



Law Society  
of Scotland

# Financial Benchmarking 2017: Report



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# 1. Forewords

## President's Foreword

I am delighted that my year as Law Society of Scotland President has coincided with the launch of our new Financial Benchmarking Survey.

As a long-time member of the Society's Remuneration Committee and of course as a practising solicitor, I know the value of carrying out such a review of the financial health of Scotland's law firms.

With Tribal, we have redesigned the previous Cost of Time survey and introduced new metrics to help gather more relevant information and offer interactive, online reporting. I am sure the new survey will prove to be a hugely valuable management tool and help to bring firms' financial data to life, enabling solicitors to make the right strategic decisions for their business.

New features include a breakdown of a firm's expenditure in addition to income, and gearing ratios for both fee-earning and non-fee earning staff. These will provide greater insight into what is working and what areas of the business might need some attention.

This year's survey has revealed some interesting findings. It has shown that some smaller, boutique firms are doing extremely well. However it would appear that some larger firms are not benefitting as much as might be expected from economies of scale.

Scottish solicitors operate within an increasingly competitive marketplace and the general report, available to everyone, provides insight on how the sector is performing as a whole.

The new, confidential interactive reporting system will give those firms which took part more detailed information about where they sit compared to other firms across Scotland or within their local marketplace. From the Society's perspective, the general report generates information we can use to help ensure that we offer the right products, services and support our members need to help their businesses thrive.

I'd like to thank the pilot group of firms who gave us their invaluable feedback during the development stage, and to everyone who took part in the new survey.

Whatever your firm's size and wherever your business is located, I recommend you read the report. Make use of it and take part in the next survey. The more participants we have, the better and more specific the reporting can be for individual firms and for year on year trend analysis of the profession.

Graham Matthews  
President  
Law Society of Scotland



Clydesdale Bank is delighted to be associated with the Society's relaunched Financial Benchmarking Survey. The insights gained by our Professional Services Team from the Scottish legal profession are reflected in the results of this year's survey. Regulation, client demand, new competition and technology have not only precipitated change but created an environment for innovation. There are many positive indicators in this survey and whilst we expect to see continued consolidation, the day to day challenges of generating new and profitable fee income, managing working capital and succession planning remain priorities.

The survey will help you to look beyond the headline financial results and use the data as an additional tool to aid your strategic thinking. It provides valuable insight into how your peers are performing and should encourage you to consider your underlying profit drivers.

Firms continue to operate in a challenging landscape. Tight control of cost and cash remain key. It was interesting to see that larger firms (10+ partners) found it harder to control lockup (combined work in progress and debtors). It is those size firms who report the lowest levels of available cash (in the lower quartile) than their peers. For the vast majority of firms, there is an opportunity to improve their performance in managing lock up, which of course has a direct and positive impact on profitability and the firm's cash position.

Our team of trained specialists have a proven track record of helping to deliver strong and sustainable financial performance coupled with a deep knowledge of the dynamics driving this industry. We work closely with solicitors to create bespoke funding solutions and add value through our relationship-based approach."

Sue Carter MBA. UK Head of Professional Services Sector, Clydesdale Bank.

[Sue.Carter@cybg.com](mailto:Sue.Carter@cybg.com)

## 2. Executive Summary

### Introduction

The 2017 Law Society of Scotland Financial Benchmarking survey took place between March and May.

The survey has been redesigned by the Law Society of Scotland and leading technology systems and services provider, Tribal, to enhance the previous Cost of Time survey. The redesigned survey includes most of the questions from the Cost of Time survey, plus several new metrics (for example a breakdown of expenditure) chosen to assist firms in assessing their financial performance.

The 2017 survey findings provide a good indication of the health of Scotland's legal sector. The overall report is fully accessible and available via the Society's website. Participating firms can also access their own interactive report to compare themselves with other law firms in Scotland. Reporting is now via an interactive website which gives participating firms the opportunity to easily compare themselves to other law firms in Scotland. We are confident that participating firms which took part will find the new, confidential online reports very helpful in ensuring that their business is sustainable and efficient while continuing to offer clients a great service.

The interactive report includes the ability to view and compare:

- income and costs by the size or location of a firm
- a breakdown of the firm's total costs
- cashflow management
- the relationships between the different results, for example, plotting staff costs against profitability.

Firms were invited to participate in the survey via online or paper questionnaire. 100 firms completed the questionnaire, representing 9% of firms in Scotland. This was a lower participation rate than in previous years. Nevertheless, the sample size allows for conclusions to be drawn for nearly all metrics.

### Overall Totals

- Total fee income – £112 million. £15 million was recorded as in respect of court work and £3 million was legal aid. (Not all respondents completed the question on work types so it is likely that court work and legal aid is understated).
- Fee income of the 6 firms with more than 10 partners – £71 million.

### Key Results

This is the first year of the relaunched survey. In future years, participants will be able to analyse trends for their firm, competitors and of the profession generally. Where possible within this executive summary, reference has been made to previous Cost of Time survey results in order to identify year on year trends.

## Key theme: size matters – but bigger isn't always better

It is generally accepted that larger law firms are more profitable, benefit from economies of scale and are better able to cope with the uncertainties of a volatile marketplace. However, the data has shown that growth, particularly for firms with fewer than 10 partners, has not brought significant increases in profit. Even 10+ partner firms have performed worse than expected against certain metrics.

- 5-9 partner firms do not perform significantly better, financially, than 2-4 partner firms. Indeed, on some metrics 5-9 partner firms perform worse. Boutique 2-4 partner firms should consider carefully whether growth plans will deliver the higher profits hoped for.
- Larger, 10+ partner firms are more profitable but aren't necessarily realising economies of scale of the magnitude that might be expected. In addition, the data shows that large firms find it challenging to control work in progress and debtor days.

## Profitability

- Overall profitability at a median of £69,000 per partner was in line with the results from the 2014 survey. Within this, profitability increased in line with firm size; it was notable that since the 2014 survey, 2-4 partner firms have "closed the gap" on 5-9 partner firms with regards to profitability per partner
- Once again, the profitability of firms in Scotland is lower than the rest of the UK. The RBS 2016 Financial Benchmarking survey indicates median profit per equity partner of £111,000.
- Profit is before any allowance for equity partners' salaries, and before tax.

## Sole Principals

- Median profit for sole principals rose from £41,000 in the 2014 survey to £50,000; an improvement but still a result that gives cause for concern over the level of risk that sole principals face in fluctuating market conditions.
- As in the 2014 report, median profit for sole principals was especially low in Glasgow at £40,000 (although that represented an improvement on the previous figure of £26,000).

## 2-4 partner firms

- 2-4 partner firms continued to thrive, perhaps due to the continued success of specialist, boutique firms. Median profit per partner was £82,000; an increase of 11% on 2014's result.
- Capital per partner significantly increased to £86,000 from £54,000 in 2014, continuing an improving year on year trend.
- Overall, 2-4 partner firms were in robust financial health, with good bank balances and low amounts of aged debt.

## 5-9 partner firms

- Median profit per partner was £96,000, a small increase of 4% on 2014's result.
- 5-9 partner firms seem to be facing pressures from the higher costs of operating a larger business, without benefitting significantly from economies of scale. The median total profit margin for 5-9 partner firms at 38% was in line with the median total profit margin for 2-4 partner firms, also 38%.
- The median bank balance for 5-9 partner firms was £2,000 overdrawn, falling from a credit balance of £30,000 in 2014.

- Median capital per partner was £67,000; up from £52,000 in 2014, but lower than the 2017 result for 2-4 partner firms of £86,000.

### **10+ partner firms**

- Profit per equity partner was, as expected, the highest of all firm sizes at a median of £125,000 per partner.
- Staff costs as a percentage of total income were higher than in all other firm sizes, at a median of 43.9%, perhaps indicating that larger firms are not achieving expected economies of scale.
- Debtor days was a concern for 10+ partner firms, with a median result of £571,000 for debt aged over 90 days old.
- Median capital per partner was £107,000, and the upper quartile result of £176,000 was notably high.



### 3. Survey Overview

100 firms participated, representing 9% of firms in Scotland. The size and location of the firms is summarised below, based on the total number of partners each firm has – equity and salaried.

Number of Partners	Edinburgh	Glasgow	Aberdeen, Dundee & Perth	Country	Total
Sole Principal	8	9	3	29	49
2-4 Partners	2	7	4	27	40
5-9 Partners	0	1	0	4	5
10+ Partners	1	3	2	0	6
<b>Total</b>	<b>11</b>	<b>20</b>	<b>9</b>	<b>60</b>	<b>100</b>

All results are based on the sample of firms who participated in the survey. The sample is self-selecting and this may introduce bias into the results that is not directly quantifiable. Highest participation rates were seen in sole practitioners and 2-4 partner firms; there was relative under-participation from 5-9 and 10+ partner firms. Country firms (those outside the other three regions) represent the largest geographical population due to the larger relative size of that region.

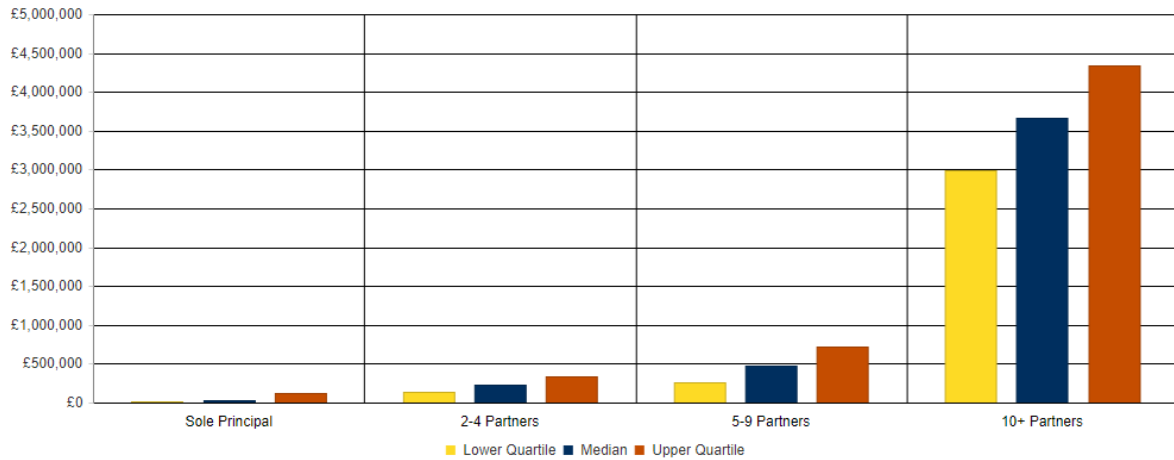
Throughout the report firms are grouped in three ways: by total partner numbers, by total staff numbers (full time equivalent), and by region. These three groupings allow us to see the impact of firm size and location on financial health. Where all three groupings are not displayed it indicates that not enough firms of a certain size or in a certain location provided responses for that question, so to protect anonymity we have removed the chart. (N.B. In all charts where firms are grouped by total staff numbers, it is important to note that for firms with 1 staff member, that 1 staff member *is* the sole principal partner).

Each chart shows the median result, upper and lower quartiles. The median is the middle value in the range and is not influenced by the magnitude of the extreme values (as a mean average can be). The upper and lower quartiles indicate the range of values. Quartile values are calculated by placing results in order. The position of each quartile is determined, and quartile values calculated based on the positions of the quartiles in the ordered results. (Where N is the number of results, the upper quartile is found as follows:  $0.75 \times (N-1)$ . The lower quartile is found as follows:  $0.25 \times (N-1)$ . The position of each quartile is then applied to the results to interpolate the upper and lower quartile results).

All results in this report are available on the Financial Benchmarking reporting website, which can be accessed via [www.lawscot.org.uk/financialbenchmarking](http://www.lawscot.org.uk/financialbenchmarking)

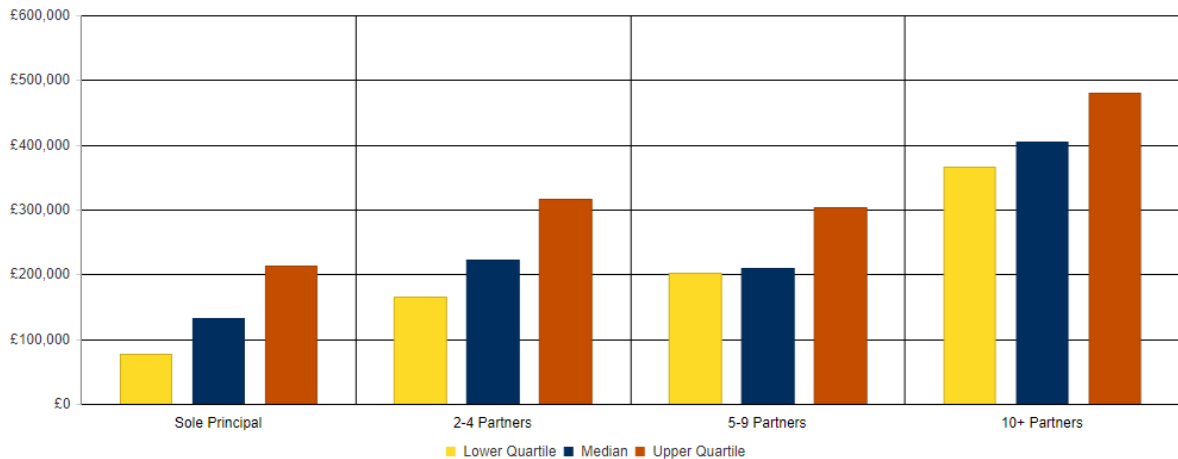
The charts within this section of the report show some of the most notable results and trends from this year's survey. The relationship between firm size and financial health remains key.

Capital (by Total Partner Numbers)



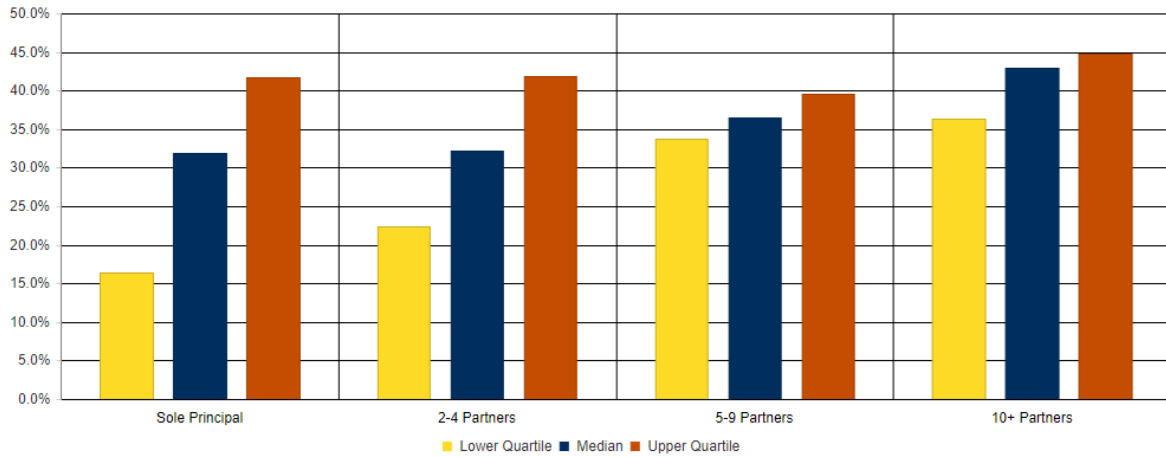
Levels of capital increased in line with firm size from a median of £32,000 for sole principals to a median of £3.67m for 10+ partner firms.

Total Income per Partner (by Total Partner Numbers)



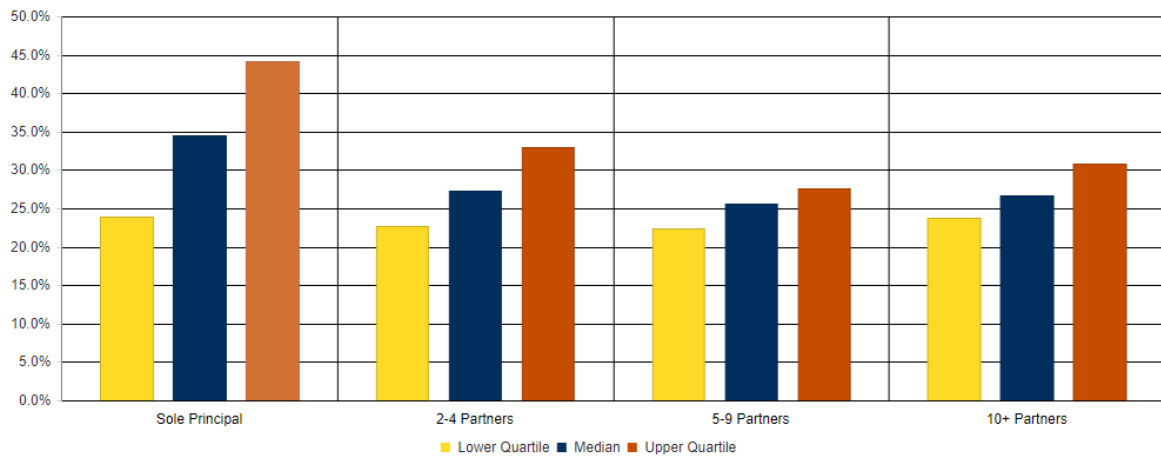
Median income per partner was, as expected, highest in 10+ partner firms at £405,784. Median income per partner for 5-9 partner firms at £209,518 was greater only than median income per partner for sole principals; perhaps a surprising result given the expected economies of scale associated with firm growth.

Salaries as a % of Total Income (by Total Partner Numbers)



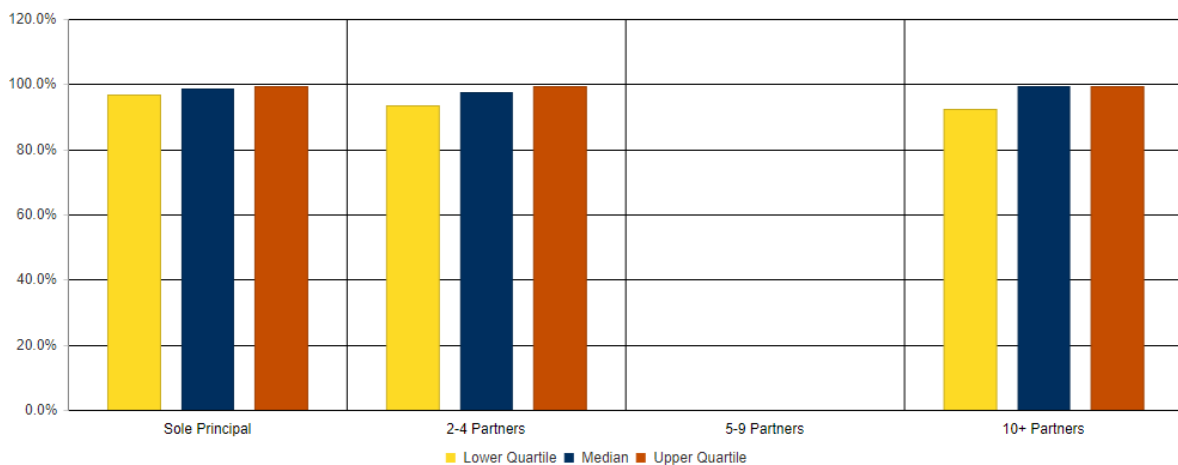
Salaries as a percentage of total income were lowest, at a median of around 31%, for sole principal and 2-4 partner firms, rising to a median of 44% in 10+ partner firms, perhaps a surprising result as it indicates that larger firms are not achieving expected economies of scale.

Overheads as a % of Total Income (by Total Partner Numbers)



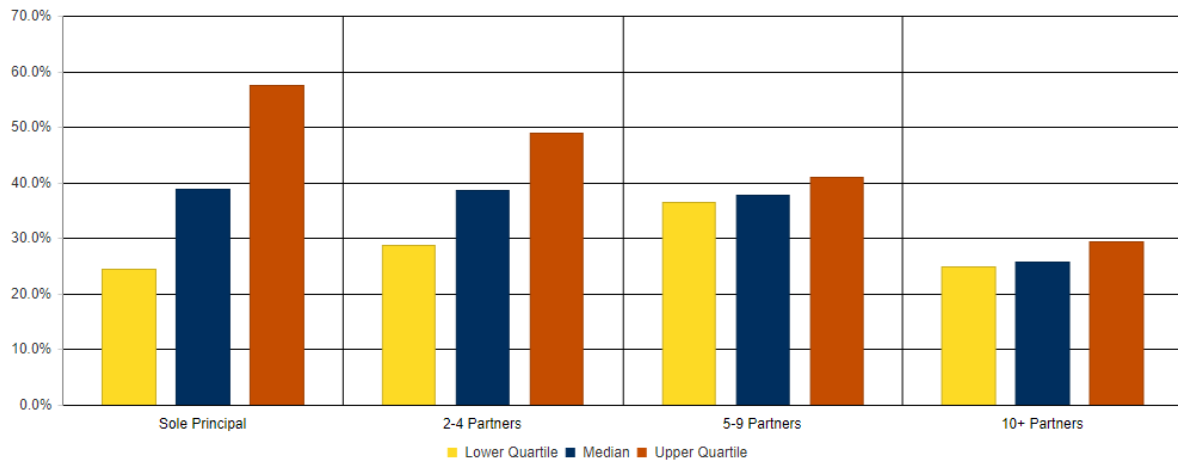
Broadly, overheads as a percentage of total income fell as firm size increased, from a median of 34.5% in sole principal firms, to a median of 26.7% in 10+ partner firms; an expected result which suggests that economies of scale are realised on overhead expenditure.

Amount of WIP Recovered as % of Total Fee Income (by Total Partner Numbers)



Levels of write-off were highest in smaller firms with a median result of 1.2% of work in progress written off (98.8% recovered). This is perhaps indicative of the types of clients take on by smaller firms, and a lack of resource to chase debt effectively.

Profit Margin % (by Total Partner Numbers)



Median profit margin was consistent at around 38% for sole principals, 2-4 partner and 5-9 partner firms, with a lower median of 26% in 10+ partner firms.

## 4. Income

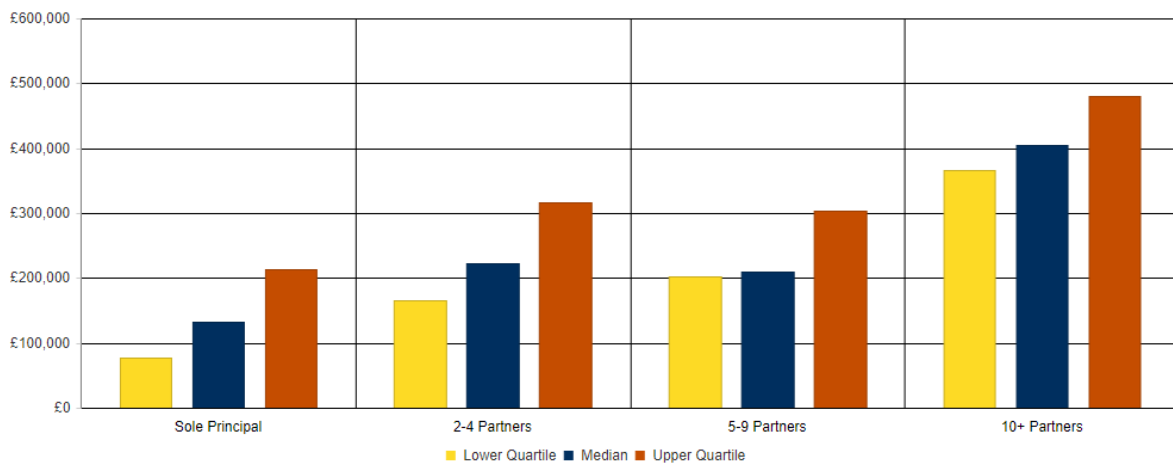
This section of the report analyses firms' income. Income is a key driver of firms' financial health and in this section we analyse income in several different ways (per partner, per fee earner etc) to examine what factors influence firms' income levels.

Throughout the report firms are grouped in three ways: by total partner numbers, by total staff numbers (full time equivalent), and by region. These three groupings allow us to see the impact of firm size and location on financial health. In cases where all three groupings are not displayed it indicates that not enough firms of a certain size or location provided responses for that question, so to protect anonymity we have removed the chart.

