Industry in Focus

# Facing the future with confidence

**PwC Law Firms' Survey 2021**

#PwCLawSurvey

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**This is the 30th PwC Law Firms' Survey.**
The editorial team for 2021 consists of:

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Kate leads our Law Firms' Advisory Group ("LFAG") and works with national and international law firms on audit, accounting and strategy issues. She is chair of PwC's Risk Committee and a member of PwC's Supervisory Board and Public Interest Body.

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David is a partner in our Deals practice who advises law firms and other financial stakeholders on sources of funding and appropriate funding structures.

Our Law Firms' Advisory Group harnesses the expertise of specialists nationally and internationally to provide assistance with:

- Audit
- Direct and indirect taxation
- Strategic consultancy
- IT strategy, selection and implementation (Finance / PMS, HR and CRM)
- Cost reduction and outsourcing
- Mergers and acquisitions
- Capital Markets advisory
- Compliance with SRA Accounts Rules and associated regulatory requirements
- Working capital management and financing
- Limited Liability Partnerships and other structuring advice
- Partner reward
- Employee and employer issues (reward structures and taxation)
- International secondments
- Internal audit and other risk management services; for example, cyber and information security

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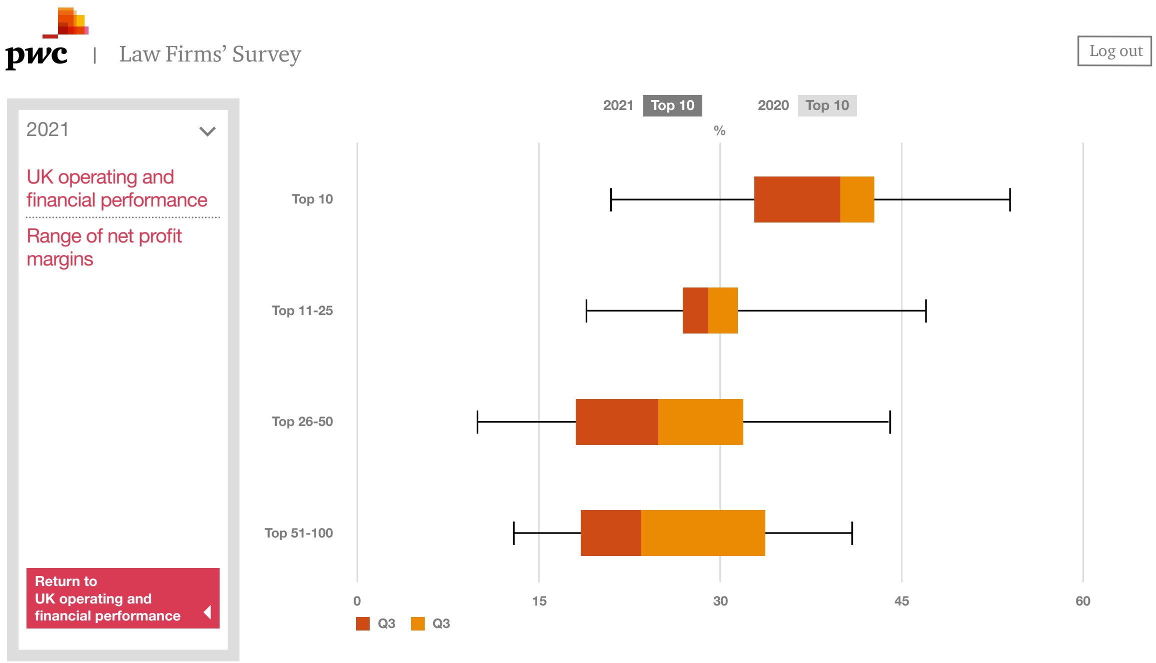
We would like to thank all other members of the LFAG who helped with this year's survey, particularly Colleen Dunn, Jen Smith, Sanah Faridi, Oliver Nelson, Katie Neish, Stephen Tebbett, Dan Wicks, Dan Holmes, Josh Noble, Craig Shaw, Faizaan Naseem, Tiarnan Branson, Rich Jones, Sophie Elwin and Derrick Tate who contributed significantly to the production of this report.

In addition to the information presented in this report, all participating firms have access to an interactive online benchmarking tool that holds a vast amount of data from our survey. This tool also benchmarks the individual firms' results against their associated peer group banding.




Please contact a member of our Law Firms' Advisory Group for a demonstration of our online benchmarking tool and to see how you can compare the results of your firm to that of your peers.

The survey results are presented by size of firm using the bandings Top 10, Top 11-25, Top 26-50 and Top 51-100, except where otherwise stated (analysis for these bandings of firms has been adjusted to exclude high volume firms where their impact is considered significant). The classification is by annual global fee income.

Our report is based on survey responses from firms at consistent response rates to prior years. We've also drawn upon, where relevant, other published financial information. This summary document focuses on the key findings from our survey.

Our thanks are due, as always, to the firms which participated in this survey. We appreciate that the questionnaire takes considerable time to complete. All of the responses are processed in full and we have a significant amount of data that isn't fully reproduced here. If you'd like further information on the responses to any of the questions, please contact one of our editorial team.

## Key definitions

- Global Top 10 – Top 10 (by global revenue) UK headquartered firms where international revenue exceeds 20% of total revenue.
- Global Top 11-25 – Top 11-25 (by global revenue) UK headquartered firms where international revenue exceeds 20% of total revenue.
- UK – Operations of all UK offices only.
- International – Operations of all international offices only.

# Contents

# Overview and key themes

## Introduction

Our 2020 Law Firms' Survey had the theme 'Embracing change to succeed' and this was against the backdrop of the first stages of the coronavirus (COVID-19) pandemic. There have certainly been many changes in the last 12-18 months, throughout the period of COVID-19 and the related government lockdowns. Many of us perhaps thought by the Autumn of 2021, the pandemic would be behind us, but that is not yet the case.

**One of the biggest challenges for law firms has been adapting to new working practices.** With the majority of the last financial year resulting in staff working from home, law firms had to seek out new ways to operate for both fee earners and back office staff. The financial results indicate that, in the main, law firms have embraced change and recorded extremely positive financial results.

Going back to the spring/summer of 2020, law firms were extremely worried about what the future would bring and the impact of COVID-19, along with Brexit. Many firms predicted falling revenue and profitability, and it was clear that there was not much optimism in the sector. Fast forward 12 to 15 months and that view is very different. **Optimism has replaced the pessimistic view many had of the future.**

Based on those firms that responded to our survey in the current and prior year, almost every Top 100 firm (97%) outperformed their revenue and profit expectations from the summer of 2020. Over 85% of Top 25 global law firms and over 75% of Top 100 UK law firms have reported increases in fee income (in the main, between 1% and 10%). The statistics are even better at the profit level, with all Top 25 global firms posting increases in profit along with 77% of Top 100 UK law firms. Top 25 global law firms posted an average profit increase of 24%, while for Top 100 UK law firms this was an average rise of 20%. **In a number of cases, law firms are reporting record profits.**

While this naturally drives optimism, it would be unreasonable to expect profit growth to the same extent in FY22. The extent of FY21 profit growth has been driven not only through revenue increases, but more notably through significant cost savings on areas such as travel, marketing and business development (BD), and office costs. As we move beyond the pandemic, these costs will inevitably increase, although perhaps not back to pre-pandemic levels. Law firms need to consider what their future cost structure should look like. This will incorporate what is expected of their staff when it comes to BD activity/spend and travel, with an additional focus on carbon reduction commitments; and also consideration of the workplace of the future.

The impact on the workforce over the last year has been unprecedented and the way that this has been managed, in order to record such positive results, is commendable. However, this has highlighted challenges that need to be addressed. We consider two key areas to be as follows:

- **The move to remote working has identified that IT is an area that needs continual re-investment,** not just to make sure the basics are working right, but to also take advantage of the more advanced technology in the market. Firms are expecting to implement cloud solutions and the latest digital technologies to ensure efficiency gains are achieved across the workforce and that clients receive the best experience possible. But any IT investment needs to be coupled with addressing the most significant current concern to UK law firms, cyber risk.
- **Working remotely has led to a lack of delegation and reduced coaching of more junior grades of staff.** This is clear in that improvements in chargeable hours are most prominent across senior grades, including partners. Coupled with this, Top 100 firms consider shortage of talent to be the second most common area of concern, behind cyber risk. At the current stage of the COVID-19 cycle, law firms need to consider how they can best invest in their staff to build loyalty, reinforce cultural values, and ensure they do not lose a generation of talent.

Another key area of consideration in respect of the workforce is the new hybrid working environment. **It is widely acknowledged that staff will not be expected to be in the office five days each week,** with the majority of firms stating that they expect their staff to be in the office 40-60% of the time. Embedding a sustainable hybrid working environment will not be a straightforward transition. Firms will need to ensure that all staff have the opportunity for learning, personal development and networking; that the office experience is a positive one; and that all parties are treated fairly rather than adopting a 'one size fits all approach'.

We included in our survey for the first time, key questions regarding the 'office of the future'. Clearly, **law firms are expecting the use of their office space to change in the short to medium term.** The priority uses for the office of the future are expected to be collaboration, team bonding and relationship building, client interaction and coaching/learning/development. In fact, hardly any firms cited productivity and innovation as priority uses of the office of the future. This likely explains why 48% of Top 100 law firms expect to reduce their office footprint (a further 21% stated 'don't know' and are evidently still considering this option) and 75% stated it is extremely likely or likely that they will reconfigure their office space.

These are fast moving and exciting times. As we move forward out of the pandemic, we will see how firms best respond to challenges both old and new: securing sustainable profitable growth; successfully embedding a hybrid working environment that aids talent retention; capitalising on investment in technology; and delivering on ESG promises including diversity and inclusion targets, climate related goals, and social responsibility.

Law firms have experienced significant disruption over the last 18 months and have fared well through tough times. **Those that embrace and invest in the learnings will be well placed to meet the challenges that lie ahead and face the future with confidence.**

## Global financial performance

Global law firms headquartered in the UK have delivered strong financial results over the course of the last year. All Top 10 and 78% of Top 11-25 firms delivered fee income growth, while all firms in these bandings achieved an increase in their reported profits.

Average fee income growth was 4.2% (2020: 3.6%) in Top 10 firms to £1,109m. At the profit level (profit before full and fixed equity partner remuneration - as this allows a better comparison across a range of partnership models in UK and international offices), growth was 18.5% (2020: fall of 0.9%) to an average of £470m. A similar story exists among Top 11-25 firms where average fee income and profit growth was 4.3% (2020: 5.0%) and 17.1% (2020: 1.1%) respectively, to £396m and £134m.

The source of fee income growth differs significantly between the Top 10 and 11-25 firms. In Top 10 firms, 78% of the growth came from UK offices, whereas in Top 11-25 firms the split is much more even, with 57% coming from international offices (including a minor negative impact from exchange rates). International offices demonstrated stronger performance at the profit level, with a 48% contribution to overall profit growth in Top 10 firms and 63% in Top 11-25 firms.

Global profit growth has been supported by the reduction in costs across a number of areas. Notwithstanding this, the fact that international offices are achieving such returns is a positive and firms are seeing a return on the investment into those international offices over the last 5-10 years. Continuing improvement in those offices, or at least maintaining the FY21 profitability levels, will be one of the targets for global firms over the next 5 years.

