

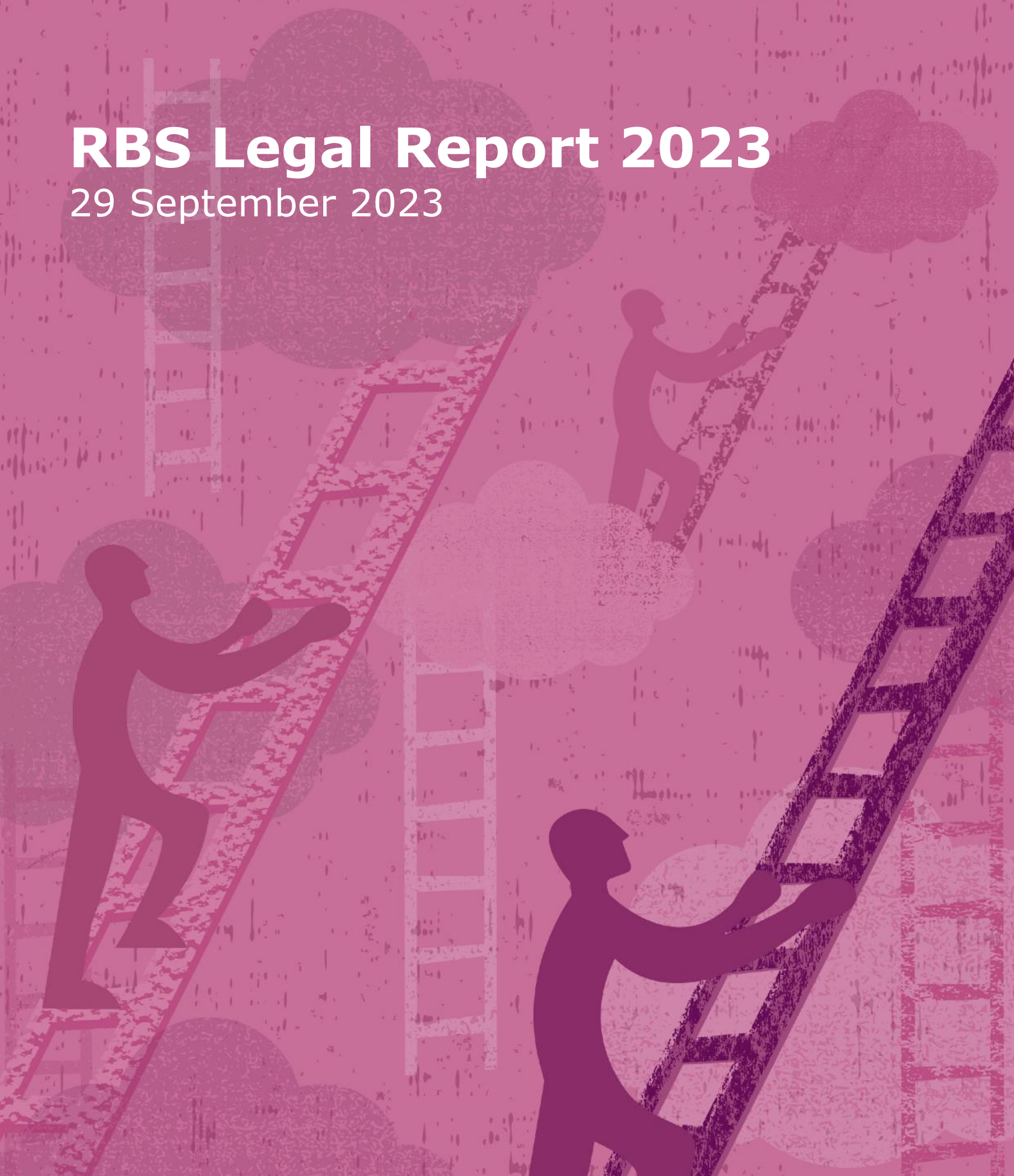
Professions



CHARTERED ACCOUNTANTS

RBS Legal Report 2023

29 September 2023



The Royal Bank of Scotland (**RBS**) Legal Report 2023 (the **Report**) has found that the UK legal sector is demonstrating remarkable resilience despite numerous significant financial and operational challenges, including the pandemic and high inflation.