### Total Income per Partner

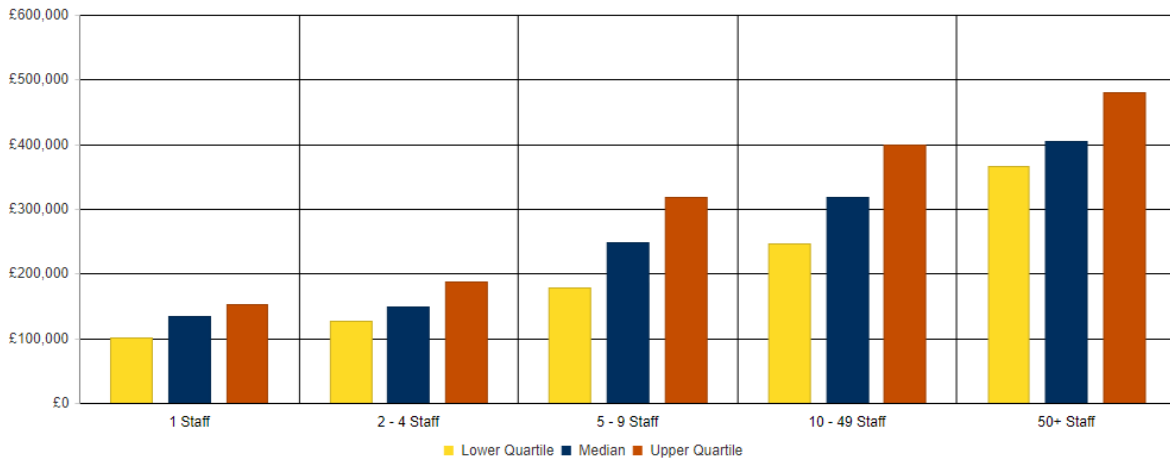
The analysis of total gross income per partner revealed that, broadly, income per partner increased with firm size. However, median income per partner for 5-9 partner firms did not follow that trend.

Total Income per Partner (by Total Partner Numbers)



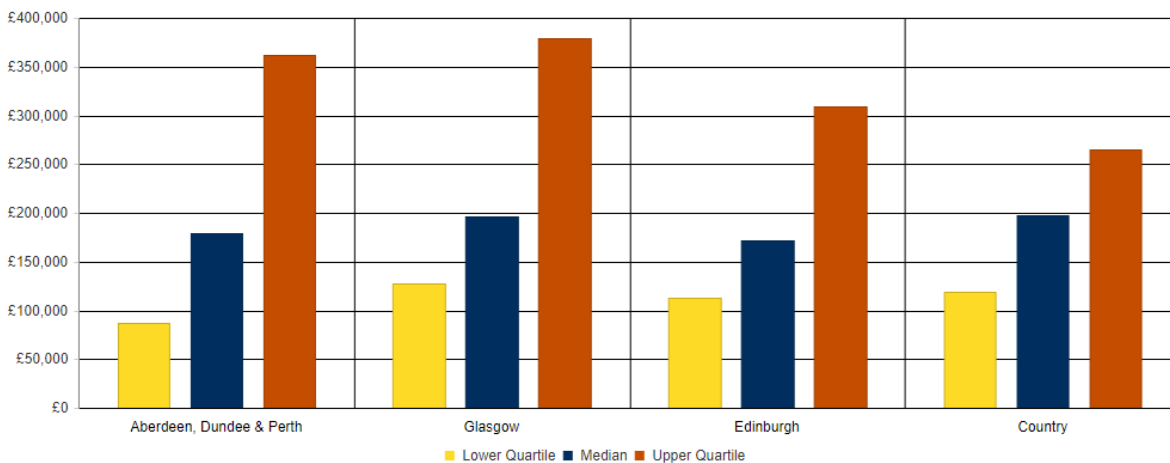
Median income per partner was, as expected, highest in 10+ partner firms at £405,784. Median income per partner for 5-9 partner firms at £209,518 was greater only than median income per partner for sole principals; perhaps a surprising result given the expected economies of scale associated with firm growth.

Total Income per Partner (by Total Staff Numbers)



Income per partner rose in line with staff numbers, from median income of £134,001 for firms with 1 staff member, to median income of £405,784 for firms with 50 staff or more. (N.B. In all charts where firms are grouped by total staff numbers, it is important to note that for firms with 1 staff member, that 1 staff member *is* the sole principal partner).

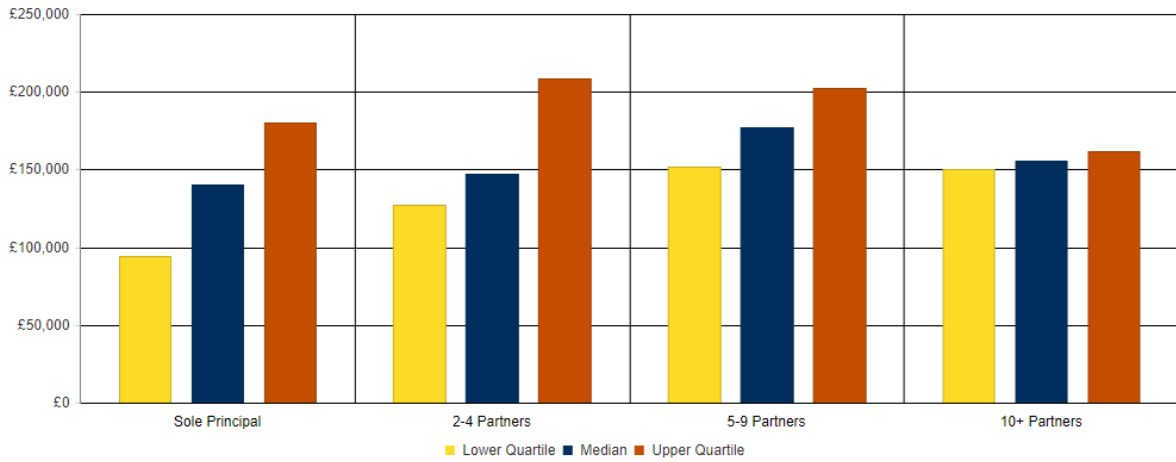
Total Income per Partner (by Region)



Median income per partner was broadly in line across the regions, ranging from £171,700 to £197,970.

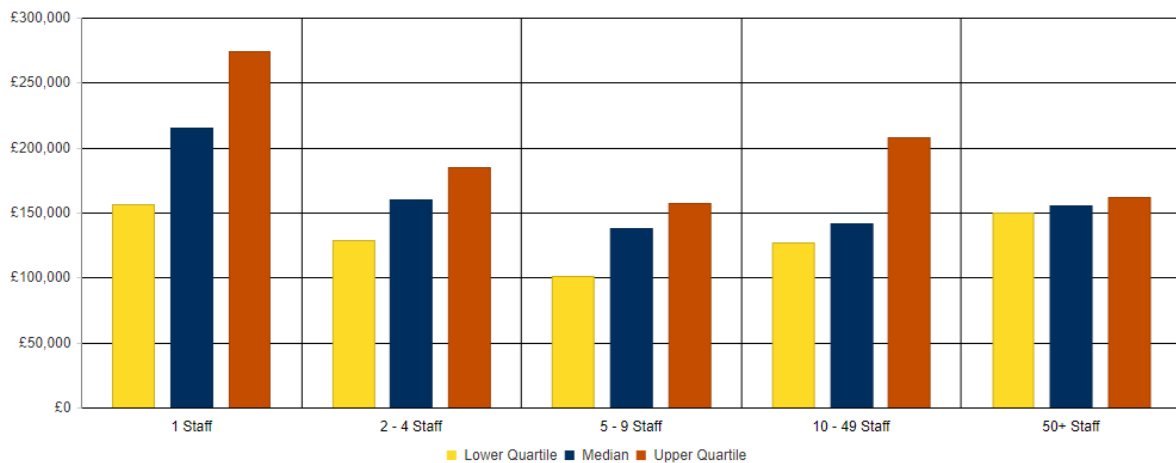
## Total Income per Fee Earner FTE (full time equivalent)

Income per Number of Fee Earners FTE (by Total Partner Numbers)



5-9 partner firms had the highest median income per fee earner at £177,107. Interestingly, 10+ partner firms' income per fee earner was lower than in 5-9 partner firms

Income per Number of Fee Earners FTE (by Total Staff Numbers)



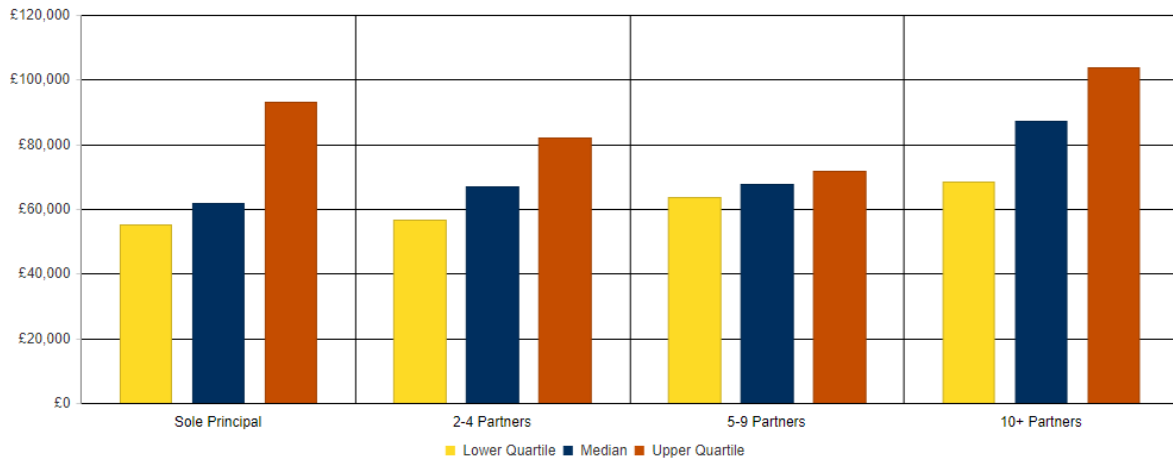
Median income per fee earner was highest in small firms at £215,279.

To protect firms' anonymity the chart grouping firms by region is not displayed.



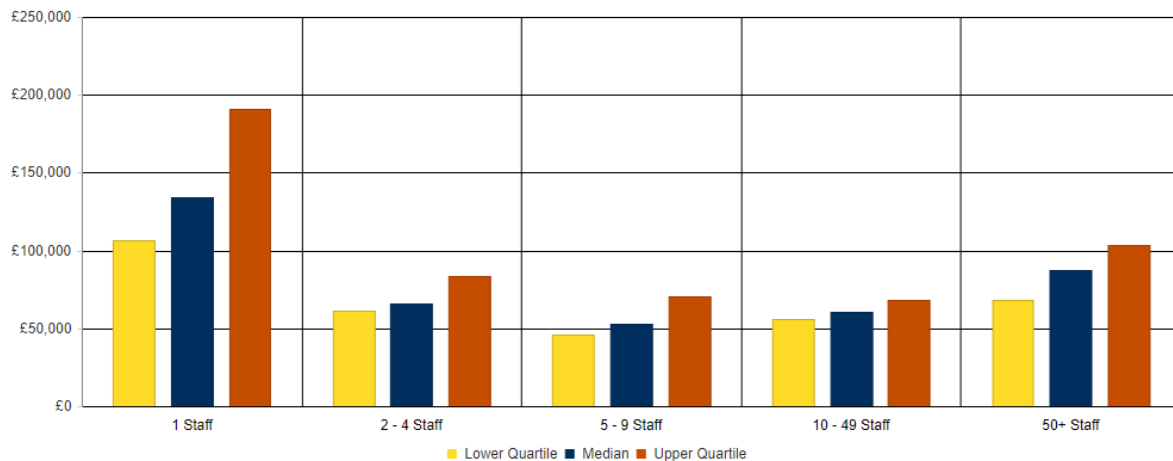
## Total Income per Staff FTE (full time equivalent)

Total Income per Staff FTE (by Total Partner Numbers)



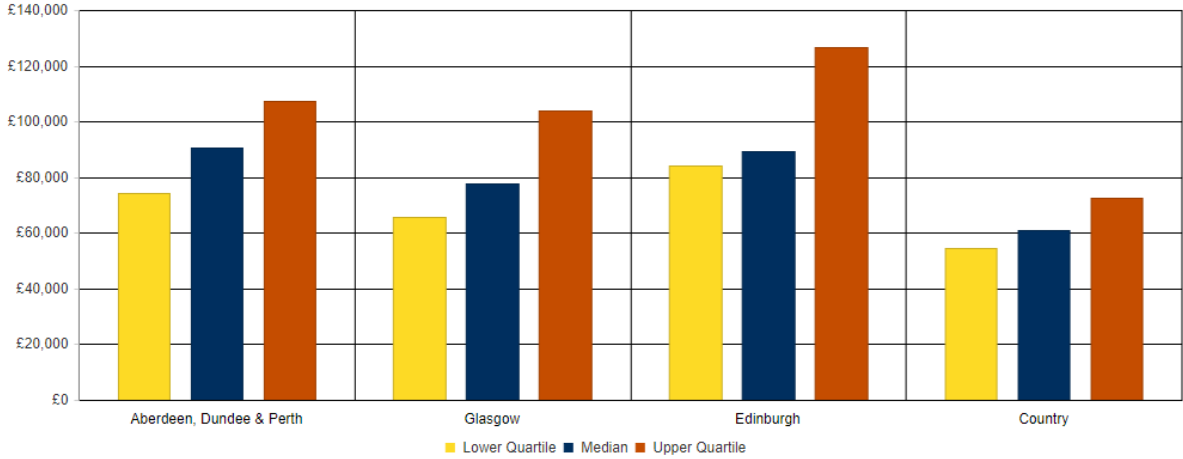
Median income per staff FTE rose as firm size increased to a median of £95,276 in 10+ partner firms. There was very little difference in median income per staff FTE between 2-4 partner firms and 5-9 partner firms, perhaps indicating that the growth from 2-4 partners to 5-9 partners requires investment in support staff.

Total Income per Staff FTE (by Total Staff Numbers)



Income per staff FTE in small firms compared well with larger firms.

Total Income per Staff FTE (by Region)

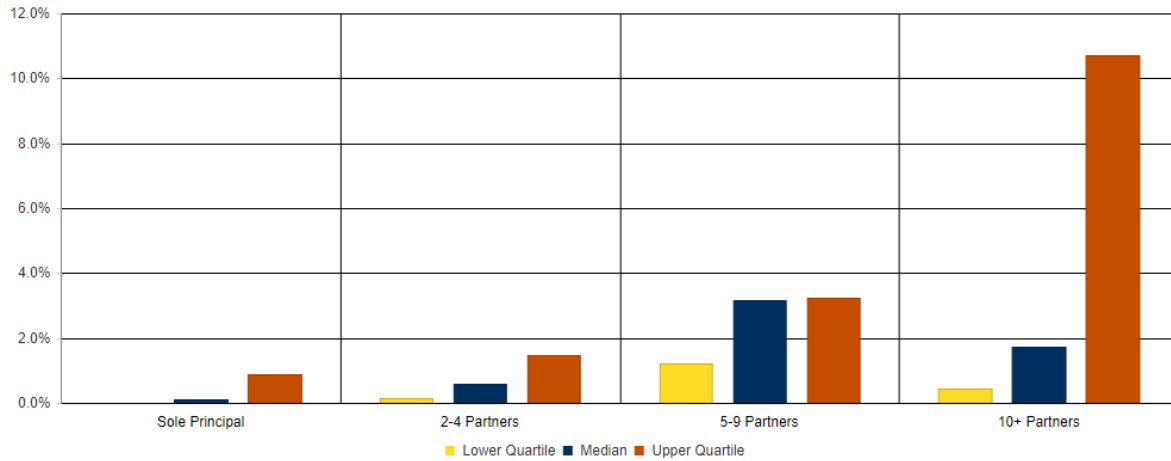


Total income per staff FTE varied across the regions, ranging from a median of £61,024 for Country firms, to a median of £90,762 for Aberdeen, Dundee and Perth.

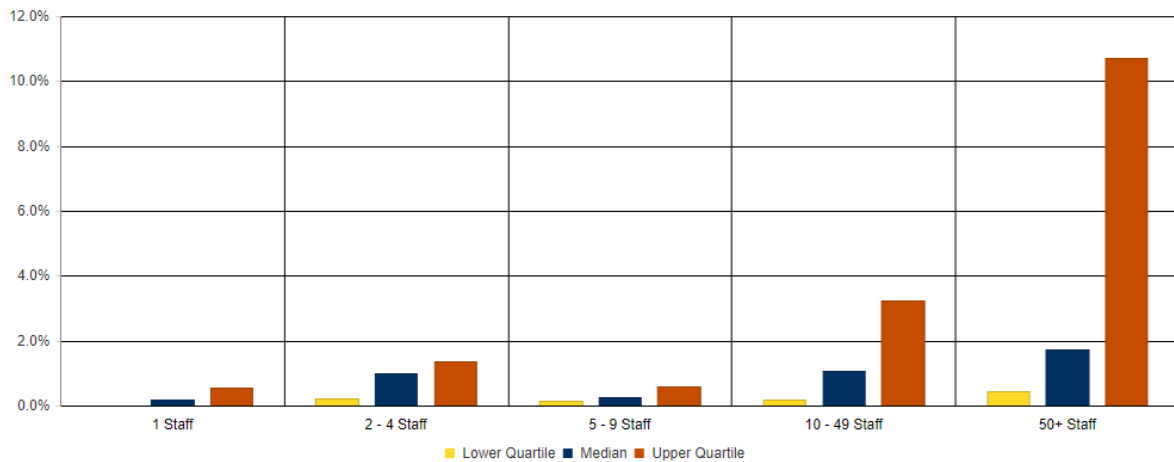
## Non-Fee Income as a Percentage of Total Income

Non-fee income includes interest on savings and investments, client accounts or other bank accounts or rents received.

Non-Fee Income as a % of Total Income (by Total Partner Numbers)

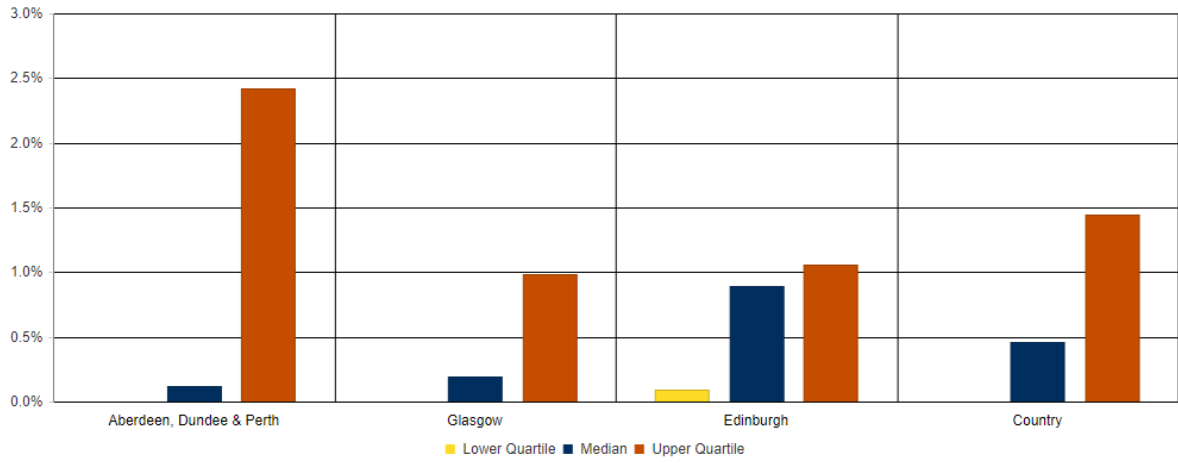


Non-Fee Income as a % of Total Income (by Total Staff Numbers)



As expected, non-fee income as a percentage of total income broadly increased in line with firm size, indicating a greater capacity to generate non-fee income (for example interest on savings and investments, client accounts or other bank accounts or rents received) in larger firms.

Non-Fee Income as a % of Total Income (by Region)



Variances in this result across regions were small.

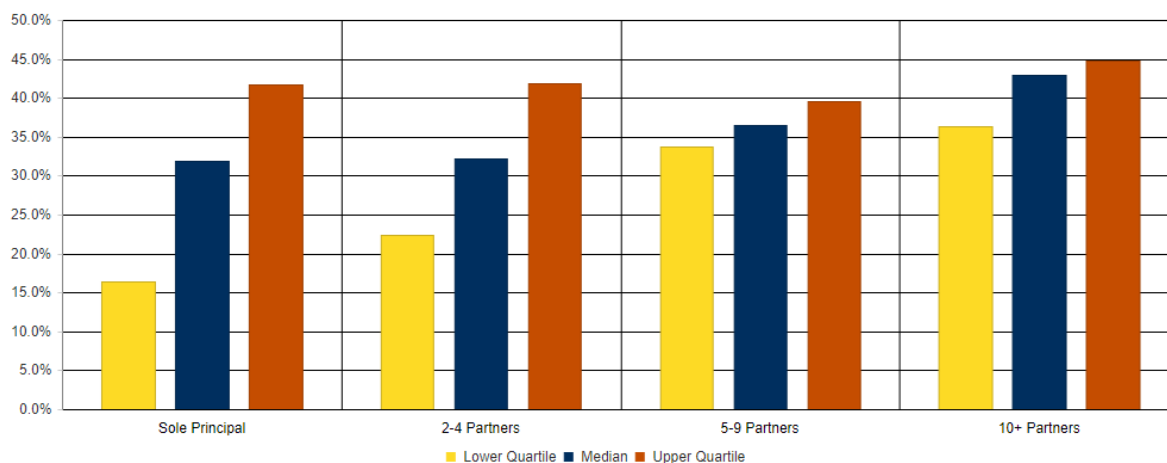
## 5. Expenditure

New for the 2017 Financial Benchmarking Survey is a detailed analysis of expenditure. Results are shown for salaries, overheads, and expenditure by type e.g. office premises, IT & website, marketing & sponsorship.

### Salaries as a Percentage of Total Income

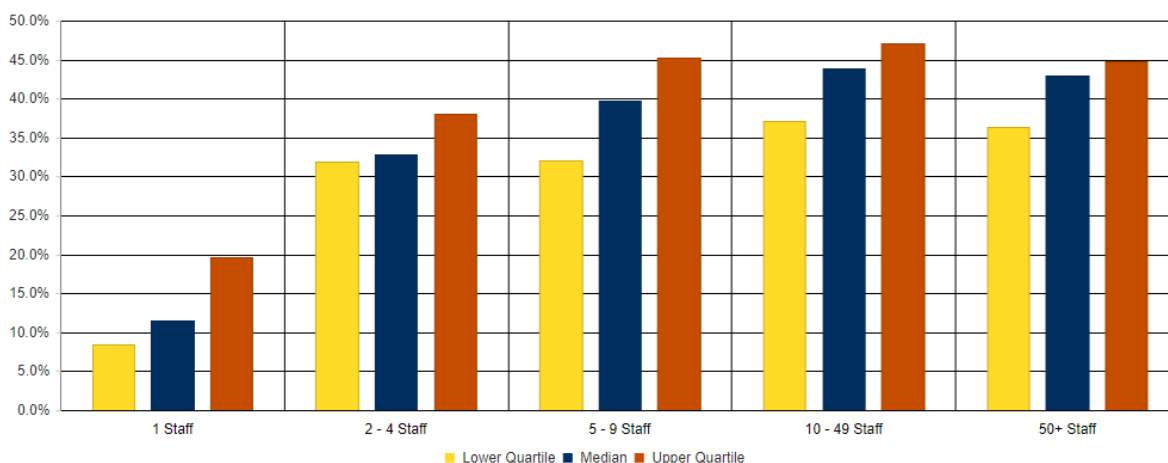
Salaries include pay costs for all staff, fee-earning or non-fee earning, except for equity partners/members (where respondents provided a split between equity partners and salaried partners).