Profit growth has contributed to excellent net profit margin (before full and fixed equity partner remuneration) results. Top 10 firms have reported a record margin of 39.9% (2020: 35.2%) and this significantly exceeded their previous best in 2016 of 38.7% (we note that this is based on our collection of global financial performance data which started in 2012). Top 11-25 firms have posted an average global net profit margin of 34.1% (2020: 31.6%) and this is just shy of a previous best in 2018 of 34.3%.

The global staff cost to fee income ratio has fallen in both Top 10 and 11-25 firms. In the Top 10, the staff cost ratio has fallen by 2 percentage points to 38.6% and in Top 11-25 firms the fall is 0.4 percentage points to 43.7%. Increases in fee income have helped improve this statistic while headcount, on a like for like basis, has remained reasonably consistent with prior year. It has been well documented in the press that legal sector salaries were frozen during much of the financial year. There were also certain firms who put staff on a four day working week; although, the majority of these made repayments towards the end of the financial year to top salaries back up to 100%. In conjunction with this, it has also been reported that staff have received impressive bonuses in some firms, and in the current year salary pressure is once again being felt acutely.

Other notable cost reductions were in respect of marketing and BD, along with bad debts. The savings in these areas contributed 1.3 percentage points to net profit in both Top 10 and 11-25 firms.

## Global — Average percentage profit and loss account

| | Top 10 | | Top 11-25 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | % | % | % | % |
| **Fee income** | **100** | **100** | **100** | **100** |
| Staff costs — fee earners | 27.1 | 28.4 | 28.9 | 29.7 |
| Staff costs — non-fee earners | 11.5 | 12.2 | 14.8 | 14.4 |
| Property costs | 8.6 | 8.5 | 8.1 | 8.2 |
| IT revenue costs | 2.7 | 2.3 | 2.5 | 2.5 |
| Marketing & BD costs | 0.5 | 1.1 | 0.6 | 1.5 |
| Finance function costs | 0.9 | 1.0 | 0.7 | 0.9 |
| Depreciation | 1.8 | 2.0 | 2.0 | 1.9 |
| Insurance costs | 1.1 | 1.2 | 1.4 | 1.4 |
| Bad debts and disbursement | 0.5 | 1.2 | 1.7 | 2.1 |
| Foreign exchange differences | 0.3 | -0.2 | 0.2 | 0.1 |
| All other costs | 5.1 | 7.1 | 5.0 | 5.7 |
| **Profit before fixed share equity remuneration** | **39.9** | **35.2** | **34.1** | **31.6** |
| Fixed share equity partners' remuneration | 3.7 | 3.5 | 7.6 | 8.7 |
| **Net profit margin** | **36.2** | **31.7** | **26.5** | **22.9** |

## UK financial performance

UK law firms have spent the entirety of their last financial year in various COVID-19 lockdowns. In the late spring and early summer of 2020, a downturn was expected in the level of activity of law firms. But the pessimism that existed did not materialise.

At this time last year, the majority of Top 100 firms (80%) were predicting falls in fee income for FY21. The average expected fall across the bandings ranged from 0.8% in Top 10 firms to 7.6% in Top 26-50 firms. The expected falls in profit were more pronounced, ranging from 6.5% in Top 10 firms to 20.5% in the Top 26-50.

The outcome has been very different, with all Top 10, 92% of Top 11-25, 78% of Top 26-50 and 63% of Top 51-100 firms achieving fee income growth. While not as positive, the trend of increasing net profit is similar with at least 72% of firms across the bandings reporting rises.

Generally, larger firms, who have more diversified revenue streams, have been able to pull more levers to ensure better growth and profitability in FY21. It is also evident that firms with the majority of fee income invested in practice areas such as corporate and banking fared better than those whose fee income is driven by private client and high volume legal work.

While a positive trend exists among smaller firms, it is less marked than for the biggest firms. Top 10 firms, for example, have achieved average fee income growth of 7.6% compared to 1.8% last year. This compares with 4.4% and 4.6% average growth in the Top 11-25 and 26-50 (2020: 4.9% and 2.6%)

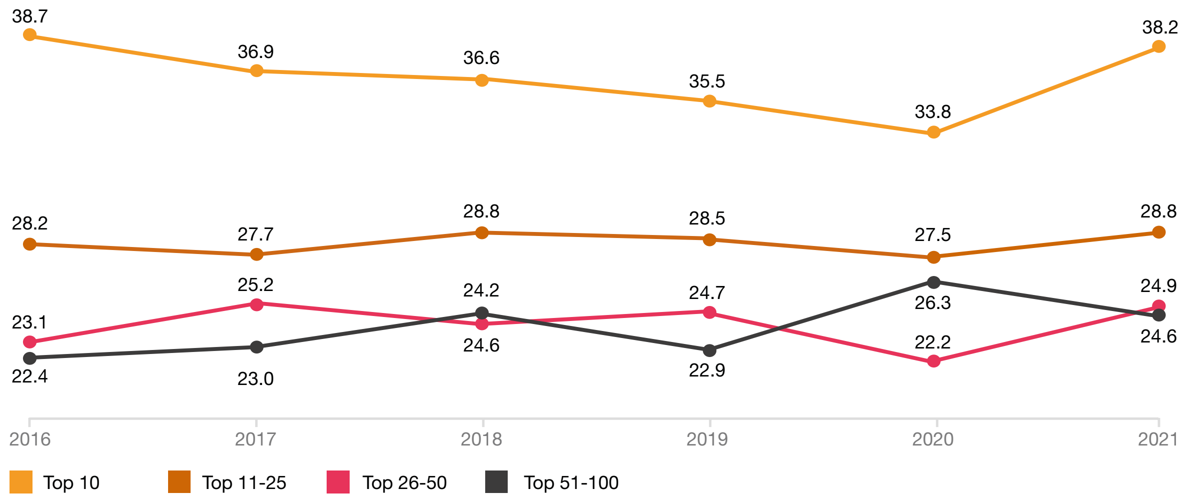
## UK — Average percentage profit and loss account

| | Top 10 | | Top 11-25 | | Top 26-50 | | Top 51-100 | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| | % | % | % | % | % | % | % | % |
| **Fee income** | **100** | **100** | **100** | **100** | **100** | **100** | **100** | **100** |
| Staff costs — fee earners | 26.4 | 27.8 | 27.1 | 27.4 | 28.5 | 30.0 | 32.2 | 30.7 |
| Staff costs — non-fee earners | 10.7 | 11.1 | 15.6 | 14.0 | 14.2 | 15.1 | 13.3 | 14.0 |
| Property costs | 8.9 | 9.3 | 7.9 | 8.2 | 7.6 | 8.6 | 8.0 | 7.6 |
| IT revenue costs | 2.8 | 2.4 | 2.5 | 2.8 | 3.5 | 3.6 | 3.9 | 3.3 |
| Marketing & BD costs | 0.5 | 1.1 | 0.7 | 1.6 | 1.0 | 1.9 | 1.0 | 2.2 |
| Finance function costs | 1.0 | 0.7 | 1.2 | 0.7 | 0.7 | 0.6 | 0.8 | 1.0 |
| Depreciation | 1.9 | 2.0 | 2.0 | 2.1 | 1.9 | 2.1 | 2.0 | 1.7 |
| Insurance costs | 1.1 | 1.1 | 2.0 | 1.6 | 2.2 | 2.0 | 2.5 | 2.0 |
| Bad debts | 0.5 | 1.3 | 1.5 | 1.8 | 1.2 | 1.5 | 0.9 | 1.7 |
| Foreign exchange differences | 0.1 | 0.0 | 0.3 | 0.0 | 0.1 | -0.1 | 0.0 | 0.0 |
| All other costs | 4.6 | 6.4 | 4.1 | 5.2 | 4.7 | 4.1 | 3.6 | 4.1 |
| **Profit before fixed share equity partners' remuneration** | **41.5** | **36.8** | **35.1** | **34.6** | **34.4** | **30.6** | **31.8** | **31.7** |
| Fixed share equity partners' remuneration | 3.3 | 3.0 | 6.3 | 7.1 | 9.5 | 8.4 | 7.2 | 5.4 |
| **Net profit margin** | **38.2** | **33.8** | **28.8** | **27.5** | **24.9** | **22.2** | **24.6** | **26.3** |
| Staff cost ratio (all staff costs) | 37.1 | 38.9 | 42.7 | 41.4 | 42.7 | 45.1 | 45.5 | 44.7 |
| Staff cost ratio (all staff, inc. FSEP costs) | 40.4 | 41.9 | 49.0 | 48.5 | 52.2 | 53.5 | 52.7 | 50.1 |

respectively, while Top 51-100 firms managed an average increase of 2.1% (2020: 4.9%).The positive results on fee income have been accompanied by cost savings on travel, marketing and other non-essential spend. Furthermore, there has been a reduction in bad debt expense and this no doubt arises from reversing cautious provisions made last year. All of this has resulted in impressive profit growth and for some, record profits. Top 10 and 26-50 firms stand out, on average, with increased profits of 22.7% and 21.0% respectively. Top 11-25 and 51-100 firms reported profit growth of 12.7% and 16.5% respectively. This also translates into impressive net profit margin growth across the Top 50 bandings and this is most prevalent in the Top 10 where margins increased from 34% to 38%. This is now close to the record 40% reported in 2014. Due to the impressive margin growth in Top 10 firms, the performance gap between them and the Top 11-25 firms has re-widened, from 6.3 percentage points in 2020 to 9.4 percentage points in 2021.

Partners of Top 50 firms will be pleased that the impressive profit growth has equated to excellent PEP results. Top 10 firms lead the way, 19% up on prior year PEP to £1,275k, being record results for this banding. Top 11-25 and 26-50 firms achieved 8% and 10% growth respectively.

## Movement in UK net profit margins: 2016 to 2021

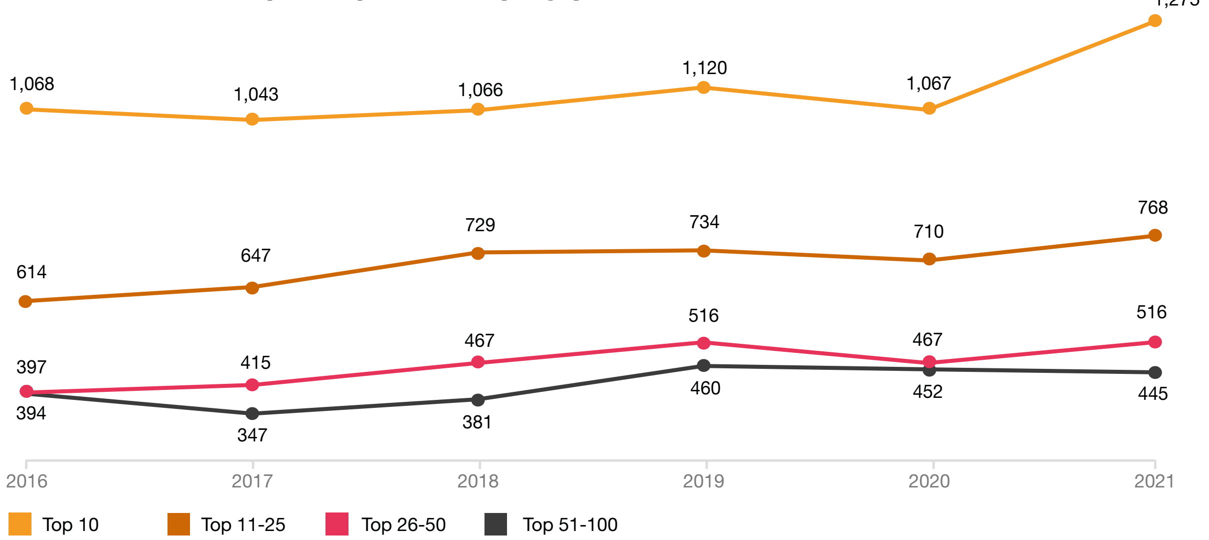



Top 51-100 firms average PEP has fallen by 2% based on participants' responses; however, this is heavily impacted by a change in mix of firms year on year. On a like for like basis, these firms actually experienced an increase in PEP of 17%.

