

RBS Legal Benchmarking Report 2019

RBS released its latest annual edition of the Legal Benchmarking report and Scottish firms were well represented, making up 22% of those surveyed – 28% at the small firm level, and 16% at the large firm level. This representation of Scottish firms allowed for some positive reading, indicating that they leading the rest of the UK law firms in financial terms, but there are emerging trends that Scottish law firms and, indeed the wider professions sector, need to carefully consider.

Growth Vs Profit

The report highlighted a continued confusion in many firms between growth and profit. Firms should be focused on increasing profits, yet in the last six years, profit as a percentage of fees has declined by 9%. There are many possible reasons for this, but this trend is concerning. Firms seem to be working just as hard, if not harder, than they were working six years ago but for less return by way of profits.

In terms of productive time, fee earners of Scottish firms are somewhat off the pace. Compared to a median of 1,000 chargeable hours for all those surveyed, Scottish fee earners were charging 566 hours. This is a large variation and suggests there are cost inefficiencies that are holding back Scottish firms from achieving their potential level of profitability.

Overall, in terms of fees and profits, Scottish firms have performed well compared to the rest of the UK, as the table below illustrates:

	Small firms		Large firms	
	Scotland	Total	Scotland	Total
Fees				
Fees per fee earner (£'000)	146	127	151	143
Fees per equity partner (£'000)	432	448	666	829
Fees as a percentage of last year	105%	102%	102%	104%
Profit				
Profit as a percentage of fees	18%	18%	27%	23%
Profit per equity partner (£'000)	97	95	193	184
Profit per equity partner as a percentage of last year	109%	111%	102%	101%
Fee earners as a percentage of total headcount	43%	47%	56%	53%

Cash management

The RBS report also stated that most legal businesses are failing to manage lock-up effectively and, as a consequence, provide far too much credit to clients which in turn can create cash flow problems. As can be seen in the table below, Scottish firms fared well compared to the rest of the UK in this respect, but with murmurings of a recession, they should not rest easy.

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	Small firms		Large firms	
	Scotland	Total	Scotland	Total
Lock-up				
WIP days	28	41	53	58
Debtor days	18	31	64	49
Finance				
Year end bank balance (£'000)	47	37	224	199
Client account bank balance as a percentage of fees	198%	225%	141%	105%
Percentage of firms that have experienced a cyber-attack or fraud-related loss in the last 12 months	76%	37%	69%	55%

Cyber Security

What is particularly alarming in the report is the number of Scottish firms that are being target by fraudsters and cyber-attacks – 76% of small Scottish firms have experienced a cyber-attack or fraud-related loss in the last 12 months. With smaller Scottish firms seemingly easy targets compared to the rest of the UK, they must do everything possible to ensure that their funds are kept secure and have a clear focus on cyber security.

Conclusion

The RBS report shows areas of improvement for Scottish firms, but also areas or improvement. Having a focus during partners meetings is important, as it allows the business to focus on the larger issues of cyber security while fee earners maximise their fee-earning potential.

Our EQ Professions specialists will be happy to assist you in making the necessary changes in order to enhance your future partner meetings. You can email us at professions@eqaccountants.co.uk or visit our website for further information on the Profession Sector www.eqaccountants.co.uk.