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of SCOTLAND

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Financial Benchmarking **2014**

The 2014 survey of law firms in Scotland

John Pollock and Andrew Otterburn

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President



Foreword from the President of the Law Society of Scotland and Convener of the Remuneration Committee

The Society's latest financial benchmarking survey report shows improving fortunes for law firms, with small to mid-sized firms showing the biggest increase in profits per equity partner in 2014.

Our annual survey of firms' financial performance gives us a picture of the overall health of the profession, and the results from the 2014 survey, which show an almost 8% increase in overall profits per equity partners of law firms, support increasing optimism expressed across the profession.

The report shows that smaller firms have largely driven the rise, with 2-4 partner firms showing a 17% increase in profits per partner from 2013. Larger firms continue to achieve the highest profits per partner, although this year showed a drop from 2013 figures back to 2012 levels for profit per partner, indicating that there is still some way to go before we experience pre-recession profit levels.

Overall, however, the legal sector has largely been successful in weathering the economic storm of recent years. We have seen significant consolidation within Scotland's legal sector, including cross-border mergers with firms in England and Wales and global law firms. Some high-profile firms have failed, but these have been few and, despite the downturn and pretty sluggish recovery, the Scottish solicitor profession now has more than 11,000 solicitors for the first time ever.

In addition to the economic climate, digitalisation and technology, globalisation and new entrants to the market have all contributed to a period of unprecedented change for the sector. However, what remains key to running a successful

law firm is that solicitors require to be excellent business managers, as well as having the legal knowledge and skills expected of them by their clients.

This year's report highlights that, while there are improved bank balances, cash flow remains key and, for many firms, getting paid promptly remains a major issue. Managing cash flow and credit control is essential for any business so being clear with clients about the cost and billing arrangements is vital.

The Society is there to support its members and offers training and information on a whole range of business management and financial planning topics. We would recommend that you take a look at our website www.lawscot.org.uk and talk to the Society's professional support team about how we can help.

We would also like to take this opportunity to thank everyone from all 185 firms who took time to complete the 2014 survey. We know that many solicitors find the report a highly useful and important management tool which enables them to measure their own performance as well as benchmark their firm with other similar practices whether by size or location, or both.

We hope you find this year's report an interesting and informative read.

Alistair Morris and Graham Matthews

About the authors

Dr John Pollock, a consulting actuary, has been responsible for the administration and statistical aspects of the cost of time survey since 2002 and is a member of the Law Society of Scotland Remuneration Committee. John is well known to personal injury, employment and family law solicitors in Scotland through his expert witness work at Pollock & Galbraith Consulting Actuaries.



Dr John Pollock

Andrew Otterburn is a management consultant and has advised around 250 firms on their management and profitability. He has helped in the development of the cost of time survey since 1999, working initially with Professor John McCutcheon and now with Dr John Pollock. Author of *"Profitability & Law Firm Management"* (Law Society 2007), his new book, *"From Recession to Upturn – financial management and strategy for law firms"*, was published by the Law Society of Scotland in 2010.



Andrew Otterburn

1 Executive summary

The 2014 survey of law firms in Scotland is based on information provided by 185 firms, representing 16% of firms in Scotland. As far as we are aware, it is the largest annual financial survey undertaken by any European bar association.

Overall totals

- Total fee income – £227 million, of which £75 million was in respect of court work and £12 million was legal aid;
- Fee income of the 11 firms with more than 10 partners – £148 million.

Profitability

- Overall profitability rose slightly from a median of £64,000 per equity partner to £69,000 this year. The increase is driven purely by 2-4 partner firms, with all other size groups seeing profits fall;
- The profitability of firms in Scotland is lower than the rest of the UK, with the RBS/NatWest 2014 Financial Benchmarking Report indicating median profit per partner of £107,000;
- It should be noted that “profit” is before any allowance for a salary and is before tax. An equity partner’s ability to actually take any income is also dependent on the cash being available and that is not always the case, especially where a firm is expanding.

Sole principals

- The median profit for sole principals fell from £47,000 to just £41,000;
- The profitability of sole principals is especially poor in Glasgow where the median was just £26,000;
- These very small firms often undertake legal aid and provide a key service within their communities.

2-4 partner firms

- The profitability and viability of 2-4 partner firms is much healthier with a median profit per equity partner of £74,000, up from £64,000 last year;
- Capital per equity partner has increased this year for 2-4 partner country firms – from £37,000 last year to £54,000 this year. Firms in Glasgow saw capital fall slightly;
- Fees per equity partner are very much higher for 2-4 partner firms than for sole principals and have improved in all areas compared to last year.

5-9 partner firms

- These firms achieved median profits of £92,000 per equity partner;
- 5-9 partner country firms saw profits rise and a significant improvement in their bank balances from a median of £30,000 last year to £128,000 this year;
- Despite the higher levels of profit, median capital per equity partner for 5-9 partner country firms fell to just £52,000 – down from £87,000 last year.

10+ partner firms

- Median profit per equity partner for 10+ firms was £163,000. Whilst these profits might appear high, it should be noted that these are far lower than the top 100 UK law firms generally;
- Retained capital per equity partner was a median of £166,000 and in a quarter of firms was over £264,000.

2 Introduction

A total of 185 firms participated in the 2014 survey, representing 16% of the 1,192 firms in Scotland. As far as we are aware, it is the largest annual survey undertaken by any bar association in Europe. A response rate of this level for a voluntary survey continues to be good compared to other surveys of professional firms.

Overall totals:

- Total fee income – £227 million, of which £75 million was in respect of court work and £12 million was legal aid;
- Fee income of the 11 firms with more than 10 partners – £148 million.

The size and location of the firms is summarised below, based on the total number of partners each firm has – equity and salaried.

Size and location of participating firms

Number of partners	Edinburgh	Glasgow	Aberdeen, Dundee, Perth	Country	Total
1	13	17	3	43	76
2-4	7	22	10	46	85
5-9	1	1	2	9	13
10+	7	4	0	0	11
Total	28	44	15	98	185

The 185 firms comprise 1,761 fee earners.

	2014	2013
Equity partners	518	566
Salaried partners	151	186
Associates	271	272
Qualified assistants	293	289
Consultants	35	31
Trainees	160	175
Unqualified assistants	333	398
	1,761	1,917

1,045 of the 1,761 fee earners were working in the 11 largest firms.

The “average” financial year-end was 31 December 2013, with one quarter before 31 August 2013 and one quarter after 31 March 2014.

2 Introduction

The survey has been conducted each year since 1984 and every firm in Scotland is invited to take part. A total of 81% of the 185 firms had participated last year, with 71% having contributed in each of the last three years. Although it would be helpful to have a greater overall level of participation, and more new contributing firms, this group of committed participants does contribute a measure of stability to the results.

The sample is self-selecting and this may introduce bias into the results in a manner that is not directly quantifiable. There is a relative under-participation by sole practitioners and a relative over-participation of firms with 2-4 partners.

Each graph and table shows the median together with the lower and upper quartiles. The median is the middle value in the range and is not influenced by the magnitude of the extreme values (as the arithmetic average or mean can be). The quartiles indicate the range of values. A total of 25% of firms are below the lower quartile, and 25% of firms are above the upper quartile.

The median figures are generally reliable, being based on fairly large samples. The quartiles are reliable for the largest categories but should not be relied upon for the smaller groupings, where numbers can be very small.

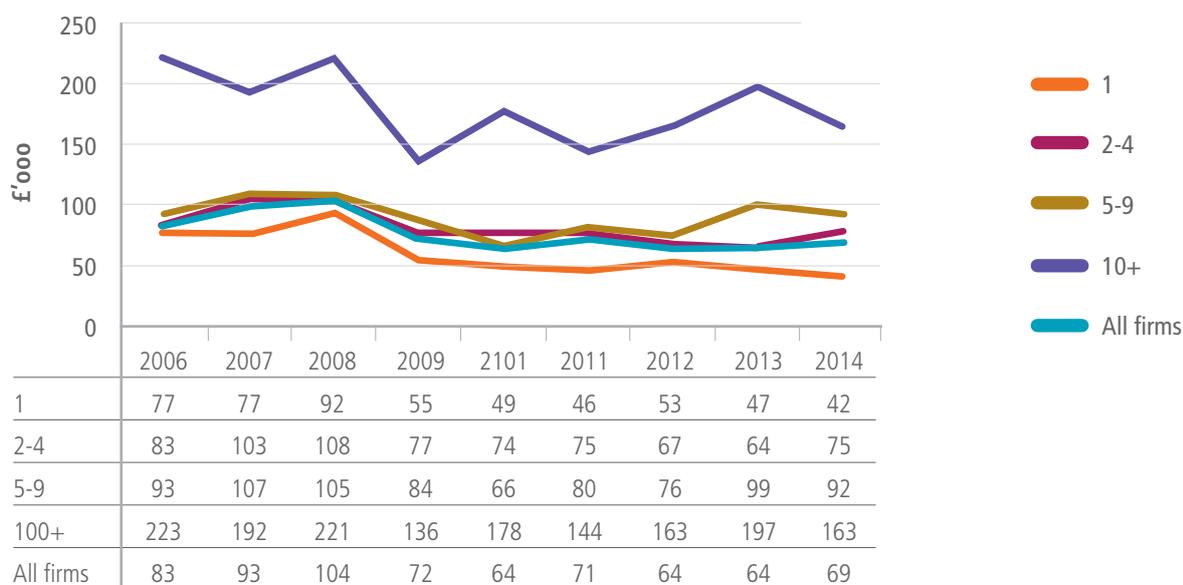
It is important to note that prior to the 2013 survey, the classification of firms was by the number of equity partners. Last year, the classification was changed and is now based on the total number of partners – equity and salaried.

3 Overall results

Profitability

Profitability is key to financial success and the chart indicates that overall profitability has increased slightly this year. This overall rise was largely due to the better performance of the 2-4 partner firms that participated, indeed all other size groups saw a decline in profits compared to last year.

Profit per equity partner (median)



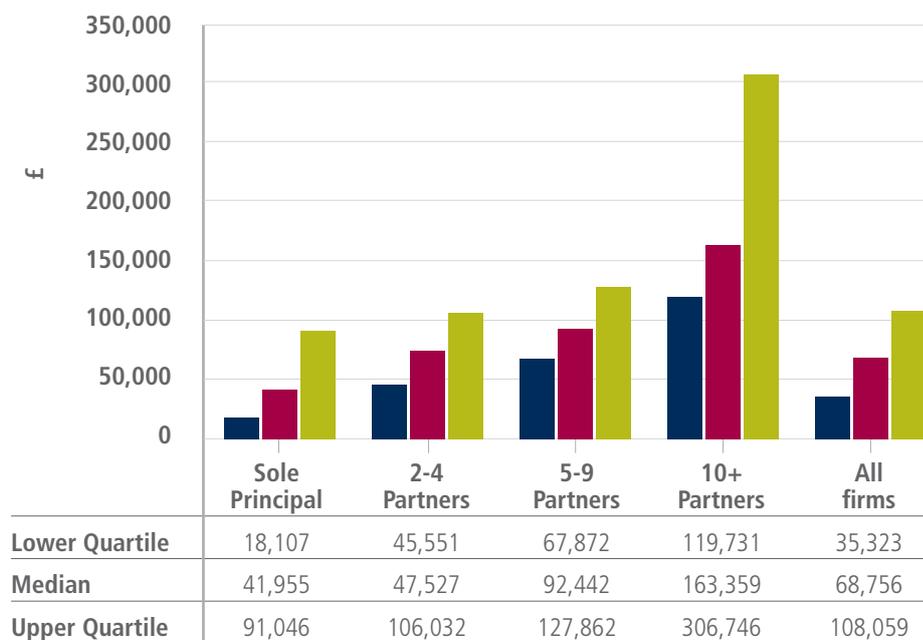
The second chart shows the profitability of each of the size groups and illustrates the divide between firms with fewer than, and more than, 10 partners. A huge range is indicated, with a quarter of sole principals earning less than £18,000 a year and a quarter of 10+ firms achieving profits per equity partner over £300,000.

Whilst the profits of the 10+ firms might appear high, it should be remembered that these are far lower than the top 100 UK law firms generally. It should also be noted that a paper profit is not necessarily the same as the actual amount of income partners are able to withdraw from the business. These figures are before tax and part of a firm's profits invariably have to be retained in order to fund working capital. An equity partner is not paid a salary, as an employee is, and his or her profit share represents:

- The equivalent of a salary for working in the firm;
- Interest on capital invested in the firm;
- Rent if the partners own the firm's offices – as many smaller firms do;
- Any balance represents a genuine profit to compensate for the risk of running a business – and for most firms this will be very low.

¹ Net profit is defined as total income less total expenditure (including any allowance for depreciation). It equates with the distributable profit as shown in a firm's accounts.

Profit per Equity partner

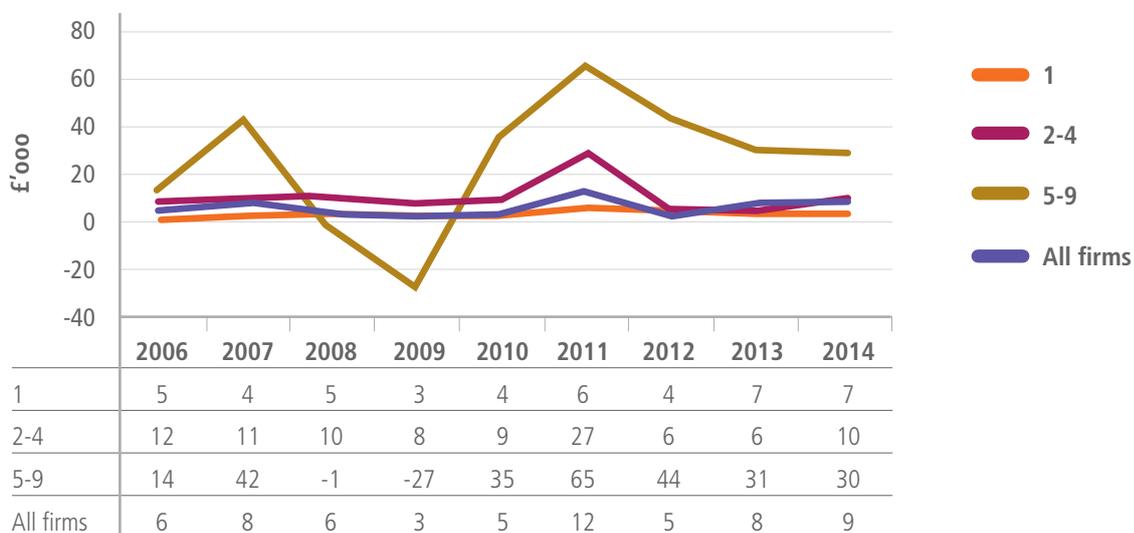


■ Lower Quartile
 ■ Median
 ■ Upper Quartile

Cash and partner capital

As indicated above, good levels of profitability are important; however, profit is not the same as cash in the bank, and the key requirement for survival in any firm is cash.

Bank balance (median)



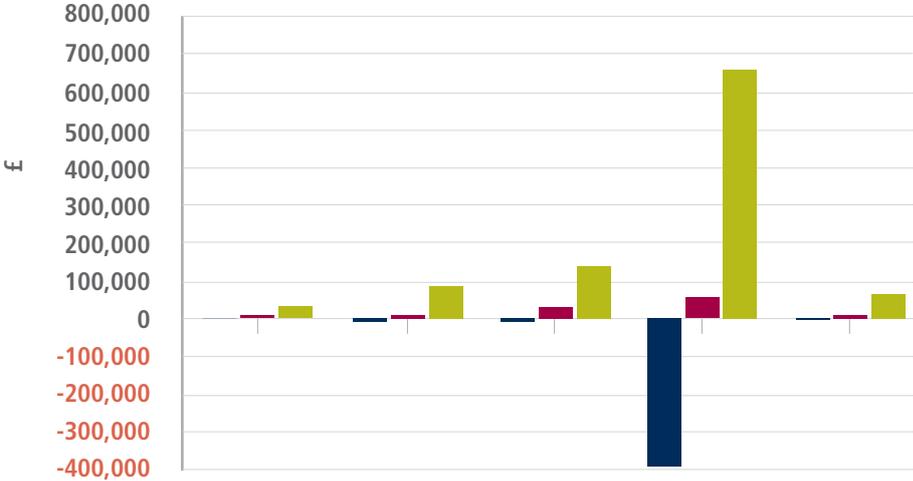


The chart shows the movements in the median bank balance per firm in recent years – 10+ firms have been excluded from the chart due to their volatility.

The chart below shows the range in 2013 and this indicates an overall median balance of £8,000, compared to £5,000 in 2012.

It is interesting to see that most firms do not have an overdraft and even amongst 10+ firms, there are not significantly high levels of borrowing.