UK law firms have performed strongly despite COVID-19 and there are a number of lessons to take from that period that can inform the future strategy of firms. For example, firms will look to protect some of the unexpected benefits of a now proven ability to work remotely, creating a more sustainable hybrid working practice for all staff (we speak more about this on pages 18 and 19); and continuing to capitalise on those cost savings that can be preserved to maintain profit margins moving forward.

If law firms and their boards can take the learnings of the last 18 months and build a relevant and appropriate strategy for the future, then the positivity around financial performance is likely to continue.

## Movement in UK profit per full equity partner: 2016 to 2021



## People

The impact of COVID-19 has limited headcount movements across the legal sector, reflecting a cautious approach to hiring in a remote working environment. While Top 11-25 and 51-100 firms reported modest increases in overall headcount at 1% and 5% respectively, Top 10 and 26-50 firms reduced their headcount by 1% and 4% respectively.

Narrowing this down to the fee-earner population (including partners), only the Top 51-100 firms reported an increase (5%). The fee-earner headcount within the Top 11-25 firms remained flat, with Top 10 and 26-50 firms reporting a small decrease (3% and 2% respectively).

Law firms are beginning to adapt their working practices and challenges continue around workforce planning; therefore, a circumspect approach to increasing headcount over the last year is understandable. Key influences on future headcount change will include access to a more geographically disparate talent pool as part of a hybrid working model, how office space will be used moving forward, and the continued progression in the use of technology to automate processes.

Consistent with revenue performance discussed earlier, a number of firms have increased their average chargeable hours, with larger firms having performed better in this respect. The biggest movement in utilisation has come at the partner level and this perhaps reflects an attitude among partners to delegate less work in the lockdown environment as non-chargeable activity (e.g. business development) was reduced, and delegation proved more complex in a remote working environment. Across the Top 25 firms, full and fixed share equity partners increased chargeable hours by, on average, between 8% and 10%. This compares to post-qualified grades in the

## UK headcount

| | Top 10 | | | Top 11-25 | | | Top 26-50 | | | Top 51-100 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Av. 2021 | Av. 2020 | % change 2020-2021 | Av. 2021 | Av. 2020 | % change 2020-2021 | Av. 2021 | Av. 2020 | % change 2020-2021 | Av. 2021 | Av. 2020 | % change 2020-2021 |
| Full equity partners | 153 | 151 | 1.3% | 73 | 72 | 1.4% | 54 | 57 | -5.3% | 29 | 28 | 3.6% |
| Fixed-share equity partners | 50 | 48 | 4.2% | 52 | 58 | -10.3% | 62 | 59 | 5.1% | 17 | 13 | 30.8% |
| Non-equity partners | 3 | 2 | 50.0% | 1 | 1 | 0.0% | 3 | 1 | 200.0% | 13 | 14 | -7.1% |
| **Total partners** | **206** | **201** | **2.5%** | **126** | **131** | **-3.8%** | **119** | **117** | **1.7%** | **59** | **55** | **7.3%** |
| 9+ year pqe | 169 | 148 | 14.2% | 117 | 106 | 10.4% | 93 | 85 | 9.4% | 45 | 33 | 36.4% |
| 6-8 year pqe | 157 | 167 | -6.0% | 57 | 60 | -5.0% | 48 | 45 | 6.7% | 24 | 25 | -4.0% |
| 3-5 year pqe | 134 | 125 | 7.2% | 71 | 69 | 2.9% | 59 | 56 | 5.4% | 27 | 28 | -3.6% |
| 1-2 year pqe | 136 | 140 | -2.9% | 51 | 53 | -3.8% | 43 | 49 | -12.2% | 23 | 22 | 4.5% |
| Newly qualified | 42 | 53 | -20.8% | 32 | 33 | -3.0% | 20 | 22 | -9.1% | 11 | 10 | 10.0% |
| Legal executives and paralegals | 126 | 162 | -22.2% | 62 | 63 | -1.6% | 106 | 125 | -15.2% | 48 | 53 | -9.4% |
| Trainees | 137 | 141 | -2.8% | 58 | 60 | -3.3% | 40 | 40 | 0.0% | 19 | 18 | 5.6% |
| **Total fee-earners (including partners)** | **1,107** | **1,137** | **-2.6%** | **574** | **575** | **-0.2%** | **528** | **539** | **-2.0%** | **256** | **244** | **4.9%** |
| Business services and secretarial | 938 | 928 | 1.1% | 402 | 389 | 3.3% | 323 | 349 | -7.4% | 144 | 138 | 4.3% |
| **Total** | **2,045** | **2,065** | **-1.0%** | **976** | **964** | **1.2%** | **851** | **888** | **-4.2%** | **400** | **382** | **4.7%** |

## UK chargeable hours

| | Top 10 | | | Top 11-25 | | | Top 26-50 | | | Top 51-100 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Av. 2021 | Av. 2020 | % change 2020-2021 | Av. 2021 | Av. 2020 | % change 2020-2021 | Av. 2021 | Av. 2020 | % change 2019-2020 | Av. 2021 | Av. 020 | % change 2020-2021 |
| Full equity partners | 1,195 | 1,086 | 10% | 1,066 | 986 | 8% | 969 | 927 | 5% | 916 | 897 | 2% |
| Fixed-share equity partners | 1,158 | 1,064 | 9% | 1,102 | 1,017 | 8% | 1,031 | 974 | 6% | 889 | 886 | 0% |
| 9+ year pqe | 1,309 | 1,257 | 4% | 1,310 | 1,215 | 8% | 1,148 | 1,125 | 2% | 1,000 | 1,042 | -4% |
| 6-8 year pqe | 1,361 | 1,286 | 6% | 1,358 | 1,307 | 4% | 1,196 | 1,201 | 0% | 1,100 | 1,156 | -5% |
| 3-5 year pqe | 1,438 | 1,404 | 2% | 1,390 | 1,322 | 5% | 1,251 | 1,265 | -1% | 1,151 | 1,204 | -4% |
| 1-2 year pqe | 1,438 | 1,417 | 1% | 1,299 | 1,312 | -1% | 1,244 | 1,274 | -2% | 1,094 | 1,155 | -5% |
| Newly qualified | 1,335 | 1,345 | -1% | 1,272 | 1,202 | 6% | 1,194 | 1,140 | 5% | 1,034 | 1,038 | 0% |
| Legal executives and paralegals | 1,096 | 1,064 | 3% | 1,006 | 976 | 3% | 921 | 920 | 0% | 743 | 930 | -20% |
| Trainees | 1,009 | 1,083 | -7% | 1,082 | 989 | 9% | 843 | 883 | -5% | 765 | 869 | -12% |

Top 10 that achieved increases of between 2% and 6% and in the Top 11-25 firms where movements were between -1% and 8%.

Top 26-50 firms' chargeable hours were relatively flat year on year, while Top 51-100 firms appeared to struggle, reporting an average reduction of between 4% and 5% in chargeable hours across all post qualified grades. Most noticeable was the drop off in chargeable hours at the Legal Executive / Paralegal (20% reduction) and Trainee levels (12% decrease).

Positive utilisation results have reduced the level of spare capacity by 2.5, 4.9 and 2.7 percentage points in the Top 10, 11-25 and 26-50 firms respectively. However, spare capacity continues to be higher than is comfortable. Top 10, 26-50 and 51-100 firms all stand at approximately 16% average spare capacity, while Top 11-25 firms are at 14% (based on firms' own target hours). Law firms need to focus on the momentum gained in FY21 in order to achieve a more optimal workforce that delivers expected utilisation fairly across individuals and grades.

Diversity and Inclusion (D&I) continues to be an increasingly integral part of law firms' wider business strategy as they look to accelerate progress in this area. The progression (albeit slow) of female representation at full equity partner level over the last ten years has plateaued this year outside of the Top 10, with small falls for Top 11-25 and 51-100 firms to 20.4% and 29.0% (from 20.5% and 29.3%) respectively. Top 26-50 firms have seen a small improvement from 19.2% to 19.5%. Top 10 firms have continued to report an increase in this area (from 21.8% to 23.2%) and this is the fourth consecutive year this banding has reported greater female presence at the top of the partnership.

The legal sector is becoming more progressive in collecting and reporting diversity data. However, understanding this data and uncovering insights is key. A detailed analysis, looking across the entire employee lifecycle, is critical to understanding where there are issues. This can help firms investigate variances in how different groups enter, grow, and leave the organisation and, in turn, aids an understanding of where actions can have the biggest impact.

Specifically, we believe firms should be taking a closer look at areas such as recruitment, performance, progression, tenure and attrition. Insights gained from this type of analysis will enable firms to inform the development of their D&I strategies and initiatives while also creating metrics which are easy to monitor and report in terms of progress.

In terms of Minority Ethnic representation, the picture at the full equity partner level remains on a positive trajectory, although the pace of change continues to be of concern. The Top 10, 26-50 and 51-100 firms all reported slight increases in the proportion of Minority Ethnic partners (these increases ranged from 0.1 to 1.1 percentage points), while the Top 11-25 firms had the same representation as last year at 3.8%. We are also starting to see increased focus on socio-economic background in the professional services sector more widely.

As COVID-19 forces all entities to reassess their working practices and with a blend of remote working here to stay, law firms need to be consistently mindful of ensuring D&I initiatives are considered in how they operate going forward. Evolving and adapting D&I strategies to cope with a post-pandemic world will enable firms to continue to make progress.

## Financing

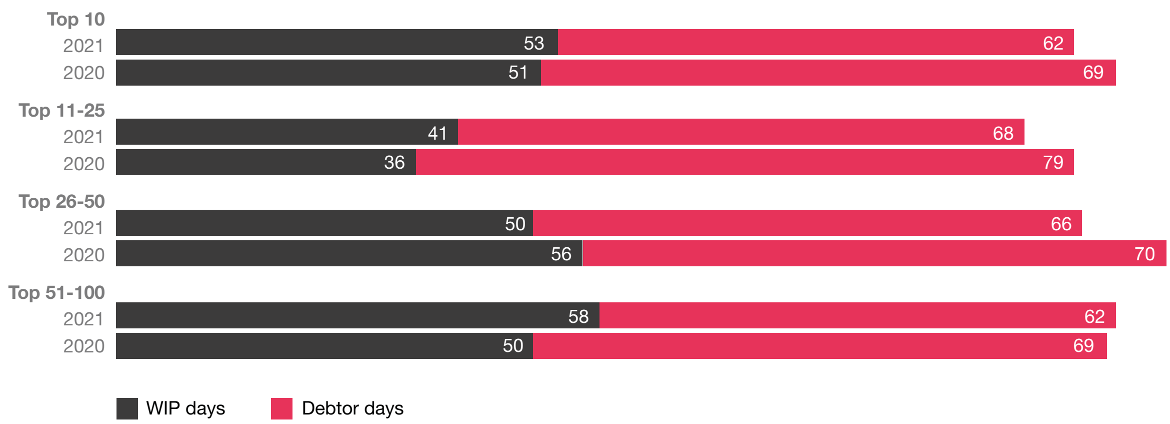
The majority of law firms who responded to our prior year survey reported improvements in year end lock up on the back of a cash drive following the onset of COVID-19 and related government measures.That drive appears to have continued, as the FY21 year end lock up has fallen again in Top 10, 11-25 and 26-50 firms by between 5 and 10 days across those bandings. Even though Top 51-100 firms experienced a 1 day rise to 120 days, this number is still significantly lower than the 133 days reported in 2019.