Salaries as a % of Total Income (by Total Partner Numbers)



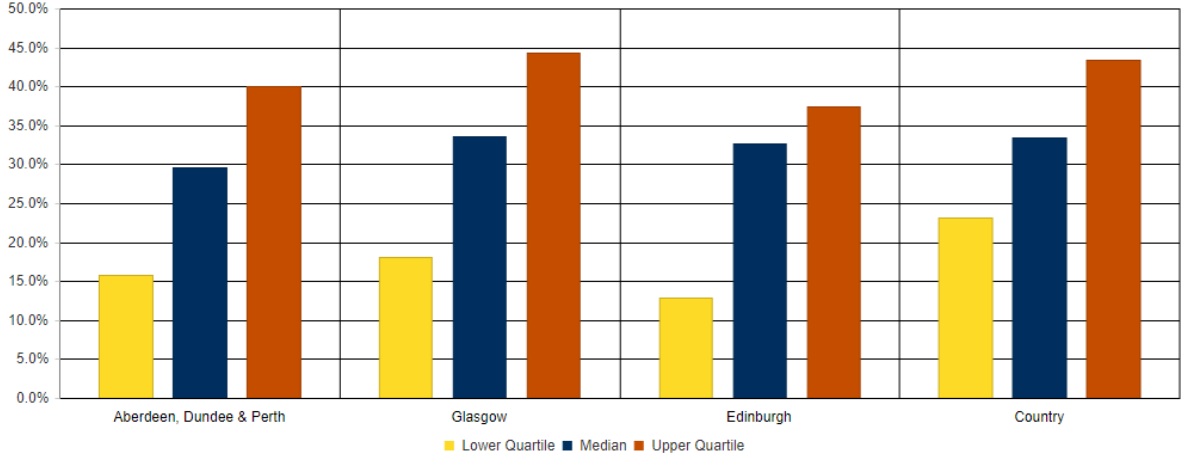
Salaries as a percentage of total income were lowest at a median of around 31% for sole principal and 2-4 partner firms, and rose to a median of 43.9% in 10+ partner firms, perhaps a surprising result as it indicates that larger firms are not achieving expected economies of scale.

Salaries as a % of Total Income (by Total Staff Numbers)



Salaries as a percentage of total income were highest in larger firms, perhaps a surprising result as it indicates that larger firms are not achieving expected economies of scale.

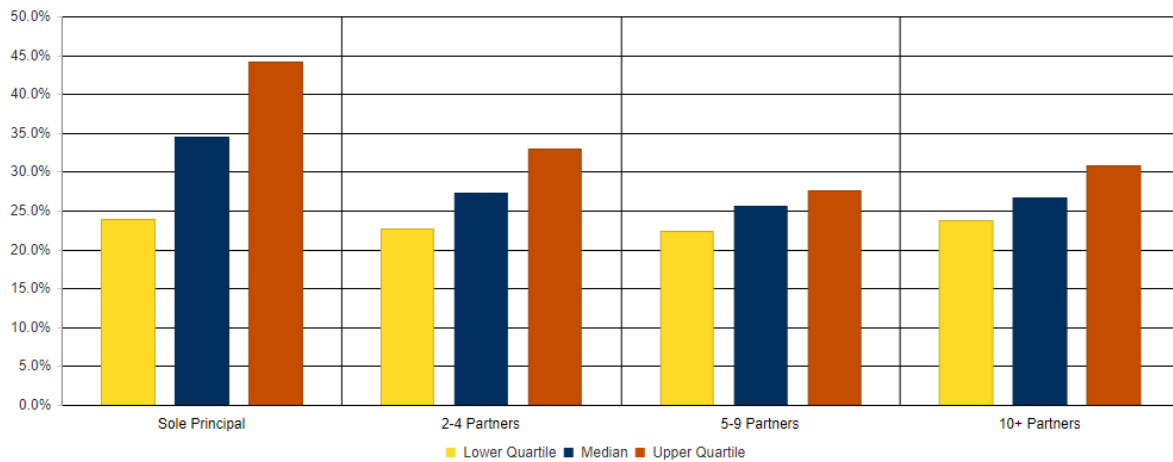
Salaries as a % of Total Income (by Region)



The median results for salaries as a percentage of total income by region were remarkably consistent across the regions at around 33%.

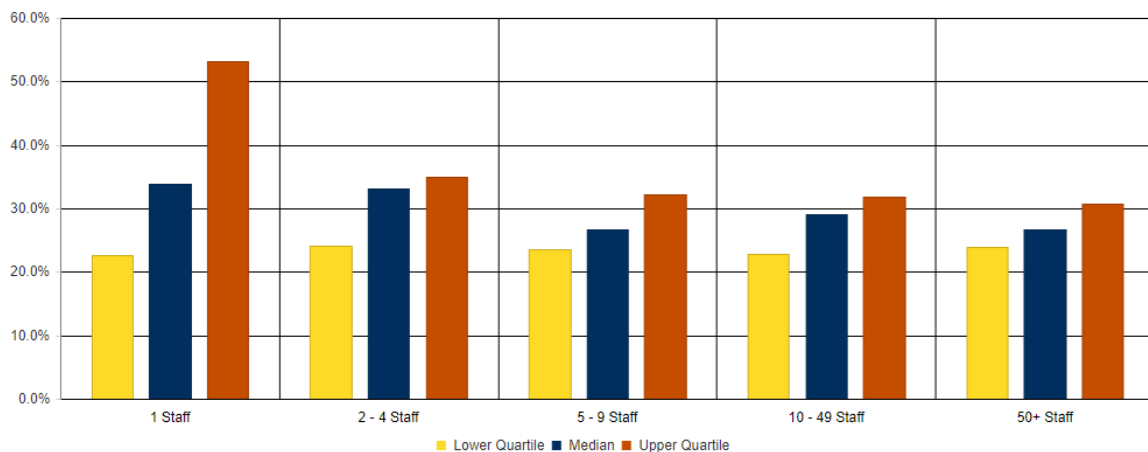
## Overheads as a Percentage of Total Income

Overheads as a % of Total Income (by Total Partner Numbers)



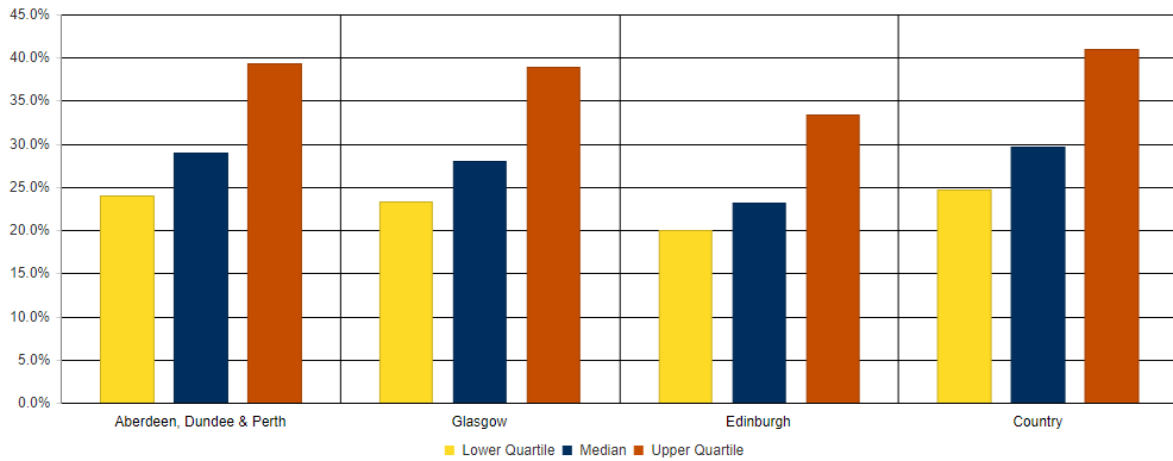
Broadly, overheads as a percentage of total income fell as firm size increased, from a median of 34.5% in sole principal firms, to a median of 26.7% in 10+ partner firms; an expected result which suggests that economies of scale are realised on overhead expenditure.

Overheads as a % of Total Income (by Total Staff Numbers)



Overheads as a percentage of total income fell as firm size increased.

Overheads as a % of Total Income (by Region)



Overheads as a percentage of total income ranged from a lowest median of 23.2% to a highest median of 29.6%.

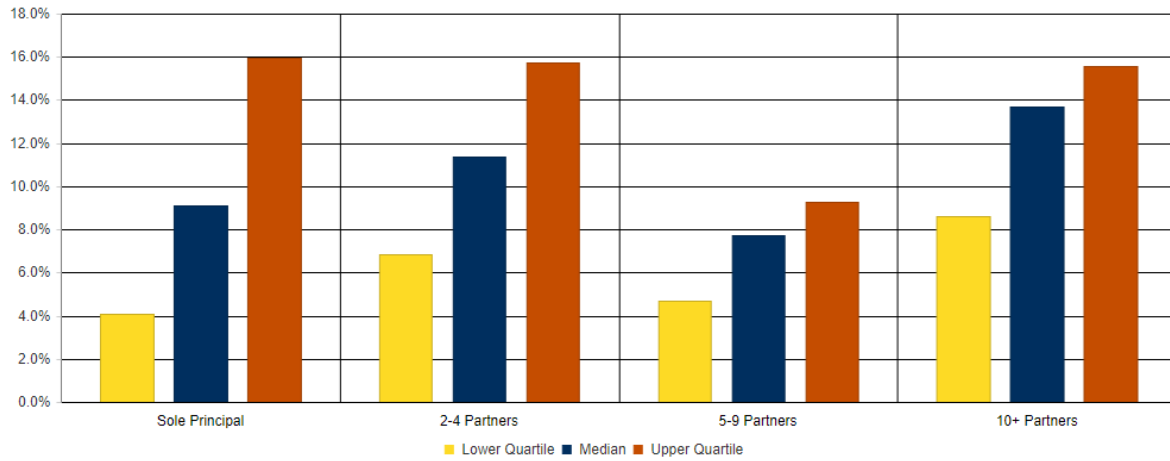


## Expenditure Type as a Percentage of Total Expenditure

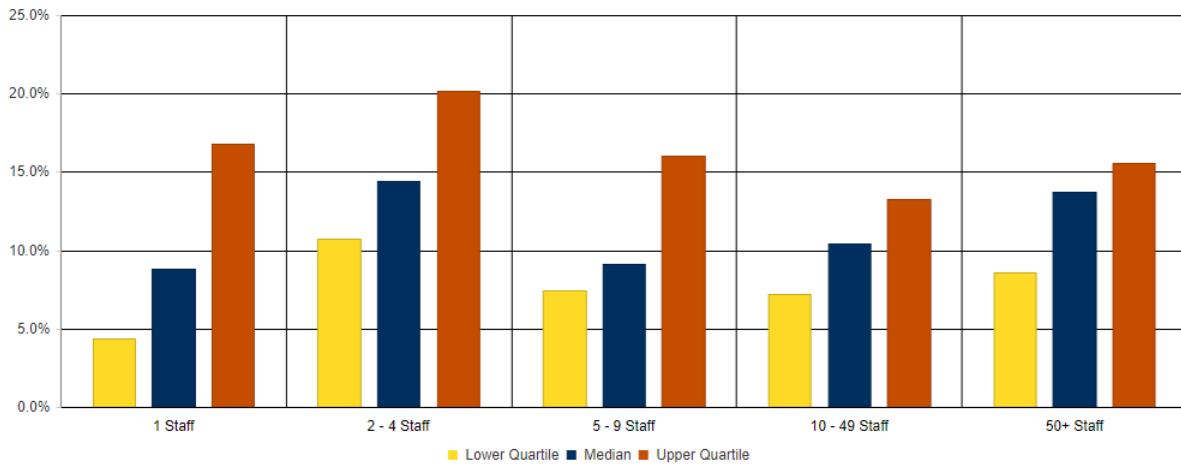
This section examines different types of expenditure in detail.

### Office Premises

Office Premises as a % of Total Expenditure (by Total Partner Numbers)

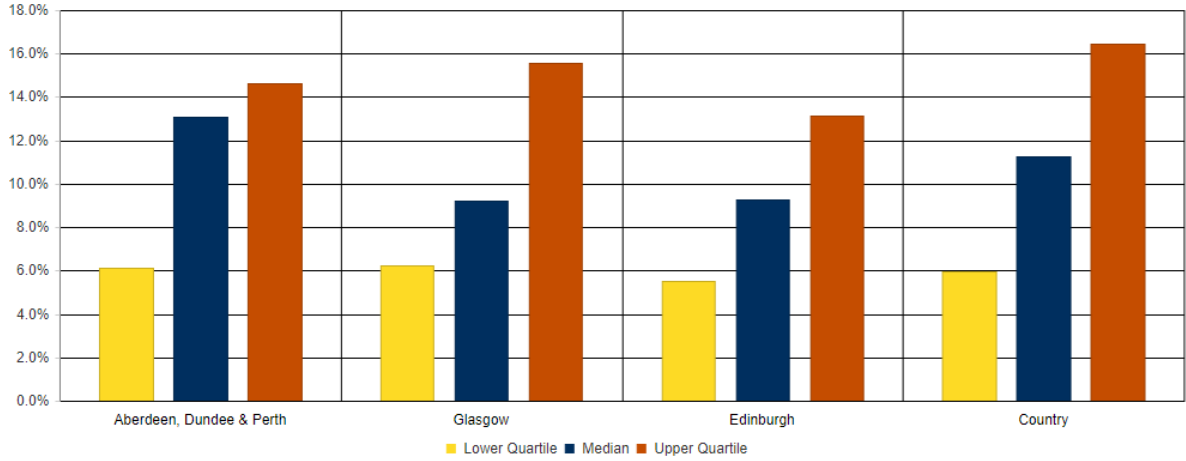


Office Premises as a % of Total Expenditure (by Total Staff Numbers)



Office premises costs represented a higher proportion of expenditure in 2-4 partner firms and larger (10+ partner, 50+ staff) firms.

Office Premises as a % of Total Expenditure (by Region)

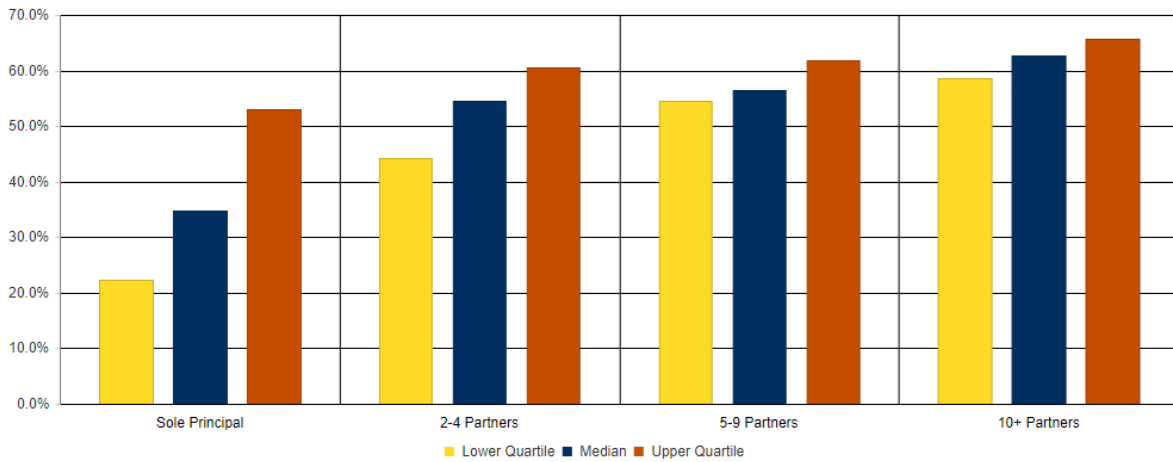


Office premises costs appeared higher as a percentage of total expenditure in Aberdeen, Dundee & Perth.

## Staff Salaries

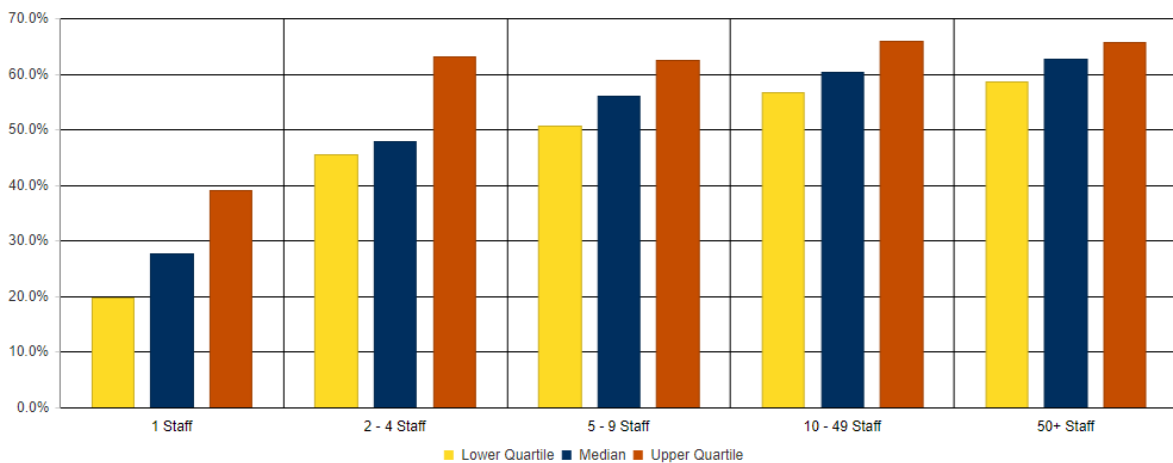
Salaries include pay costs for all staff, fee-earning or non-fee earning, except for equity partners/members (where respondents provided a split between equity partners and salaried partners).

Staff Salaries as a % of Total Expenditure (by Total Partner Numbers)

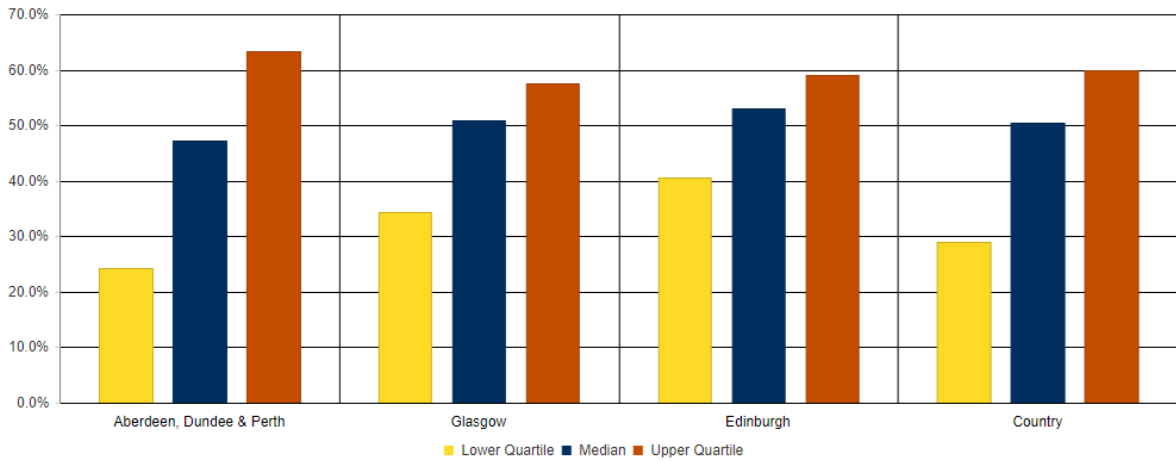


Median staff salaries expenditure was 62.7% of total expenditure in 10+ partner firms, perhaps indicating that larger firms have not achieved expected economies of scale.

Staff Salaries as a % of Total Expenditure (by Total Staff Numbers)

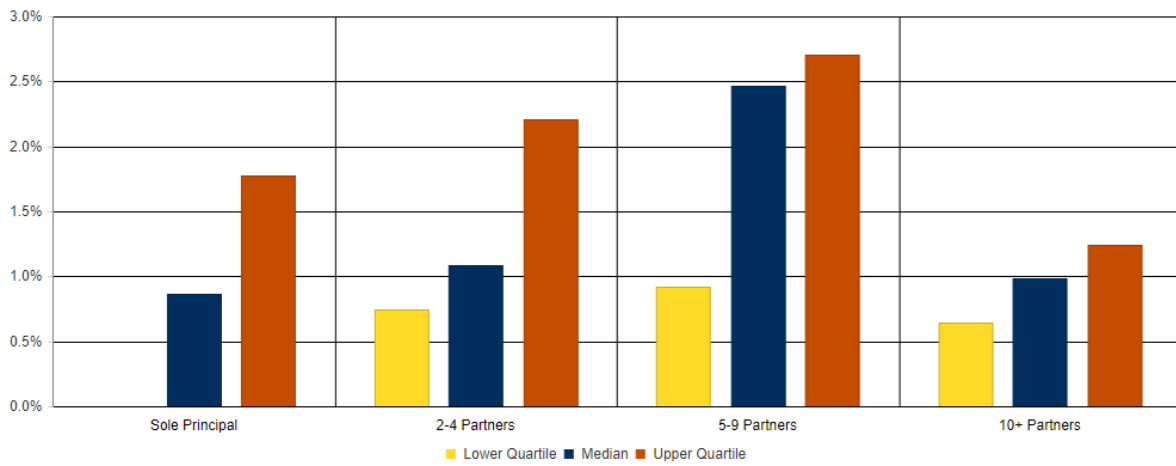


Staff Salaries as a % of Total Expenditure (by Region)



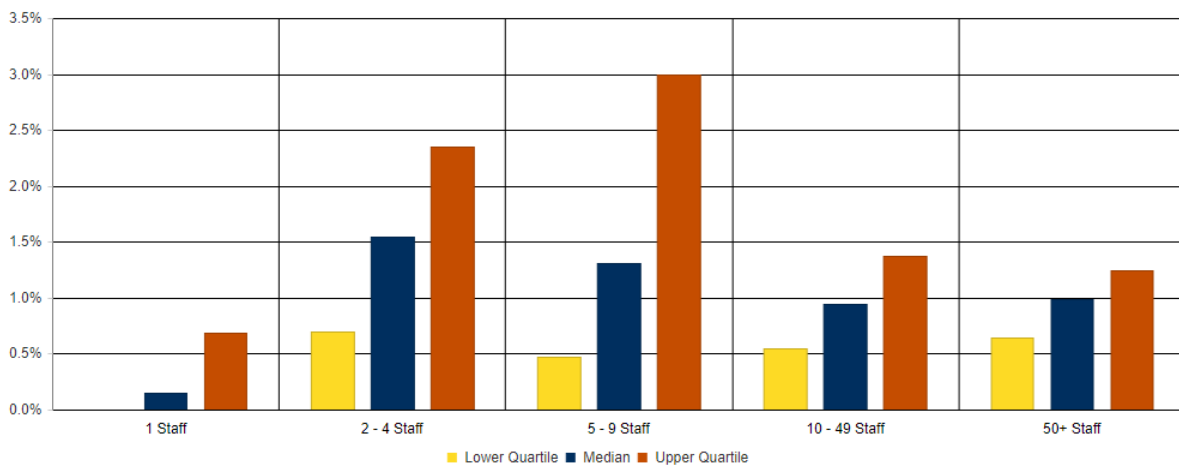
## Staff Training & Library Resources

Staff Training & Library Resources as a % of Total Expenditure (by Total Partner Numbers)

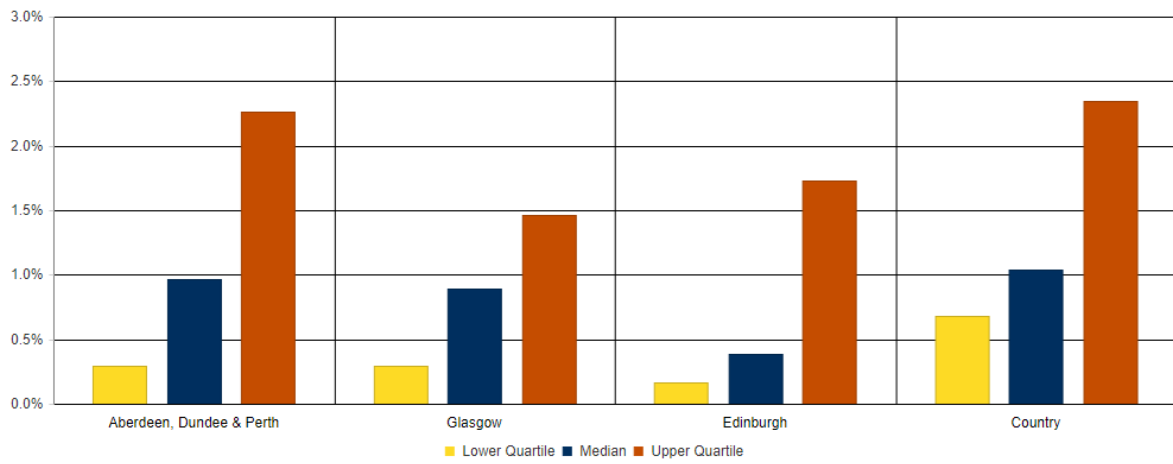


The variance between the results is minimal, but 5-9 partner firms had the highest percentage spend.