Bank balance per firm



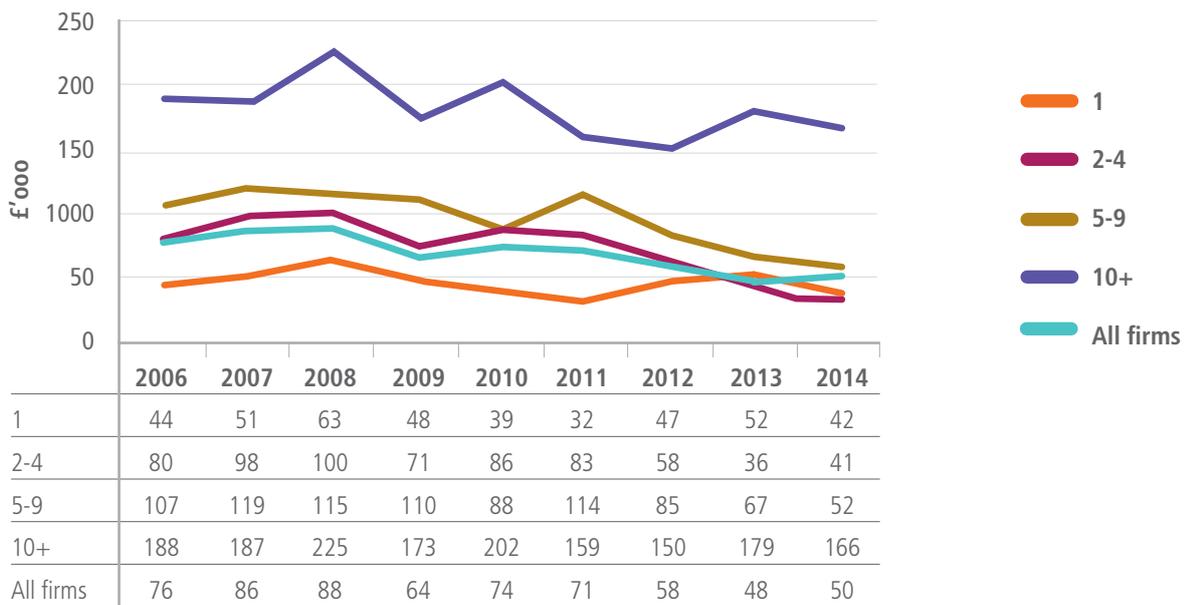
	Sole Principal	2-4 Partners	5-9 Partners	10+ Partners	All firms
Lower Quartile	0	-10,950	-9,480	-390,465	-4,415
Median	7,402	9,973	30,000	55,133	8,544
Upper Quartile	31,918	86,243	138,831	657,770	63,866

■ Lower Quartile
 ■ Median
 ■ Upper Quartile



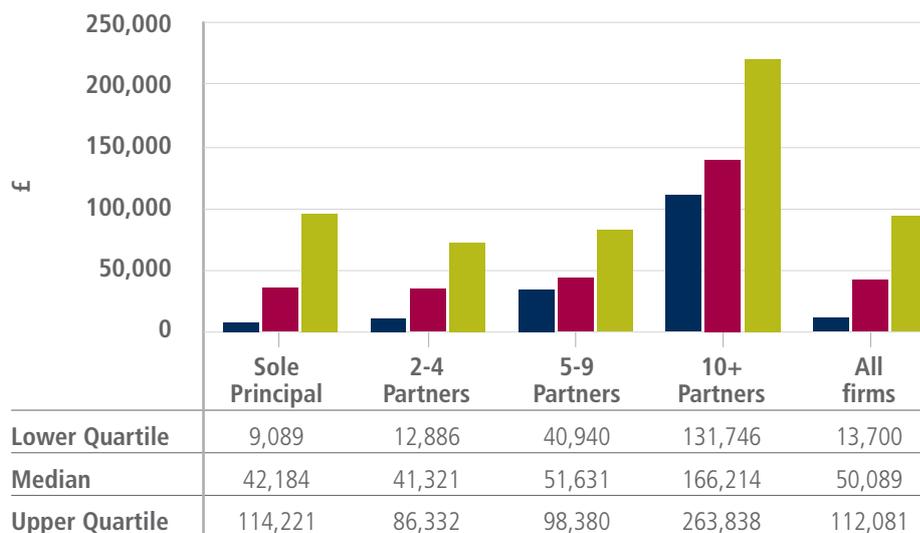
Firms are funded by a combination of bank borrowing and retained partner capital. The chart below indicates that for most size groups this has once again fallen and this is likely to be due to partners drawings exceeding cash profits available:

Capital per equity partner (median)



The second chart shows a wide range of capital, from under £10,000 in a quarter of sole principals to over £250,000 for a quarter of 10+ partner firms.

Capital per Equity partner

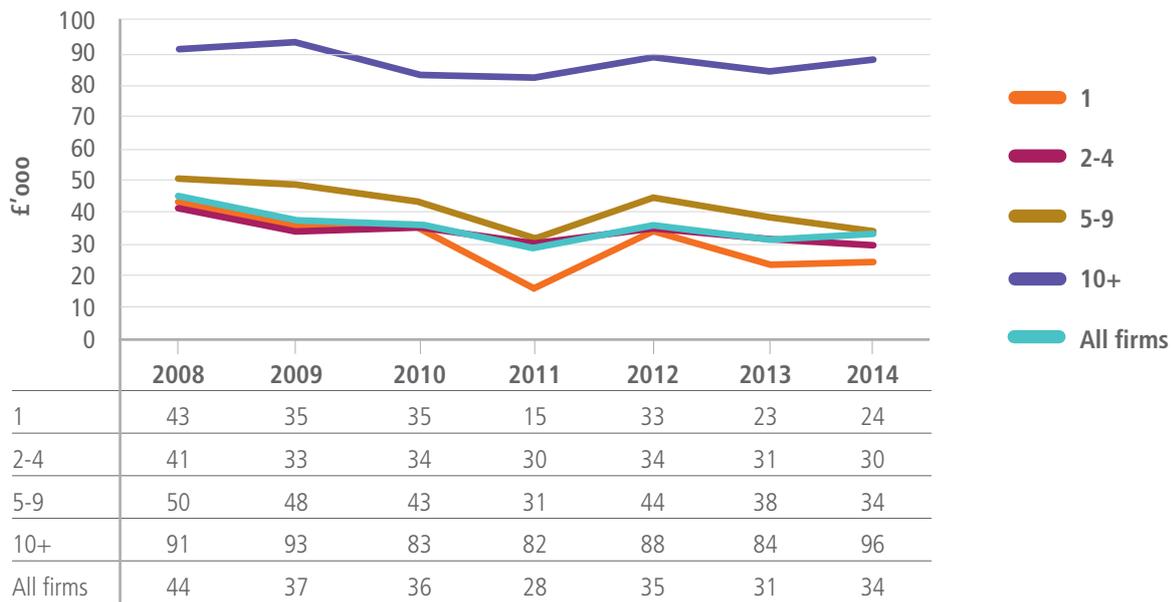


■ Lower Quartile
 ■ Median
 ■ Upper Quartile

Working capital

The key to most firms' bank position is the speed at which work can be billed and paid. The chart shows trends in debtor days, which is a measure of the efficiency of getting paid. The chart indicates improvements for most size categories except, notably, 10+ partner firms, where the amounts owed have increased. Debtor days have fallen for small and medium sized firms since 2008/9.

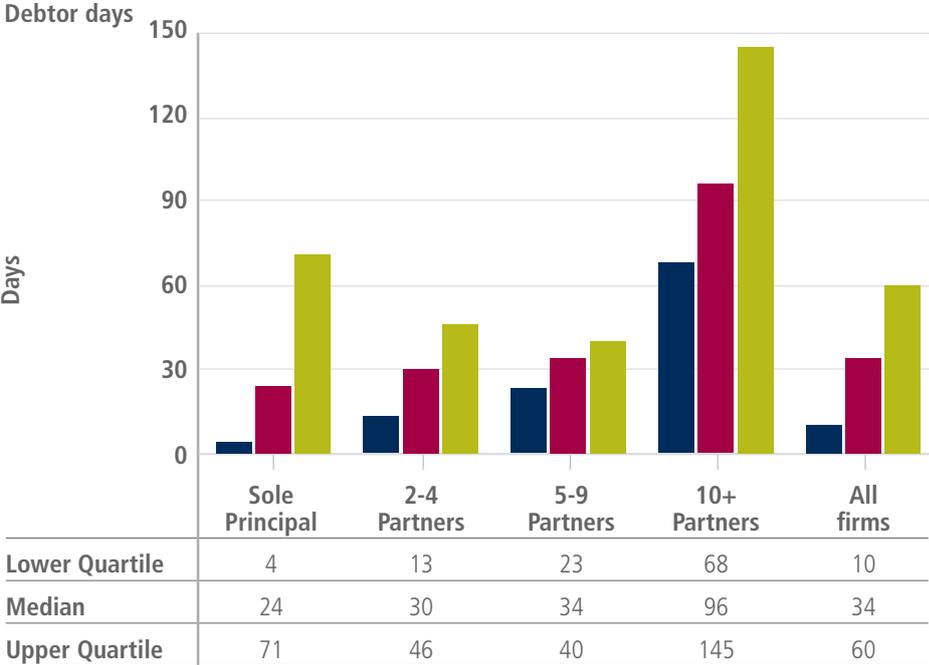
Debtor days (median)





This measure is calculated by dividing year-end debtors by each firm’s average daily fees. Because most firms that undertake legal aid only post their legal aid bills when they are paid, average daily fees exclude legal aid fees. Although we have made this adjustment for legal aid, care needs to be taken in interpreting these tables, in particular, in respect of smaller firms as residential conveyancing will account for much of their fees. This is in effect also accounted for on a cash basis and can distort this particular benchmark.

In the chart below, the very low figures for some smaller firms must be interpreted with care as much of their work is in effect undertaken on a cash basis.



■ Lower Quartile
 ■ Median
 ■ Upper Quartile





Profit drivers

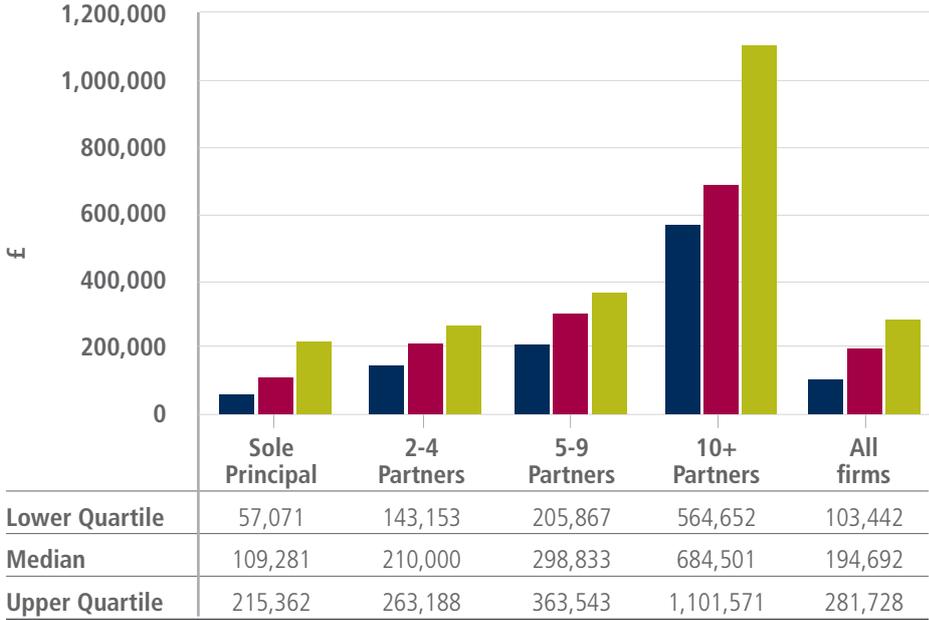
There are a number of key statistics that firms should monitor as these can have a direct impact on profitability.

These include:

- Fees per equity partner and fees per fee earner;
- Staff ratios;
- Salary ratios – in particular, including a cost for each equity partner;
- Overhead ratios.

The chart summarises fees per equity partner and highlights the difference between firms with under 10 partners, where median fees per equity partner are approximately £200,000, and those with more than 10 partners, where the median is approaching £700,000. The chart indicates a progressive increase in fees per equity partner as firm size increases and this is primarily a function of gearing.

Fees per Equity partner

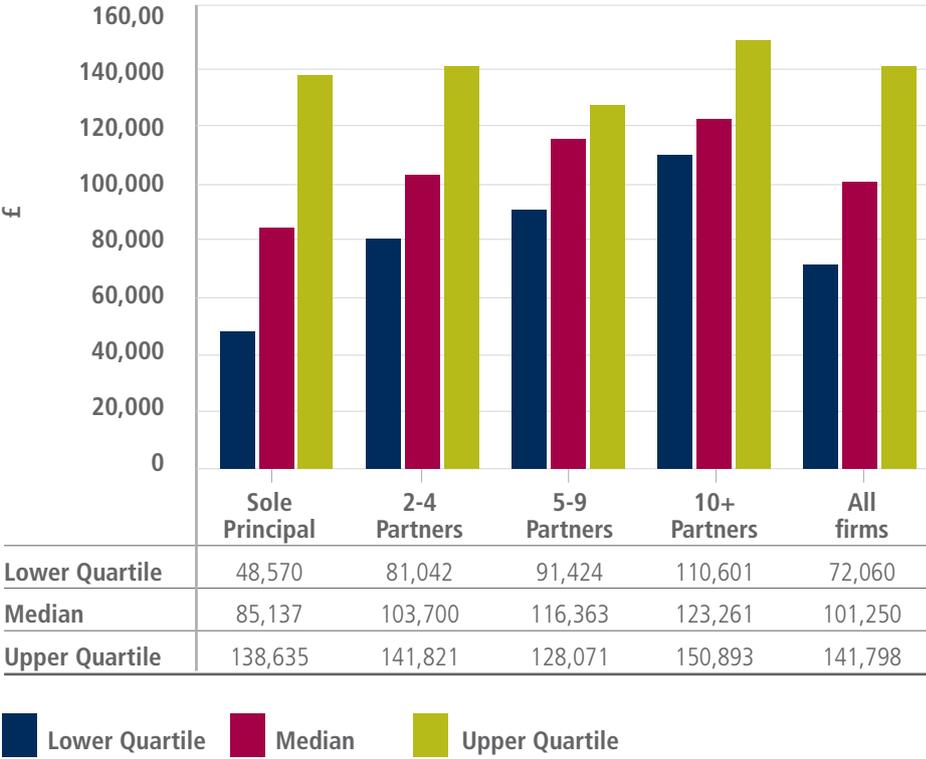


■ Lower Quartile
 ■ Median
 ■ Upper Quartile



The second chart shows fees earned per fee earner and shows an overall median of £101,000 (compared to £103,000 last year). This chart also indicates an increase with size of firm; however, the trend is much less pronounced.

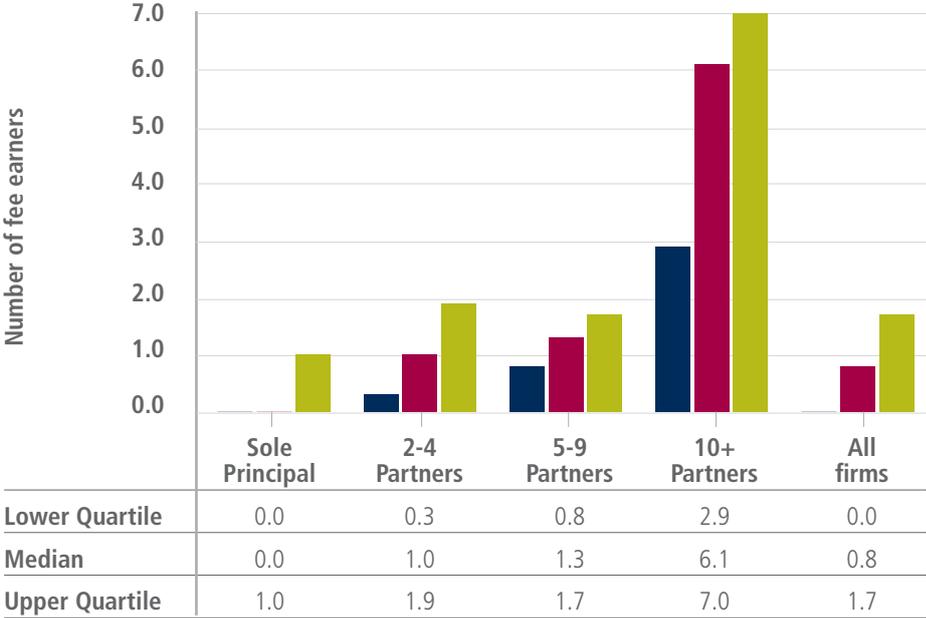
Fees per fee earner





The chart shows the first of the two key staffing ratios – the number of fee earners in addition to each equity partner, or fee earner gearing. This has improved slightly this year from an overall median of 0.7 last year and 0.5 the year before that.