The key contributor to lock up improvement is in regard to debtors and this has released over £150m of cash from balance sheets across the Top 50 bandings. Cash collection was escalated to an area of critical importance during the pandemic, as has been the case in many sectors. This added focus needs to be sustained and embedded within daily ways of working to ensure performance does not slip back to pre-pandemic levels. More can be done to support this, such as technology enabled solutions or even externally supported debt management to take the pressure off finance teams and fee earners.

In contrast to debtors, only the Top 26-50 firms succeeded in improving WIP (from 56 to 50 days). Top 10 firms saw a minor deterioration of 2 days to 53 days, while Top 11-25 and 51-100 firms saw larger increases in WIP days (11-25: up 5 days to 41; 51-100: up 8 days to 58). The WIP days statistic indicates that there is room for improvement, but the devil is in the detail. We believe a one size fits all target is not the best approach and that internal targets should be set by practice area to account for particular business and contractual models. This needs to be supported by robust processes, technology and behaviours to ensure bills are raised on a timely basis; and importantly, that they are accurate, avoiding the need for the detrimental cycle of reversal and reissue that we see all too often.

More specifically, efforts to improve WIP are often based around two key areas: contractual changes to enable more frequent billing; and efforts to automate invoice submission through technology, like Robotic Process Automation (RPA) and Electronic Data Interchange (EDI). In other industries we have seen these technologies combined effectively, as well as in other professional services companies and some law firms. Key to the success of such programmes is client selection (size, system maturity),

### Year end WIP and debtor days



engaging the right EDI provider with the right experience, incentivising the client to engage with the programme, and ensuring frameworks are in place to enable teams to support the new invoice submission process (i.e. ensuring time is recorded correctly and signed off at the right times).

Following an increase in external funding last year, which was as a result of many firms drawing down on funding facilities as an immediate response to COVID-19, Top 50 firms have considerably reduced their reliance on external borrowing. The reasons for this are twofold: the pessimism at the on-set of COVID-19 was not realised with many firms outperforming expectations from March/April 2020; and positive debtor lock up performance has provided an alternative boost to liquidity.

The Top 50 bandings have reduced the level of external funding as part of overall financing as follows: Top 10, down from 18% to 7%; Top 11-25, down from 28% to 13%; and Top 26-50, down from 17% to 10%. Top 51-100 firms are an exception, with an increase in this statistic, from 14% to 18% - and we can perhaps expect to see more demand for external funding among mid tier firms going forward as they look to finance some of the technology opportunities available. There continues to be interest in the legal sector from private equity, as well as an appetite for some firms to look to the capital markets for funds to support future investment.

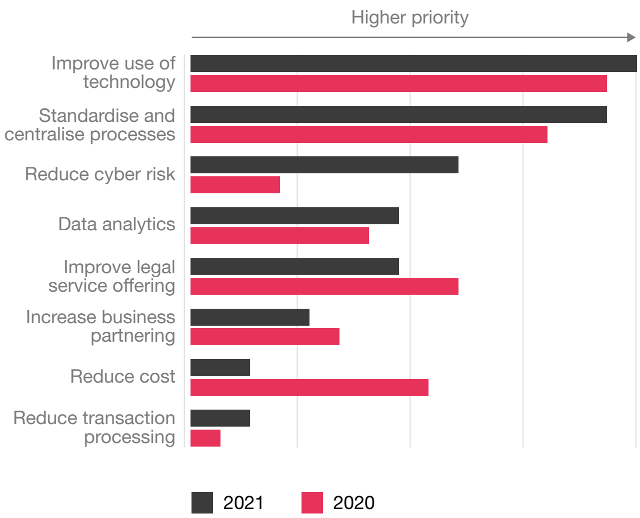
Partners have demonstrated their support to financing their firms over the course of the last year through delayed distributions, which, alongside profit increases, has led to increased current accounts across all bandings. We do expect to see the build up of delayed distributions unwind over the course of the next year, particularly given profits appear to have remained strong through to at least the half year of FY22. However, the looming tax change (i.e. HMRC's basis period reforms), which would bring forward a substantial tax liability for many firms, means we may continue to see current accounts maintained to protect against a future large cash outlay. This is another reason for continued focus on working capital management.

## Business support

'Improving the use of technology' remains the number one priority as firms continue to implement a range of new technologies in support of legal services and support functions. Although this has been a key priority for a number of years, the average spend as a percentage of fee income on legal technologies continues to be fairly low at between 0.5% and 0.9% across the Top 100 bandings. The top three priority areas for technology investment are 'Matter Management', 'Document Management' and 'Collaboration Tools'.

The increase in ransomware and other cyber attacks that have been reported across a range of industries in the past 12 months, along with the move to hybrid remote working which if not adopted securely can increase cyber exposure, has resulted in an increase in the priority of 'Reducing Cyber Risk' from seventh last year to third this year. We commented in our 2019 survey on the key inputs to managing cyber risk. These have not changed and focus on: (1) looking at things afresh; (2) not overcomplicating a system; (3) re-engineering business processes for the digital age; (4) ensuring that IT security is at the heart of all IT projects; and (5) obtaining comfort and assurance over IT security.

### Top priorities for business support over the next twelve months



Many firms are looking to improve their Customer Relationship Management (CRM) system capabilities. While the survey identified 'contact management' and 'data analytic tools' as areas where existing systems adequately support fee earners, it would appear areas such as 'matter demand forecasting', providing a 'collaboration tool for accounts teams' and having 'streamlined proposal processes' are areas that could be improved to better support partners and fee earners.

A question remains, therefore, regarding the extent to which law firms' CRM systems are fit for purpose. In many cases, these systems have been in place for a number of years and lack the sophistication to really aid partners and fee earners in their business development activities. Perhaps now is the time, after the UK has emerged from COVID-19 lockdowns and is returning to a level of normality, for firms to critically analyse the quality of their CRM systems. This will include considering what firms want and what they actually get from such systems, with a view to system improvements or upgrades to ensure they deliver on requirements in order to differentiate firms in this area and take business development forward over the next 5-10 years.

## Cyber risk

The threat from cyber criminals is real and recognised by law firms. Across Top 100 firms, cyber risk is viewed as the biggest threat, with 90% of the Top 100 being either extremely or somewhat concerned of the impact from cyber risks on their firm meeting its future ambitions.

While only a small number of Top 100 law firms have suffered a ransomware attack in the last year, being 4% of the Top 100 and relating to Top 51-100 firms only, this form of cyber criminal activity is a real threat to law firms. Cyber criminals are becoming increasingly sophisticated and human-operated ransomware attacks in particular are now one of the top priority cyber threats faced by most organisations. Ransomware criminal groups are often highly resourceful and able to recruit individuals already working in businesses who can provide access. They are also known to provide training materials for new recruits to increase their knowledge and effectiveness. Given the increasing capabilities of these attackers, organisations' improvement efforts should be focused on preventing and responding to ransomware attacks. Law firms who have not already taken steps to understand and reduce their vulnerabilities, should act now. This includes ensuring that responding to ransomware attacks is regularly exercised by executive leadership and documented response plans and playbooks are in place.

A large proportion of cyber incidents are caused by employees. During the year, 76% of Top 100 law firms suffered an incident due to unintentional actions taken by staff. The number of malicious actions by staff were significantly lower, at 2% (although 20% stated 'don't know'). The increase of remote working as a result of COVID-19 has made it increasingly complex to understand which employees pose an enhanced threat. Law firm cyber leaders should gain a better understanding of human behaviour demonstrated by their employees to make a difference to security culture. There is a huge opportunity to invest in the people component of cyber security and impact security for the better through people.

Having a strong security culture, which is aligned with organisational culture, and role based cyber security training and awareness helps to prevent employees intentionally or unintentionally being the cause of a cyber incident. High Risk User Groups are subsets of employees who pose an enhanced cyber risk and therefore require additional tailored objectives and interventions. Understanding these groups can help law firms to improve their security culture.

The cyber security workforce is changing and the discrepancy between the skills people have and those needed for jobs in the digital world has never been more challenging. A lack of dedicated cyber security resources and undefined cyber security roles and responsibilities within some organisations means the threat is not always being responded to efficiently. Law firms must develop a cyber workforce strategy aligned to their business strategy. This will help deliver the cyber workforce with the right knowledge, skills and capability and potentially begin to close the skills gap that exists.

## Future financial performance

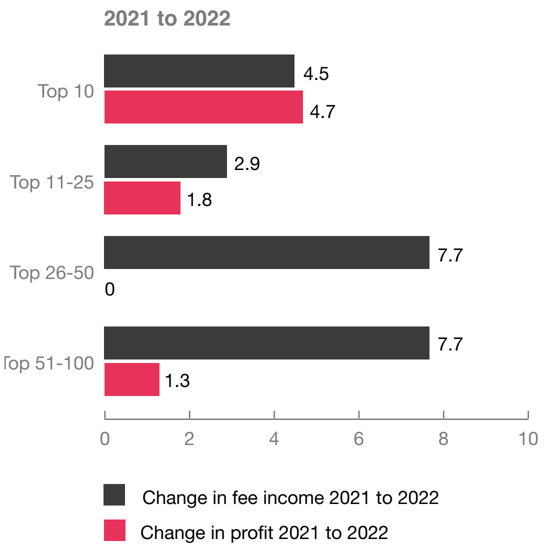
The emergence of COVID-19 and the political and economic uncertainty from Brexit in the prior year led to caution in short term forecasts. As expected, with the positive FY21 financial performance, this has reversed. Every firm that responded to our survey is expecting fee income to increase in both FY22 and FY23. It is the Top 26-50 and 51-100 firms that are most optimistic, with expected average revenue growth in the next year of 7.7%. Average projected revenue growth in FY22 for Top 10 and 11-25 firms is 4.5% and 2.9% respectively.