Introduction

The Report analyses the 2022 financial results of 68 firms, including 10 firms in Scotland (14.7% of participants), and provides the key performance indicators in the sector.

As with all other businesses, the legal sector faced significant challenges because of the COVID-19 pandemic, which was followed by a significant increase in costs, with inflationary pressures precipitating a substantial increase in the Bank Rate by the Bank of England from 0.1% to 5.75%.

However, RBS noted that, despite the challenges, 2021 was the most financially successful year for each of the firms surveyed in more than 25 years, noting that 2022 was another year where firms reported strong financial results, suggesting that firms have successfully navigated their way through the challenging economic conditions of the last three years.

Financial performance

The Report found that the median profit per equity partner for 2022 was £246,000 (from £220,000 in 2021, representing an increase of 12% across the sector, and £146,000 for small firms).

Across the sector, median fee income growth of 8% in 2022 reflected increased demand for residential conveyancing, private client services, and value-added consultancy projects.

Profitability was variable—

- 25% of firms reporting growth in profit per equity partner of 18% or more.
- 25% of firms reporting a decline in profit per equity partner of 20% or more.
- The median profit per equity partner was down 3% on the 2021 report.

Productivity

With people and overhead costs rising sharply in law firms – along with the challenges of recovering this inflation from client rate rises – many law firms are starting to focus on the efficiency of the services they deliver.

This will involve focusing on areas like time capture, pricing, and matter management for most firms. However, in this process, firms need some mechanisms to assess fee earner performance.

The median fees per fee earner was £141,000, an increase of 8% on 2021.

Metric	Median
Fee income	Growth was 8% (range of 5% to 10%)
Fees per equity partner	£1m (up from £744,000 in 2021)
Profits per equity partner	£148,000 for small firms and £302,000 for large firms
Fees per fee earner	£141,000 (range of £120,000 to £160,000 outside Top 100)

Most profitable services	Private client law and residential property conveyancing
Least profitable service	Employment law
Staff costs / Fee income	42% of fee income (range of 40% to 55%)

Cash flow

The Report states that most legal businesses do not manage lockup effectively and supply excessive credit to clients, which can create cash flow problems.

Lockup increased to a median of 136 days, up from 134 days in the 2021 report.

Measure	Median
WIP days	90 days (88 days in 2021)
Debtor days	34 days (33 days in 2021)
Lockup days	136 days (134 days in 2021)

Practice areas

The report found that private client work was the most buoyant sector in 2023, with 60% of firms reporting an increase in fee income from this area. This is likely due to several factors, including the ageing population, the increasing wealth of individuals, and the increasing complexity of inheritance tax laws.

The report also found that employment work was the most problematic sector in 2023, with 40% of firms reporting a decrease in fee income from this area. This is likely due to several factors, including the decline in employment disputes, the increasing use of self-employed workers, and the increasing use of technology to automate HR processes.

Talent

The report found the attraction and retention of talent was the key challenge facing law firms in 2023. This is likely due to several factors, including the increasing competition for talent from other sectors, the increasing cost of living, and the increasing demands on lawyers.

The report also found that law firms are investing in several initiatives to attract and retain talent, such as offering competitive salaries and benefits, providing flexible working arrangements, and offering training and development opportunities.

Basis period reform

The Report highlights the impact that the basis period reform will have on those unincorporated firms that do not prepare annual accounts to 31 March or 5 April each year.

From 6 April 2024, taxable profits will be based on the time-apportioned profits of the accounting periods that fall within the tax year.

In summary, all firms will be subject to income tax based on income arising in the tax year (i.e., from 6 April to 5 April), regardless of the accounting year-end.

However, the current 2023/24 tax year is a transition period, so firms will be chargeable to income tax on the profits to their normal accounting year end plus an apportionment of results to 5 April 2024, as shown in the example below.



The basis period reforms are beyond the scope of this article, but we have prepared a summary of the rules, which can be accessed via our [EQ Taxpert](#) website, where we discuss the changes more comprehensively.

If you would like to discuss how the rules might impact on your business, email our EQ Professions at professions@eqaccountants.co.uk.