Fee earner gearing

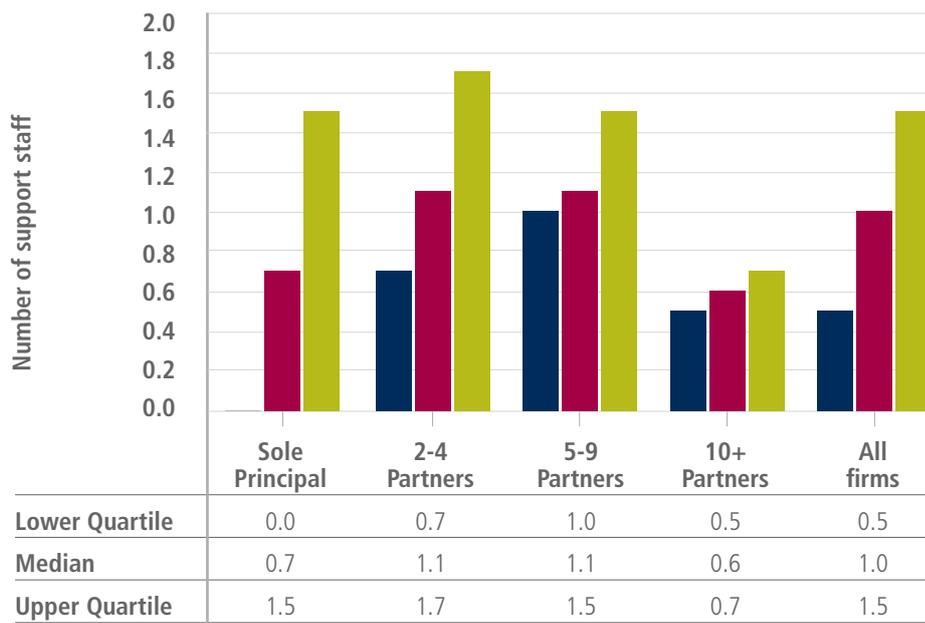


Lower Quartile Median Upper Quartile



The second chart shows the number of support staff to each fee earner and indicates a median of 1.0, which is very similar to previous years.

Support staff per fee earner

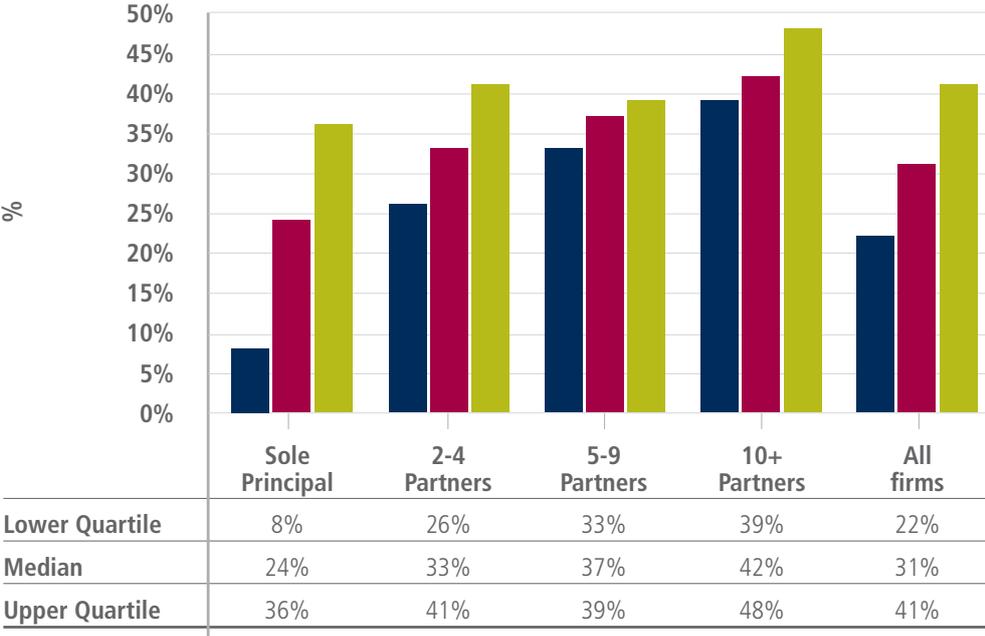


■ Lower Quartile
 ■ Median
 ■ Upper Quartile



The chart below shows the cost of all employed staff relative to fees. The overall median of 31% compares to 32% last year.

Salaries as a % of fees



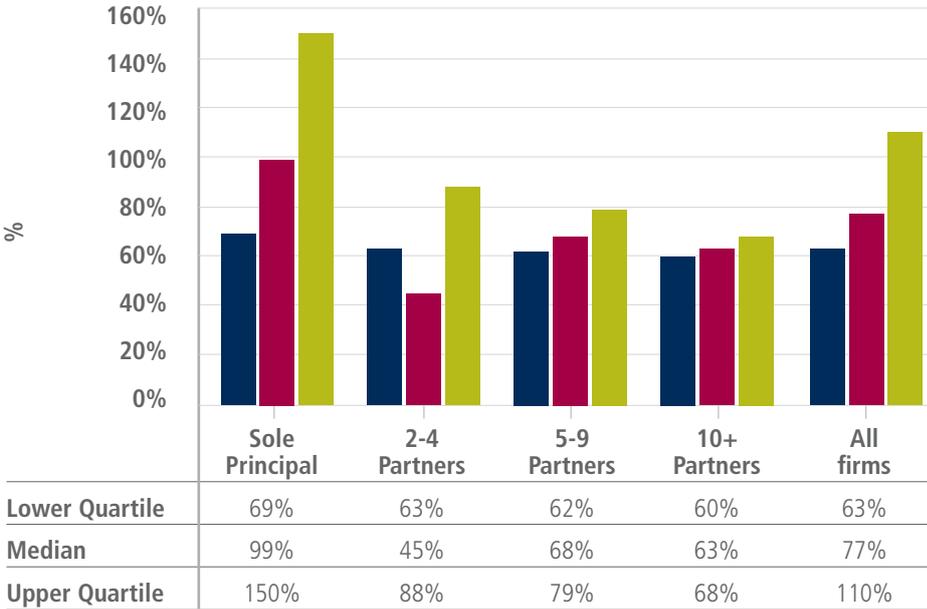
Lower Quartile Median Upper Quartile





The second salaries chart includes an allowance for the cost of each equity partner:

All salaries (inc equity partners) as a % of fees



■ Lower Quartile ■ Median ■ Upper Quartile

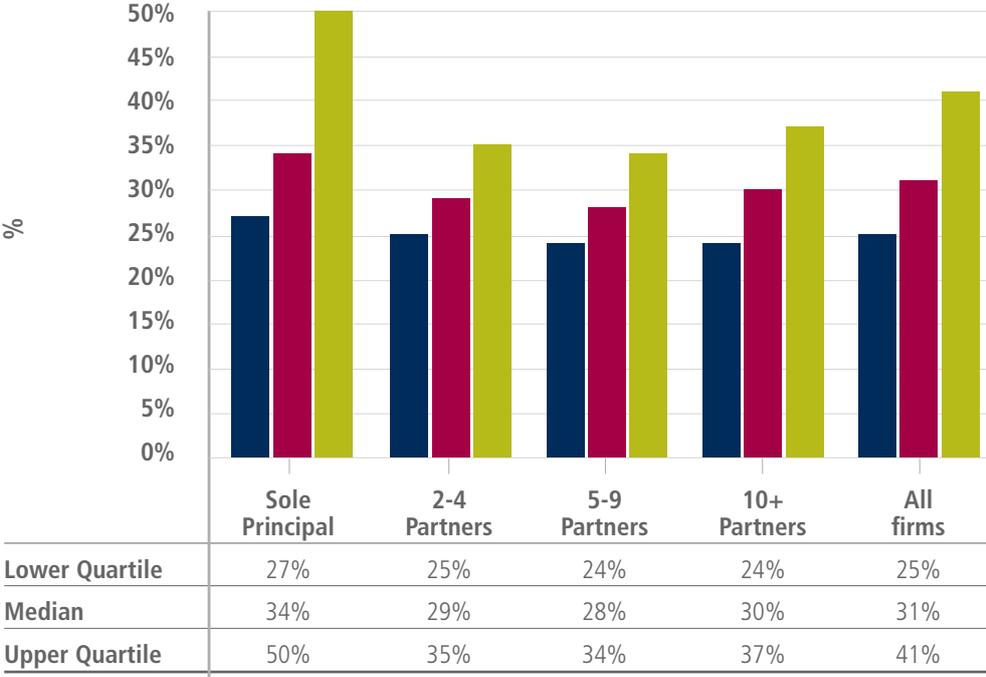




In preparing the all salaries chart, we have used a notional salary of £83,500 or £150,000 for firms with under/over 10 partners respectively. This has been included so as to reflect a cost for each partner as someone working within the firm. Where the actual profits of the equity partners are below these levels, this results in values greater than 100%.

The overheads chart indicates an overall median of 31% – the same as the last two years. The second overheads chart shows overheads per fee earner, and this indicates a slight fall from the overall median last year of £33,000.

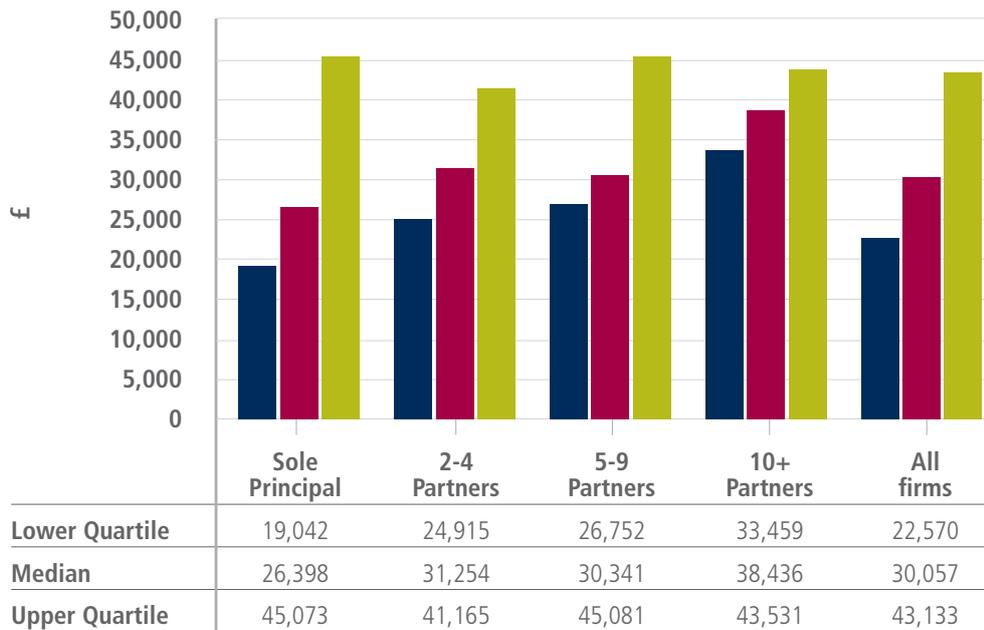
Overheads (exc staff) as a % of fees



■ Lower Quartile
 ■ Median
 ■ Upper Quartile



Overheads (exc staff) per fee earner



■ Lower Quartile
 ■ Median
 ■ Upper Quartile

4 Sole principals

We had a good response amongst sole principals, with 76 participating.

Number of firms

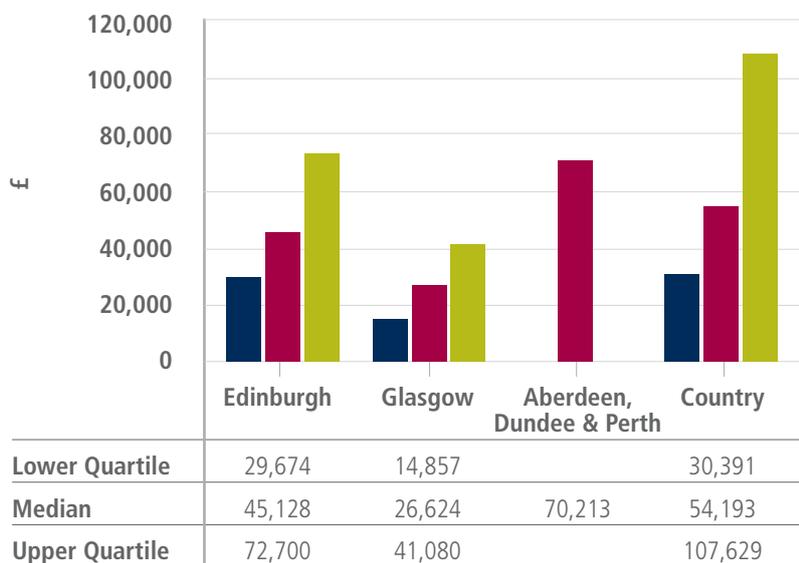
Edinburgh	13
Glasgow	17
Aberdeen, Dundee & Perth	3
Country	43
	76

Just three sole principals took part from Aberdeen, Dundee & Perth, so we have just showed the median.

Profitability

The profitability of the sole principals who participated is summarised in the chart:

Profit per equity partner - Sole Principals



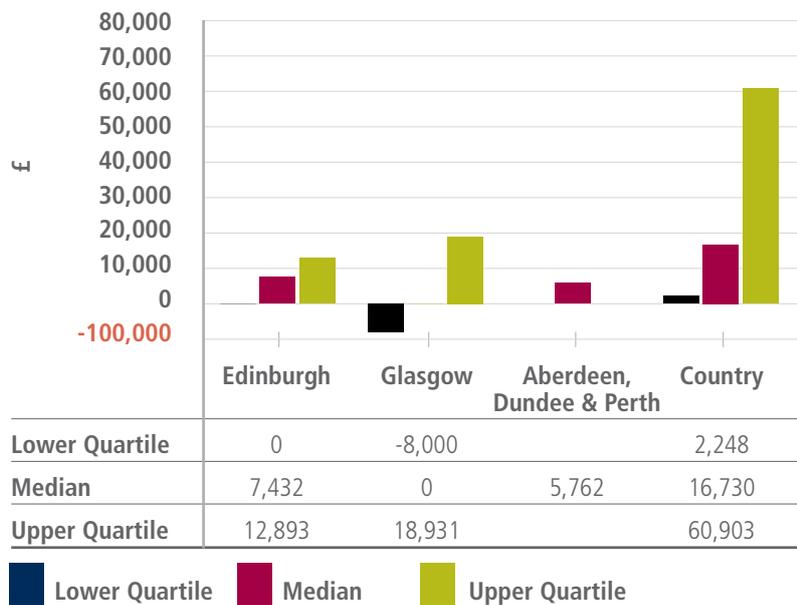
■ Lower Quartile
 ■ Median
 ■ Upper Quartile

As last year, the chart illustrates the very low profits of some of the Glasgow sole principals and the healthy performance of the country firms, with a quarter achieving a profit of more than £100,000. Median profit per partner for Glasgow sole principals has fallen from £45,000 last year to just £26,000 this year.

Cash and partner capital

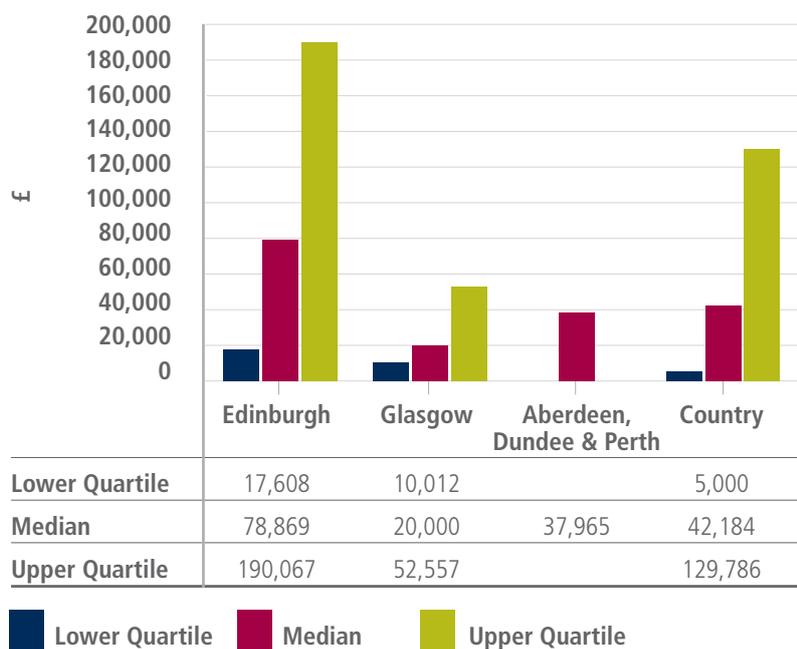
The chart summarises the bank balance of sole principals and demonstrates the stronger position of country firms and the weaker position, as would be expected, in view of their low profits, of some of the Glasgow firms.