Staff Training & Library Resources as a % of Total Expenditure (by Total Staff Numbers)

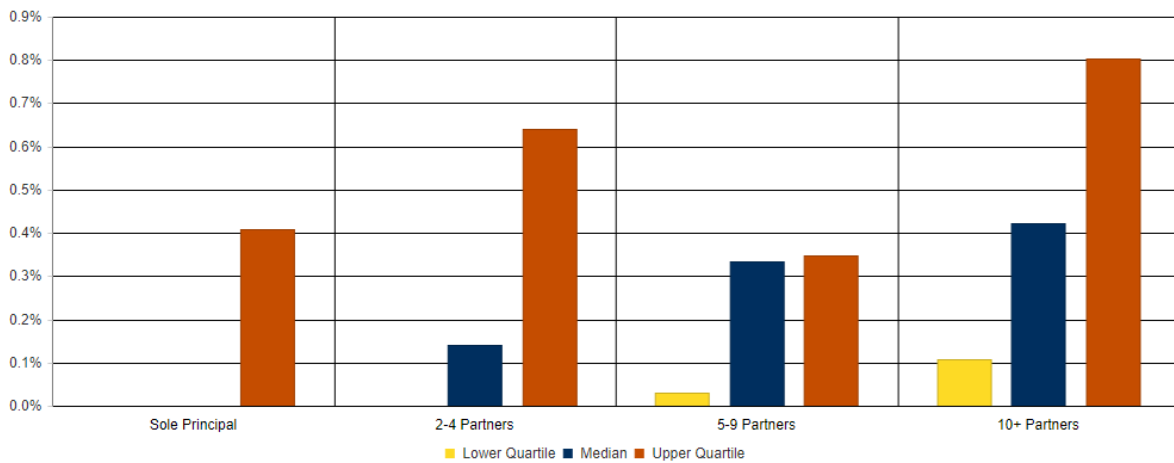


Staff Training & Library Resources as a % of Total Expenditure (by Region)



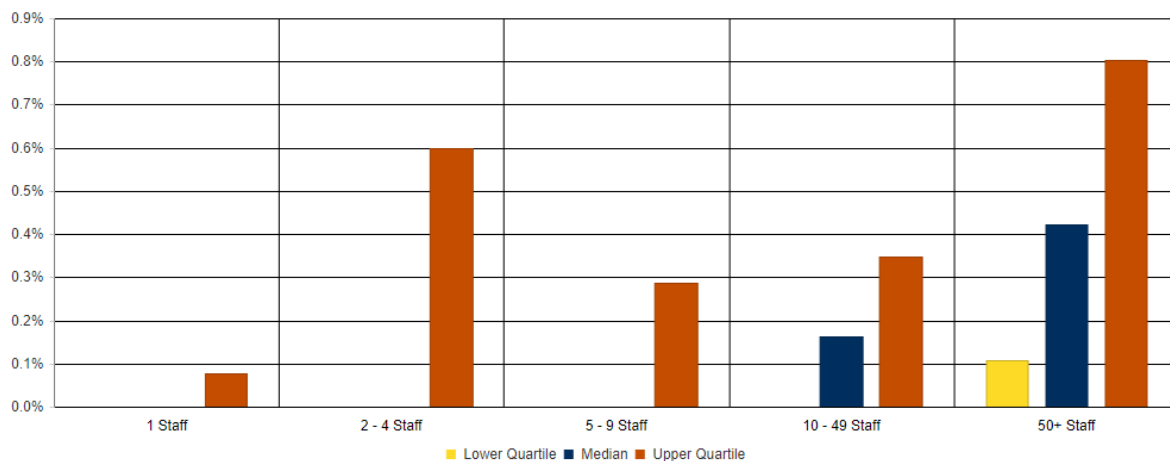
## Client Entertaining, Client Training & Business Development

Client Entertaining, Client Training & Business Development as a % of Total Expenditure (by Total Partner Numbers)



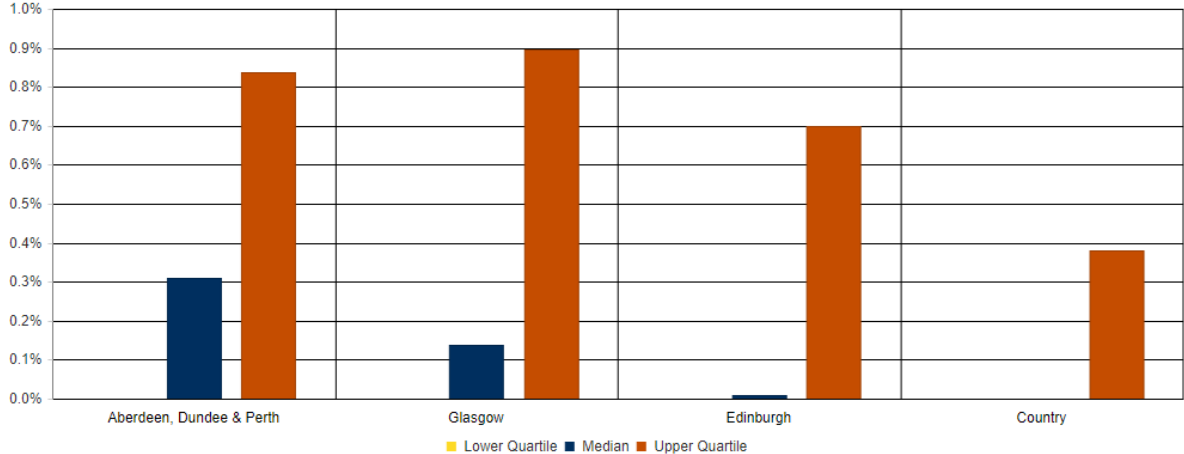
Larger firms spend a greater proportion of total expenditure on client entertaining etc, perhaps suggesting that larger budgets are made available in larger firms, in order to win higher value contracts. The data shows that smaller firms identify significantly less expenditure of this nature, with a median result of 0.0% for sole principals.

Client Entertaining, Client Training & Business Development as a % of Total Expenditure (by Total Staff Numbers)



Medians are zero for firms with 1 staff member, 2-4 staff and 5-9 staff.

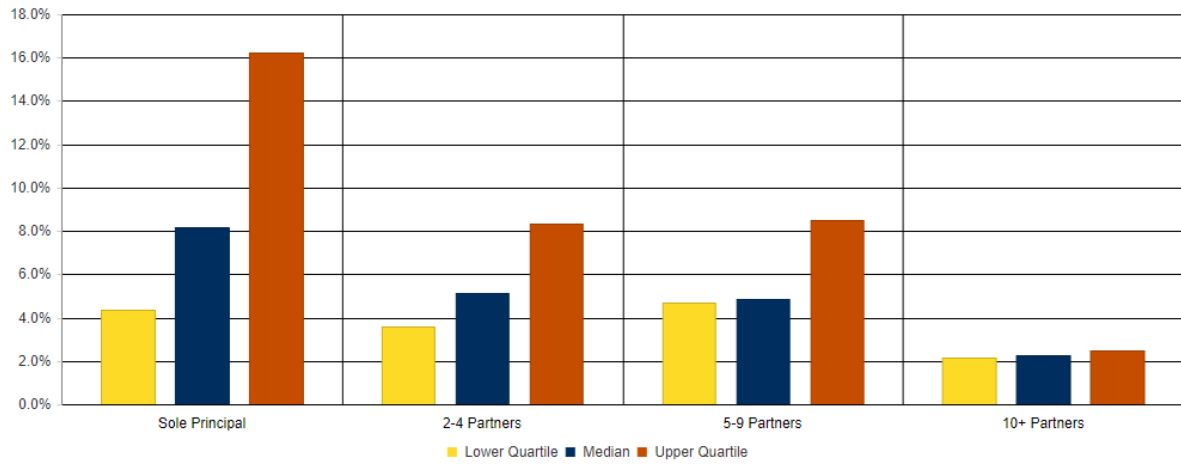
Client Entertaining, Client Training & Business Development as a % of Total Expenditure (by Region)





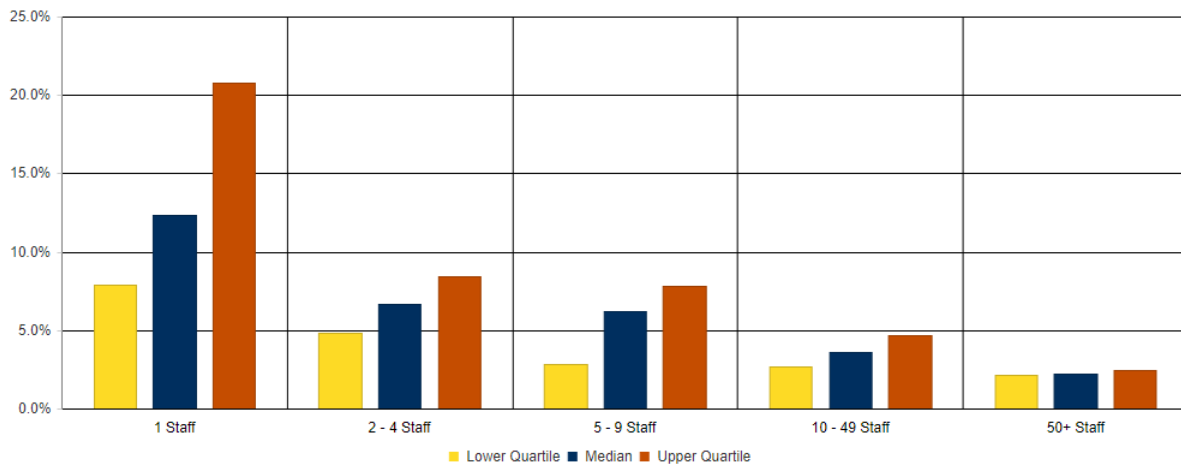
## Professional Indemnity Insurance Premium Costs

Professional Indemnity Premium Costs as a % of Total Expenditure (by Total Partner Numbers)

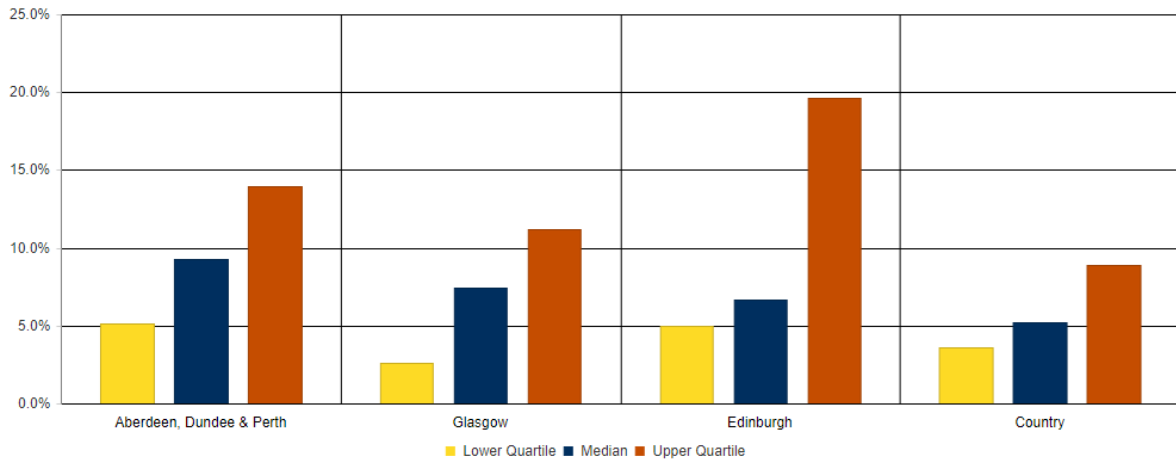


Professional indemnity insurance premium expenditure as a percentage of total expenditure decreases as firm size increases.

Professional Indemnity as a % of Total Expenditure (by Total Staff Numbers)



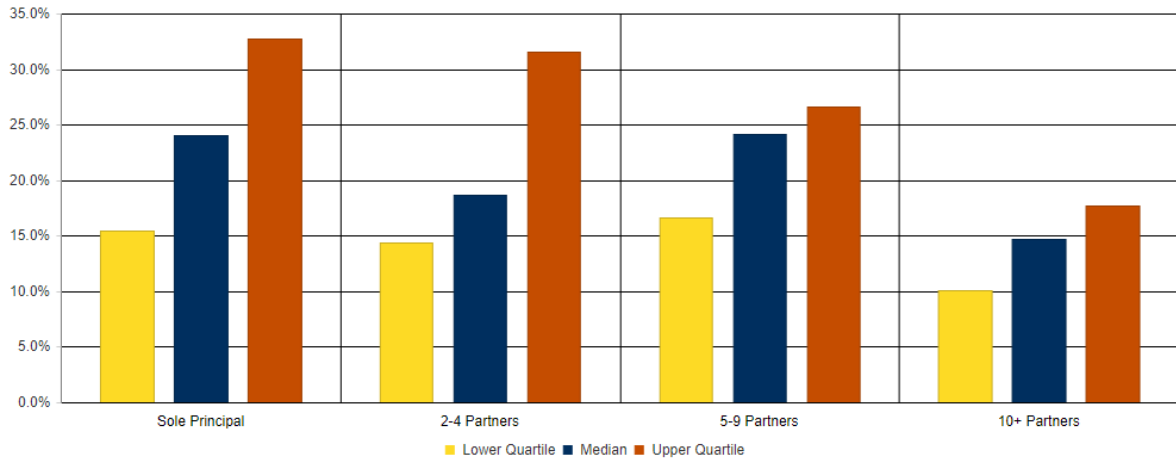
Professional Indemnity as a % of Total Expenditure (by Region)



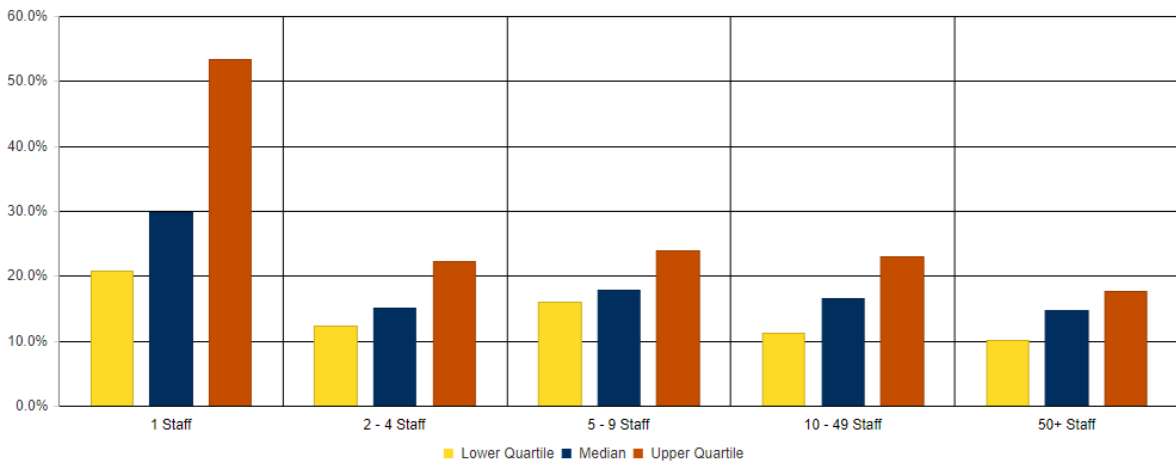
## Other Costs

Other costs include any expenditure that isn't covered by another category e.g. postage, printing.

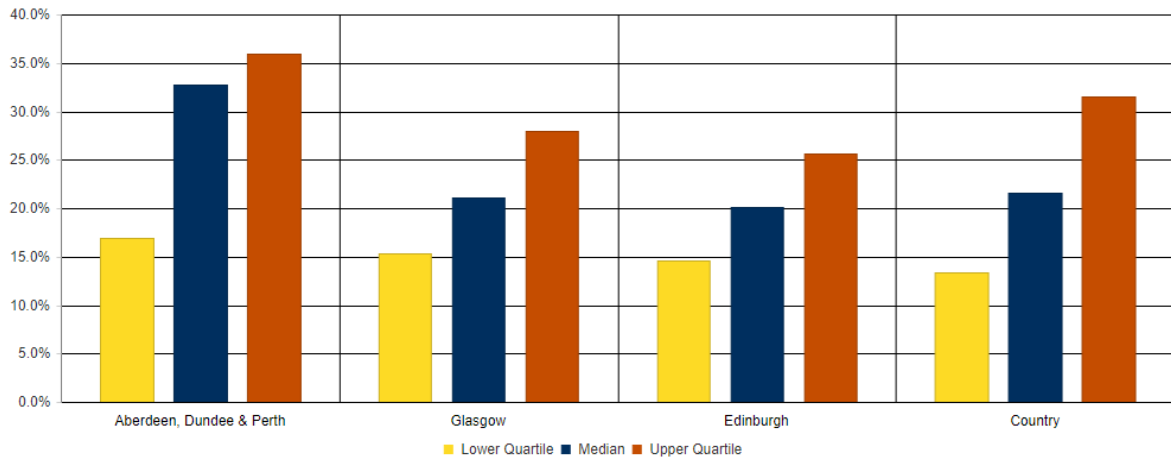
Other Costs as a % of Total Expenditure (by Total Partner Numbers)



Other Costs as a % of Total Expenditure (by Total Staff Numbers)



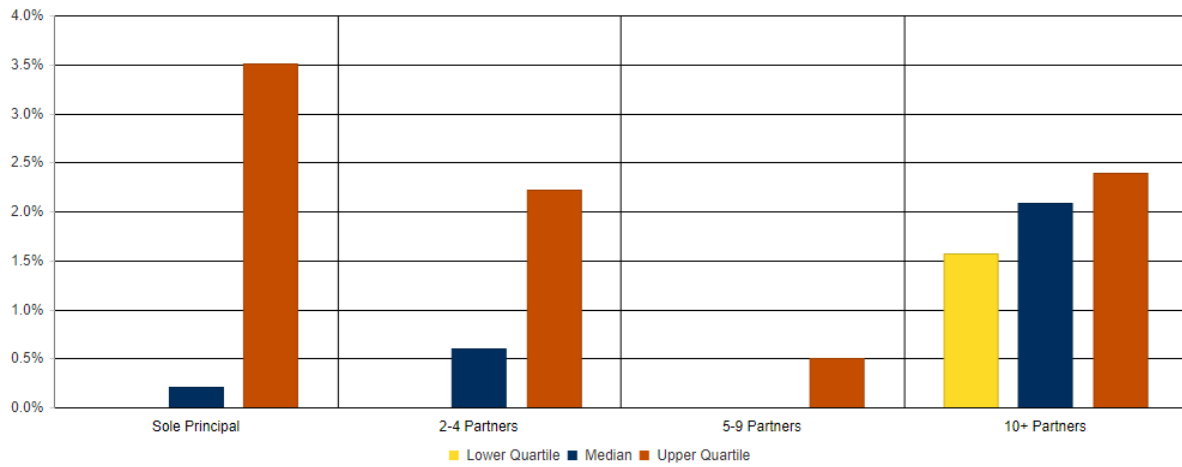
Other Costs as a % of Total Expenditure (by Region)



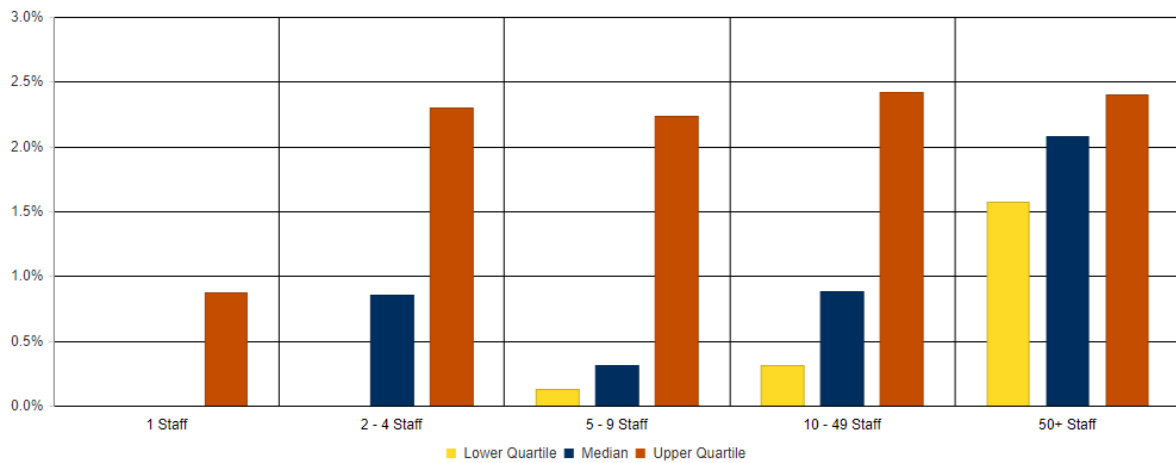
## Other Staff Costs

Other staff costs include practising certificate fees.

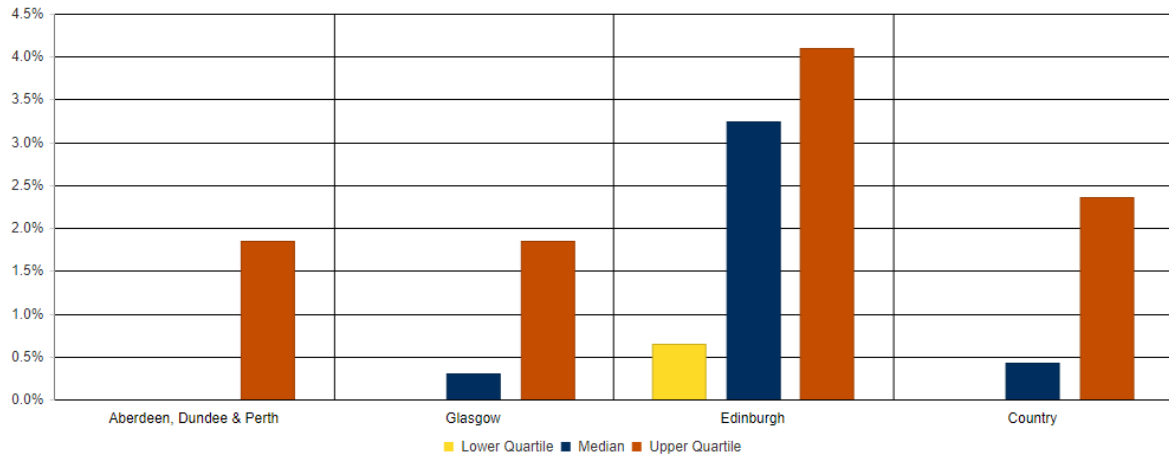
Other Staff Costs as a % of Total Expenditure (by Total Partner Numbers)



Other Staff Costs as a % of Total Expenditure (by Total Staff Numbers)



### Other Staff Costs as a % of Total Expenditure (by Region)

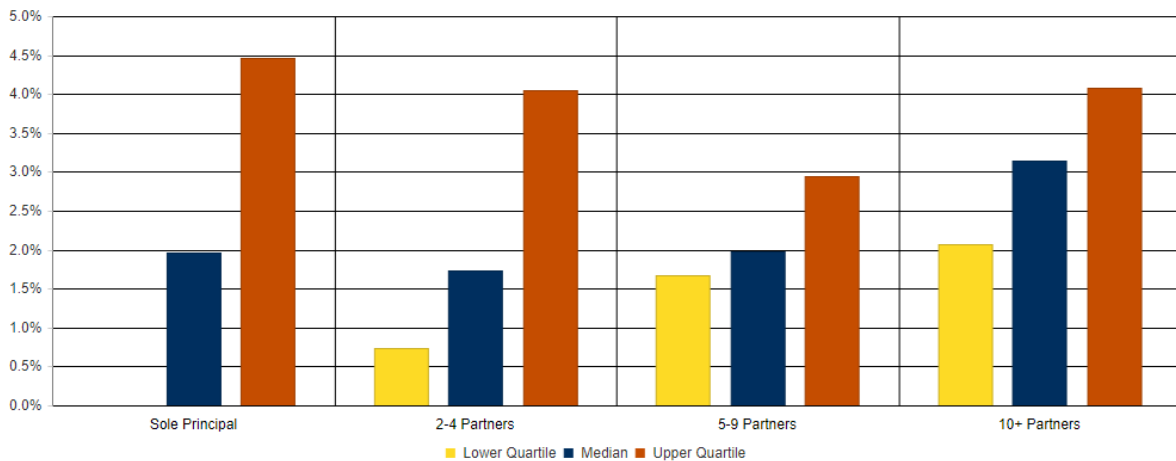


## IT & Website

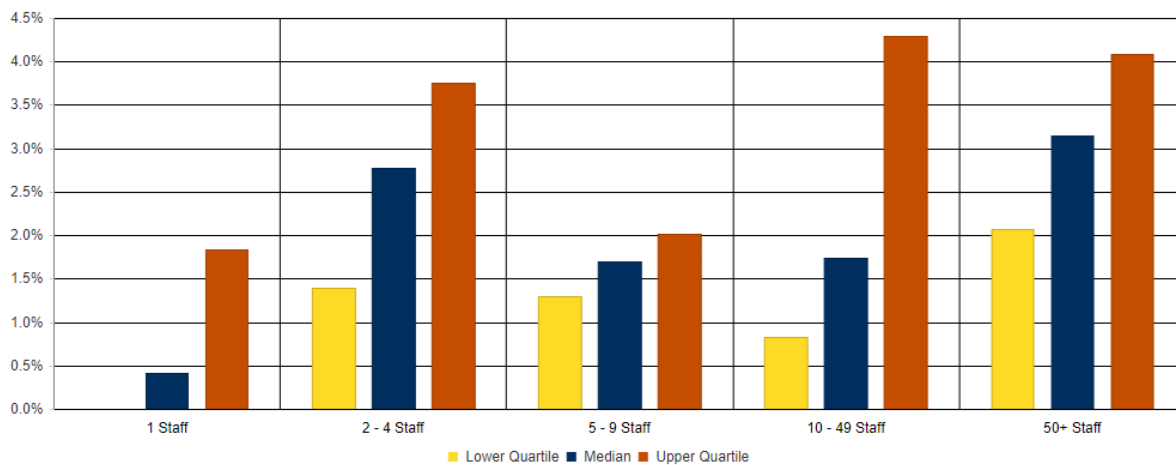
Including software licensing, development, hardware purchase and maintenance costs etc. Not including salaries for in-house IT staff - these are included under staff salaries.