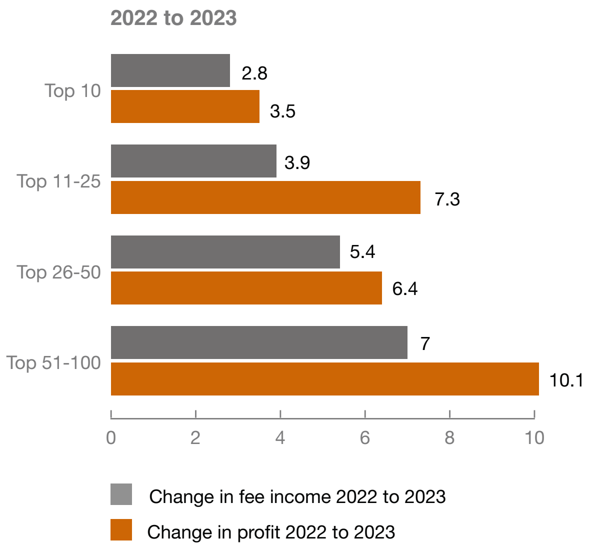
The optimism at the fee income level does not fully translate to profit, with 22% of Top 100 firms expecting falls in net profit in FY22. However, no firms are expecting net profit to fall in FY23, although 22% of the Top 100 expect no movement in profit at all in that year. Top 10 firms are most optimistic in the short term with expected profit growth of 4.7%, while bandings outside the Top 10 are far more optimistic in the medium term, with between 6.4% (Top 26-50) and 10.1% (Top 51-100) profit growth expected in FY23.

After cyber risk, shortage of talent is the second most common area of concern across Top 100 firms; 87% stated they are either extremely or somewhat concerned this will negatively impact future financial performance. This has increased considerably from 47% in 2020. 'Shortage of talent' has been recognised as a threat to the legal sector for some time; however, the relentless pressure on salaries being generated by US firms, coupled with a buoyant legal market, means that talent attraction and retention is an increasingly pressing issue. In a working world that is moving towards a hybrid of office and home working, firms need to ensure staff receive the coaching, networking opportunities and cultural immersion that will generate loyalty and help stem attrition.

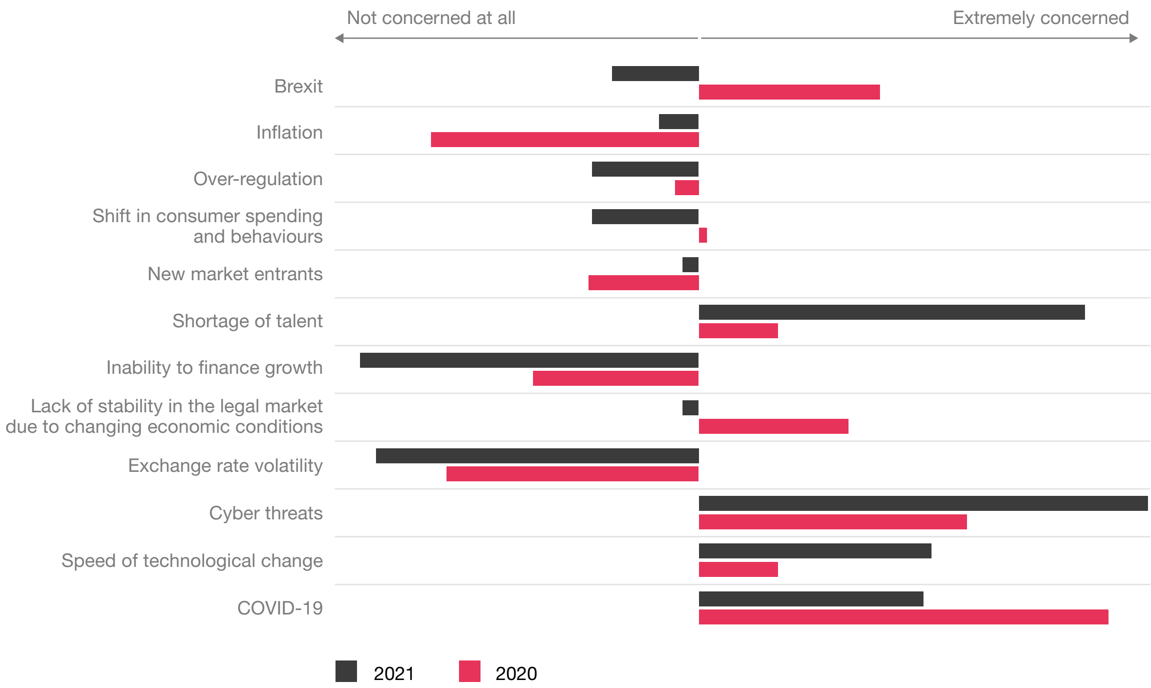
Despite the fact that law firms have navigated working remotely very well, there is still a level of concern from the impact of COVID-19, with 63% of Top 100 firms either extremely or somewhat concerned about this threat. Evidently, law firms recognise there are still some unknowns in respect of COVID-19 and they would do well to continue with scenario planning for different events so they can react well to any future changes in the economic and working environment.

### Predicted movements in fee income and profits: 2021 to 2022 and 2022 to 2023 (%)



### Extent of concern over specific threats to firms meeting/exceeding their ambitions over the next 12 months




## The future of the office

The COVID-19 pandemic has caused many organisations, and in particular professional service entities, to think about the future use of their offices. While virtual working has not been a choice during necessary lockdown periods, many organisations, and the individuals concerned, have seen benefits from home working and are planning to retain it to a degree.

The respondents to our survey have indicated that the main purpose of the office in the future will be 'collaboration', with 88% of Top 100 firms ranking this as one of the top three important uses of the office. For Top 10 firms, 'client interaction' and 'coaching/learning/development' were the second and third highest important uses respectively. For bandings outside the Top 10, 'team bonding and relationship building' and 'coaching/learning/development' were the second and third highest important areas.

Neither 'productivity' nor 'innovation' were ranked as important areas for office use in the future. Only 6% and 10% of Top 100 firms respectively included these areas in their top three uses for their offices. These results reflect the importance of the office for face to face interaction, and look set to result in law firms reconfiguring their office space, with 87% of Top 100 firms expecting to make such changes.

As a consequence of the move to virtual working, many firms are expecting to reduce their office footprints in the future. Notably, 100% of Top 10 firms intend to reduce their footprint and this compares to between 39% and 44% across the Top 11-100 bandings. Among Top 50 firms who expect to reduce their office footprint, the most common extent of reduction is expected to be between 11% and 20% (50% of Top 10, 100% of Top 11-25 and 57% of Top 26-50).

The majority of firms report that virtual working has had a 'very positive' or 'somewhat positive' impact on productivity, represented by 68% to 89% across the bandings. No Top 25 firm reported a negative impact on productivity, while a very small minority experienced this in Top 26-50 and 51-100 firms (6% in both bandings). These results support the positive financial performance that we have reported on earlier in this report and the lesser importance attached to 'productivity' in respect of the usage of the office in the future.

All firms that participated in our survey intend to retain a degree of virtual working once all COVID-19 restrictions are lifted. In the Top 10, 67% of firms expect 21-40% virtual working, with the remaining 33% being at 41-60%. This pattern is reversed for firms outside the Top 10, with 41-60% being the most common level of expected virtual working. There are a small number of firms outside the Top 10 (9%) that expect staff to work virtually over 60% of the time.

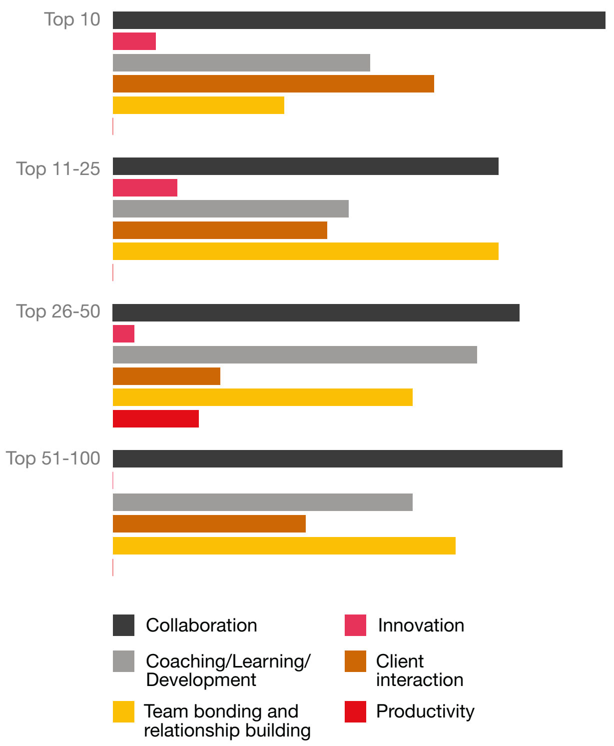
We have compared the results of the Law Firms' Survey with the wider PwC's Future of the Office Survey, which asked the same questions to a wide range of organisations. In performing this comparison, we see some divergence of results as follows:

- Law firms ranked 'client interaction' as a much more important purpose of the future office compared to other organisations and this reflects the importance that is attached to relationship building with clients and potential clients across the professional service sector.
- Law firms found that virtual working had more of a positive impact on productivity when compared to other sectors.
- All firms in our survey intend to retain a form of virtual working, but to a lesser extent than other organisations.
- Law firms consequently expect to reduce their real estate footprints to a lesser extent than other sectors.

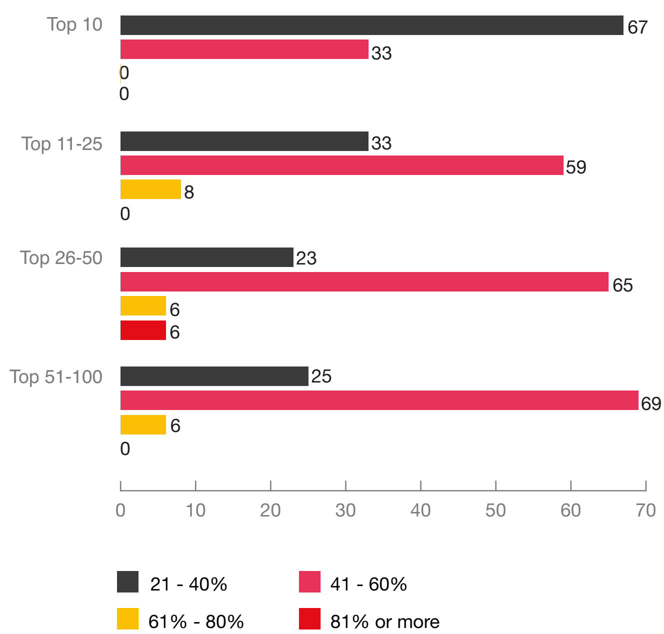
It would seem that law firms are attaching more importance on face to face interaction in the office than other organisations and, along with other professional services entities, have the opportunity to lead the way on creating innovative collaborative workspaces in offices.

Given the changes that the pandemic has brought to both workforces and the workplace, these results are not surprising and highlight the trend for firms to learn from the pandemic and to retain some of the flexibility that the workforce has enjoyed without impacting productivity. The importance of the office for face to face activity, such as collaboration, is recognised, as is the necessity to reconfigure space for its new purpose, with opportunities to reduce office footprints.

## Most important priorities for the office of the future




## Expected level of virtual working once COVID-19 restrictions are fully lifted



# At a glance

# 1. Global financial performance

## Global headcount

- While Top 10 firms' global fee earner (excluding partners) headcount has fallen by 3.9%, partner numbers have increased by 2.0%.
- Top 11-25 firms have continued to invest in their headcount, with a 10.7% and 3.8% increase in partner and fee earner headcount respectively.
- There has also been increased headcount in support staff roles for Top 10 firms of 2.0%, while it remained flat in Top 11-25 firms.