Bank balance per firm - Sole Principals



The chart summarises capital per equity partner:

Capital per equity partner - Sole Principals



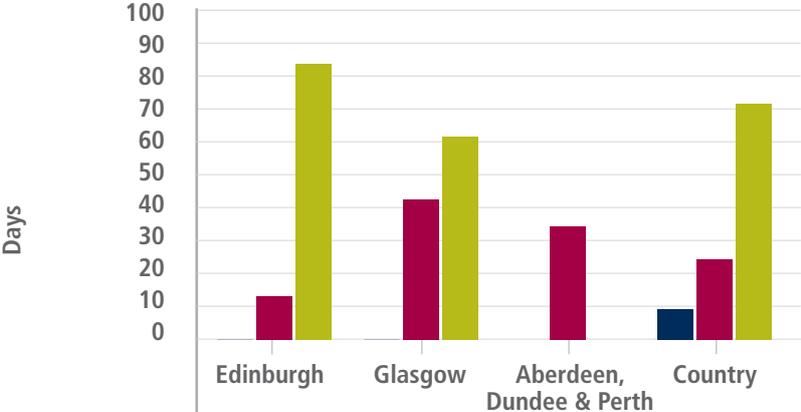


The capital chart once again illustrates the strength of country firms and also indicates some good levels amongst some Edinburgh sole principals.

Working capital

The chart illustrates low levels of debtor days amongst Edinburgh and Country firms but surprisingly high levels in Glasgow and Aberdeen, Dundee & Perth:

Debtor days - Sole Principals



	Edinburgh	Glasgow	Aberdeen, Dundee & Perth	Country
Lower Quartile	0	0	9	9
Median	13	42	34	24
Upper Quartile	83	61	71	71

■ Lower Quartile ■ Median ■ Upper Quartile

It should be remembered that for many of these firms, much of their fees (in areas such as residential conveyancing and legal aid) are in effect on a cash basis.





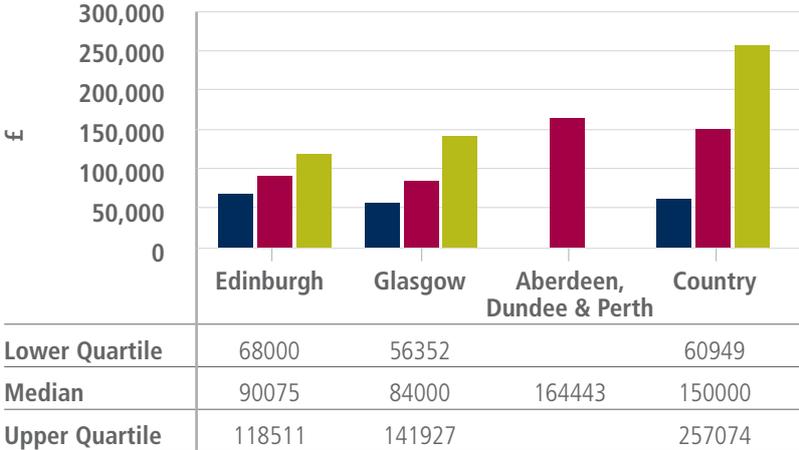
Profit drivers

There are a number of key statistics that firms should monitor as these can have a direct impact on profitability. These include:

- Fees per equity partner and fees per fee earner;
- Staff ratios;
- Cost ratios.

The first chart shows fees per equity partner. If the total fees of the firm are below £70,000, as is the case for a quarter of Edinburgh and Glasgow sole principals, the actual profit the partners make will inevitably be low. For a quarter of country firms, the equivalent figure exceeds £250,000, so providing much greater opportunity for reasonable profits. The median fees per equity partner for country firms has also increased this year to £150,000 from £135,000 last year.

Fees per equity partner - Sole Principals



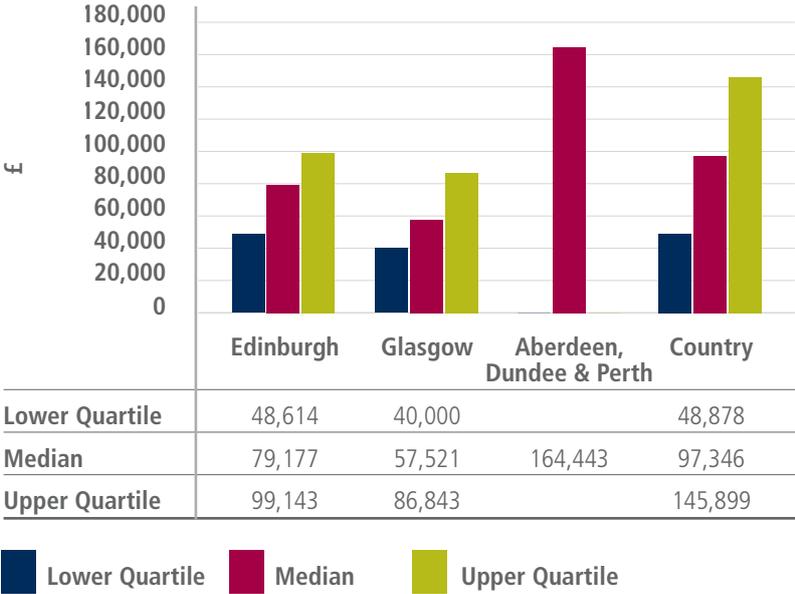
Lower Quartile
 Median
 Upper Quartile





The chart shows the fees per fee earner – the median for sole principals in Glasgow has fallen from £67,000 last year to just £57,000 this year.

Fees per fee earner - Sole Principals



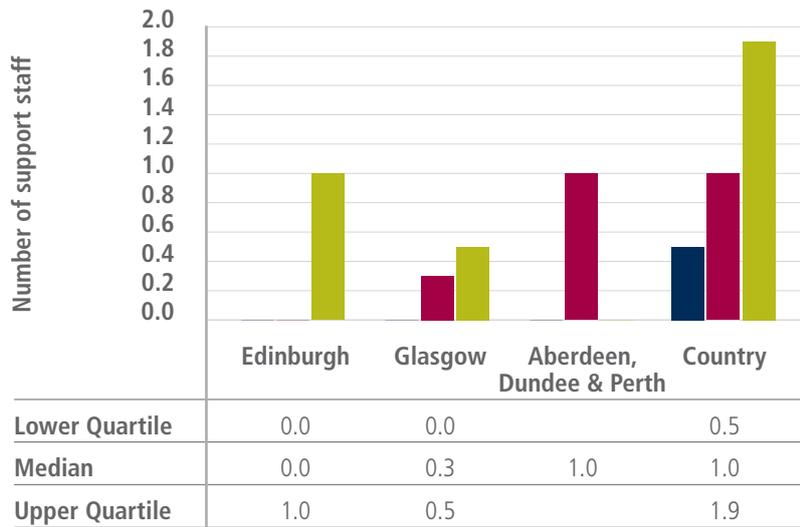
The chart indicates a wide range and this will reflect the types of work undertaken, and a range of other factors such as location, how long established the practice is, and its reputation.

The gearing of most sole principals was zero – they had no other fee earners working with them. The exception was in Glasgow and in country areas, where a quarter of firms had a gearing of one.

The support staff chart indicates a wide range in support staff numbers for many sole principals – the median for country firms for example is 1.0, but there is a big range.



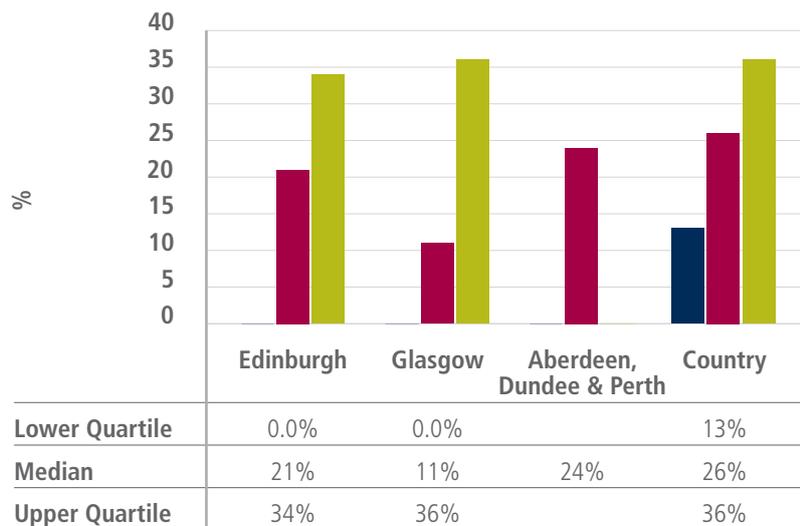
Support staff per fee earner - Sole Principals



■ Lower Quartile
 ■ Median
 ■ Upper Quartile

The salaries chart indicates that a quarter of Edinburgh and Glasgow sole principals have no staff. The median % for country firms has increased from 21% last year to 26% this year. Similarly, in Edinburgh the median has risen from 13% to 21%.

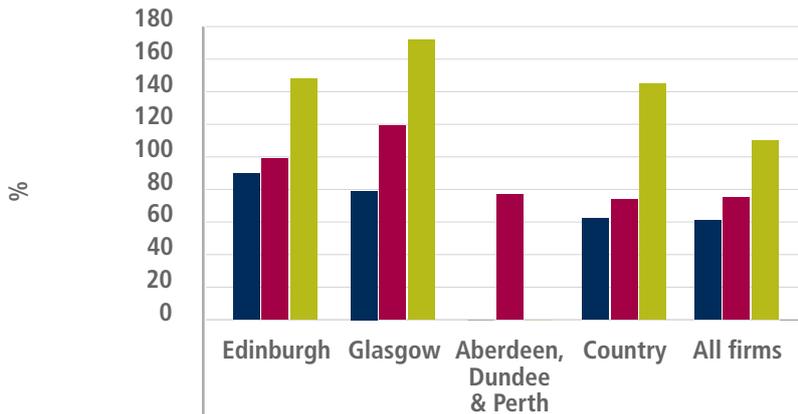
Salaries as a % of fees - Sole Principals



■ Lower Quartile
 ■ Median
 ■ Upper Quartile

The second chart includes an allowance for the cost of each equity partner.

All salaries (inc equity partners) as a % of fees - Sole Principals



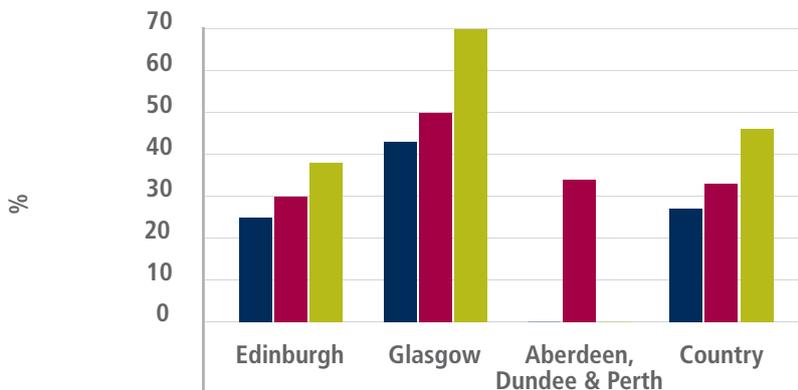
Lower Quartile	90%	79%		62%	61%
Median	99%	119%	77%	74%	75%
Upper Quartile	148%	172%		145%	110%

■ Lower Quartile ■ Median ■ Upper Quartile

As would be expected, the profits earned by some sole principals are less than the notional salary assumed in this calculation, resulting in values over 100%.

The median overheads as a % fees was approximately 30-33% in all areas except Glasgow.

Overheads (exc staff) as a % of fees - Sole Principals

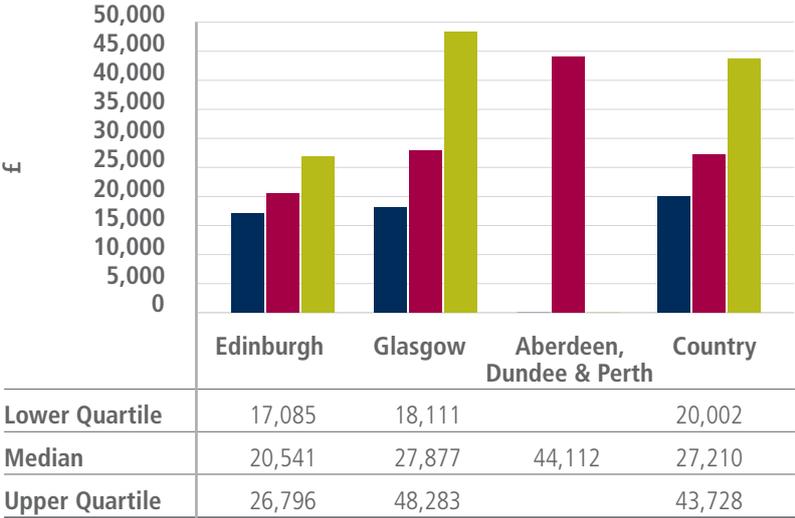


Lower Quartile	25%	43%		27%
Median	30%	50%	34%	33%
Upper Quartile	38%	70%		46%

■ Lower Quartile ■ Median ■ Upper Quartile



Overheads (exc staff) per fee earner - Sole Principals



■ Lower Quartile ■ Median ■ Upper Quartile



5 2-4 partner firms

We had a good response amongst 2-4 partner firms with 85 participating:

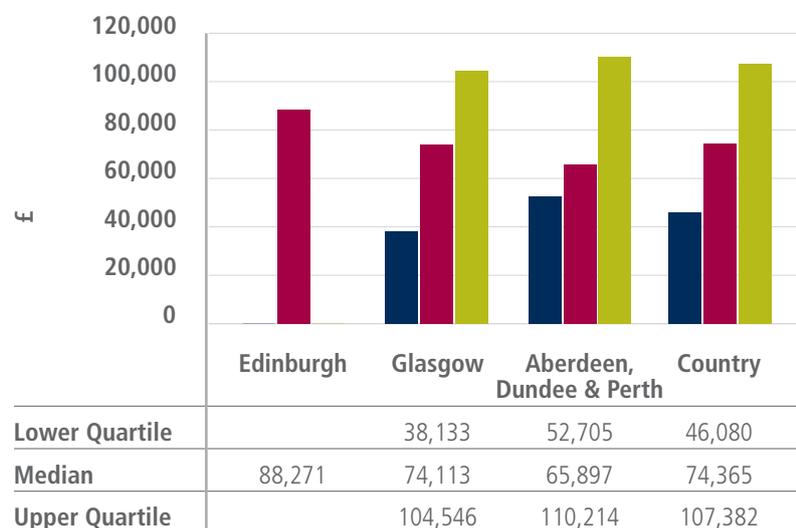
Number of firms

Edinburgh	7
Glasgow	22
Aberdeen, Dundee & Perth	10
Country	46
	85

Profitability

The profitability of the 2-4 partner firms is summarised in the chart

Profit per equity partner - 2-4 partner firms



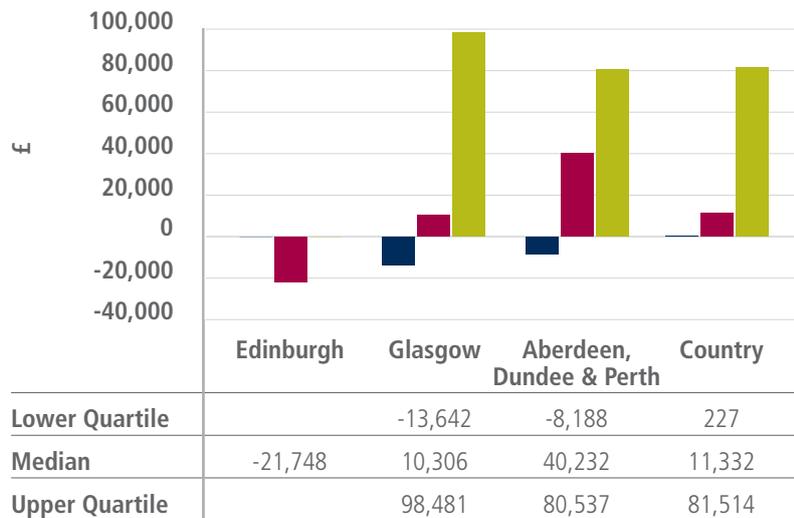
■ Lower Quartile
 ■ Median
 ■ Upper Quartile

Median profit per equity partner amongst this size group increased compared to last year, especially in Edinburgh and Glasgow, and as might be expected, were at levels higher than those of sole principals. A quarter of the firms achieved profit levels greater than £100,000.

Cash and partner capital

The median bank balances were broadly similar to last year with the exception of the firms in Aberdeen, Dundee and Perth, where the median increased from an overdraft of £3,000 to £40,000 in the bank.

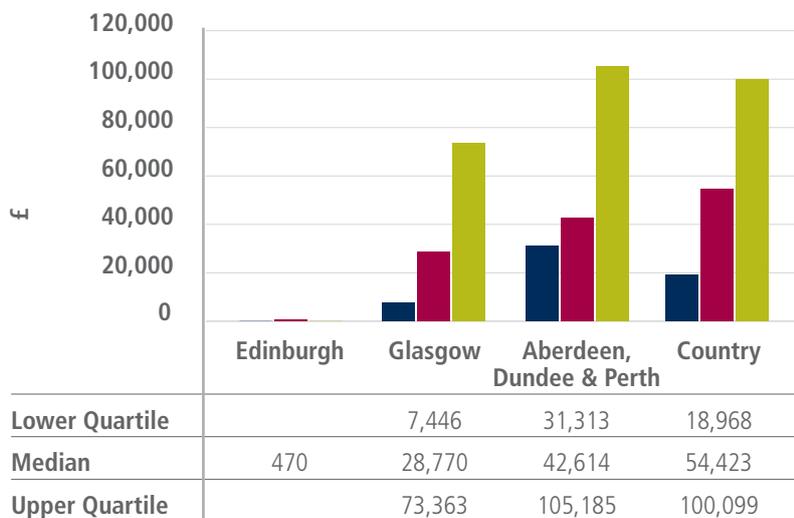
Bank balance per firm - 2-4 Partners



■ Lower Quartile ■ Median ■ Upper Quartile

Capital per equity partner has increased this year for country firms – from £37,000 last year to £54,000 this year. Firms in Glasgow saw capital fall slightly.