IT & website expenditure is a higher proportion of total expenditure in larger firms, perhaps indicating that larger firms have been able to invest more heavily in IT to automate certain process e.g. billing, time recording etc.

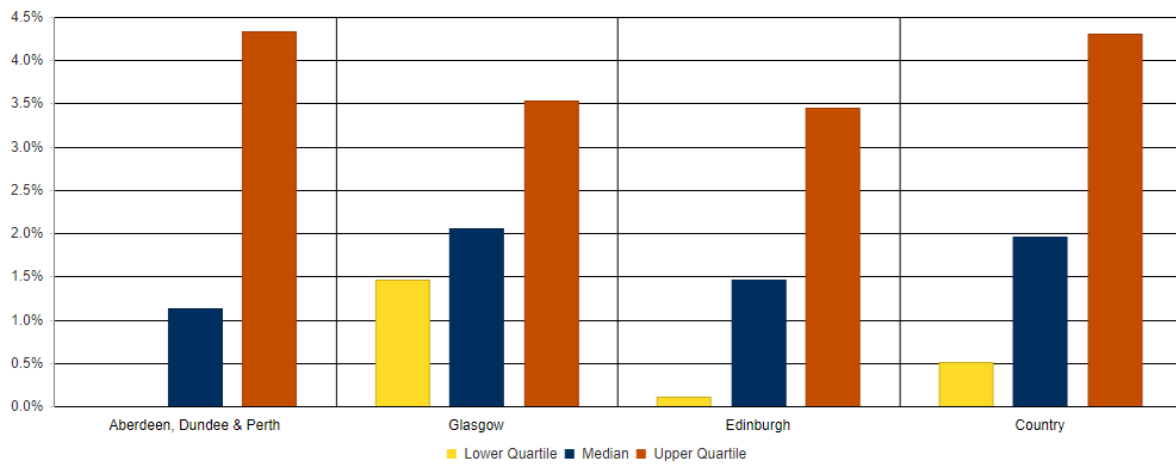
IT & Website as a % of Total Expenditure (by Total Partner Numbers)



IT & Website as a % of Total Expenditure (by Total Staff Numbers)



IT & Website as a % of Total Expenditure (by Region)

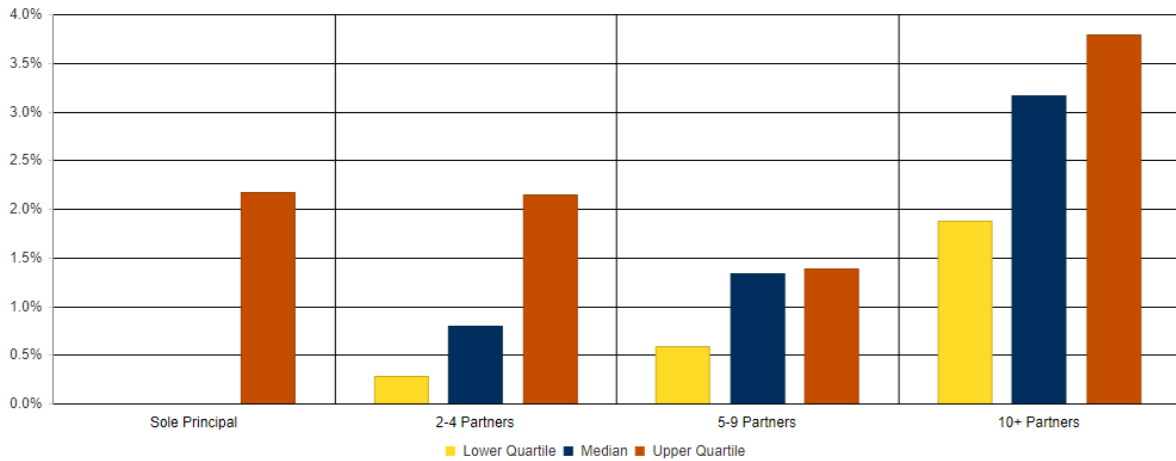




## Marketing & Sponsorship

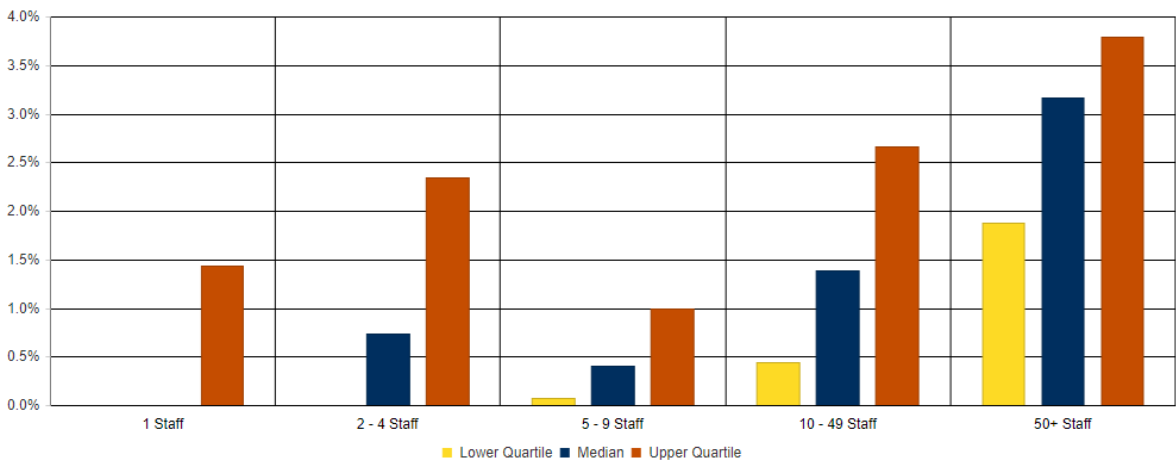
Marketing and sponsorship cost not including salaries for marketing staff which are included under staff salaries.

Marketing & Sponsorship as a % of Total Expenditure (by Total Partner Numbers)

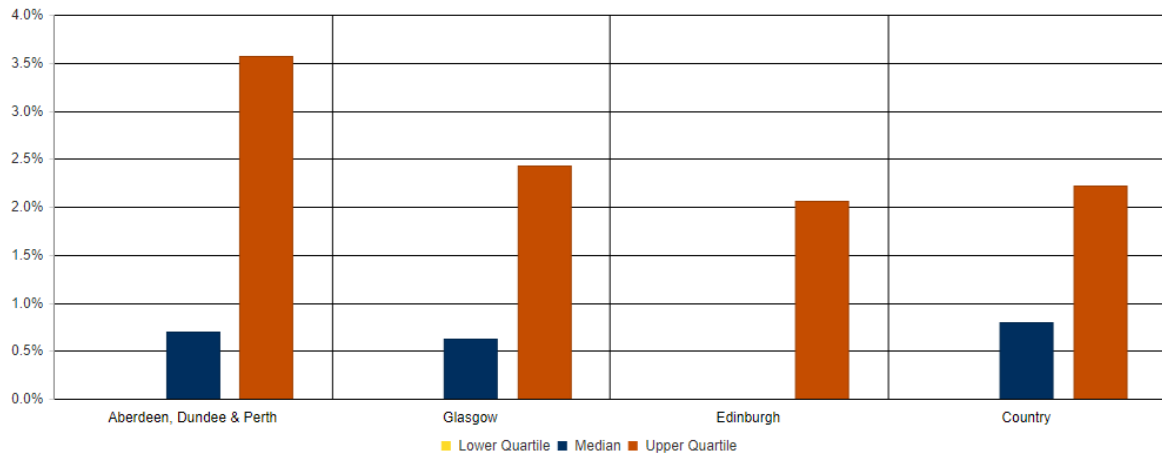


Larger firms spend a greater proportion of total costs on marketing & sponsorship, perhaps suggesting that larger budgets are made available in larger firms, in order to win higher value contracts.

Marketing & Sponsorship as a % of Total Expenditure (by Total Staff Numbers)



Marketing & Sponsorship as a % of Total Expenditure (by Region)



## 6. Profit

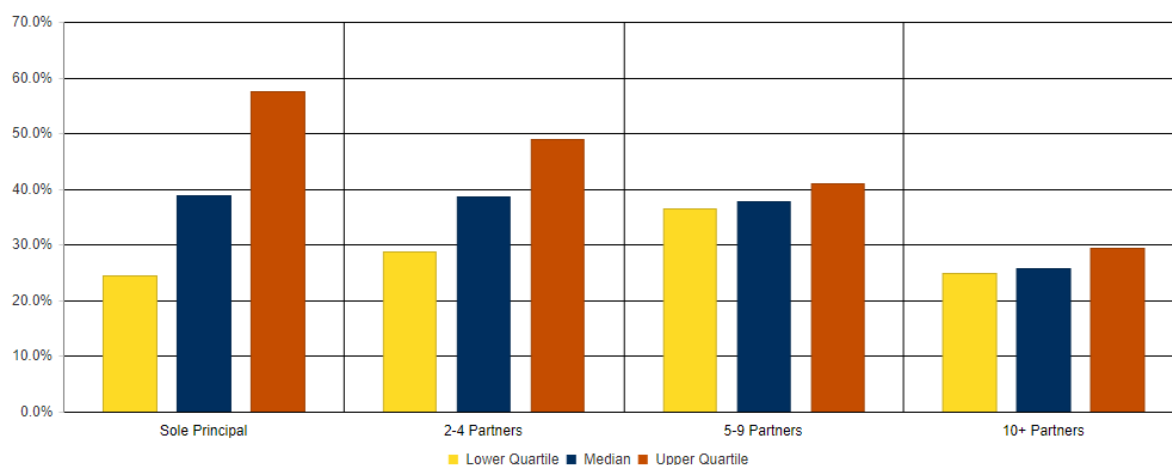
Profitability is a key indicator of financial health. It is generally accepted that larger law firms are more profitable, benefit from economies of scale and are better able to cope with the uncertainties of a volatile marketplace. However, the data shows that growth, particularly for firms below 10 partners, has not brought significant increases in profit. Even 10+ partner firms have performed worse than expected against certain metrics.

- 5-9 partner firms do not perform significantly better, financially, than 2-4 partner firms. Indeed, on some metrics 5-9 partner firms perform worse. Boutique 2-4 partner firms should consider carefully whether growth plans will deliver the higher profits hoped for.
- Larger, 10+ partner firms are more profitable but aren't necessarily realising economies of scale of the magnitude that might be expected. In addition, the data shows that large firms find it challenging to control work in progress and debtor days.

It should be noted that profit is before any allowance for equity partners' salaries, and before tax.

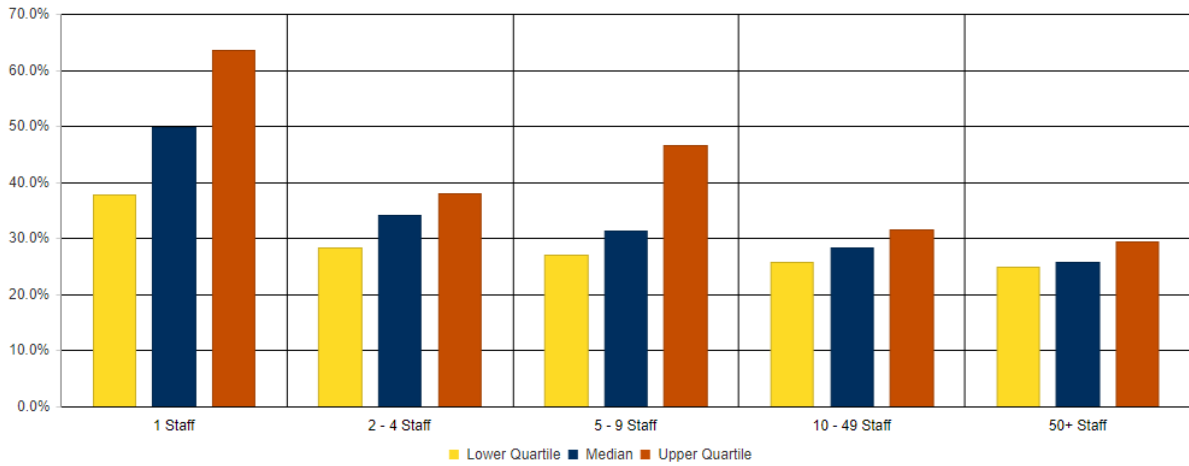
### Profit Margin (Percentage)

Profit Margin % (by Total Partner Numbers)



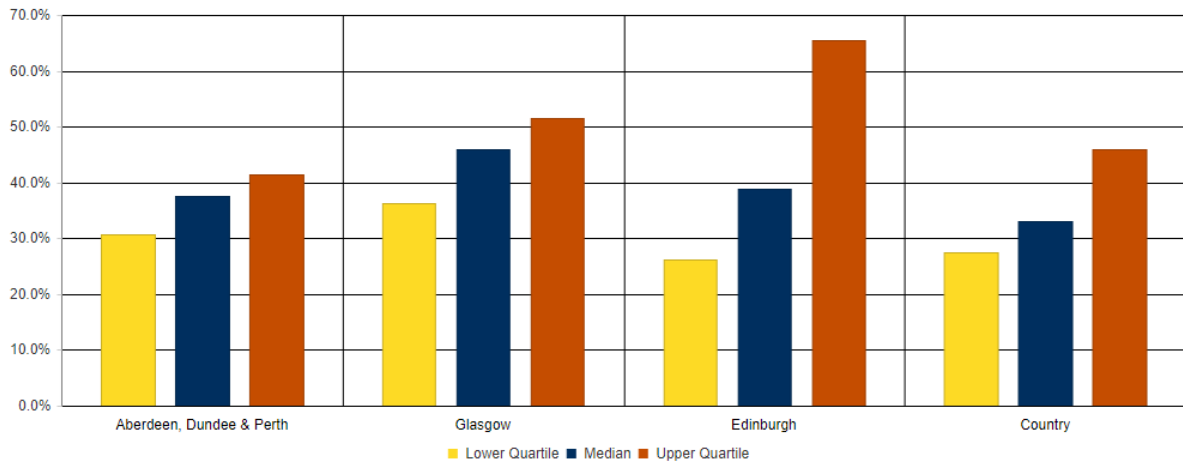
Median profit margin was consistent at around 38% for sole principals, 2-4 partner and 5-9 partner firms, with a lower median of 26% in 10+ partner firms.

Profit Margin % (by Total Staff Numbers)



The median profit margin decreased as firm size increased.

Profit Margin % (by Region)



The median profit margin ranged from 38.8% to 46.1% when firms were grouped by region.

## Profit per Partner

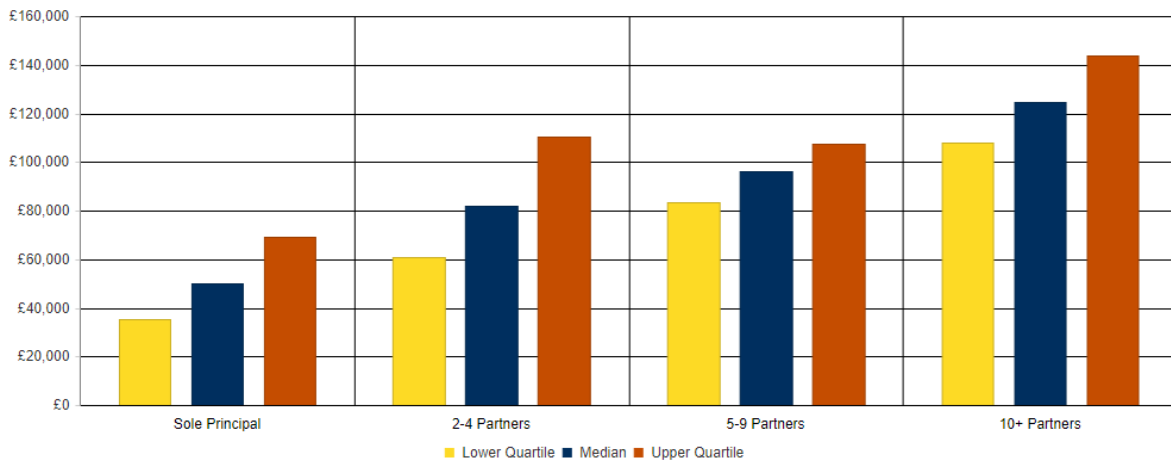
### Profitability of All Firms

Overall profitability at a median of £69,000 per partner (for all firms) was in line with the results from the 2014 survey. Within this, profitability increased in line with firm size; it was notable that since the 2014 survey, 2-4 partner firms have “closed the gap” on 5-9 partner firms with regards to profitability per partner

Once again, based on the median result for all firms of £69,000 per partner, the profitability of firms in Scotland is lower than the rest of the UK. The RBS 2016 Financial Benchmarking survey indicates median profit per equity partner of £111,000.

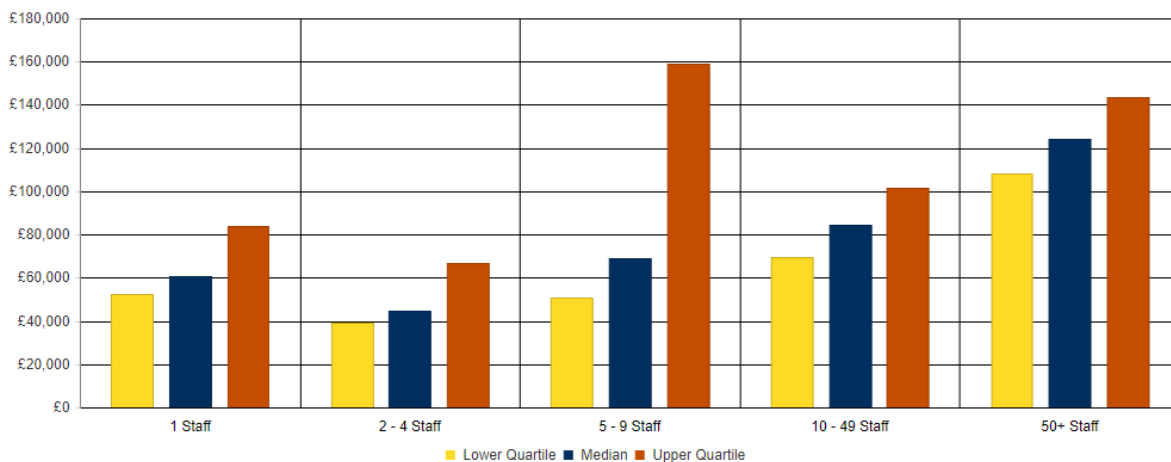
### Profitability of Firm Groupings

Profit per Partner (by Total Partner Numbers)



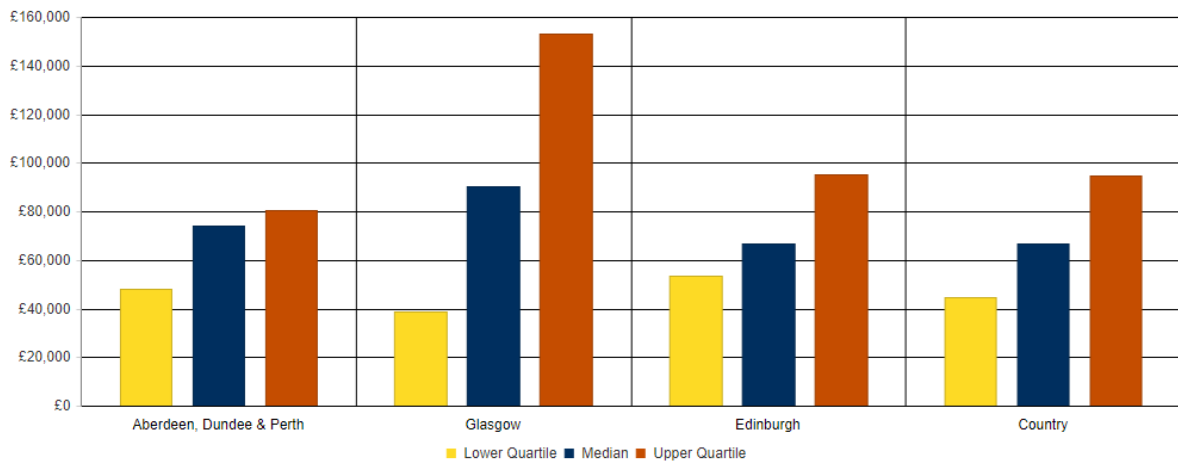
As expected, profit per partner was lowest in sole principal firms, with a median result of £50,269. Profit per partner increased as firm size increased; 10+ partner firms' median profit per partner was £124,508.

Profit per Partner (by Total Staff Numbers)



Profit per partner broadly increased as staff numbers increased; again, larger firms yield greater levels of profit per partner.

### Profit per Partner (by Region)



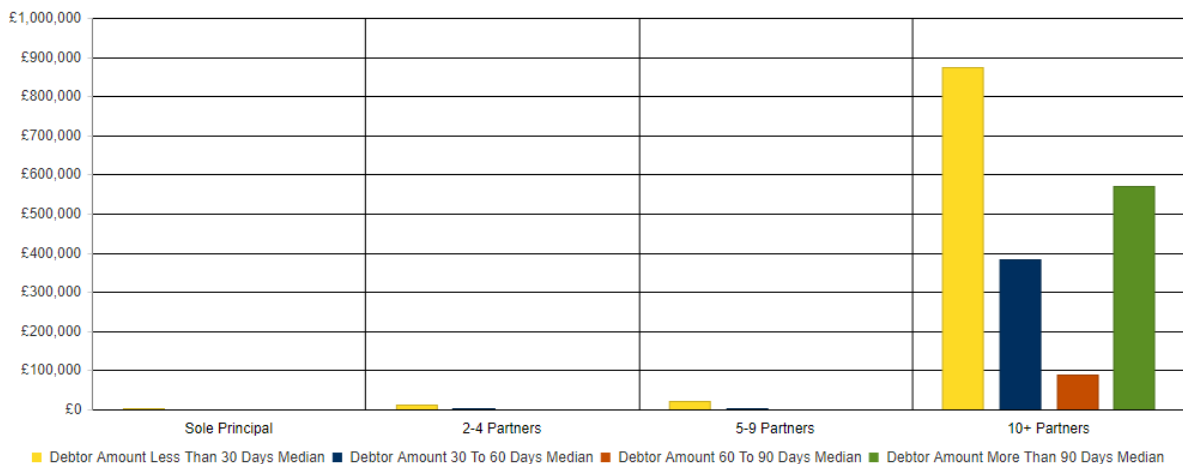
Median profit per partner ranged from £66,674 in Edinburgh to £90,292 in Glasgow.