## Global fees

- Average global fee income has grown by 4.2% to £1,109m for Top 10 firms, with 70% recording growth of between 0% and 5% and the remainder experiencing growth of between 5% and 7%.
- Top 11-25 firms grew global fees to £390m, up 4.4% on prior year. A third of these firms recorded growth in each of the 0-5% and 5-10% brackets. A further 11% recorded growth in excess of 10% and the remaining 23% reported minor falls in fee income of up to 1.5%.
- The majority of Top 10 global fee income growth was achieved by UK offices (78%), whereas the increase in Top 11-25 firms was more weighted towards international offices (57%).
- Movements in foreign exchange had only a limited impact on fee income movements for Top 10 firms (a rise of £0.5m on average). However, it did negatively impact Top 11-25 firms to an amount of £6.1m and this reduced their average global fee income by 1.5%.

## Global profits

- All Top 25 firms grew global profits, with the range of movements in Top 10 firms being between 12% and 31%.
- This compares to Top 11-25 firms where 44% grew profits by between 1% and 12%; and 56% achieved growth of between 20% and 32%.
- The average increase across Top 10 firms was 17.7% to £470m, while this was 17.4% to £124m in Top 11-25 firms.
- Unlike fee income, the source of profit growth in Top 10 firms was split reasonably evenly between UK (52%) and international (48%) offices. Top 11-25 firms, though, were still more reliant on international offices (63%) for their global profit growth.
- Movements in foreign exchange in Top 10 firms impacted global profits by less than 1% (positive impact), while it reduced global profits in Top 11-25 firms by 1.7%.
- Global net profit margins (before full and fixed share equity partner remuneration) have increased in Top 10 firms from 35.2% to 39.9% and in Top 11-25 firms from 31.6% to 34.1%.
- The range of global net profits in Top 10 firms is from 31% to 49%, while in Top 11-25 firms it is from 25% to 45%.

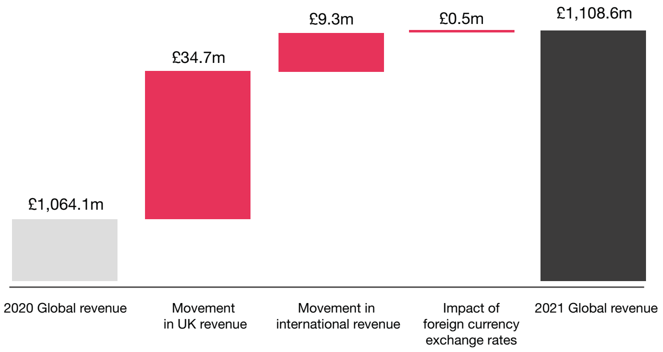
## International analysis

- Top 10 firms have improved net profit margins in all regions in which they operate, with the exception of Central and Eastern Europe (fall from 33% to 30%) and the US (fall from 27% to 26%).
- The range of average net profit margins for Top 10 firms was from 26% in the US, to 40% in Australia.
- Top 11-25 firms, on a like for like basis, increased their net profit margins in all regions except Middle East and Australia.

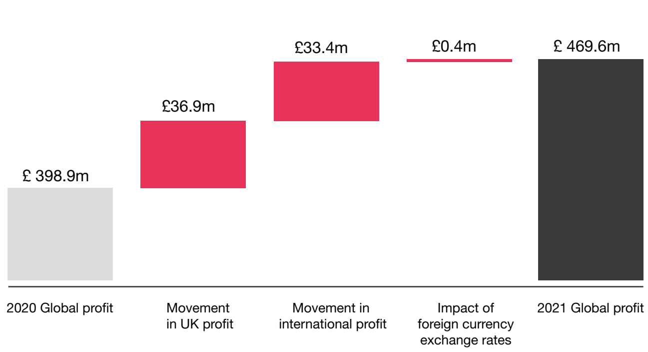
## Global fee income and profits: source of growth

Increase Decrease

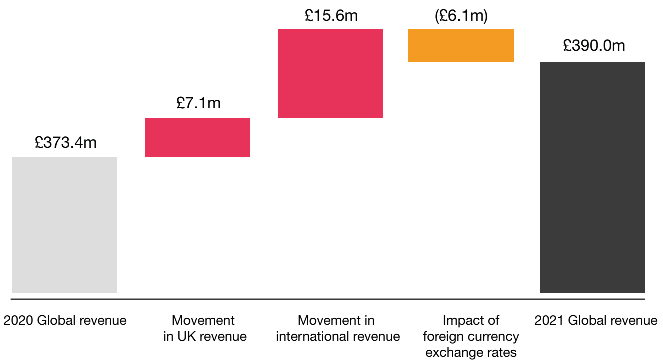
### Top 10 Revenue



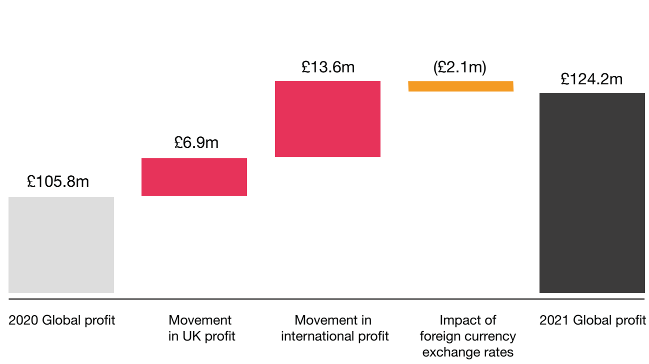

### Top 10 Profits



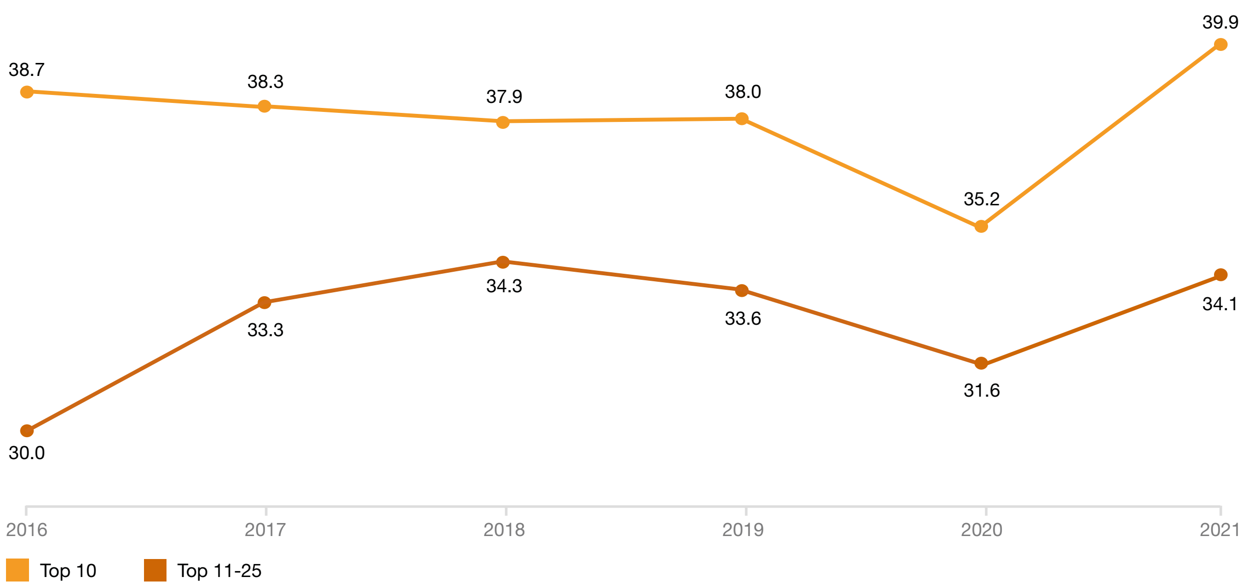

### Top 11-25 Revenue




### Top 11-25 Profits




## Trend in global profit margins before full and fixed share equity partner remuneration



# 2. UK financial performance

## UK fees

- The average UK fee income growth across the Top 100 was 4.4%, being an improvement on 3.7% in 2020. However, this is still behind what was achieved in 2019 and 2018 (5.9% and 8.3%).
- The largest firms experienced the most significant fee income growth, with Top 10 firms averaging a 7.6% increase.
- More Top 100 firms experienced fee income growth in 2021: 74% vs 70% in 2020; but this is not yet back to pre-pandemic levels - 89% in 2019 and 84% in 2018.
- Of the 21% of Top 100 firms that reported a decrease in fee income (2020: 30%), the fall ranged from 0.3% to 12.9%.
- While a small number of firms have achieved double digit fee income growth, there is a downward trend of the number of firms reporting this across the Top 100 (2021: 12%, 2020: 14%; 2019: 17%, 2018: 36%).
- Fees per fee earner have increased across the Top 50 bandings: Top 10 - up 6.8% to £442k; Top 11-25 - up 3.4% to £332k; and Top 26-50 - up 0.4% to £224k. The Top 51-100 banding experienced a 7.7% fall in fees per fee earner to £191k despite an unchanged headcount (we note that on a like for like basis, the fall is 1.4%).
- Top 10 firms recorded the most impressive fees per chargeable hour results, with a 4.8% increase to £347 per hour.
- Top 11-25 have experienced a fall of 2.3% to £293; although, on a like for like basis, this was 1.7% up on last year.
- Top 26-50 firms increased fee per chargeable hour by 0.9% to £225 and Top 51-100 firms reported a fall of 3.3% to £206. However, both these bandings, on a like for like basis, grew fee income per chargeable hour by approximately 3%.

## Fee income write offs

- The reported level of unplanned fee income write offs has improved across all bandings this year with the exception of a small increase in Top 10 firms.
- Larger write offs appear more common in Top 26-50 and 51-100 firms, with 44% recording write offs in excess of 15%.
- It is positive to see half of Top 25 firms reporting write offs of less than 10% of fee income, particularly when considering that last year a similar proportion of firms incurred write offs of over 20%.

## UK costs

- The Top 10 staff cost ratio has decreased by 1.8 percentage points to 37.1% (2020: 38.9%) and this is likely due to increased fees against a management of costs in the COVID-19 environment - headcount has also fallen slightly over the course of the last year.
- Conversely, the Top 11-25 staff cost ratio has increased by 1.3 percentage points to 42.7% (2020: 41.4%), driven by an increase in non-fee earner staff costs.
- The Top 26-50 staff cost ratio fell by 2.4 percentage points to 42.7% (2020: 45.1%), while Top 51-100 firms suffered a deterioration in this ratio from 44.7% to 45.5%.