Capital per equity partner - 2-4 partner firms

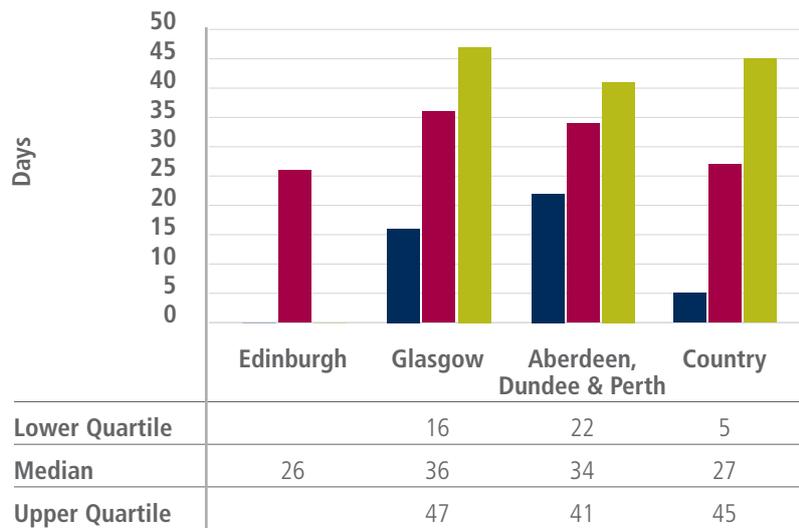


■ Lower Quartile ■ Median ■ Upper Quartile

Working capital

Debtor days are broadly similar, and not dissimilar to sole principals.

Debtor days - 2-4 partners

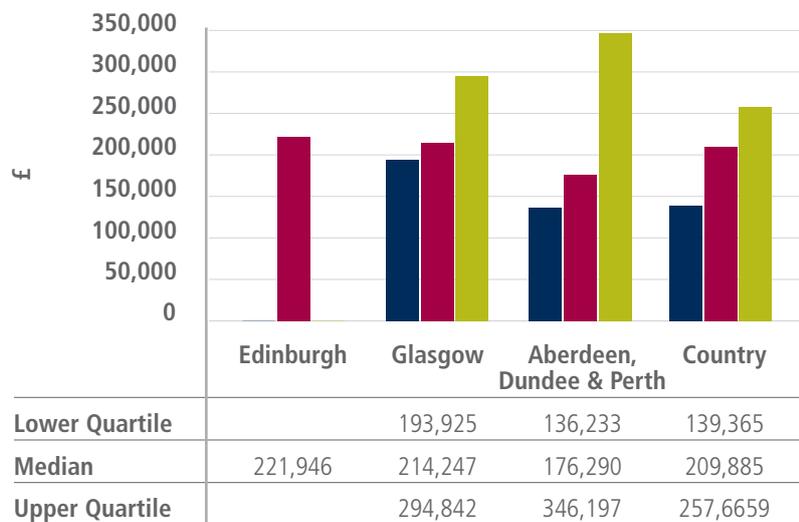


■ Lower Quartile ■ Median ■ Upper Quartile

Profit drivers

Fees per equity partner are very much higher for these firms than for sole principals and have improved in all areas compared to last year.

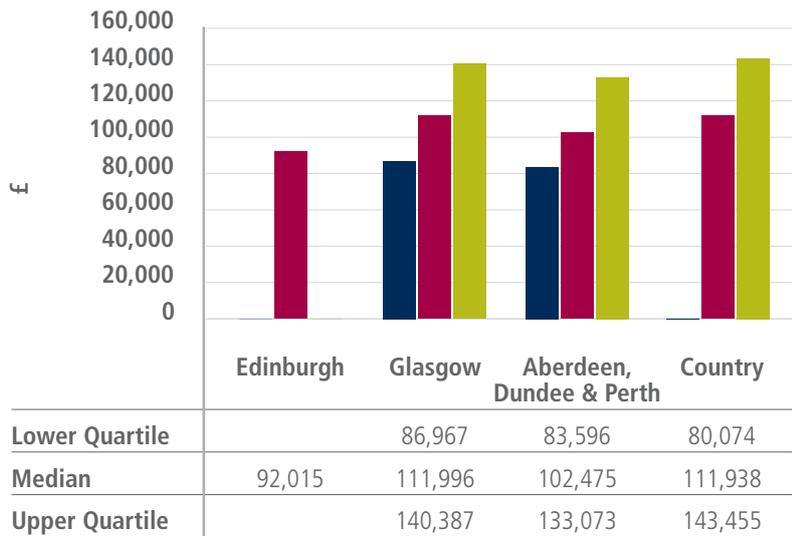
Fees per equity partner - 2-4 partners



■ Lower Quartile ■ Median ■ Upper Quartile

Fees per fee earner have barely changed compared to last year.

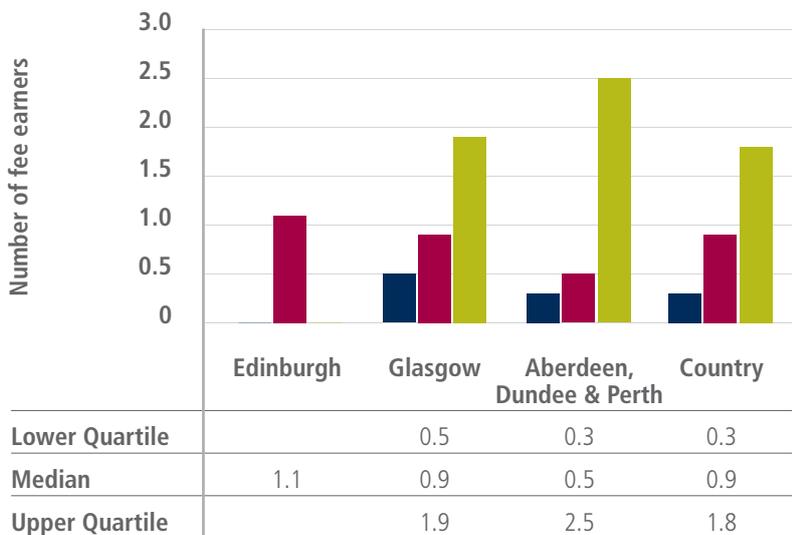
Fees per fee earner - 2-4 partners



■ Lower Quartile ■ Median ■ Upper Quartile

Fee earner gearing is much healthier amongst the 2-4 partner firms, albeit still low relative to larger firms.

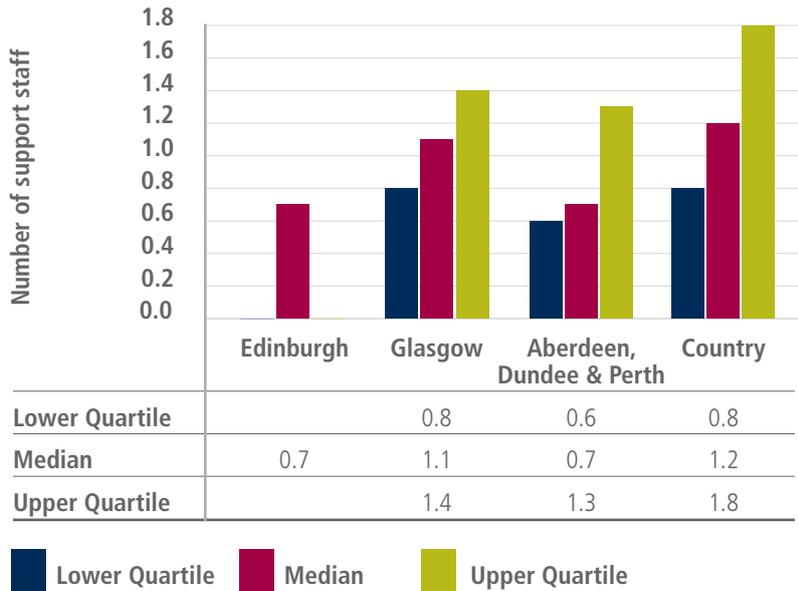
Fee earner gearing - 2-4 partners



■ Lower Quartile ■ Median ■ Upper Quartile

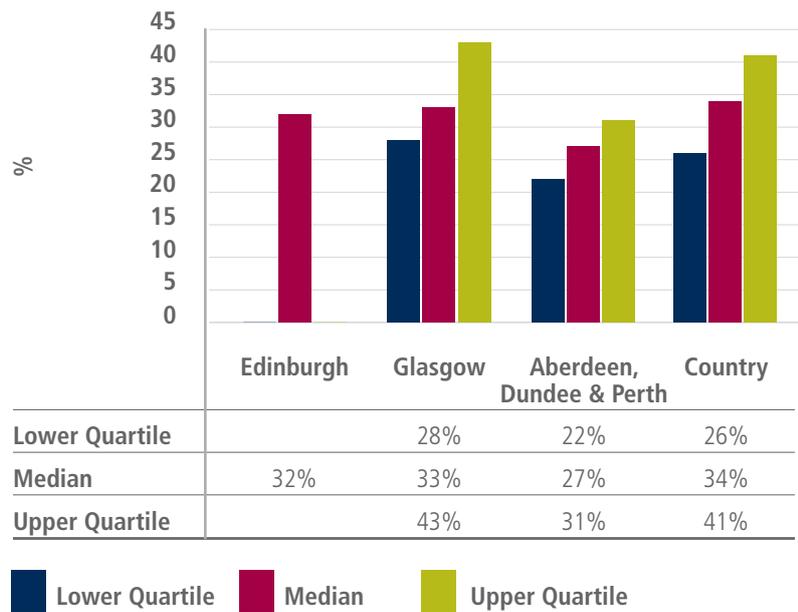
Support staff ratios vary slightly across the country; however, this may reflect the different sample sizes.

Support staff per fee earner - 2-4 partners



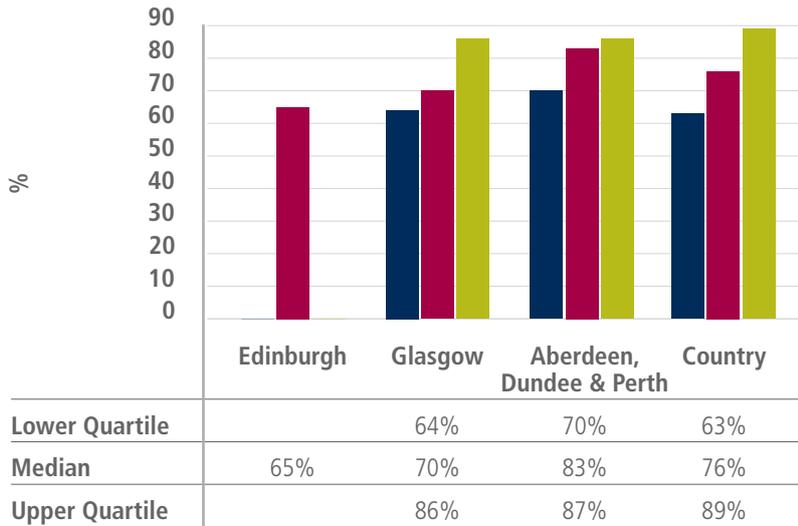
Salaries as a % of fees were lowest in Aberdeen, Dundee & Perth, at 27%.

Salaries as a % of fees - 2-4 partners



This key ratio of all salaries as a % of fees is clearly much better amongst 2-4 partner firms than sole principals.

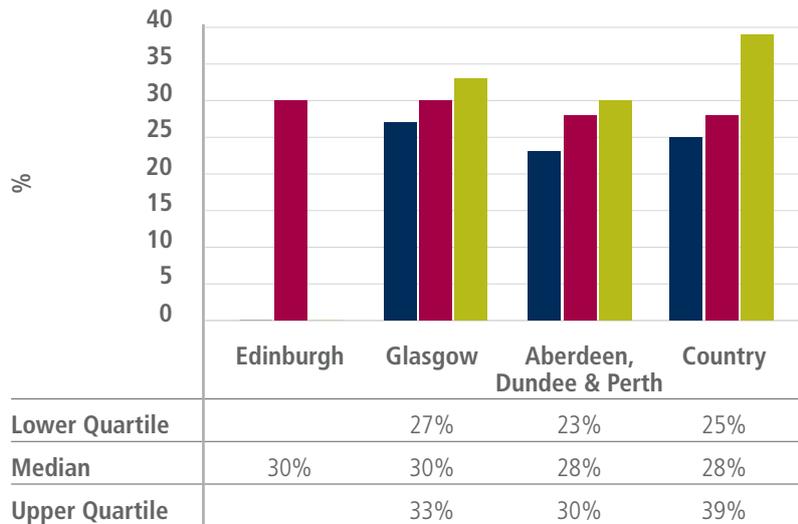
All salaries (inc equity partners) as a % of fees - 2-4 partners



■ Lower Quartile ■ Median ■ Upper Quartile

Overheads relative to fees were broadly similar across the country.

Overheads (exc staff) as a % of fees - 2-4 partners

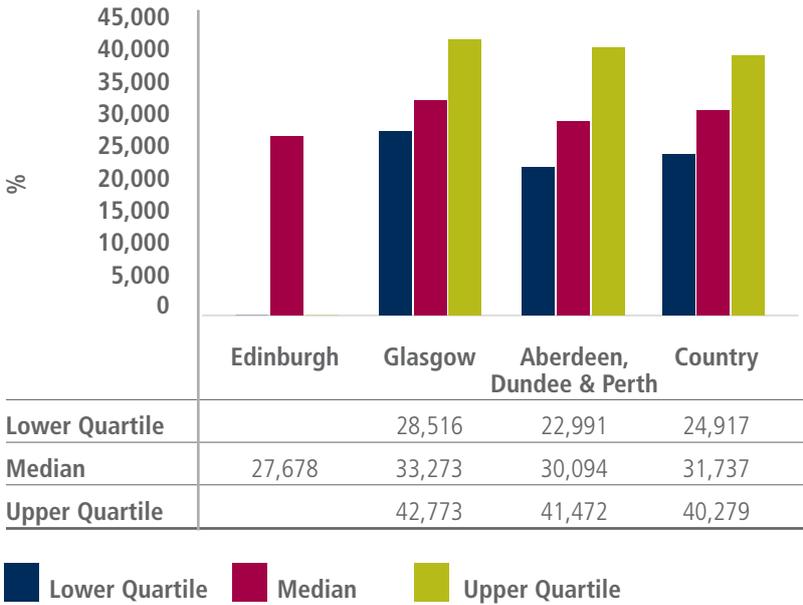


■ Lower Quartile ■ Median ■ Upper Quartile



For the firms that participated in the survey, overheads per fee earner were similar across the country at approximately £30,000. It is fee income that is the key to variations in profit.

Overheads (exc staff) per fee earner - 2-4 partners



6 5-9 partner firms

Fewer 5-9 partner firms participated, most of whom were in Country areas:

Number of firms

Edinburgh	1
Glasgow	1
Aberdeen, Dundee & Perth	2
Country	9
	13

Because of the small numbers of participants from the cities, this section analyses just firms in country areas. We recognise the charts in this section look slightly odd, but have kept the same format as in other sections for consistency.

Profitability

5-9 partner country firms saw a 18% increase in profits from a median of £104,000 last year to £123,000 this year.