## 7. Accounts

This section of the report examines accounting metrics which influence firms' financial health, such as debt, work in progress and bank balances. Of interest in this section are the results for age of debt and work in progress; the data shows that large firms find it challenging to control work in progress and debtor days.

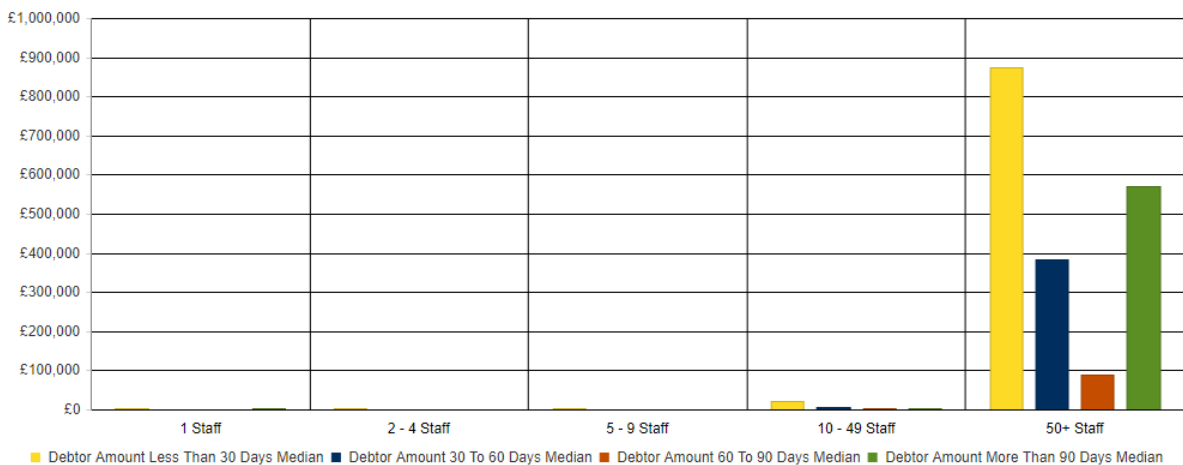
### Amount Owed by Clients & Age of Debt

Amount Owed by Clients & Age of Debt (by Total Partner Numbers)



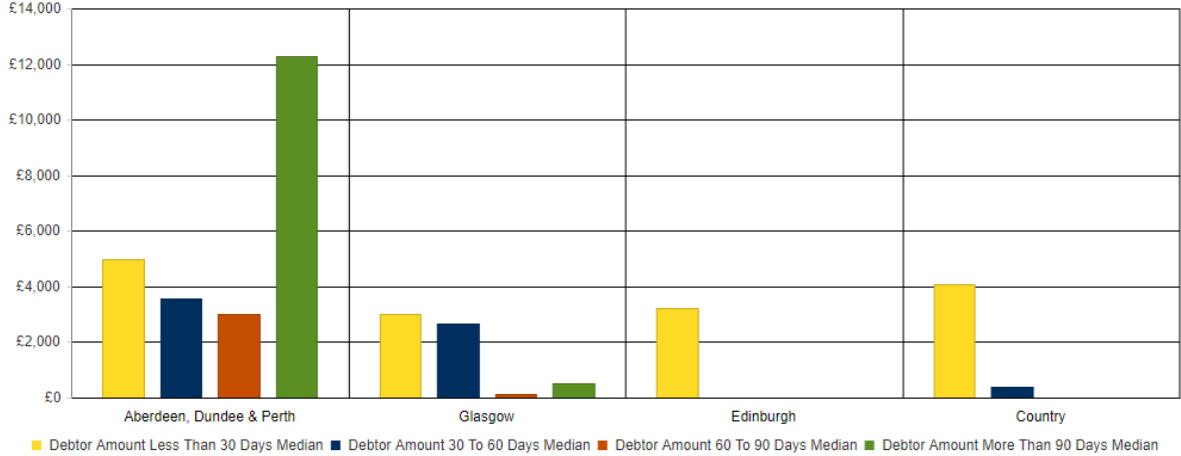
Levels of debt were higher in larger firms; the median result of £571,342 for debt over 90 days old in 10+ partner firms was concerning.

Amount Owed by Clients & Age of Debt (by Total Staff Numbers)



Levels of debt were higher in larger firms; the median result of £571,342 for debt over 90 days old in 50+ staff firms was concerning.

Amount Owed by Clients & Age of Debt (by Region)



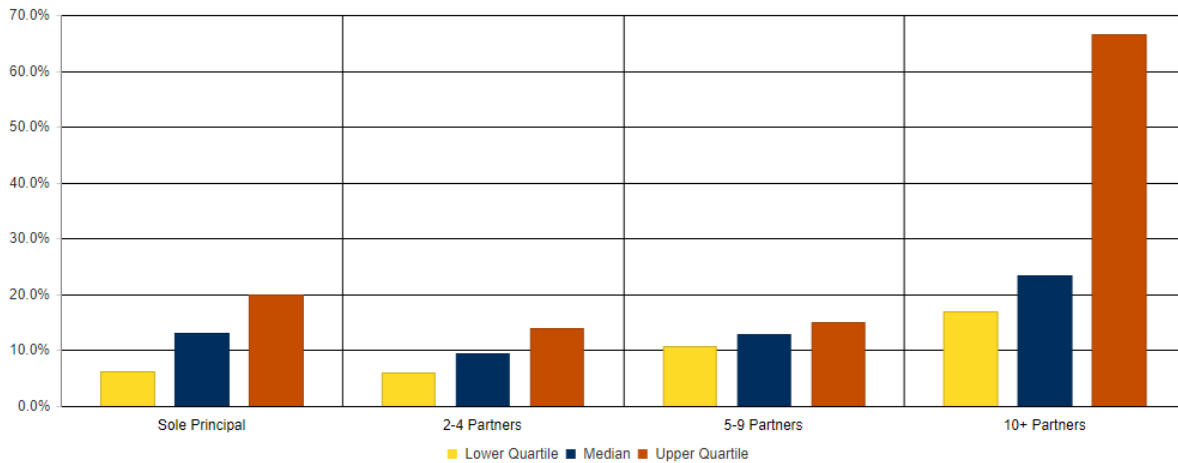
Levels of debt were notably higher in Aberdeen, Dundee and Perth, perhaps a reflection of the recent economic difficulties in Aberdeen.



## Amount of WIP as a Percentage of Total Fee Income

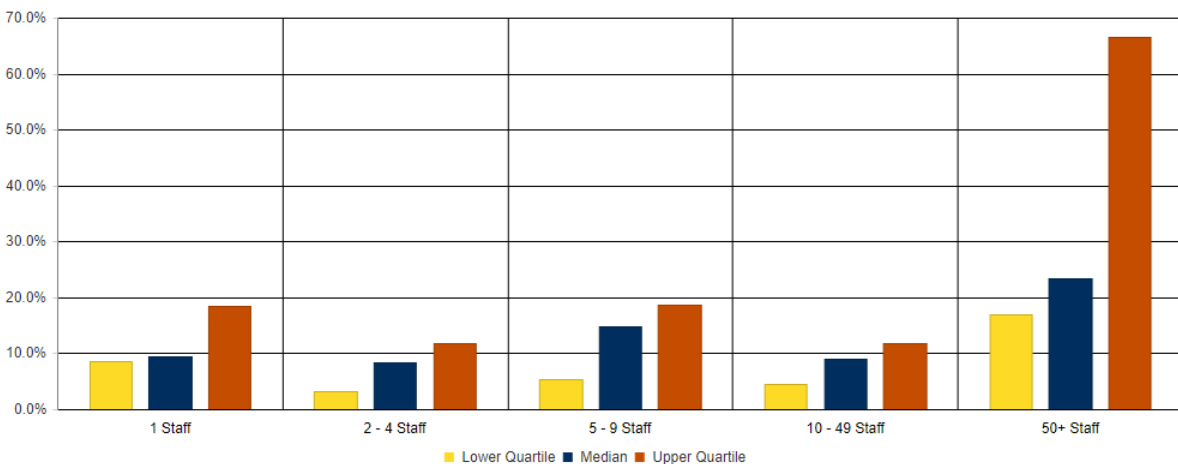
Work in progress (WIP) is a measure of how long it takes from the recording of an hour to the billing of that hour. A higher percentage of WIP included in total fee income indicates that a firm is not billing in a timely fashion, which could lead to cashflow difficulties.

Amount of WIP as a % of Total Fee Income (by Total Partner Numbers)



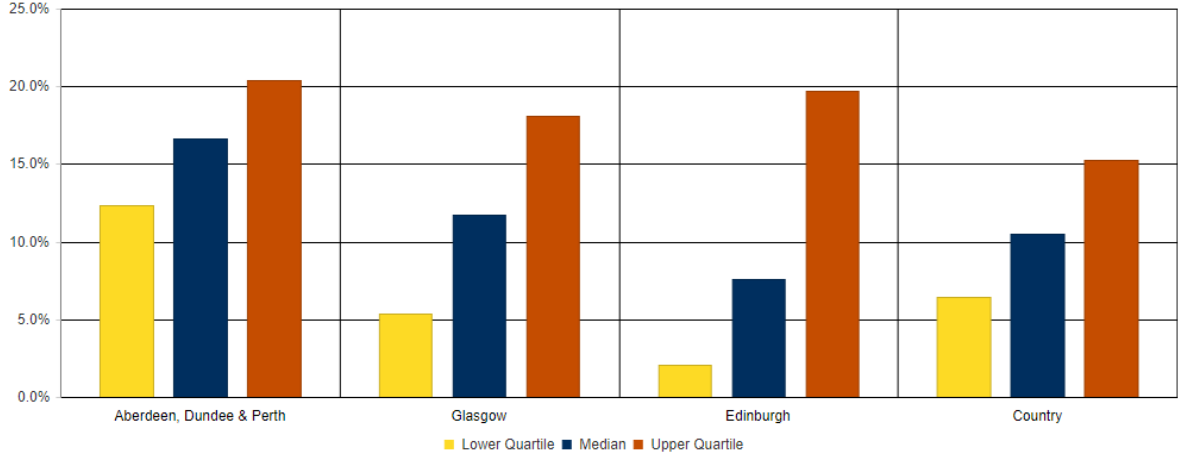
10+ partner firms seemed particularly exposed to risk with a median result of 23.5% for WIP as a percentage of total fee income. Levels of WIP as a percentage of total fee income were less risky in smaller firm sizes.

Amount of WIP as a % of Total Fee Income (by Total Staff Numbers)



Larger firms showed the highest median result for WIP as a percentage of total fee income at 23.5%.

Amount of WIP as a % of Total Fee Income (by Region)

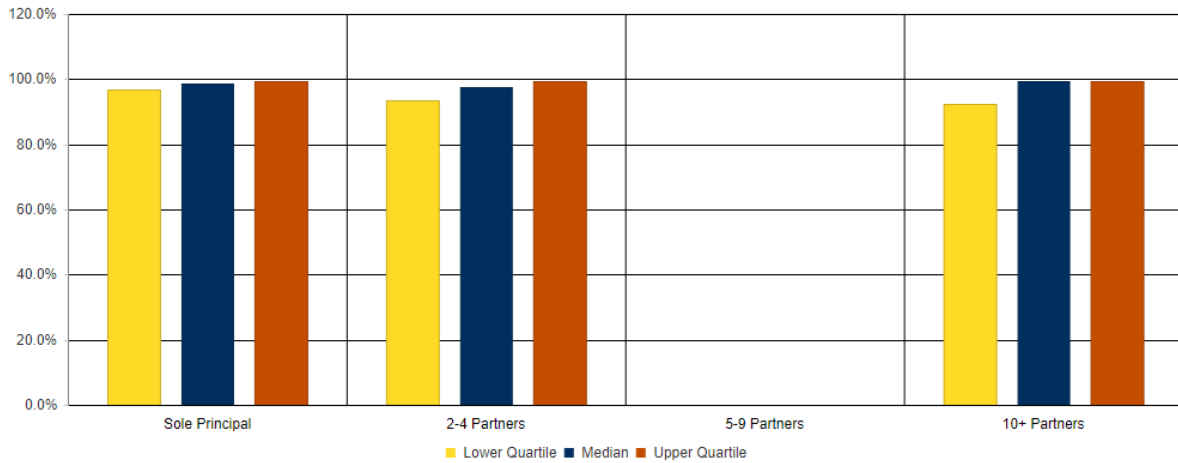


WIP as a % of total fee income was highest in Aberdeen, Dundee and Perth, perhaps a reflection of the recent economic difficulties in Aberdeen.

## Amount of WIP Recovered as a Percentage of Total Fee Income

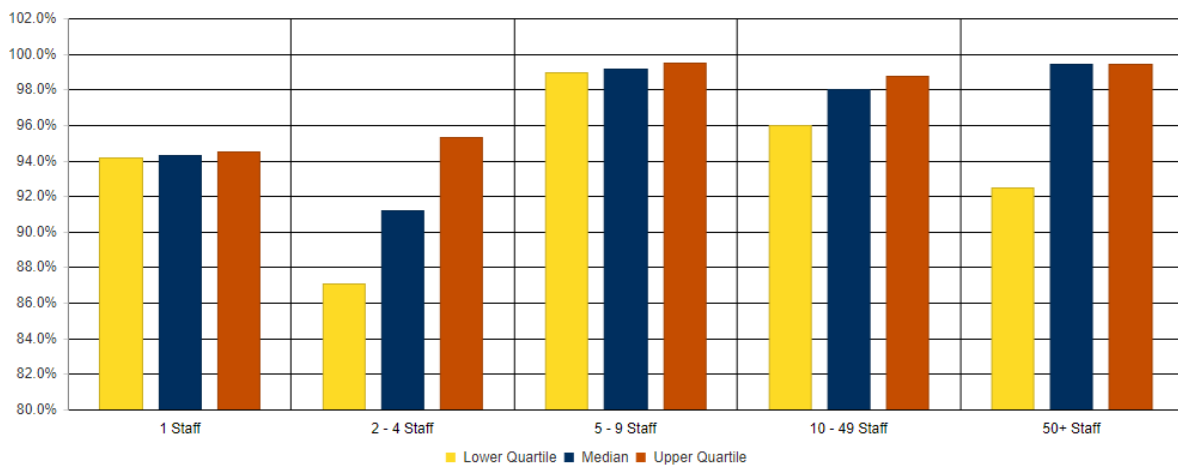
The amount of WIP (work in progress) recovered shows how effective firms are at collecting payment from clients. A higher level of WIP recovered indicates lower levels of write off.

Amount of WIP Recovered as % of Total Fee Income (by Total Partner Numbers)



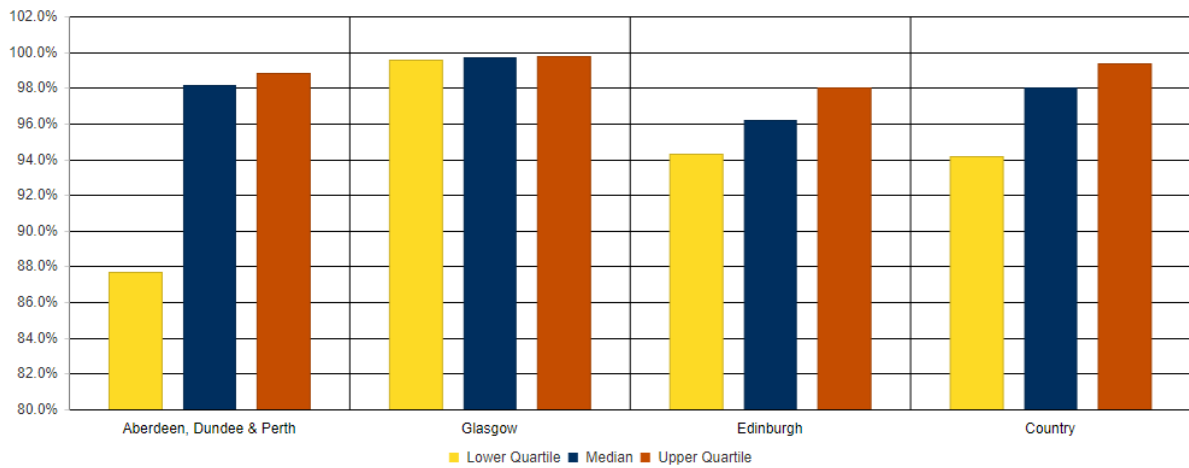
Levels of write-off were highest in smaller firms; perhaps an indicator of the mix of clients taken on by smaller firms and a lack of resource to chase debt effectively. (N.B. not enough 5-9 partner firms answered this question so **to protect firm anonymity** no results are shown).

Amount of WIP Recovered as % of Total Fee Income (by Total Staff Numbers)



Levels of write-off were highest in smaller firms; perhaps an indicator of the mix of clients taken on by smaller firms and a lack of resource to chase debt effectively.

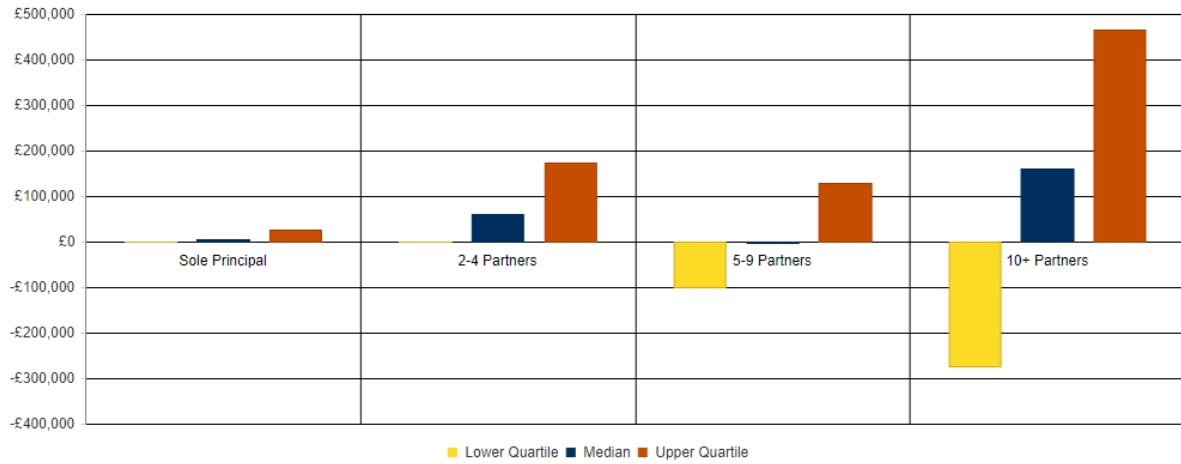
Amount of WIP Recovered as % of Total Fee Income (by Region)



The median write-off as percentage of total fee income was highest (or lowest WIP recovery rate) in Edinburgh although the variance across the regions was relatively small.

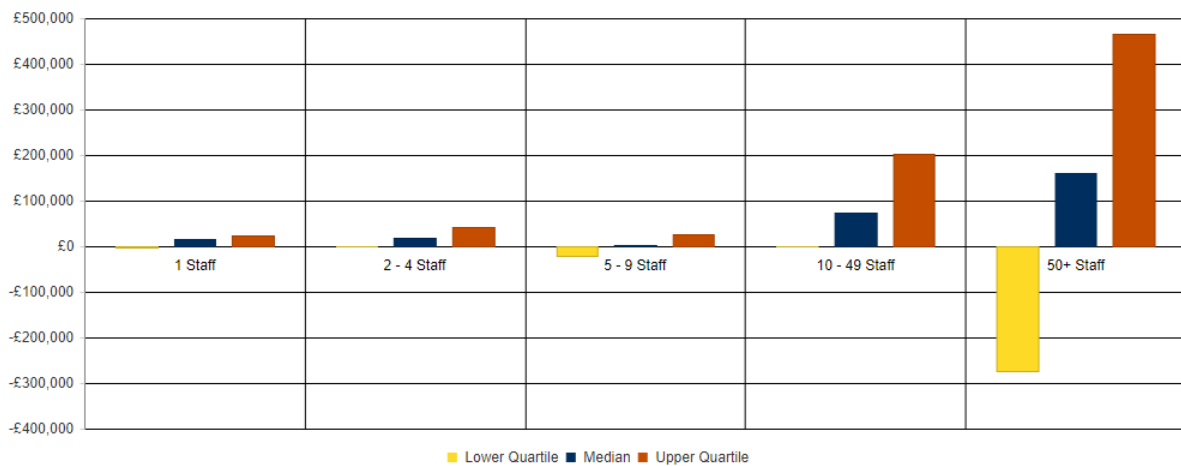
## Bank Balance

Bank Balance (by Total Partner Numbers)



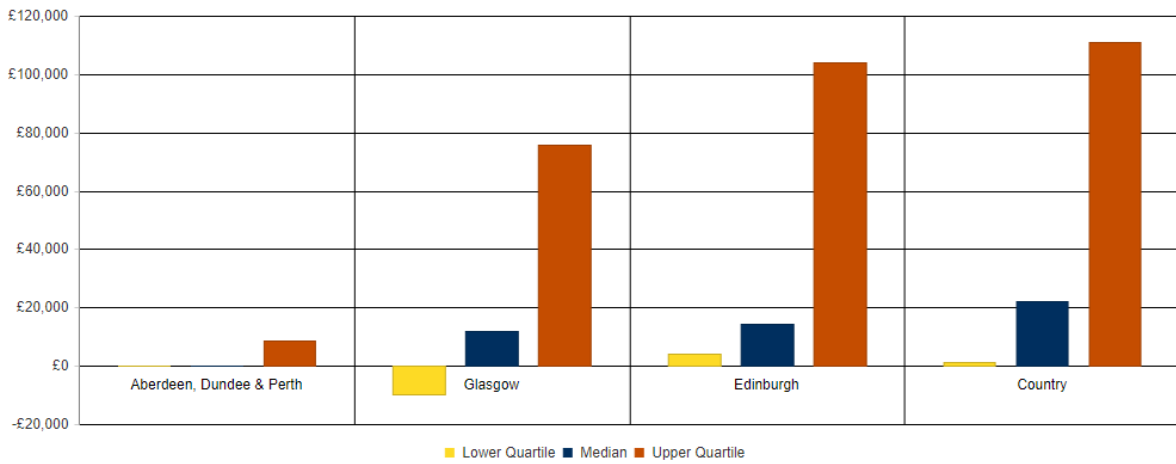
The median bank balance increases in line with firm size with the notable exception of 5-9 partner firms with a median bank balance of -£2,217.

Bank Balance (by Total Staff Numbers)



Broadly, the median bank balance increases in line with firm size.

Bank Balance (by Region)

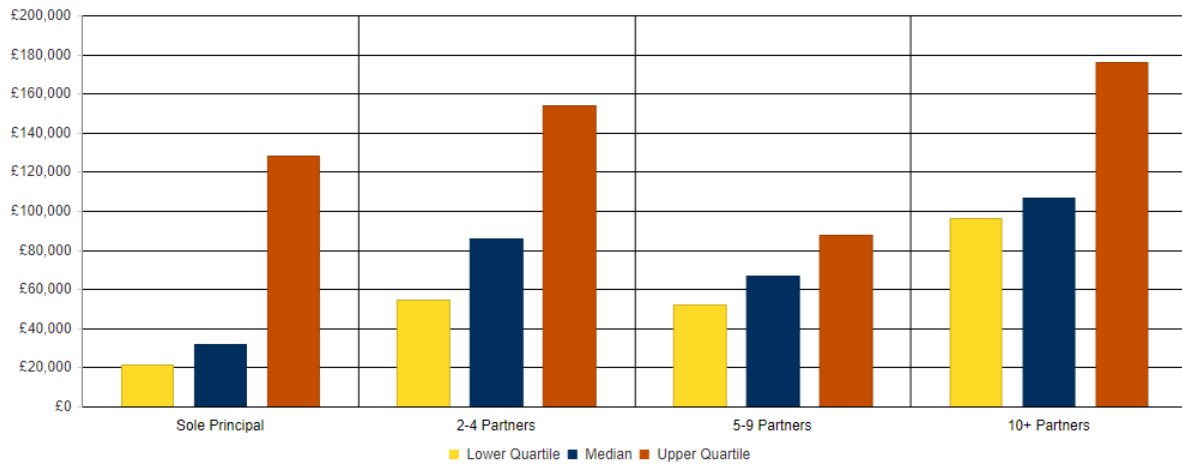


Median bank balances were lowest in Aberdeen, Dundee and Perth, perhaps a reflection of the recent economic difficulties in Aberdeen.