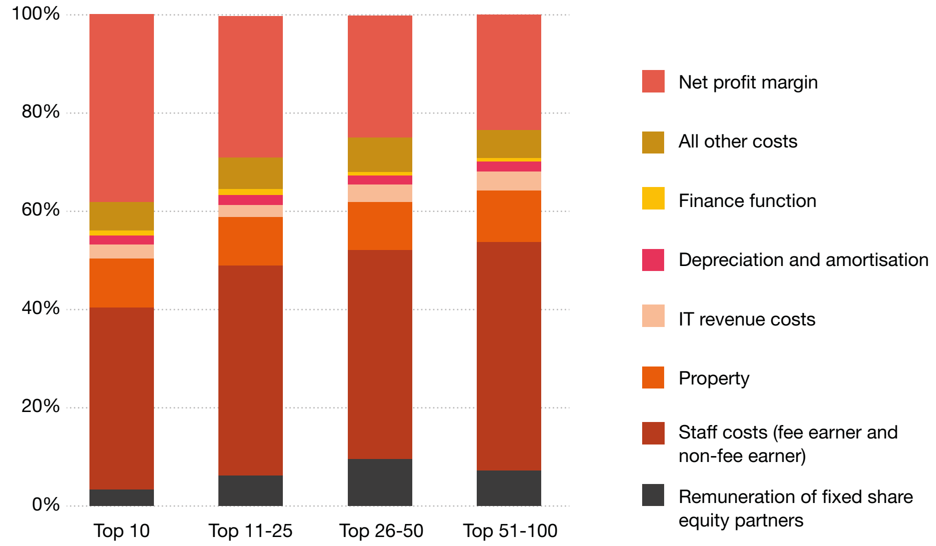
## Support costs as a percentage of fee income

- The majority of support costs as a percentage of fee income have remained relatively stable and within at least 1 percentage point of prior year, with the exception of Top 11-25 firms where marketing and BD costs fell from 3.2% to 2.1% and finance function costs that increased from 2.7% to 4.1%.
- Marketing and BD costs are down between 0.9 and 1.1 percentage points across the Top 11-100 bandings to between 2.1% and 2.2%. Top 10 firms experienced a fall of just 0.3 percentage points to 1.7%.
- IT revenue was up 1 percentage point in Top 10 firms (from 4.5% to 5.5%) and Top 51-100 firms (from 4.8% to 5.8%).

## UK profits

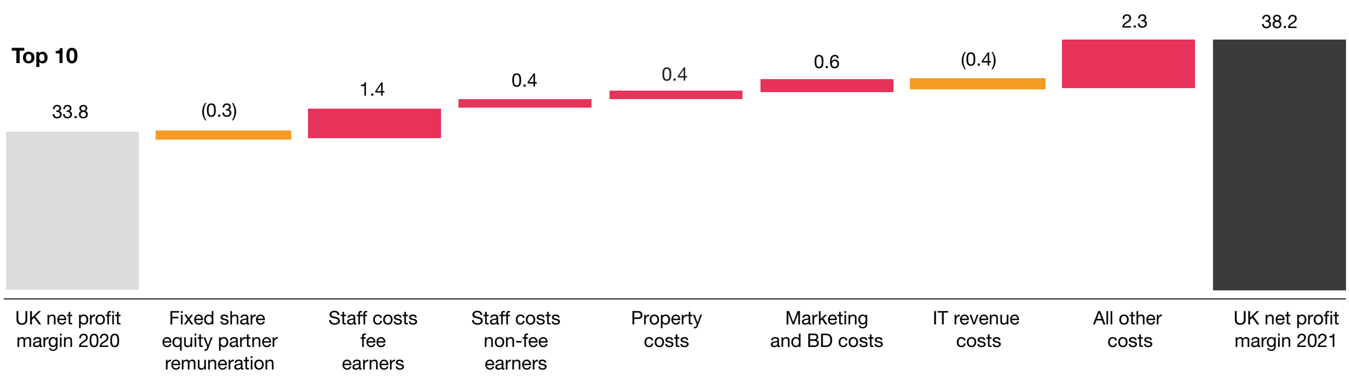
- 76% of Top 100 firms reported increasing profits in 2021 (vs 58% in 2020).
- The range of percentage growth in profit achieved by individual firms is much wider than the range for revenue growth.
- All Top 50 bandings improved net profit margins.
- Top 10 firms recorded the most impressive net profit margin growth, from 33.8% to 38.2% (resulting in an average 23% increase in absolute net profit).
- Top 11-25 firms improved their margin from 27.5% to 28.8% and 26-50 firms from 22.2% to 24.9%.
- While the data presents a fall in net profit margin for Top 51-100 firms, on a like for like basis they actually increased this KPI by 2.6 percentage points.

## Average UK percentage profit and loss accounts (2021)

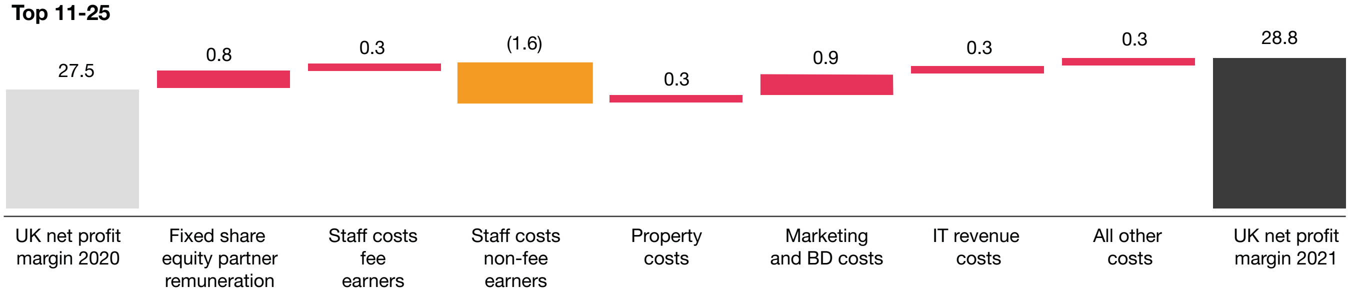



## Net profit margin bridge: 2020 to 2021

**Top 10**




**Top 11-25**

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# 3. People

## Headcount

- Total headcount has increased among the Top 11-25 (1%) and Top 51-100 firms (5%), but fallen among the Top 10 (-1%) and Top 26-50 (-4%).
- There has been a steady increase in the number of full and fixed share equity partners in all Top 100 bandings, except (i) full equity partners in Top 26-50 firms where there was a fall of 5%; and (ii) fixed share equity partners in Top 11-25 firms where the number fell by 10%.
- Total fee earner headcount has remained relatively flat or shown a small decrease across all categories, with only the Top 51-100 reporting a rise (5%).
- Notable fluctuations can be seen in the newly qualified (21% reduction) and legal executive/paralegal (22% reduction) grades within Top 10 firms.
- The drop-off in newly qualified headcount is repeated in the Top 11-25 and 26-50 firms, with only the Top 51-100 showing an increased number of these roles.
- Business support headcount increased slightly in the Top 10 (1%), Top 11-25 (3%) and Top 51-100 (4%), whereas the Top 26-50 recorded a 7% reduction.

## Leverage

- The ratio of fee earners to full equity partners decreased across the Top 10 (7.2 to 6.9), 11-25 (7.0 to 6.7) and 26-50 (10.6 to 10.0), but grew in Top 51-100 firms (8.4 to 9.4)
- The ratio of fee earners to non-fee earners has not changed in the Top 10 (1.2), 11-25 (1.5) and 51-100 firms (1.8) when compared to prior year; however, the Top 26-50 have seen this KPI increase slightly from 1.6 to 1.7.
- The ratio of fee earners to secretaries has risen across all the Top 100 bandings: Top 10 - 5.9 to 6.7; Top 11-25 - 5.5 to 5.9; Top 26-50 - 5.2 to 5.4; and Top 51-100 - 4.3 to 5.7.

## Staff turnover

- Staff turnover has remained relatively static over the course of the past year, suggesting that there was some movement of lawyers across the legal sector and between firms.
- Top 11-25 firms did experience a drop in staff turnover; for example 1-2 and 3-5 years pqe both fell by 10 percentage points to 12% and 15% respectively. However, this attrition is now more in line with other bandings.

## Chargeable hours

- Top 10 firms reported improved hours across most grades, with notable increases in the partnership group (full equity partners up 10% and fixed share equity partners up 9%). In contrast, target hours for this group remained unchanged from 2020.
- For Top 11-25 firms and across partner and post qualified grades, hours improved by 4% and 8% respectively, with the exception of a 1% fall in the 1-2 years pqe grade.
- Top 26-50 firms reported flat hours year on year.
- Within the Top 51-100 firms, there was an average 4% reduction in chargeable hours, with targets also falling by an average of 2%.
- Specifically, Paralegals (20% drop) and Trainees (12% drop) both showed a notable reduction in chargeable hours among the Top 51-100 firms.

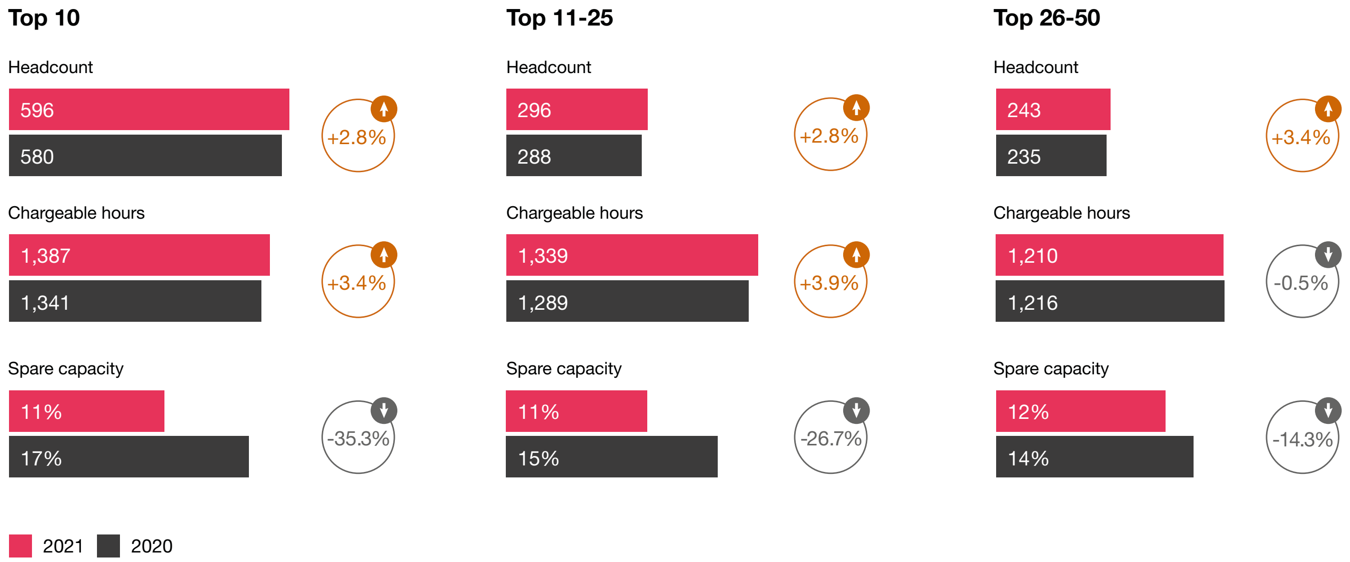
## Spare capacity

- Spare capacity reduced across the Top 10 (18.5% to 16.0%), Top 11-25 (18.4% to 13.5%) and Top 26-50 (18.8% to 16.1%) firms.
- Spare capacity increased within the Top 51-100 firms (15.9% to 17.3%), reflecting the challenges in utilisation that these firms experienced during the year.

