of firms reported a worse cash position in Q1 compared to Q4.
- Around half of firms (49%) anticipated their cash position would remain broadly the same. Twenty-seven percent of responding firms anticipated a worse cash position next quarter.

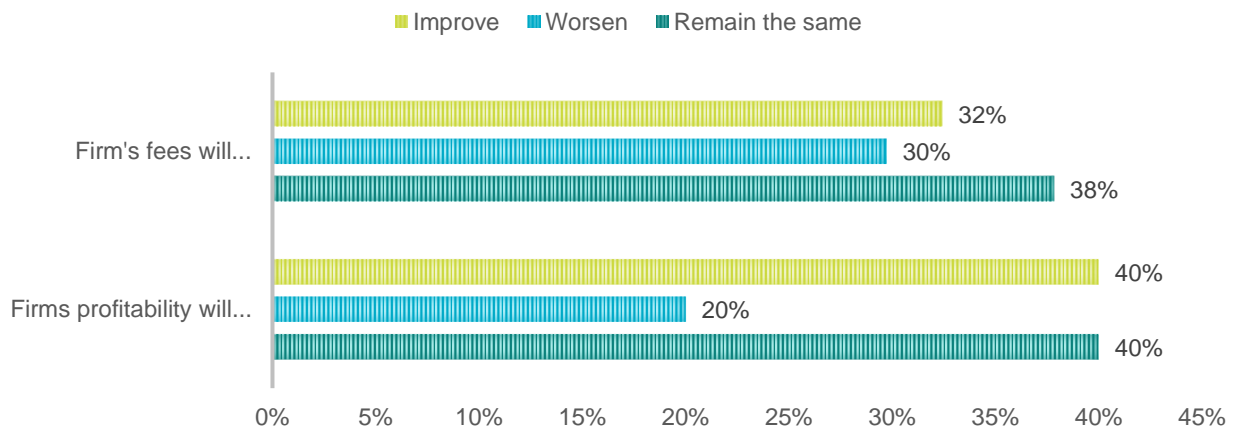
CASH POSITION



Business confidence

- 70% of firms anticipated firm's fees would improve or remain the same over the next 12 months, while 30% expected fees to decline.
- 40% of firms in Q1 thought profitability would improve over the next 12 months, and the same proportion thought it would remain the same. 20% of firms in Q1 expected profitability to decrease over the next 12 months.

BUSINESS CONFIDENCE OVER THE NEXT 12 MONTHS



Awareness of the Annual Financial Benchmarking Survey

Around two-thirds of Pulse Survey firms were aware of the Leadership & Management Section's Annual Financial Benchmarking Survey - 44% had taken part in the past and 25% were aware but had not participated. 31% were not aware of the benchmarking survey.

Firms were keen to see greater participation by smaller and medium sized firms, so respondents can better understand how businesses compare to the wider market and to share insights and understanding across the legal community.

"Details of profit per equity partner is always reassuring so that smaller firms in particular know that they are within reach of each other."

The 2023 Financial Benchmarking Survey report is available on the [LMS Community website](#).



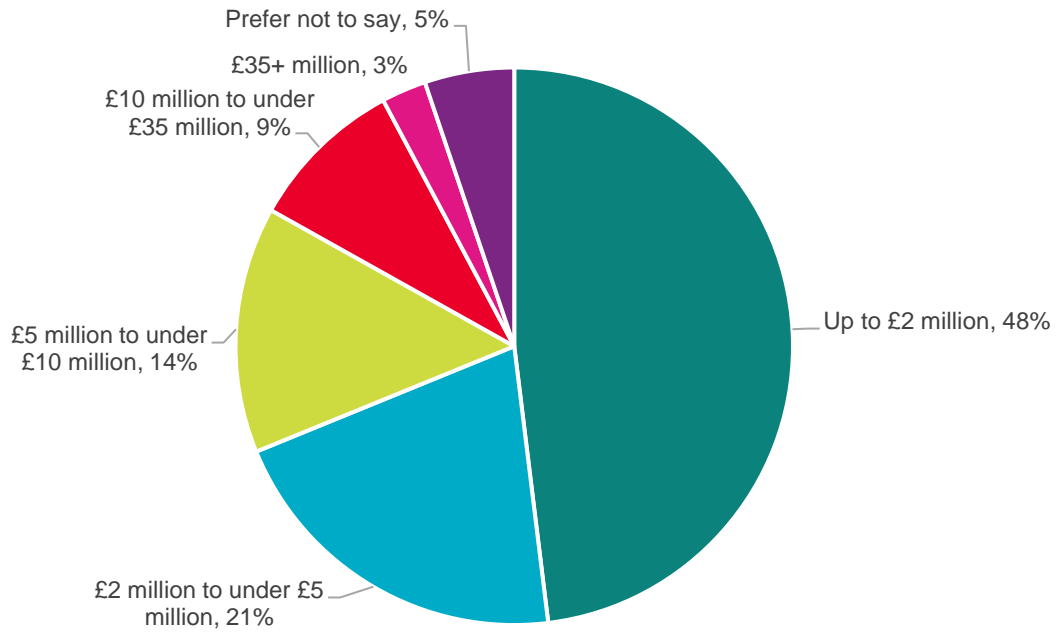
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The fieldwork for the 2024 is now open. The proforma which can be downloaded from the LMS website, takes about 45 minutes to complete. The proforma is returned to Hazlewoods who collate and report the data at an aggregated level. Firms taking part get a copy of the final report and a bespoke report comparing their own firm's performance to other participating firms. For more information, please visit the [Leadership & Management Section's website](#).