Profit per equity partner - 5-9 partner firms



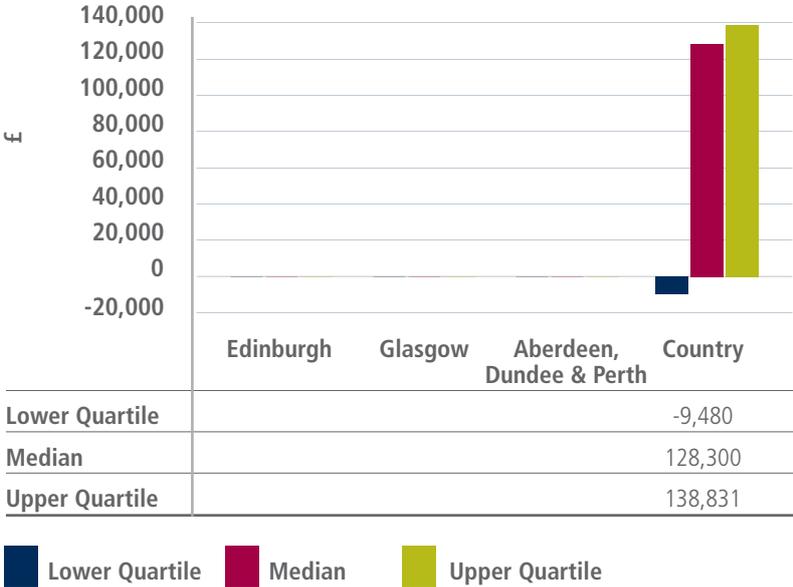
■ Lower Quartile
 ■ Median
 ■ Upper Quartile



Cash and partner capital

The chart indicates a significant improvement in the bank balances of 5-9 partner country firms, from a median of £30,000 last year to £128,000 this year. Part of these balances will be in respect of partner tax provision and VAT, but the firms may also have made "rainy day" provisions or put money to one side for possible acquisitions or mergers:

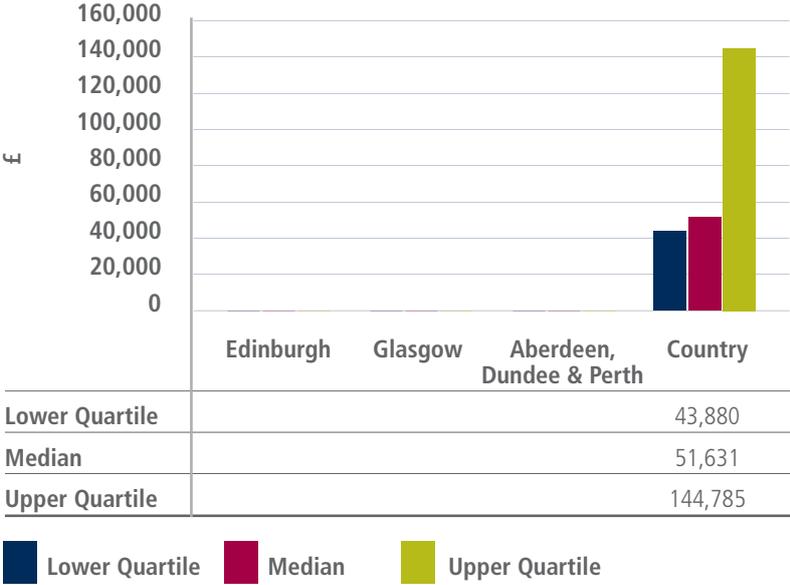
Bank balance per firm - 5-9 partner firms





Despite the higher levels of profit, the chart indicates median capital per equity partner of just £52,000 – down from £87,000 last year.

Capital per equity partner - 5-9 partner firms

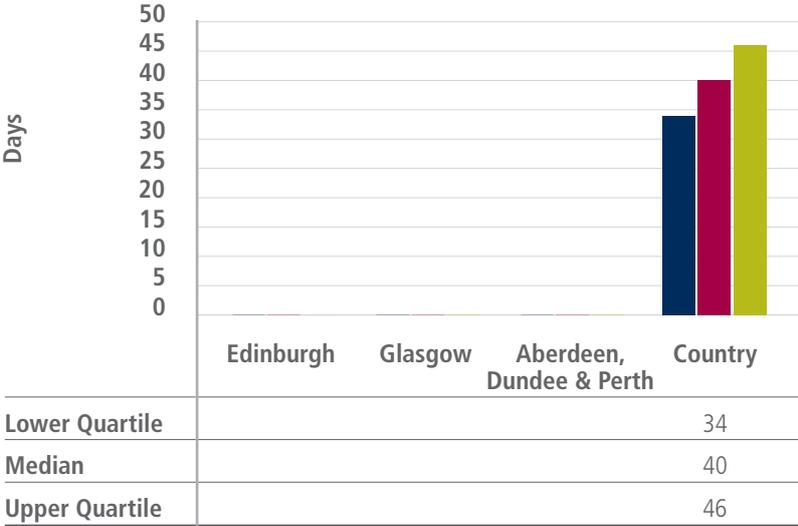




Working capital

Debtor days is higher amongst these 5-9 partner firms; however, this will be because more of their work is billed on a 30-day invoice basis. The median for country firms has fallen from 44 days last year to 40 days this year.

Debtor days - 5-9 partner firms



■ Lower Quartile ■ Median ■ Upper Quartile

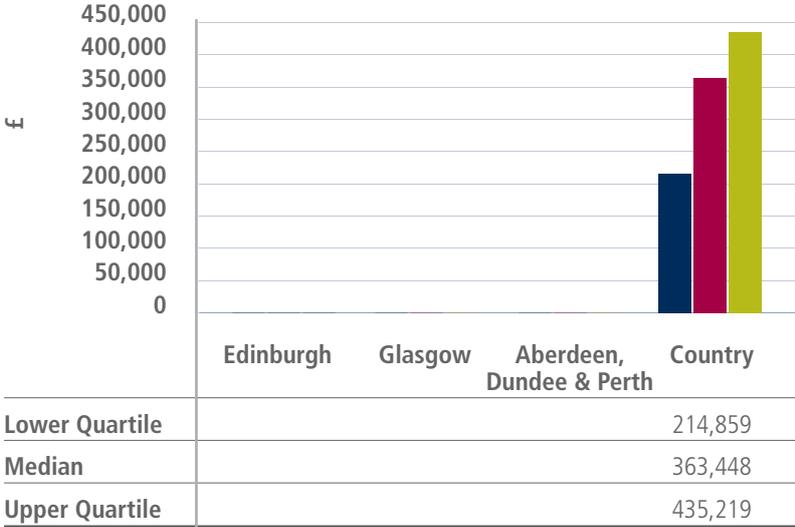




Profit drivers

Fees per equity partner are much higher than amongst the smaller firms. It has risen this year for country firms from £276,000 to £363,000 per equity partner.

Fees per equity partner - 5-9 partner firms



■ Lower Quartile ■ Median ■ Upper Quartile

Median fees per fee earner for country firms have also increased, from £86,000 to £116,000 – a level slightly better than the £111,000 per fee earner recorded by 2-4 partner country firms and the £97,000 by country sole principals.



Fees per fee earner - 5-9 partner firms



■ Lower Quartile
 ■ Median
 ■ Upper Quartile

Fee earner gearing of 1.2 is slightly better than amongst the 2-4 partner firms, where the median was 0.9.

Fee earner gearing - 5-9 partners



■ Lower Quartile
 ■ Median
 ■ Upper Quartile



As might be expected in these slightly larger firms, support staff ratios are slightly better.

Support staff per fee earner - 5-9 partners



■ Lower Quartile ■ Median ■ Upper Quartile

At 37%, salaries as a % of fees are slightly higher than for country 2-4 partner firms, where the median was 34%.

Salaries as a % of fees - 5-9 partners



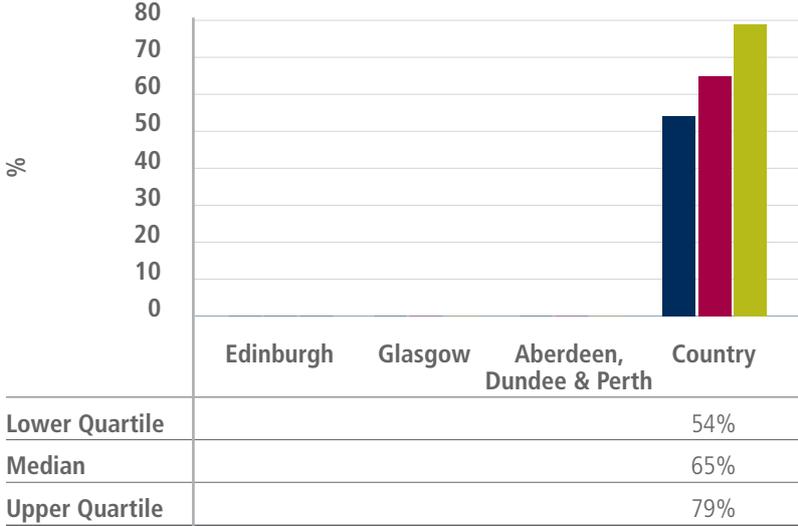
■ Lower Quartile ■ Median ■ Upper Quartile





The key benchmark of salaries as a % of fees is once again better amongst the 2-4 partner firms.

All salaries (inc equity partners) as a % of fees - 5-9 partners



■ Lower Quartile ■ Median ■ Upper Quartile

Median overheads as a % of fees are unchanged from last year at 27%.

Overheads (exc staff) as a % of fees - 5-9 partners



■ Lower Quartile ■ Median ■ Upper Quartile





Overheads per fee earner are slightly lower than for 2-4 partner firms due to the greater ability of these firms to share overheads over more fee earners.

Overheads (exc staff) per fee earner - 5-9 partners



■ Lower Quartile ■ Median ■ Upper Quartile



7 10+ partner firms

Twelve 10+ partner firms participated, most of which were in Edinburgh and Glasgow.

Number of firms

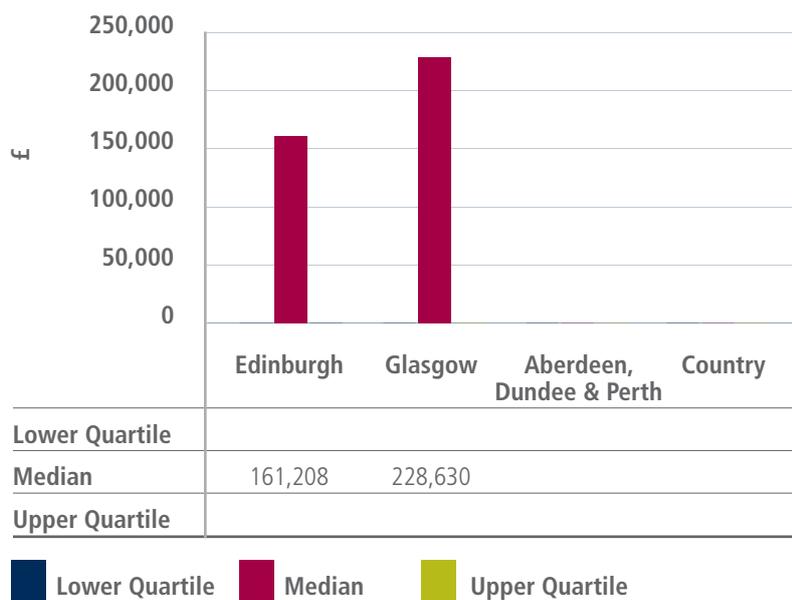
Edinburgh	5
Glasgow	5
Aberdeen, Dundee & Perth	1
Country	1
	12

Because just one 10+ partner firm took part from Aberdeen, Dundee & Perth, and just one country firm participated, this section just analyses the firms in Edinburgh and Glasgow. The two other firms are, of course, included in the overall results in section 3. It should be noted that many of the larger firms now have offices in both Edinburgh and Glasgow. Firms were asked to indicate where they were based; however, that might be the office where the cash room partner was based, and may not be entirely reliable.

Profitability

The profitability of these firms is shown in the chart:

Profit per equity partner - 10+ partner firms

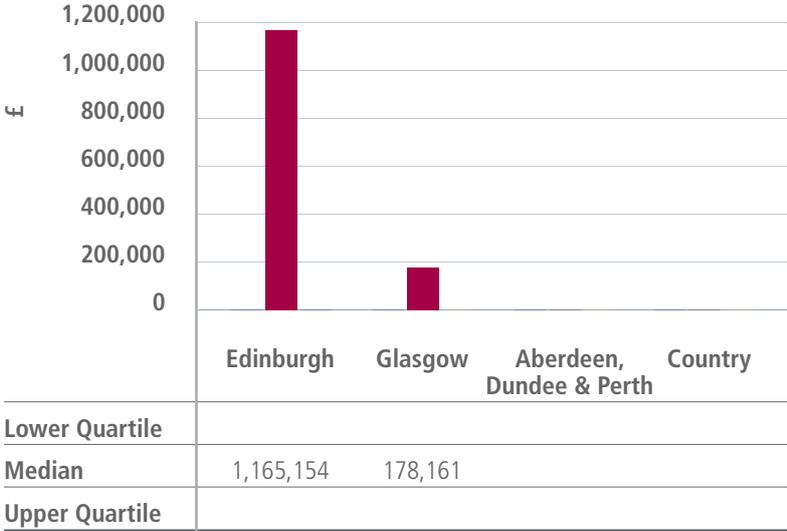




Cash and partner capital

The chart shows the strong cash position of the Edinburgh firms:

Bank balance per firm - 10+ partners



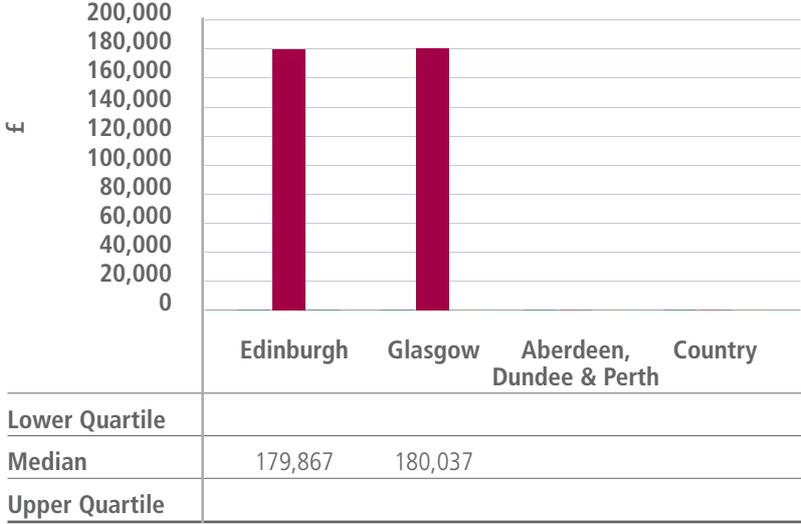
■ Lower Quartile ■ Median ■ Upper Quartile





Firms in both Edinburgh and Glasgow have comparable levels of partner capital invested:

Capital per equity partner - 10+ partners



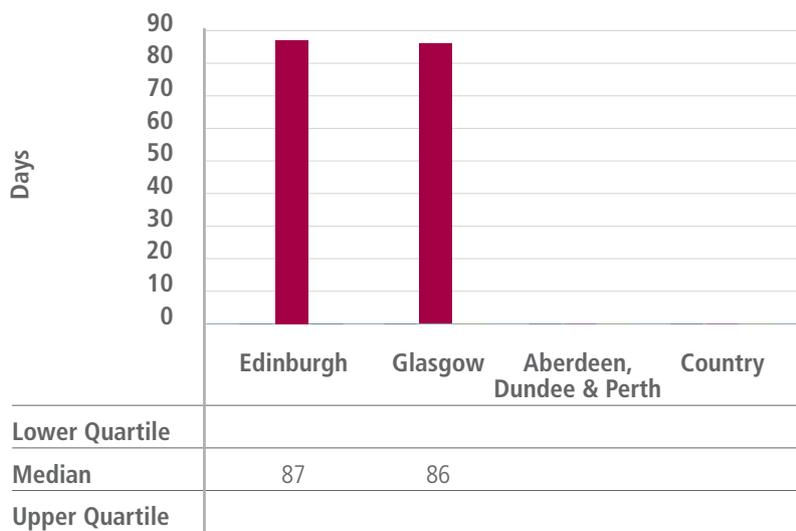
■ Lower Quartile ■ Median ■ Upper Quartile



Working capital

Debtor days are broadly comparable.