## Capital per Partner

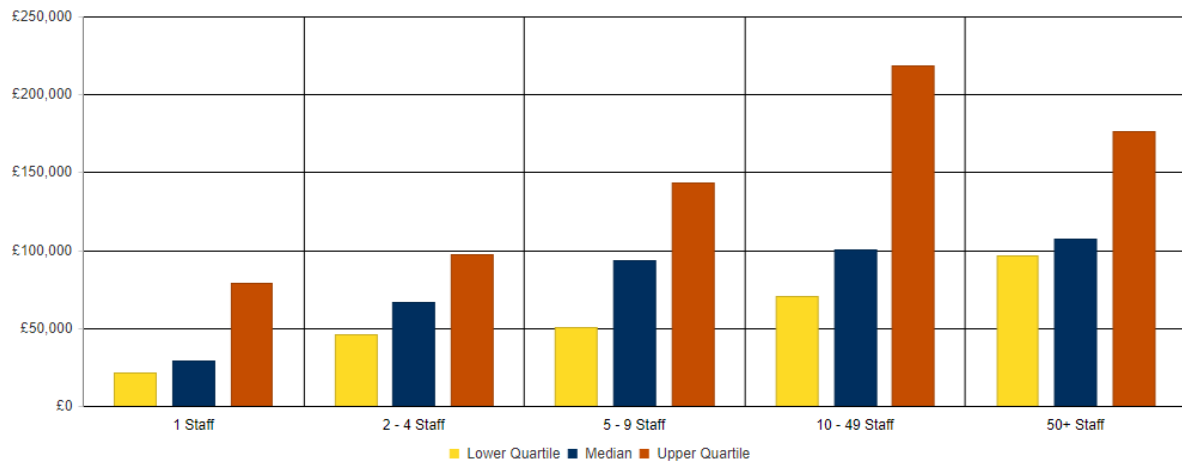
Total of the partners/members' capital accounts, divided by total partner numbers.

Capital per Partner (by Total Partner Numbers)



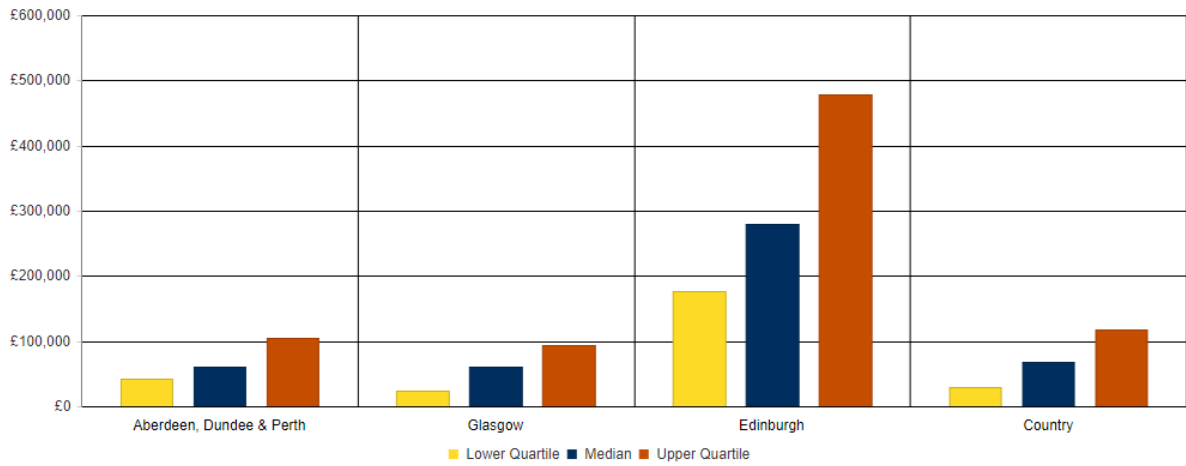
Capital per partner rose in line with firm size, although once again 5-9 partner firms bucked this trend with a median result of £67,034. Median results for sole principals and 10+ partner firms were lower than in the 2014 survey and continued a downward trend, but 2-4 and 5-9 partner firms' median results had improved on the results in the 2014 survey.

Capital per Partner (by Total Staff Numbers)



Median capital per partner rose in line with firm size when firms were grouped by total staff numbers.

### Capital per Partner (by Region)



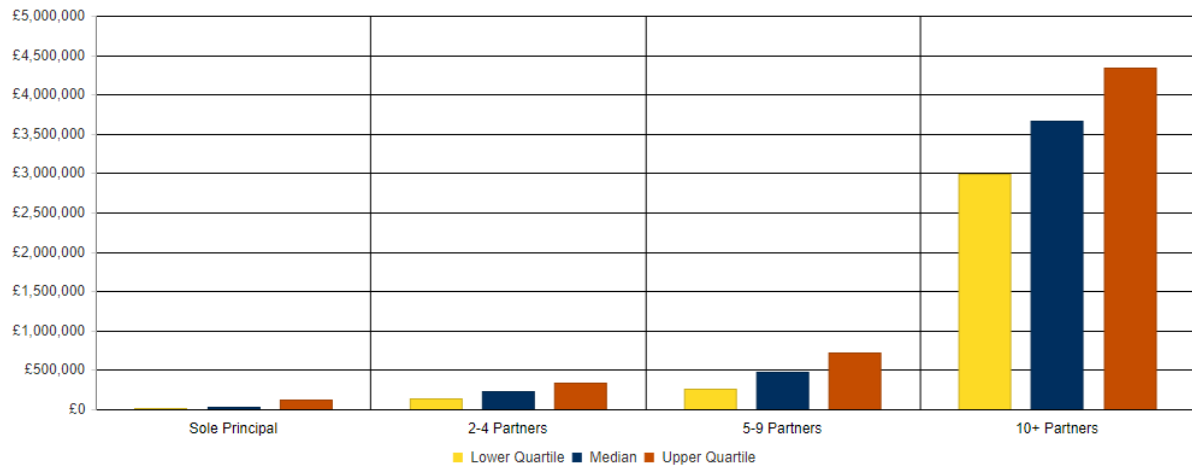
When firms were grouped by region, Edinburgh showed the highest result for capital per partner. In the other regions, median capital per partner was fairly consistent at around £60,000.



## Capital

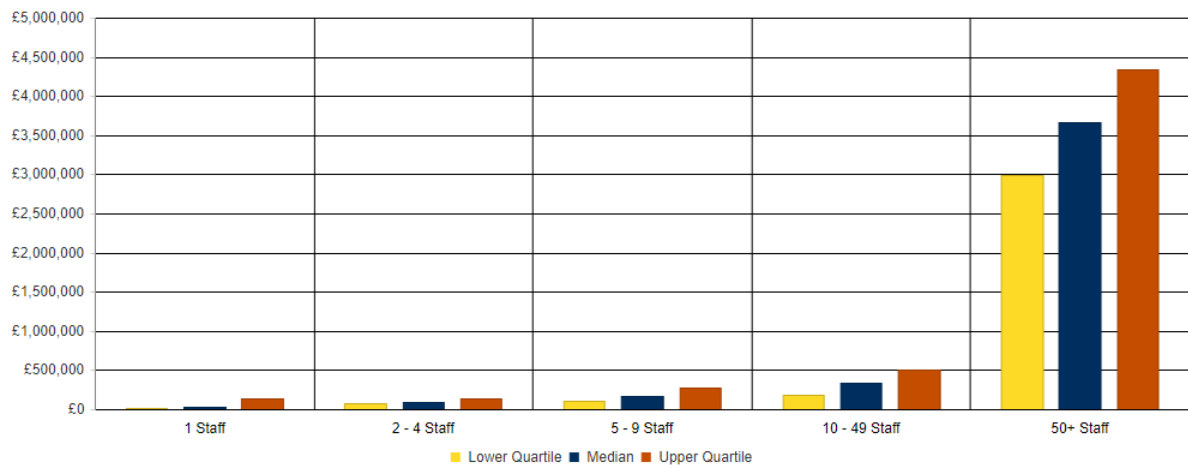
Total of the partners/members capital accounts.

Capital (by Total Partner Numbers)

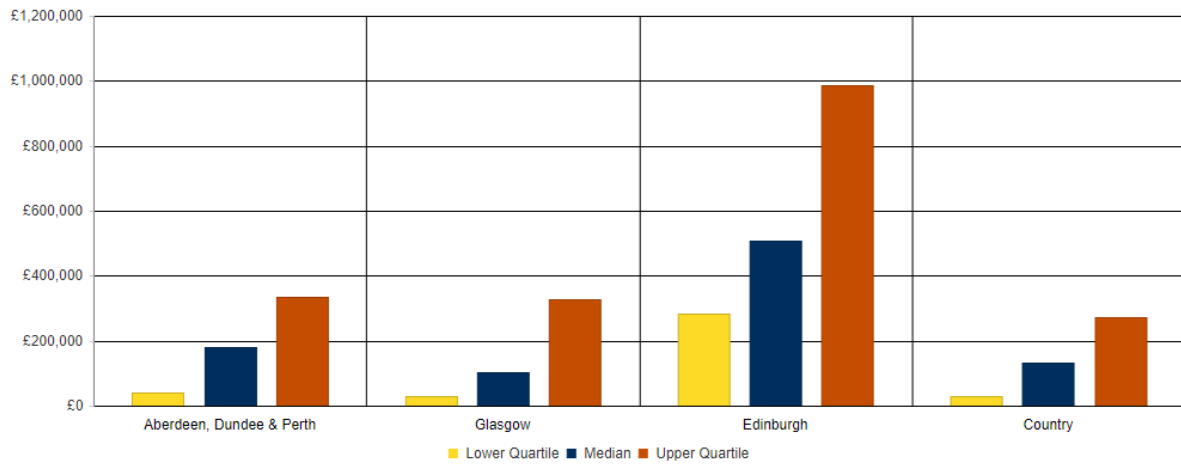


Total capital increased with firm size.

Capital (by Total Staff Numbers)



### Capital (by Region)



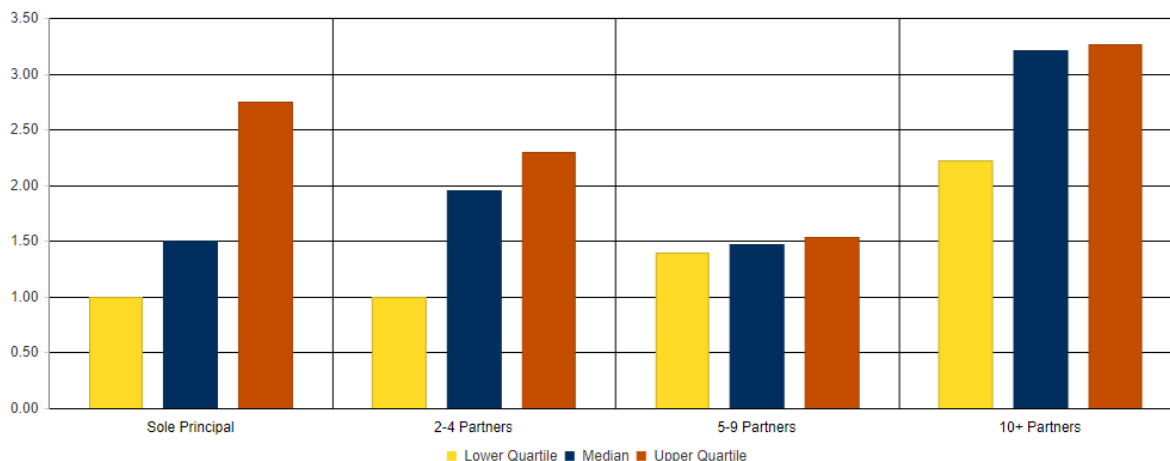
When firms were grouped by region, Edinburgh showed the highest result with median total capital of £509,039.

## 8. Staff

This section includes key staffing metrics such as staff gearing ratios, average salaries and hourly rates.

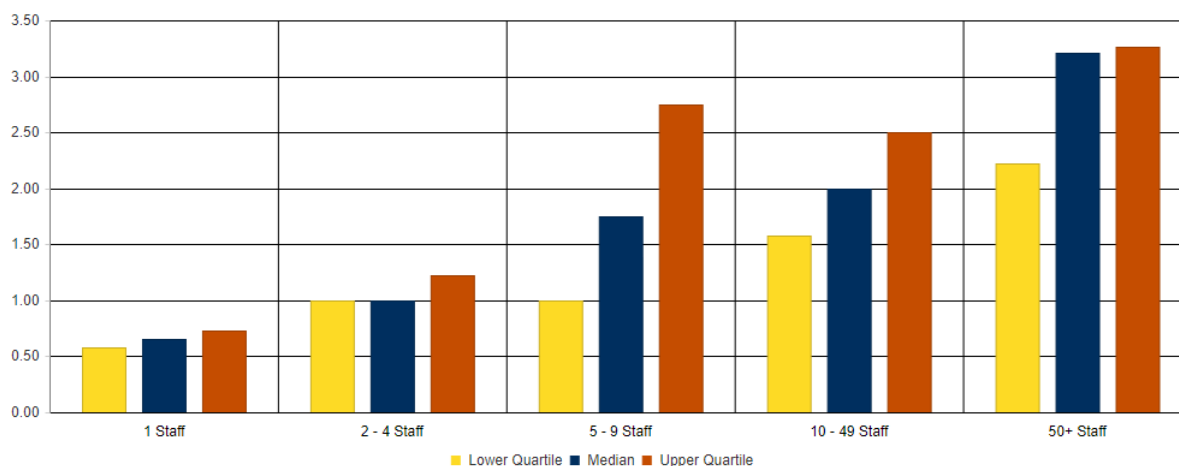
### Fee Earner Gearing

Fee Earner Gearing (by Total Partner Numbers)



Fee earner gearing (the number of fee earners in proportion to each partner) is a strong indicator of the likely profitability of a firm; a higher gearing ratio means that partners are able to delegate work to less expensive fee earners and the "mix" of fee earning staff is more cost efficient. As expected, 10+ partner firms showed the highest fee earner gearing ratio, and the performance of 2-4 partner firms is also worth noting.

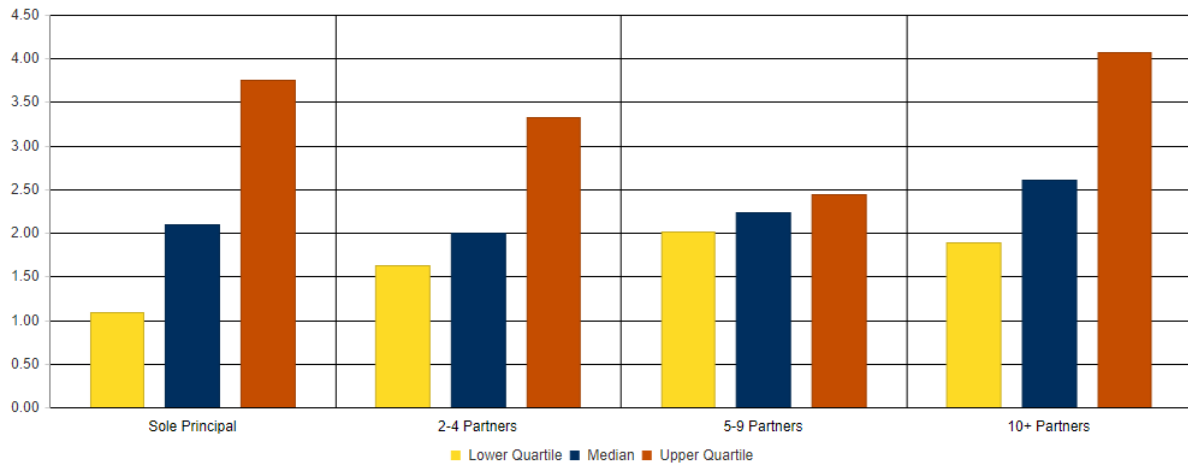
Fee Earning Gearing (by Total Staff Numbers)



Median fee earner gearing increased with firm size when firms were grouped by total staff numbers.

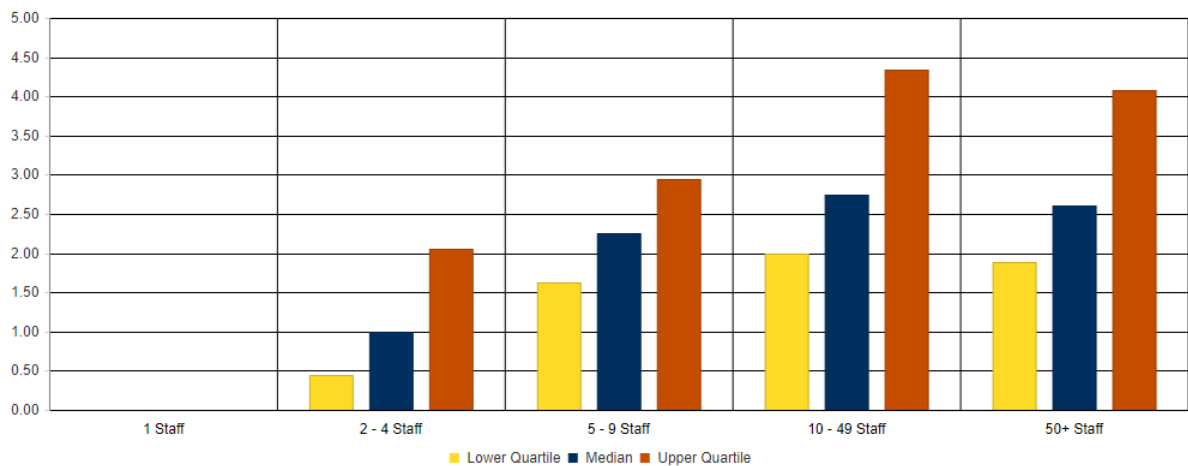
## Non-Fee Earner Gearing

Non Fee Earner Gearing (by Total Partner Numbers)



Non-fee earner gearing shows the number of support staff per partner. Compared to previous years, this ratio has increased across all firm sizes from a median of 1 to a median of just over 2 for all firms, perhaps suggesting that firms are allowing their partners to focus more on cases and business development, and less on administration.

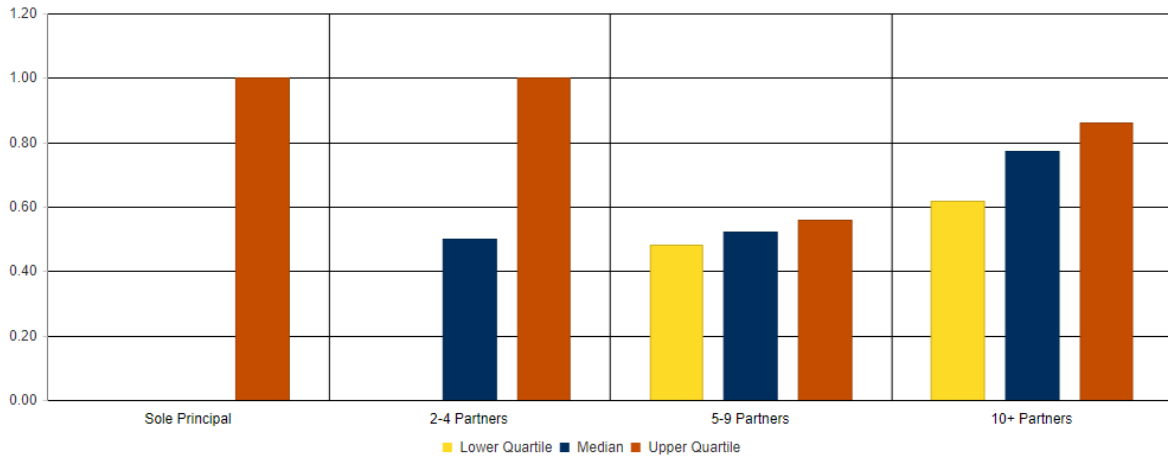
Non Fee Earning Gearing (by Total Staff Numbers)



When firms are grouped by total staff numbers, the results broadly reflect the pattern seen when firms are grouped by partner numbers.

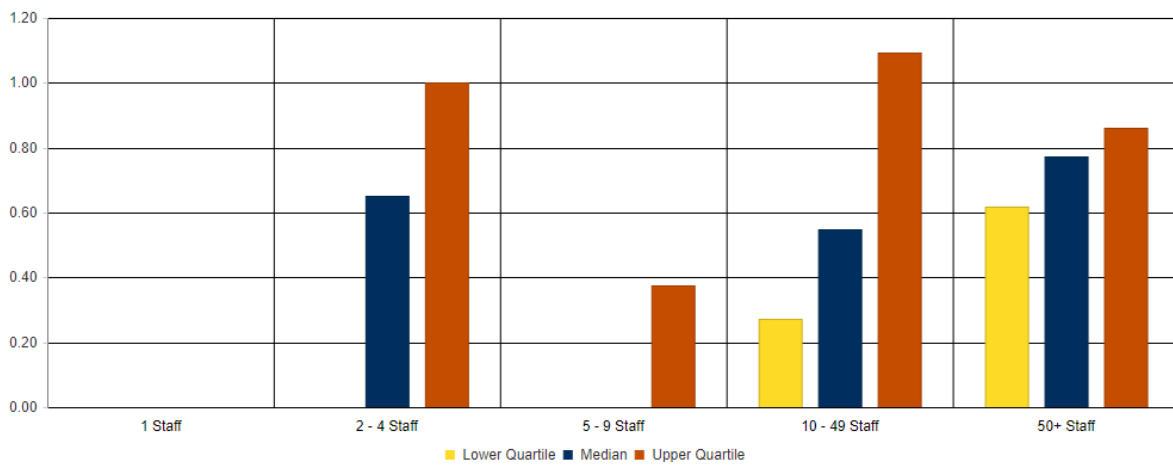
## Paralegals Gearing

Paralegals Gearing (by Total Partner Numbers)



A higher paralegals gearing ratio could be a good or a bad thing. More paralegals per partner is a cost-effective way of delivering high volumes of less complex work; however, if work volumes decrease it can be difficult and costly to reduce staff numbers. The median results show that firms are employing increasing numbers of paralegals, with the ratio being slightly higher in larger firms, as expected.

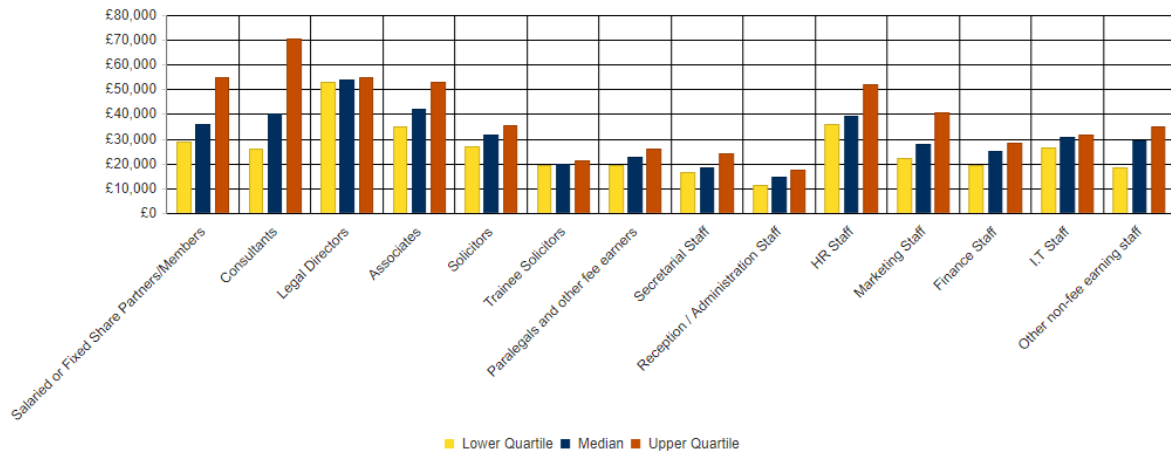
Paralegals Gearing (by Total Staff Numbers)



## Average Salaries

This chart shows average salary results across all staff types. A lower proportion of respondents completed the "staff" section of the survey questionnaire, so we are unable to subdivide the firms, and results are shown for all firms.