Participating firms in Quarter 1

A big thank you to the 77 firms who took part in the quarter 1 pulse survey, it's really appreciated.



Quarter 1 2023 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 Q1 2023, 48% 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 the previous quarter (July to September)
- Q1, 2023 comparing change between January to March 2023, with the previous quarter (October to December 2022)

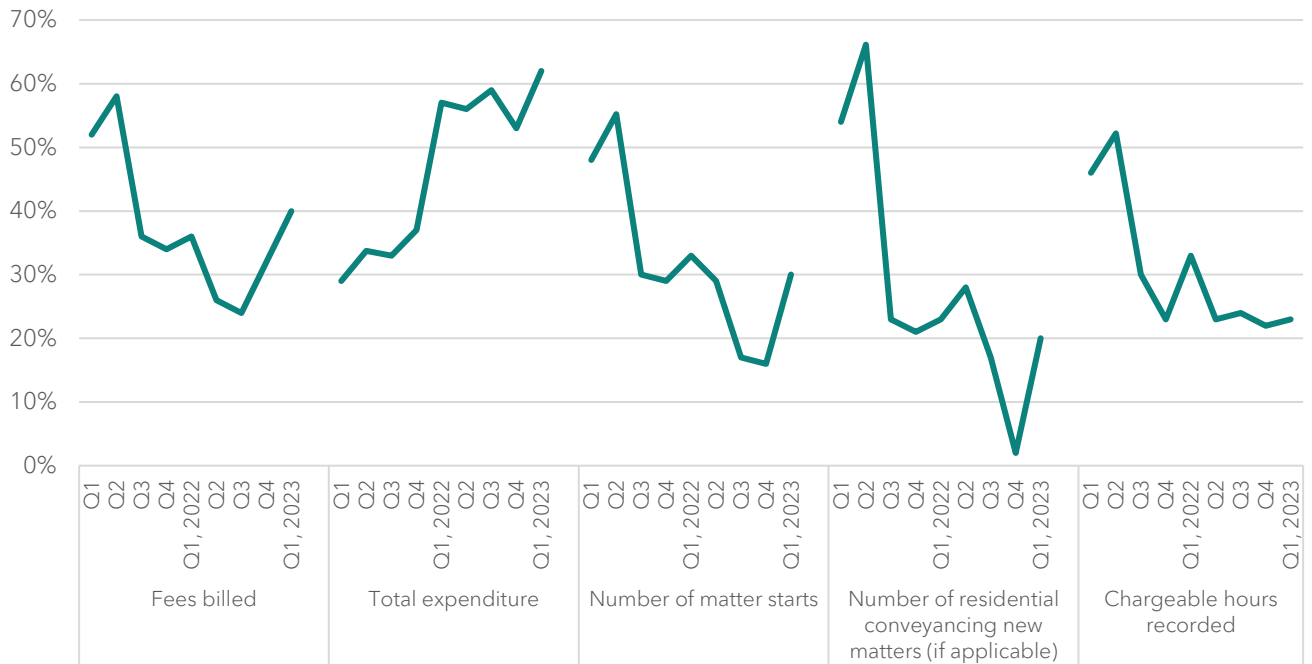
These charts suggest that over the last 9 quarters:

- A continued increase in Q1 on fees billed. A sharp increase in relation to number of conveyancing matter starts compared to all matter starts, up from a low in Q4, 2022. Levelling off in chargeable hours recorded in Q4 and Q1 compared to earlier in 2022.
- Expenditure levels quarter on quarter continue to show a steady profile of increasing, primarily assumed to be the result of both inflationary salary pressures