Debtor days - 10+ partners

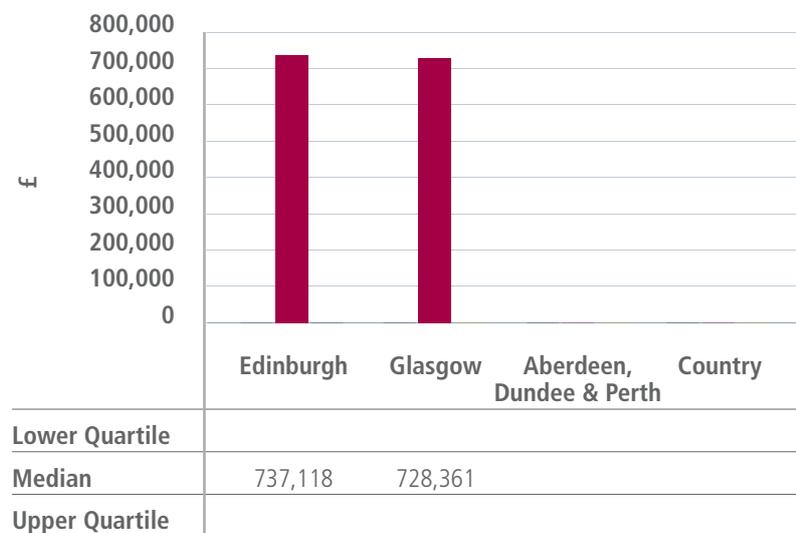


■ Lower Quartile
 ■ Median
 ■ Upper Quartile

Profit drivers

Fees per equity partner were approximately £700,000:

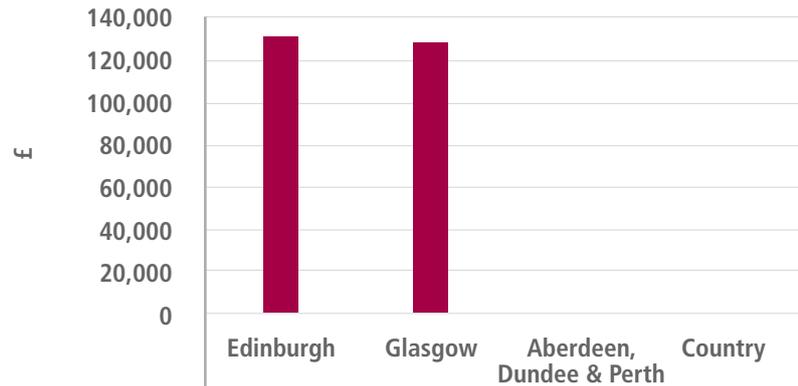
Fees per equity partner - 10+ partners



■ Lower Quartile
 ■ Median
 ■ Upper Quartile

Fees per fee earner were on average £130,000 for this size group:

Fees per fee earner - 10+ partners

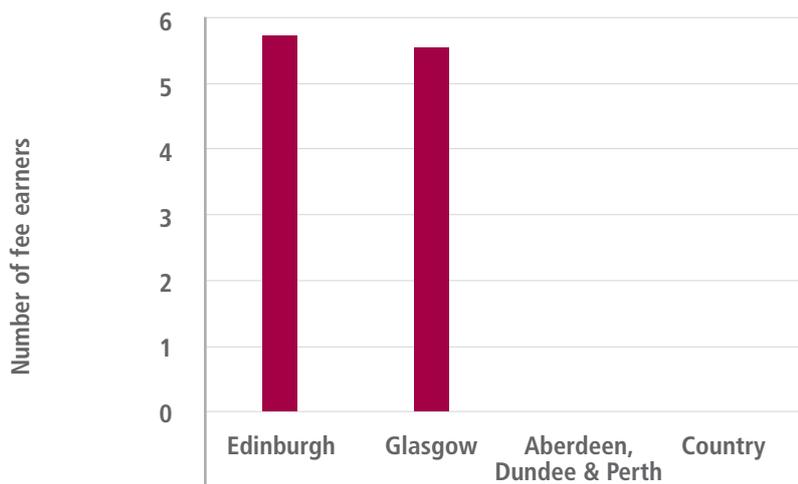


Lower Quartile		
Median	136,262	122,091
Upper Quartile		

■ Lower Quartile ■ Median ■ Upper Quartile

As would be expected these firms have good levels of gearing:

Fee earner gearing - 10+ partners



Lower Quartile		
Median	5.8	5.7
Upper Quartile		

■ Lower Quartile ■ Median ■ Upper Quartile



These firms were able to achieve better support staff ratios.

Support staff per fee earner - 10+ partners

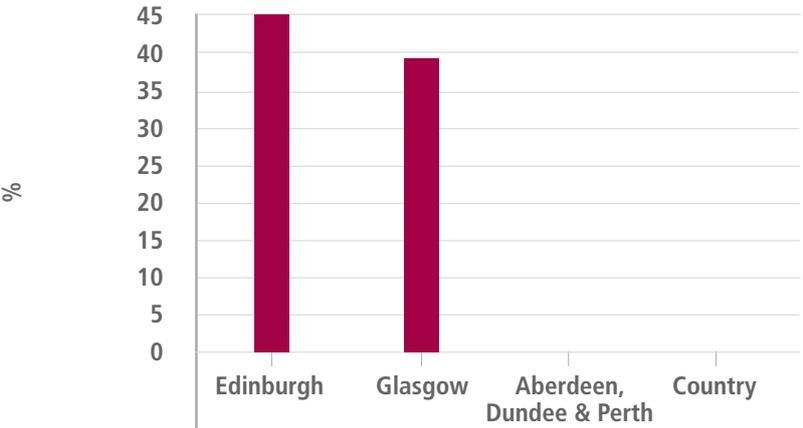


Lower Quartile		
Median	0.7	0.6
Upper Quartile		

■ Lower Quartile
 ■ Median
 ■ Upper Quartile

Generally salaries were lower as a % of fees in Glasgow:

Salaries as a % of fees - 10+ partners



Lower Quartile		
Median	45%	39%
Upper Quartile		

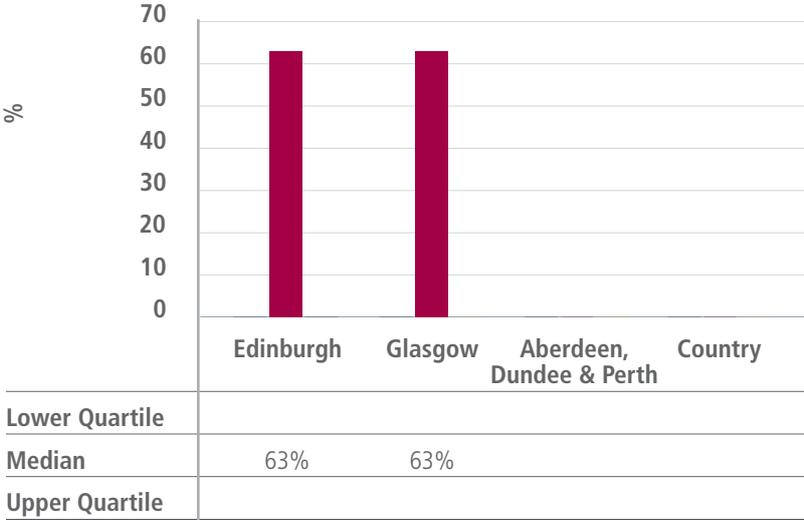
■ Lower Quartile
 ■ Median
 ■ Upper Quartile





All salaries (including an equity partner notional salary) was 60%:

All salaries (inc equity partners) as a % of fees - 10+ partners



■ Lower Quartile ■ Median ■ Upper Quartile

Very comparable overhead %s were achieved in Glasgow and Edinburgh:

Overheads (exc staff) as a % of fees - 10+ partners



■ Lower Quartile ■ Median ■ Upper Quartile





Overheads per fee earner for 10+ partner firms were slightly higher in Edinburgh:

Overheads (exc staff) per fee earner - 10+ partners



Lower Quartile		
Median	38,436	34,863
Upper Quartile		

■ Lower Quartile ■ Median ■ Upper Quartile

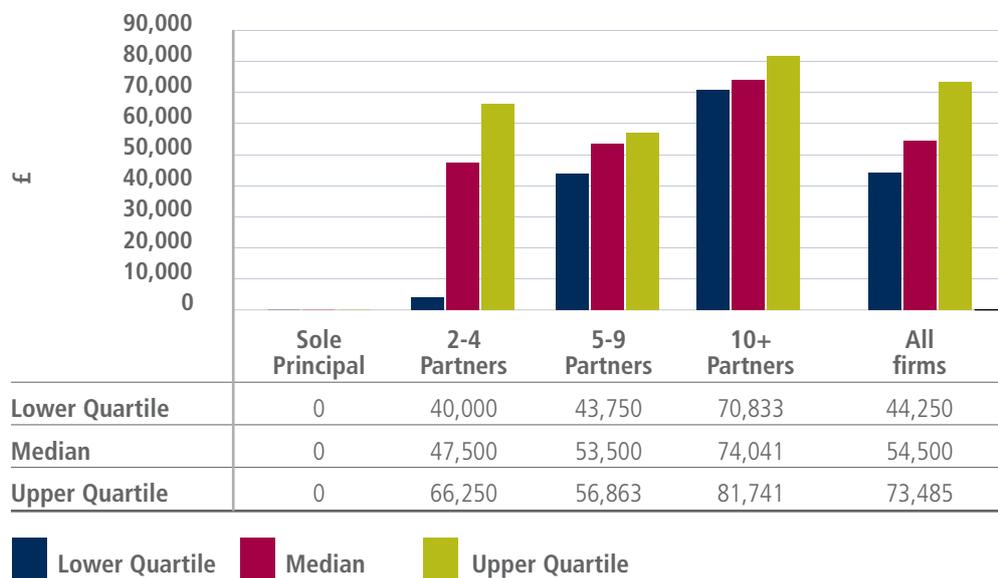


8 Salaries

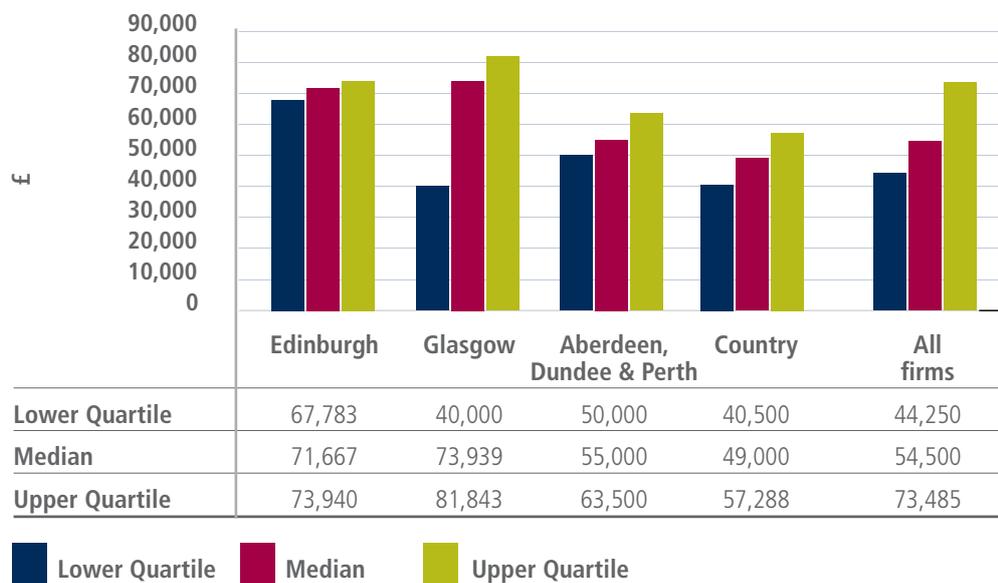
This section summarises the salary information gathered in the survey:

Salaried partners

Salaries - salaried partners

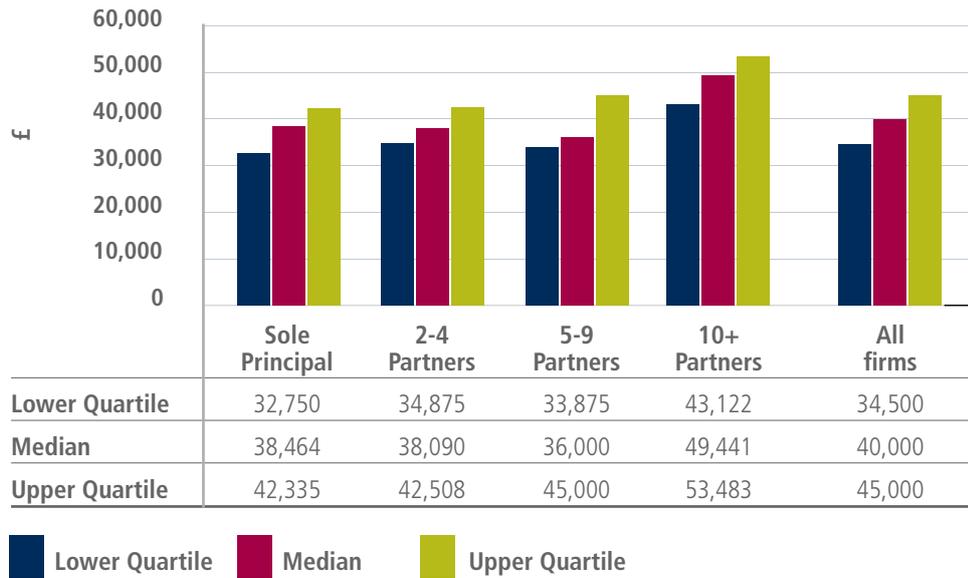


Salaries - salaried partners

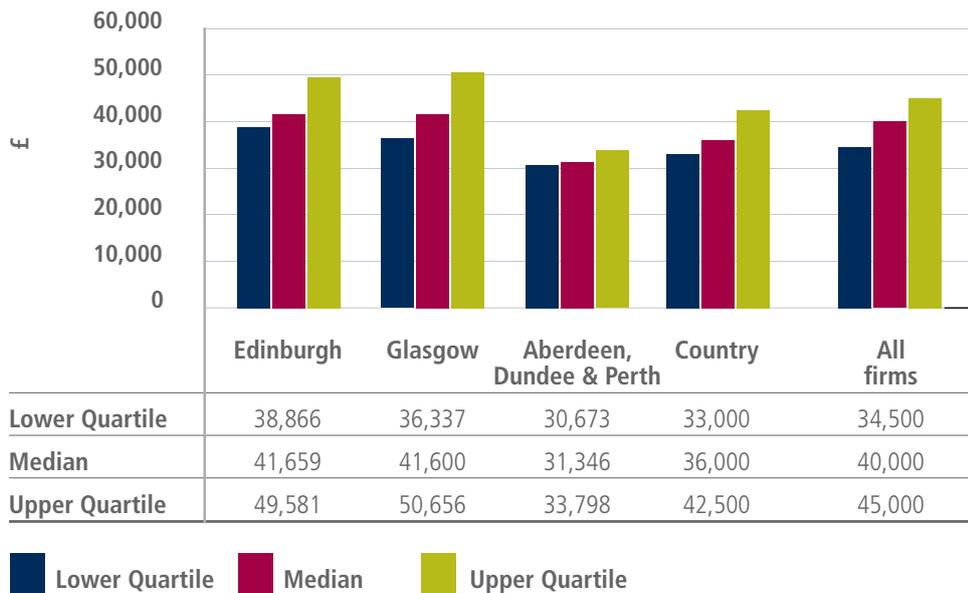


Associates

Salaries - associates

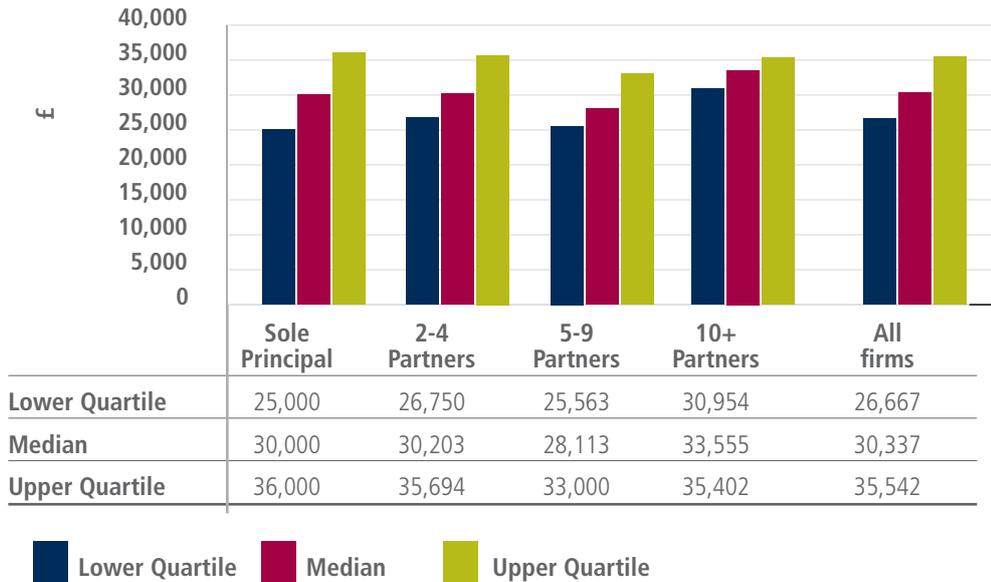


Salaries - associates

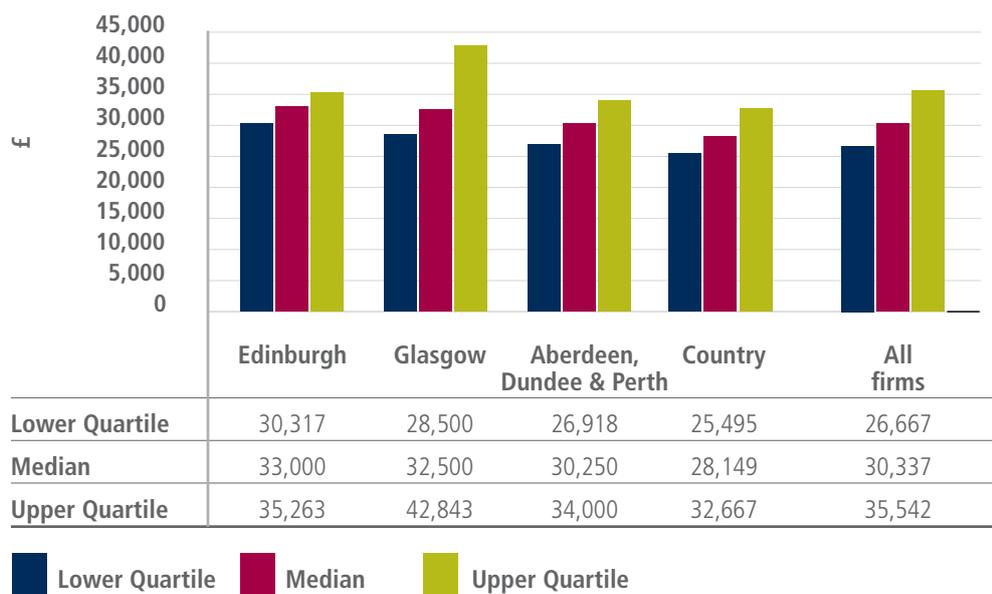


Qualified assistants

Salaries - qualified assistants

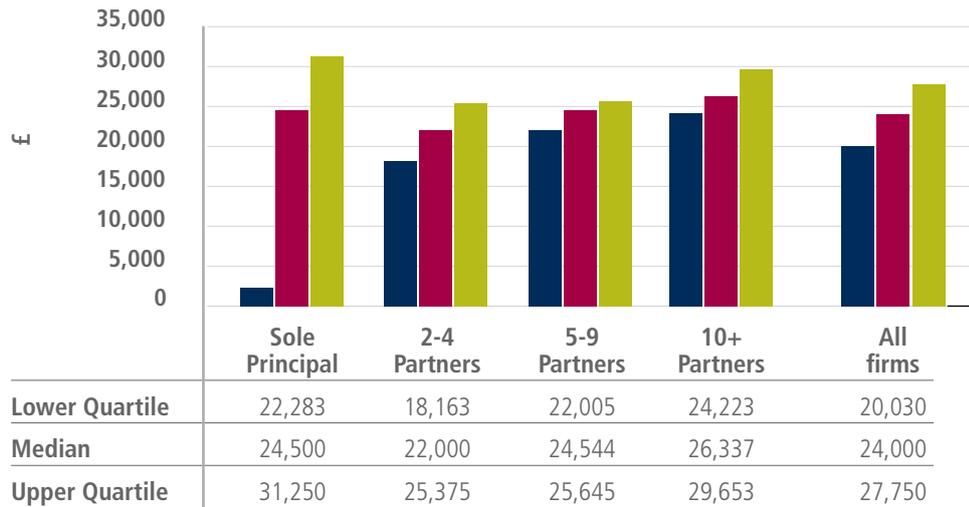


Salaries - qualified assistants



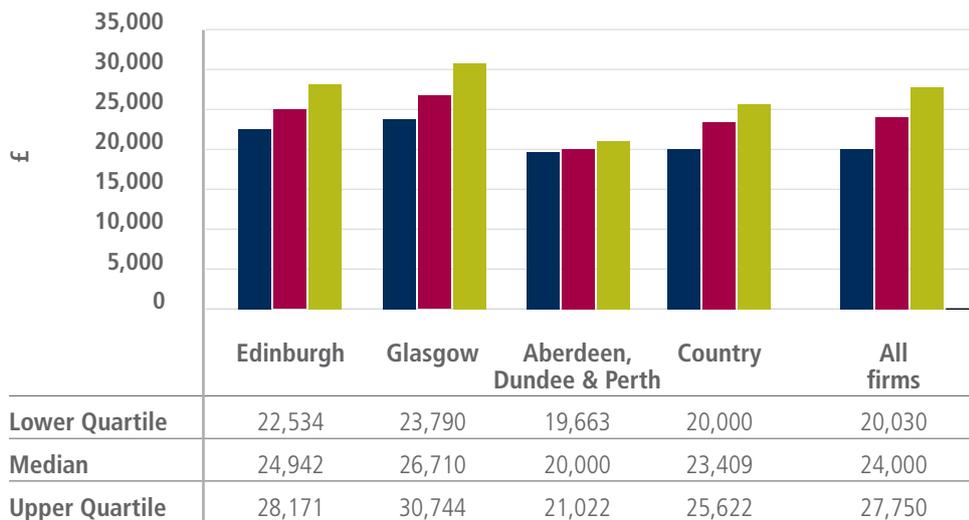
Unqualified fee-earners

Salaries - unqualified assistants



■ Lower Quartile
 ■ Median
 ■ Upper Quartile

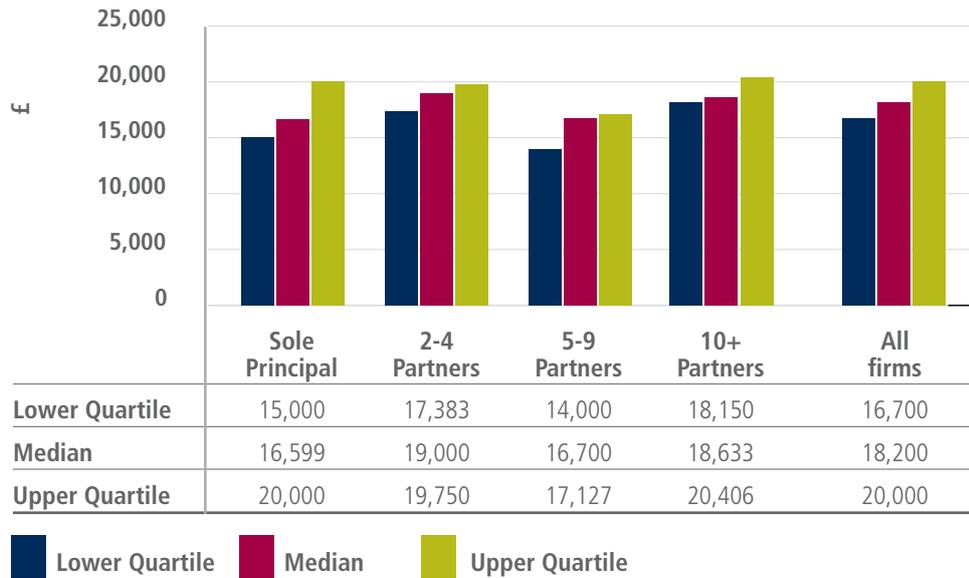
Salaries - unqualified assistants



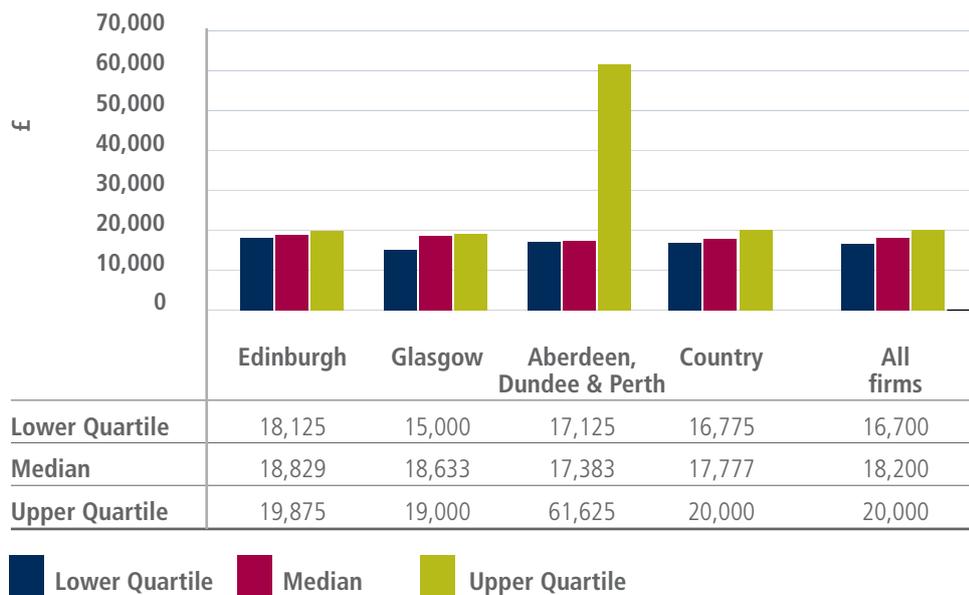
■ Lower Quartile
 ■ Median
 ■ Upper Quartile

Trainees

Salaries - Trainees



Salaries - Trainees



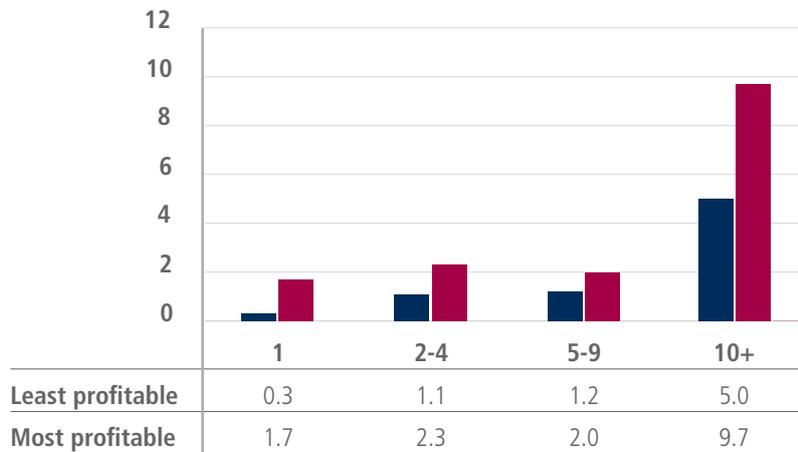
9 Characteristics of the most profitable firms

For several years we examined the characteristics of the more profitable firms and these charts give the average for the most and least profitable firms³ :

- Gearing;
- Fees per equity partner;
- All salary costs (i.e. including a notional salary) relative to fee income;
- Non-salary overheads relative to fee income.

Traditionally, firms with higher levels of gearing and fees per equity partner have achieved better profits. Salaries and overheads relative to fees have also been at lower levels. The charts indicate the goals that firms should have in mind.

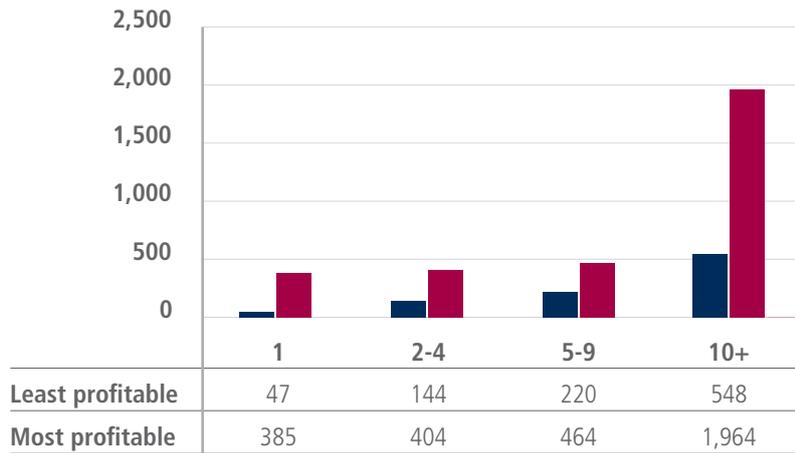
Gearing



■ Least profitable ■ Most profitable

³ Those earning average profit per equity partner above the upper quartile and below the lower quartile respectively

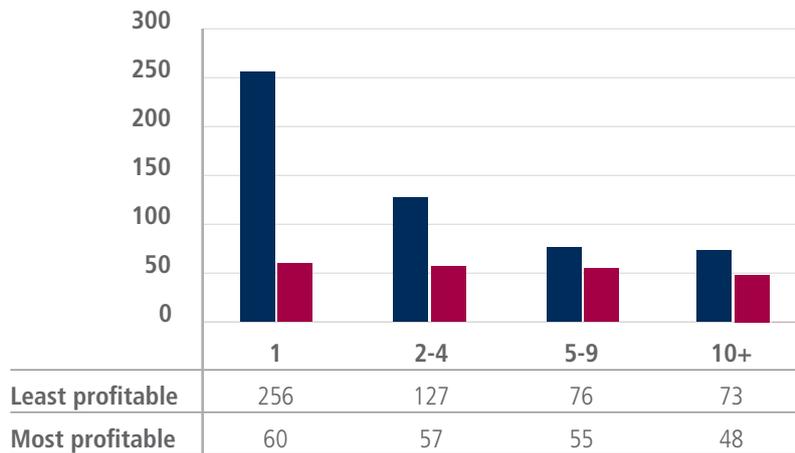
Fees per equity partner



■ Least profitable ■ Most profitable

It should be noted that in the chart below, "all salaries" includes an allowance for equity partner notional salaries, hence the very high %s of some of the least profitable firms.

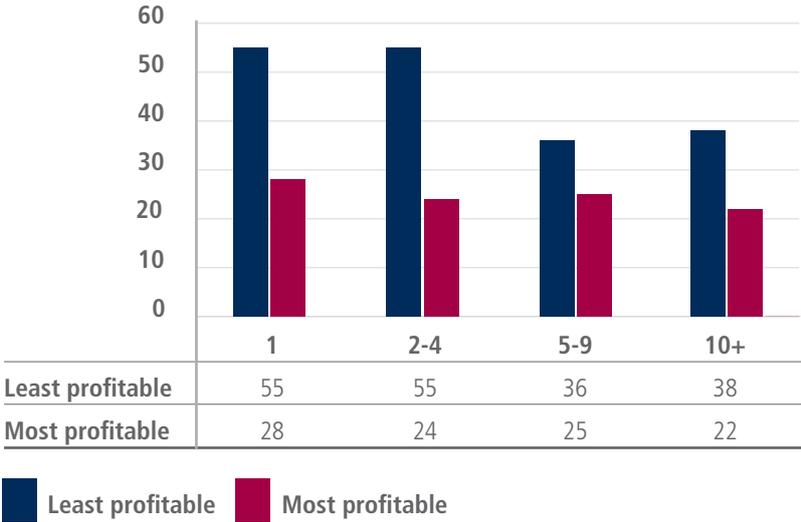
All salaries as a % of fee income



■ Least profitable ■ Most profitable



Non - salary overheads as a % of fee income



10 Hourly cost – the “cost of time”

Average hourly expense rates, by size of firm, geographical location and type of practice, are derived from the survey. These are calculated according to the assumptions set out below and include a notional salary in respect of each equity partner, together with an allowance for pension provision and interest on capital.

If each fee earner had generated fee income at his or her appropriate hourly rate for the assumed number of chargeable hours, then the amount available for distribution among the equity partners would have been sufficient to provide each partner with their notional salary, related pension provision and interest on capital.

The tables provide details of the average hourly expense rates derived from the survey for 2014 by:

- Level of fee earner
- Size of firm
- location

Average 2014 hourly expense rates (Mean)

£	2014
All solicitors	141
Equity partners	168
Salaried partners	137
Associates	86
Qualified Assistants	73
Trainees	81
Unqualified fee-earners	66

Note – “All solicitors” represents the average of all solicitors in the survey – equity partners and also those who were not equity partners

All solicitors expense rate by size of firm⁴ and location (Mean)

£		2014
Size of firm	Sole principal	141
	2-4 partners	142
	5-9 partners	130
	10+ partners	156

² In this particular table the firms are classified according to the number of equity partners in order to provide comparability with previous years. These figures are used by LPAC in determining judicial fees.

It is important to note that this expense rate may be used to determine the cost to a firm of doing a piece of work. The charge to be made to the client may allow for other factors, having due regard to all the relevant circumstances and in particular to:

- Importance of the matter to the client;
- Amount or value of any money or property involved;
- Complexity of the matter or the difficulty or novelty of the question raised;
- Skill, labour, specialised knowledge and responsibility involved on the part of the solicitor or assistant;
- Time expended;
- Length, number, and importance of any documents or other papers prepared or perused;
- Place where, and the circumstances in which, the services or any part thereof are rendered, including the degree of expedition required.

It is obvious that the number of hours per annum spent directly on work for clients is a crucial factor in determining the cost of time. In view of the relatively small number of firms currently using time recording methods, in most cases the values used for this parameter are necessarily estimates. Firms are encouraged to use time recording methods (which need not be complex in nature) in order to maintain more accurate financial control over their business.

Where a firm finds it has difficulty charging these rates, areas to explore will include:

- The level at which the work is being done. Could it be undertaken by someone less senior – a non-partner solicitor rather than a partner, or an unqualified fee earner rather than a solicitor?
- How is it being done? Could it be done more efficiently, perhaps through better use of IT?
- Is this an area of work that the firm should be doing? If it is not possible to charge a realistic fee, why do it?

Key assumptions

In calculating the hourly expense rates the following specific assumptions have been used:

- In the calculation of “all salaries”, and the expense rates, a notional salary of £81,500 has been used for firms with under 10 partners, and £140,000 for firms with more than ten partners.
- Number of chargeable hours per annum for a full time fee-earner:
 - o Partners – 1,000
 - o Trainees – 800
 - o All other fee-earners – 1,200

It is important to distinguish between chargeable hours and total hours at work. Chargeable time is defined as time spent directly on work for clients for which a charge will be made.

- Rate of return for interest on working capital: 2%. Where necessary, an average value of £50,000 per equity partner has been used to estimate the working capital of the firm;
- Pension provision for equity partners: 17.5% of notional salaries;
- An inflationary growth rate for expenses based on movements in the retail price index.

A more detailed report on the Cost of Time, that forms part of the Society’s annual submission to the Lord President’s Advisory Committee, is available free of charge from the Professional Practice Department at the Society on 0131 476 8124 or profprac@lawscot.org.uk.