Average Salaries (by Staff Type)

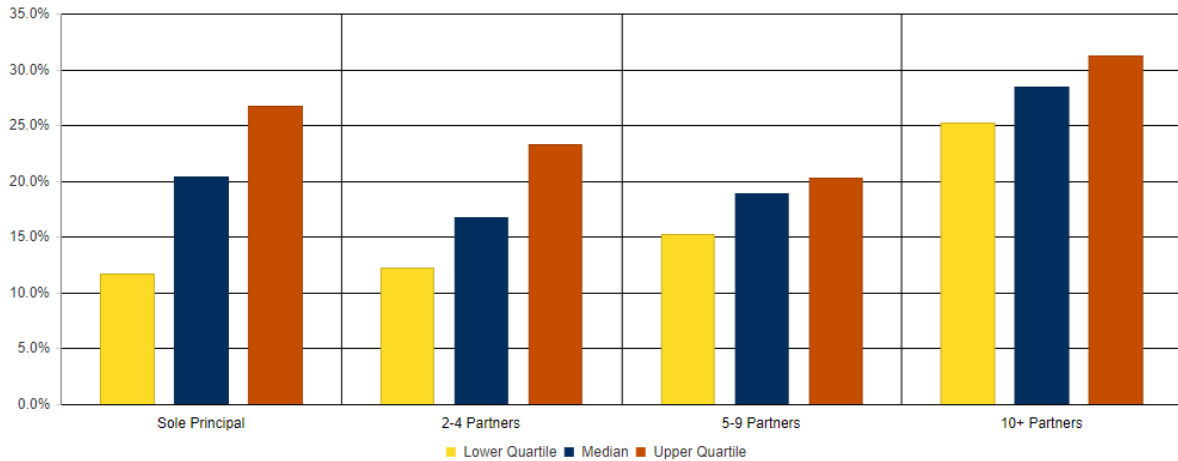


For most staff types, the lower and upper quartiles are relatively close to the median result, indicating that the range of salary levels is not particularly wide. However, for Salaries or Fixed Share Partners/Members, Consultants, Associates and HR Staff, the upper quartile result is notably higher than the median result, indicating that there is a greater variation in salaries for these staff types, especially at the “top end”.

## Fee Earner Salaries as a Percentage of Total Income

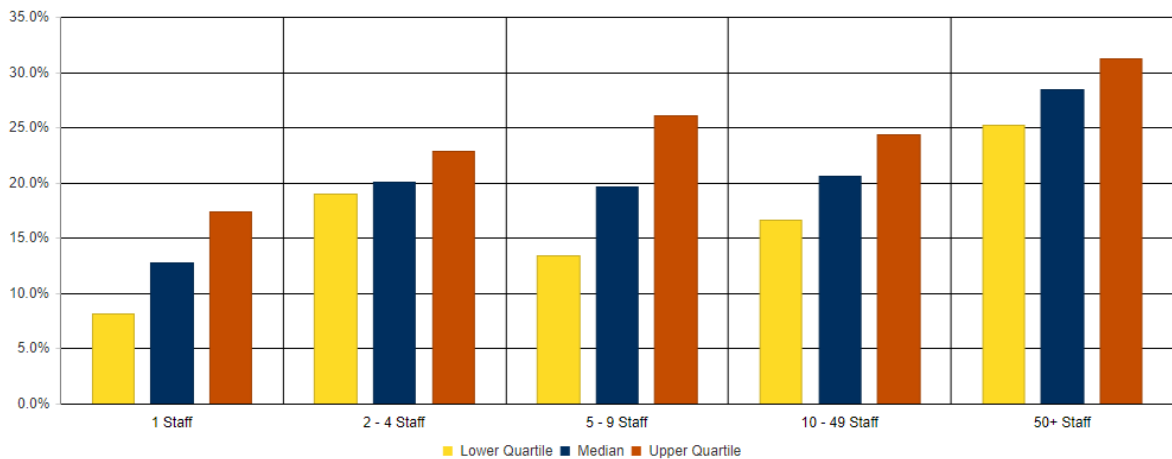
Some respondents chose not to identify the split between equity partners and salaried partners. In these cases, all partners (equity or salaried) have been included as fee earners.

Fee Earner Salaries as a % of Total Income (by Total Partner Numbers)

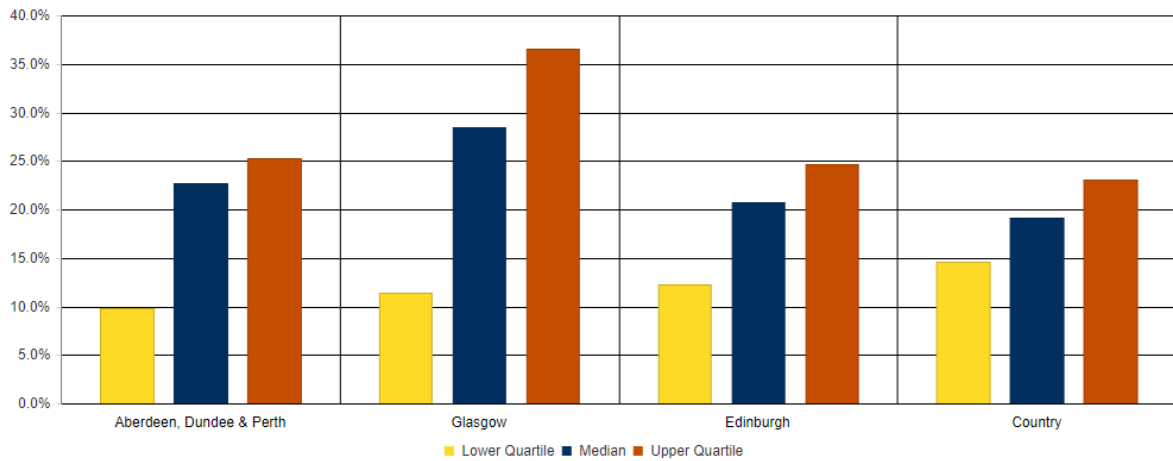


Fee earners' salaries represented a greater proportion of total income in larger firms, with a median result of 29.9%.

Fee Earner Salaries as a % of Total Income (by Total Staff Numbers)



Fee Earner Salaries as a % of Total Income (by Region)

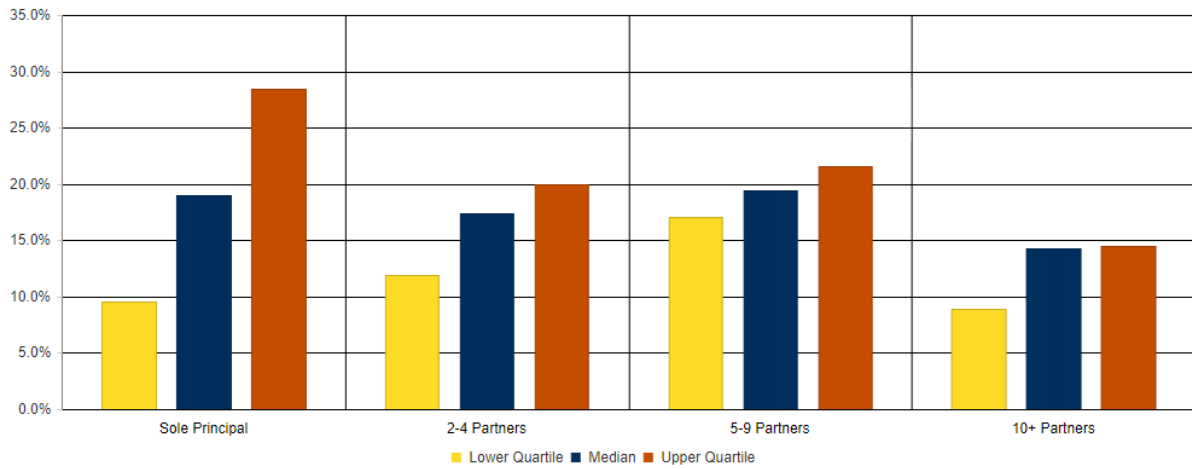


Charts showing salaries for each type of fee earner are available on the reporting website for the Financial Benchmarking Survey, accessible via [www.lawscot.org.uk/financialbenchmarking](http://www.lawscot.org.uk/financialbenchmarking)



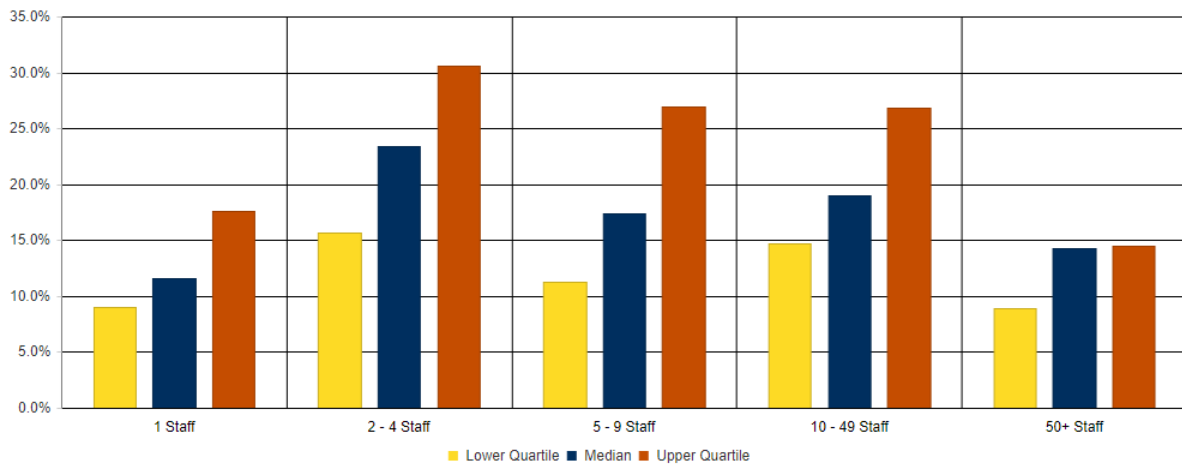
## Non-Fee Earner Salaries as a Percentage of Total Income

Non-Fee Earner Salaries as a % of Total Income (by Total Partner Numbers)

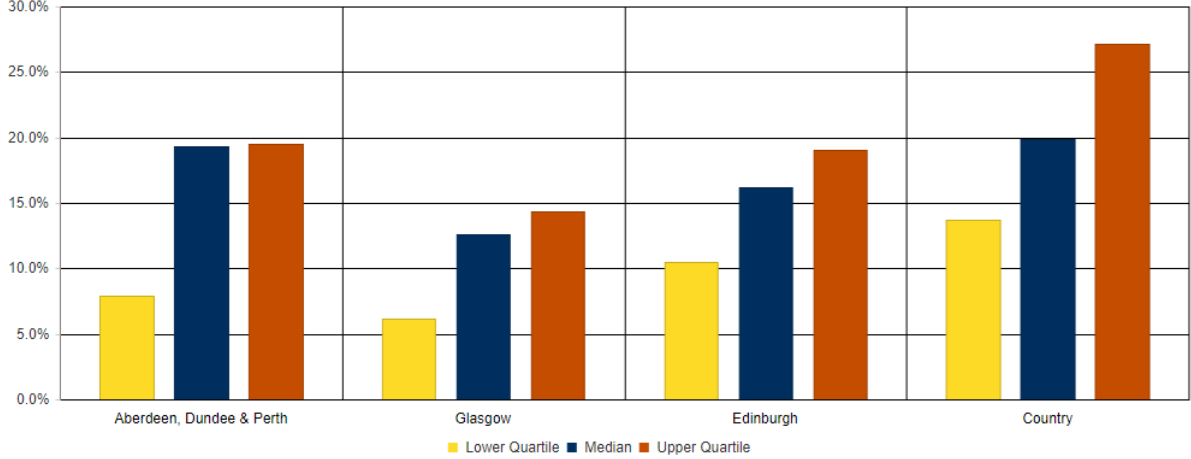


Non-fee earner salaries as a percentage of total income represented a lower proportion of total income in larger firms, with a median result of 12.6%.

Non-Fee Earner Salaries as a % of Total Income (by Total Staff Numbers)



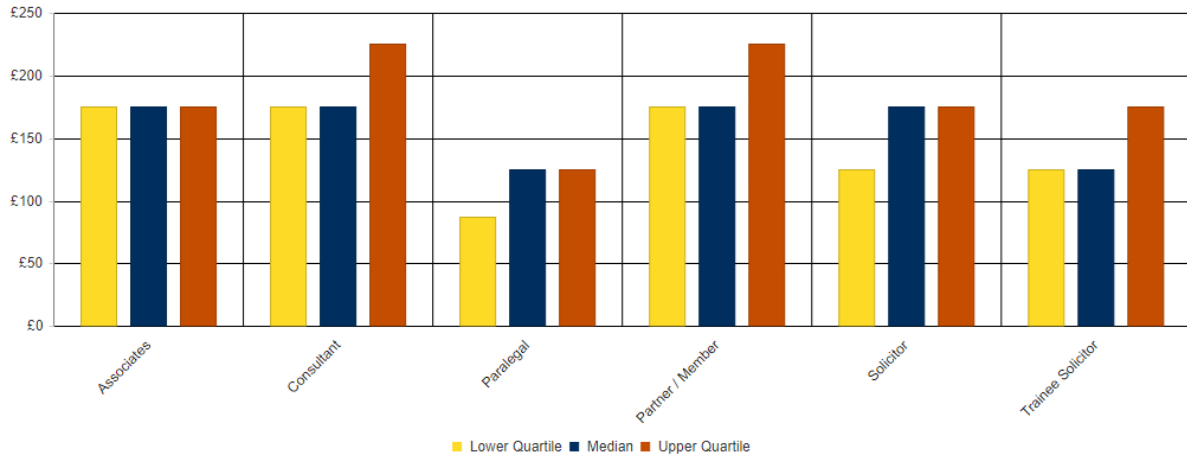
Non-Fee Earner Salaries as a % of Total Income (by Region)



## Hourly Rates

This question asked respondents to provide hourly rates for civil court work. Options were £0-£100, £100-£150, £150-£200, £200-£250, £250-£300, £300-£400, £400-£500, over £500. The midpoint of each range is displayed for example £175 where respondents answered £150-£200.

Hourly Rates (by Staff Type)



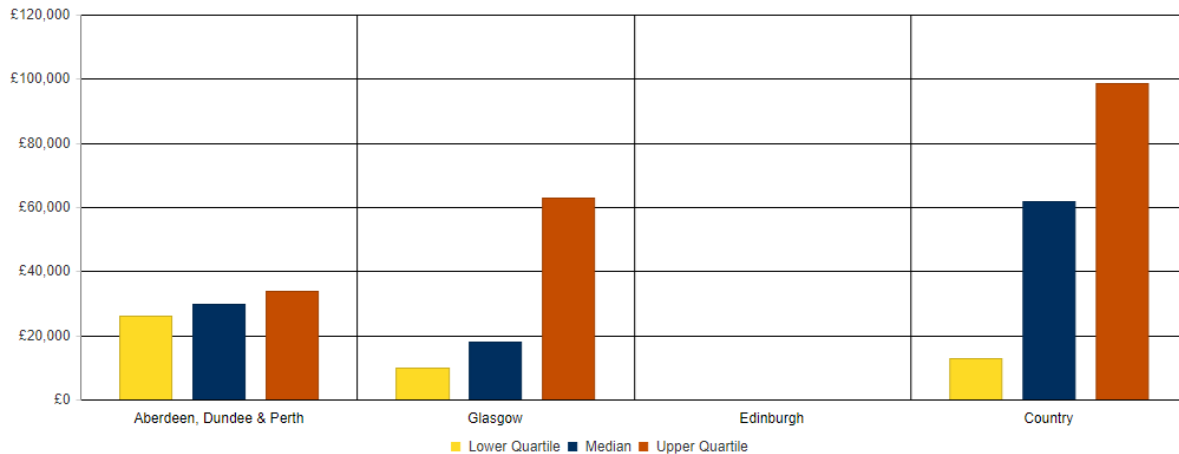
Across all types of fee earner, by far the most common hourly rate for civil court work was £150-£200.

Charts showing hourly rate for each type of fee earner are available on the reporting website for the Financial Benchmarking Survey, accessible via [www.lawscot.org.uk/financialbenchmarking](http://www.lawscot.org.uk/financialbenchmarking)

# 9. Work Types

## Legal Aid Income per Partner

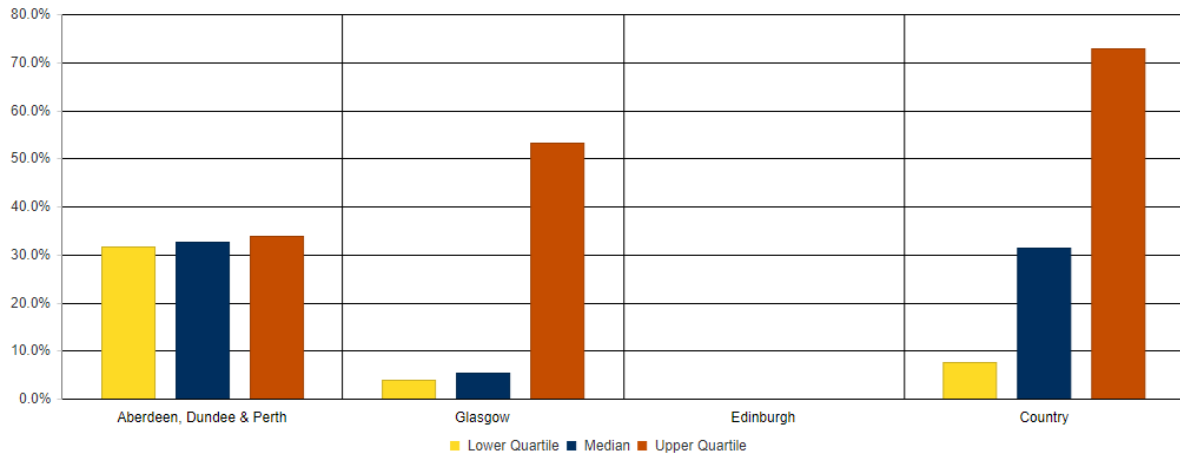
Legal Aid Income per Partner (by Region)



The data shows that legal aid income per partner was highest in country firms. However, due to the relatively low number of respondents who answered the “Work Types” question, caution is advised when interpreting these results. We would expect higher results for Glasgow and Edinburgh so the low results shown for these regions are likely to be an effect of sample bias for this question.

## Legal Aid Income as a Percentage of Total Income

Legal Aid Income as a % of Total Income (by Region)



The data shows that legal aid income as a percentage of total income was highest in country firms, and firms in Aberdeen, Dundee and Perth. However, due to the relatively low number of respondents who answered the “Work Types” question, caution is advised when interpreting these results. We would expect higher results for Glasgow and Edinburgh so the low results shown for these regions are likely to be an effect of sample bias for this question.

## 10. Definitions & Terminology

### Income

Income

Total gross income

Fee income

All fee income including legal aid income and court fees

Non-Fee Income

This could include interest on savings and investments, client accounts or other bank accounts or rents received

### Expenditure

Office premises

Office premises costs Including rent, mortgage payments, rates, utilities, buildings / contents insurance etc, maintenance and cleaning

Staff salaries

Not including partners' drawings but including the salaries for salaried or fixed share partners. Including employer's NIC and employer's contributions for staff pensions. For limited companies, excluding director salaries

Staff training & library resources

Including costs of external and internal training events, books for library and subscriptions to online learning resources such as Lexis Nexis or PLC

Other staff costs

Including practising certificate fees

IT & website

Including software licensing, development, hardware purchase and maintenance costs etc. Not including salaries for in-house IT staff - these are included under staff salaries

Marketing & sponsorship

Marketing and sponsorship cost not including salaries for marketing staff which are included under staff salaries

Client entertaining, client training & business development

Costs associated with client entertaining, client training & business development

P.I. premium costs

Professional indemnity insurance costs

Other

Including any expenditure that isn't covered by another category e.g. postage, printing

## **Profit**

### Profit Margin

Profit margin (income minus costs) expressed as a percentage of income i.e. (total gross income minus expenditure) divided by total gross income

### Profit per partner

Profit divided by the total number of partners in the firm

It should be noted that “profit” is before any allowance for a salary (for profit-sharing partners) and is before tax

## **Accounts**

### Amount owed by clients

Work billed, commission owed and outlays outstanding at the end of the Financial Year

### Age of debt

The number of days a bill has been unpaid since it was issued

### Work in progress

A measure of how long it takes from the recording of an hour to the billing of that hour

## **Staff**

### Staff Numbers

Total FTE (full time equivalent) of all staff within a firm

## Fee Earners

### Partners

Equity partners and salaried or fixed share partners/members. Members includes members of an LLP, multi-national practice or licensed provider and shareholders and directors of a company, as relevant to your structure

### Associates

Associates and any Senior Associates

### Solicitors

Senior Solicitors, Assistant Solicitors and Solicitors

### Paralegals and other fee earners

Paralegals, legal executives, and any other staff who are fee earners but not solicitors, and not included in any other fee earner sub-categories

## Non-fee earners

Secretarial staff

Reception/administration staff

HR staff

Marketing staff

Finance staff

I.T. staff

Other non-fee earning staff

Any staff who are not fee earners and are not included in the above sub-categories

Fee Earner Gearing

The number of fee earners in proportion to each partner

Non-Fee Earner Gearing

The number of non-fee earners (support staff) in proportion to each partner

Paralegals Gearing

The number of paralegals in proportion to each partner

### **Work Types**

Commercial

Includes:

Partnerships

Licensing

Insolvency Work

Leasing (non-heritable property)

Environmental law

Intellectual Property

Planning

Employment Advice

Banking

Shipping / Maritime Law

Energy Law

Franchising

Commercial Contracts

Regulatory Matters

Corporate

Includes:

Company / Business Acquisition / Sales

Employment Matters



Insolvency  
EEC and Competition Law  
Banking  
Employee Benefits  
Management Buy-outs  
Share Purchase / Reorganisation  
Company Formation  
Company Secretarial  
Public Issues

Criminal (including criminal legal aid)

Includes: Criminal Injuries Compensation Board and all other Criminal, non-legal aid court work.

Civil (including civil legal aid)

Includes all civil court work such as:

Arbitration  
Commercial  
Construction  
Personal Injury  
Matrimonial  
Employment Tribunal  
Children's Panel  
Debt Recovery / Defence/Diligence  
Alternative Dispute Resolution  
Licensing  
Reparation  
Re-possession  
Planning (Enquiry)  
Interdict  
Family / Child Law Matters  
Lands Tribunal

Children's legal aid

Financial services

Includes:

Investment Advice  
Pension Advice  
Pension Scheme Administration  
Pension / Employee Benefits  
Mortgage Advice  
Tax Advice  
Insurance Advice (not general insurances)  
Bonds  
Split Capital Investments  
Zero Dividend Investments

## General

### Includes:

Guardianship

Charity Administration / Law

Adoption

Immigration / Naturalisation

Preparation of Accounts

Social Security Matters

Mental Health Matters

Miscellaneous advice and matters not otherwise shown e.g. Powers of Attorney

## Insurance

### Includes:

General insurance work i.e. Arranging or providing advice on arranging general insurance contracts, not concerned with Financial Services legislation

## Property/conveyancing

Domestic (including domestic securities)

Commercial including Farms and Estates, Fishing, Minerals & Security Work (not domestic)

Hotels and Licensed Premises

Property Letting / Factoring

Leasing (heritable property)

Planning

Time Share Schemes

Crofting Matters

Succession to Tenancies

Estate Agency

## Tax advice

### Includes:

Tax Compliance

Tax Planning

Tax Advice

## Trust and executry

### Includes:

Will Drafting

Trust Administration

Trust Variation

Executry Administration

Tax Planning

Off-Shore Trusts

## Acronyms

### FTE

Full time equivalent. For example, a member of staff working for 20 hours of a standard 40-hour week will be 0.5 full time equivalent (FTE).

WIP  
Work in progress

## 11. Contact

For any questions about the survey please contact the Research Team at the Law Society.  
[research@lawscot.org.uk](mailto:research@lawscot.org.uk)

We welcome your feedback on the survey and the user experience, including any ideas you have for future improvements to the survey. Please email feedback to  
[lawscot.benchmarking@tribalgroup.com](mailto:lawscot.benchmarking@tribalgroup.com)