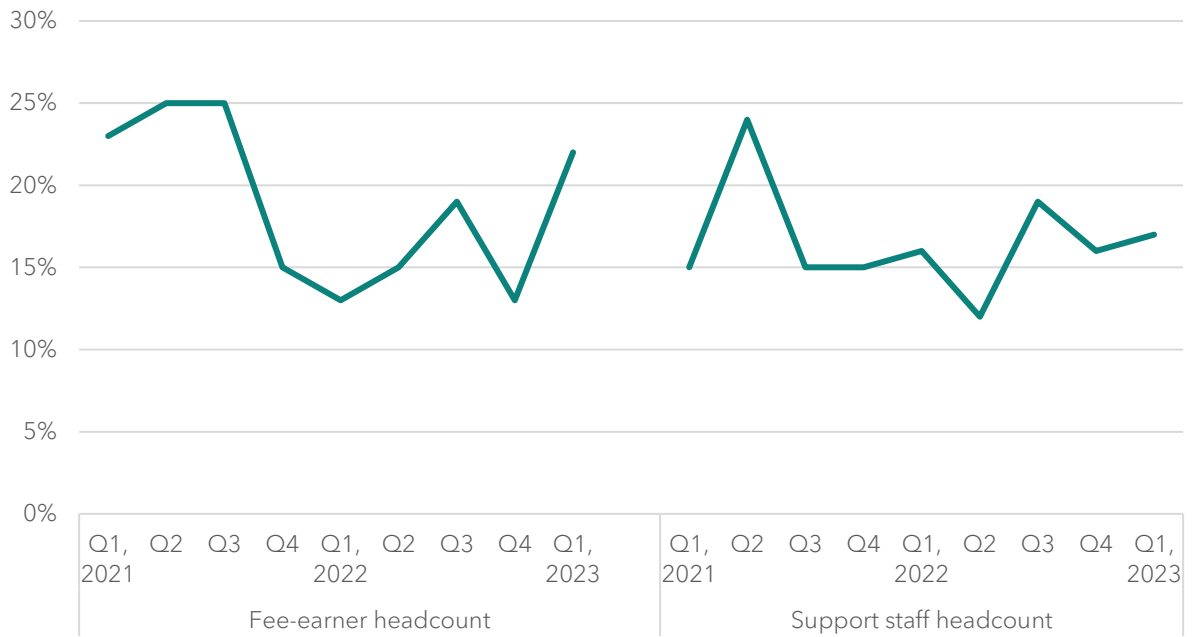
and offices returning to normal operating costs as people have returned to work. Recent increases may be driven by higher inflation and energy prices.

- Growth in headcount of fee earners and to a lesser extent in support staffed increases after a slight drop in Q4.
- The percentage of firms reporting improved cash positions remains static.
- Following six quarters of decline, and a slight increase in Q3, anticipated cash position for the next quarter is slightly increased on Q4.
- Following five quarters of decline, confidence in expected growth in fees over the next year. After 3 quarters of decline, Q1 shows a continued increase on Q4 numbers.

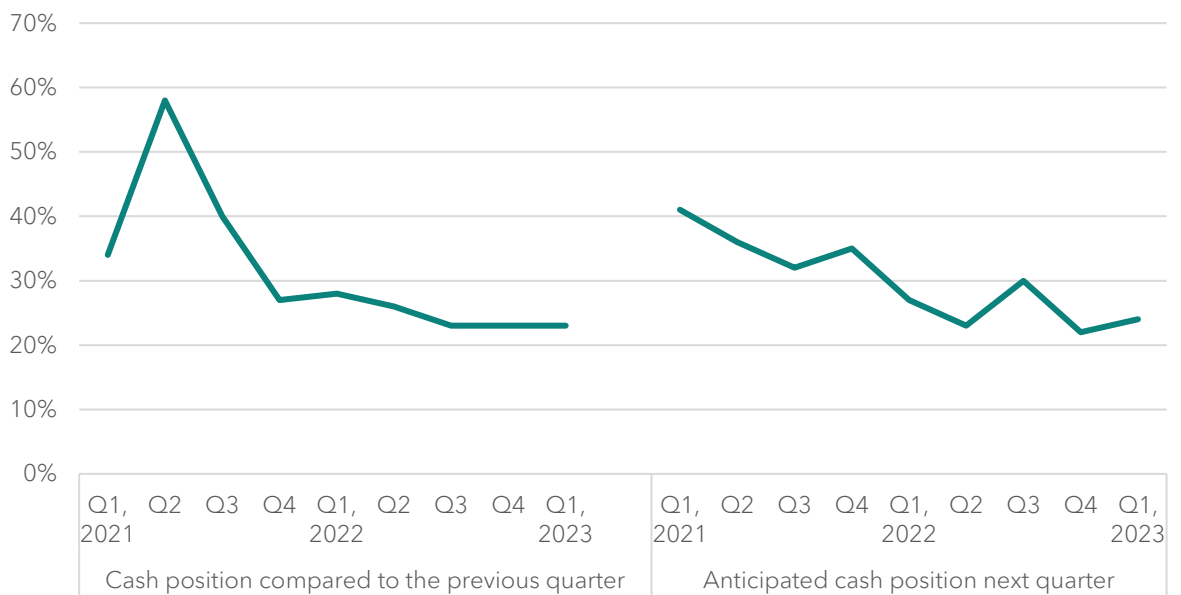
Percentage of firms reporting an increase
(Q1, 2021 to Q1, 2023)



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



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



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