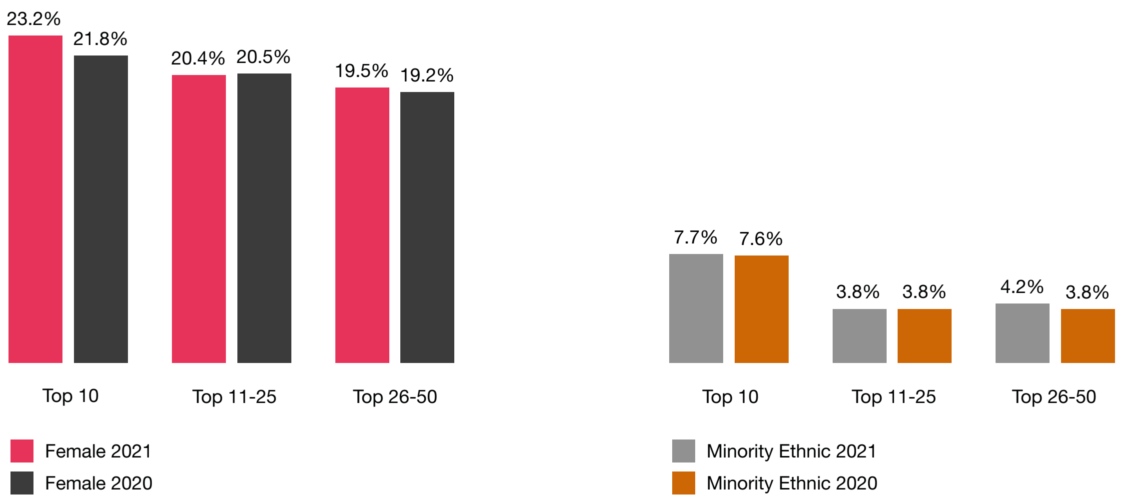
## Diversity

- Firms outside the Top 10 have seen female representation at partner level remain broadly flat (within 0.3 percentage points) in 2021; Top 11-25 fell by 0.1 percentage points to 20.4%, Top 26-50 increased by 0.3 percentage points to 19.5% and Top 51-100 fell by 0.3 percentage points to 29.0%. Top 10 firms increased this KPI from 21.8% to 23.2%.
- Minority Ethnic representation at full equity partner level has increased slightly across all bandings except the Top 11-25; by 0.1% to 7.7% in Top 10; by 0.4% to 4.2% in Top 26-50; and by 1.1% to 5.1% in Top 51-100. In the Top 11-25 firms, 3.8% representation is consistent with prior year.

## Movement in headcount, chargeable hours and spare capacity (1 - >9 years pqe)




## Gender and minority ethnic representation at partner level



# 4. Financing

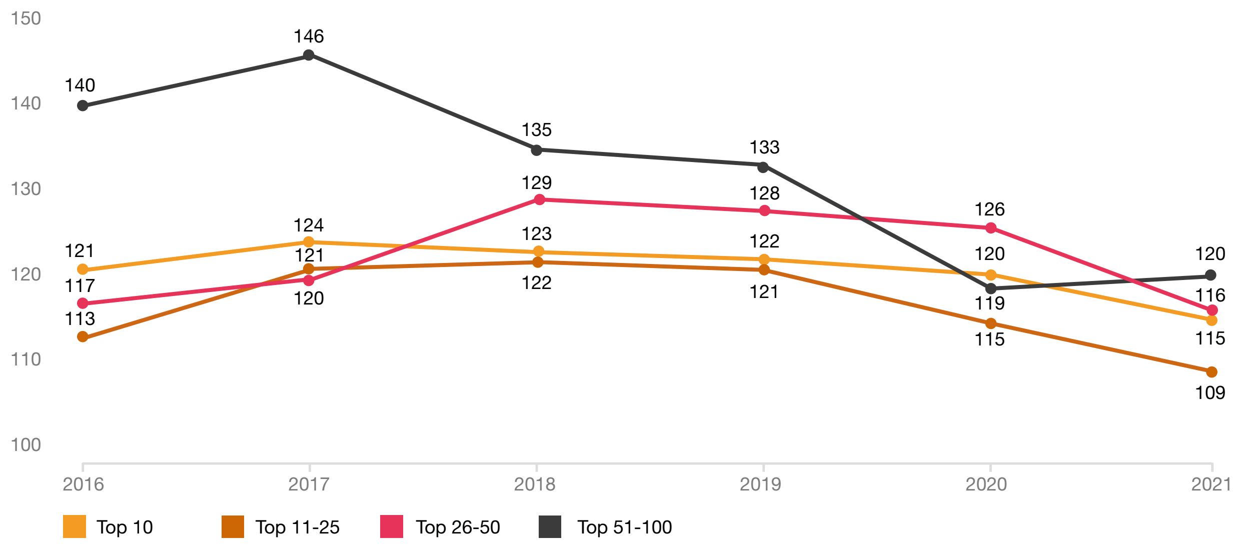
## Lock up

- Top 26-50 firms significantly reduced their year end lock up from 126 to 116 days. Top 10 and 11-25 firms also improved their year end lock up performance: Top 10, 120 to 115 days; and Top 11-25, 115 to 109 days. Top 51-100 firms reported an increase in year end lock up of 1 day to 120 days.
- All bandings of firms reduced their debtor days off the back of continued discipline in cash collections: Top 10 - 69 to 62 days; Top 11-25 - 79 to 68 days, Top 26-50 - 70 to 66 days; and Top 51-100 - 69 to 62 days.
- The debtor days performance is offset by an increase in WIP days across all bandings, except the Top 26-50: Top 10 - 51 to 53 days; Top 11-25 - 36 to 41 days, Top 26-50 - 56 to 50 days; and Top 51-100 - 50 to 58 days.
- Average lock up performance continues to lag behind year end performance. The difference across the bandings between average and year end up lock ranges from 23 days in Top 26-50 firms to 30 days in Top 10 firms.
- The Top 50 bandings have improved their average lock up performance: Top 10 - by 4 days to 145; Top 11-25 - by 6 days to 136; Top 26-50 - by 5 days to 139. Top 51-100 firms reported an 8 day increase in average lock up to 144 days.
- Year end lock up has also improved across a number of international regions. Focussing on the key regions of Western Europe, Middle East, China and Rest of Far East & Asia, in Top 10 and 11-25 firms year end lock up was down in all locations except China in Top 11-25 firms. Further, some of the improvements are significant.
- However, most international regions continue to significantly lag behind UK year end lock up performance. For example: (1) Middle East: Top 10 - 154 days; and Top 11-25 - 163 days; and (2) China: Top 10 - 150 days; and Top 11-25 - 185 days. The exceptions to this are Top 11-25 firms in Rest of Asia & Far East (109 days), USA (108 days) and Australia (75 days). Top 10 firms in Australia (109 days) also reported a better lock up performance than the UK.

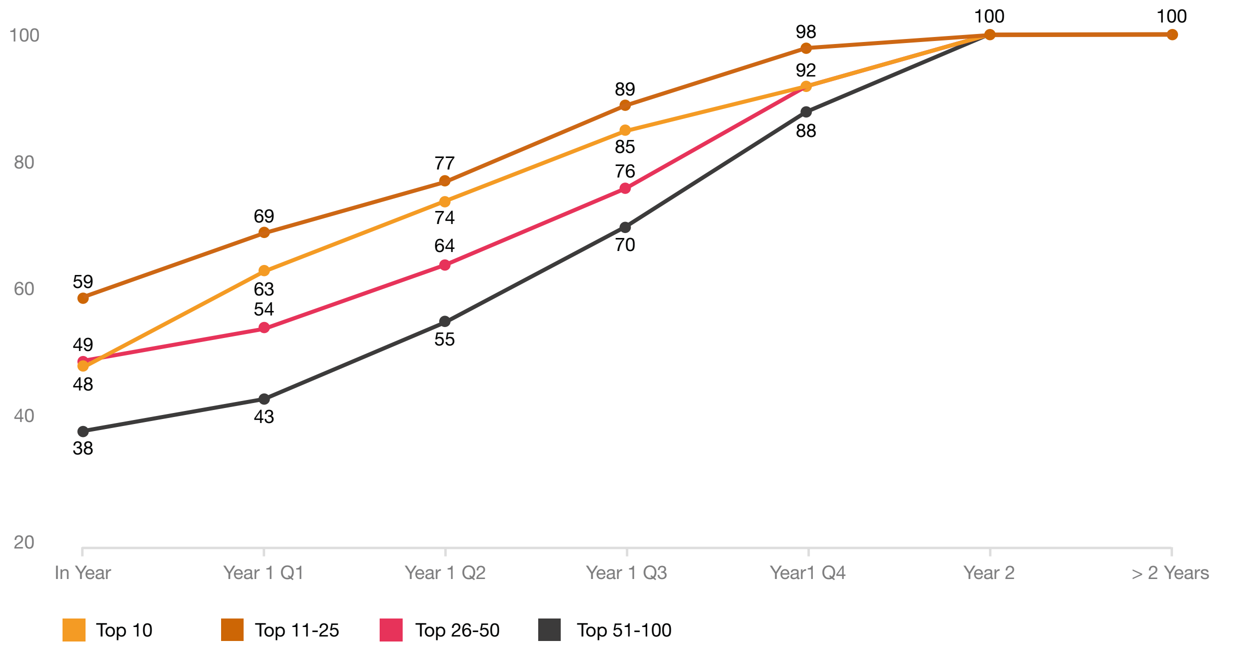
## Finance

- The Top 50 bandings all report significant decreases in the proportion of financing provided by external funding, as follows: Top 10 - 18% to 7%; Top 11-25 - 28% to 13%; and Top 26-50 - 17% to 10%.
- Top 51-100 firms actually increased the level of external funding as a proportion of total funding, from 14% to 18%.
- All Top 100 bandings have increased the average full equity partner current account balance for the second year in a row: Top 10 - by 2% to £847k; Top 11-25 - by 11% to £655k; Top 26-50 - by 17% to £369k; and Top 51-100 - by 18% to £320k. These increases link to improved profitability and delayed distributions to partners in response to COVID-19.
- The average capital account balances of full equity partners is relatively similar to last year, with Top 10 and 51-100 firms reporting increases of 3% and 4% respectively (to £381k and £170k) while Top 11-25 and 26-50 firms both recorded a fall of 2% (to £220k and £264k).

## Trend in average UK year end total lock up days




## Timing of profit distributions (%)



# 5. Business support and risk

## Top priorities for business support in the next 12 months

- Consistent with previous years, 'Improving the use of Technology' and 'Standardising & Centralising Processes' remain the top two priorities for Business Support functions.
- 'Reduce Cyber Risk' has significantly increased in priority to become the third highest priority and this is intrinsically linked to how law firms have reported cyber risk as the most significant threat to future growth ambitions.
- With recent good results and the economic outlook improving for the legal sector, 'Cost Reduction' is now the second lowest priority among the categories we queried in our survey (2020: fourth highest priority).

## Legal technologies

- The average spend as a percentage of fee income on legal technologies remains low at 0.5% in Top 10, 0.6% in both Top 11-25 and 26-50 and 0.9% in Top 51-100 firms.
- Across the Top 100, firms have spread investment around a number of categories, with 'e-signature' (88%), 'Document Management Systems' (84%) and 'Virtual Data Rooms' (81%) being the most common.
- Legal technologies with the least amount of investment across Top 100 firms are 'expertise automation' (21%), 'robotic process automation' (28%) and 'contract lifecycle management' (28%).
- In the coming year, the top three priority areas for legal technology investment are 'Matter Management', 'Document Management' and 'Collaboration Tools'.

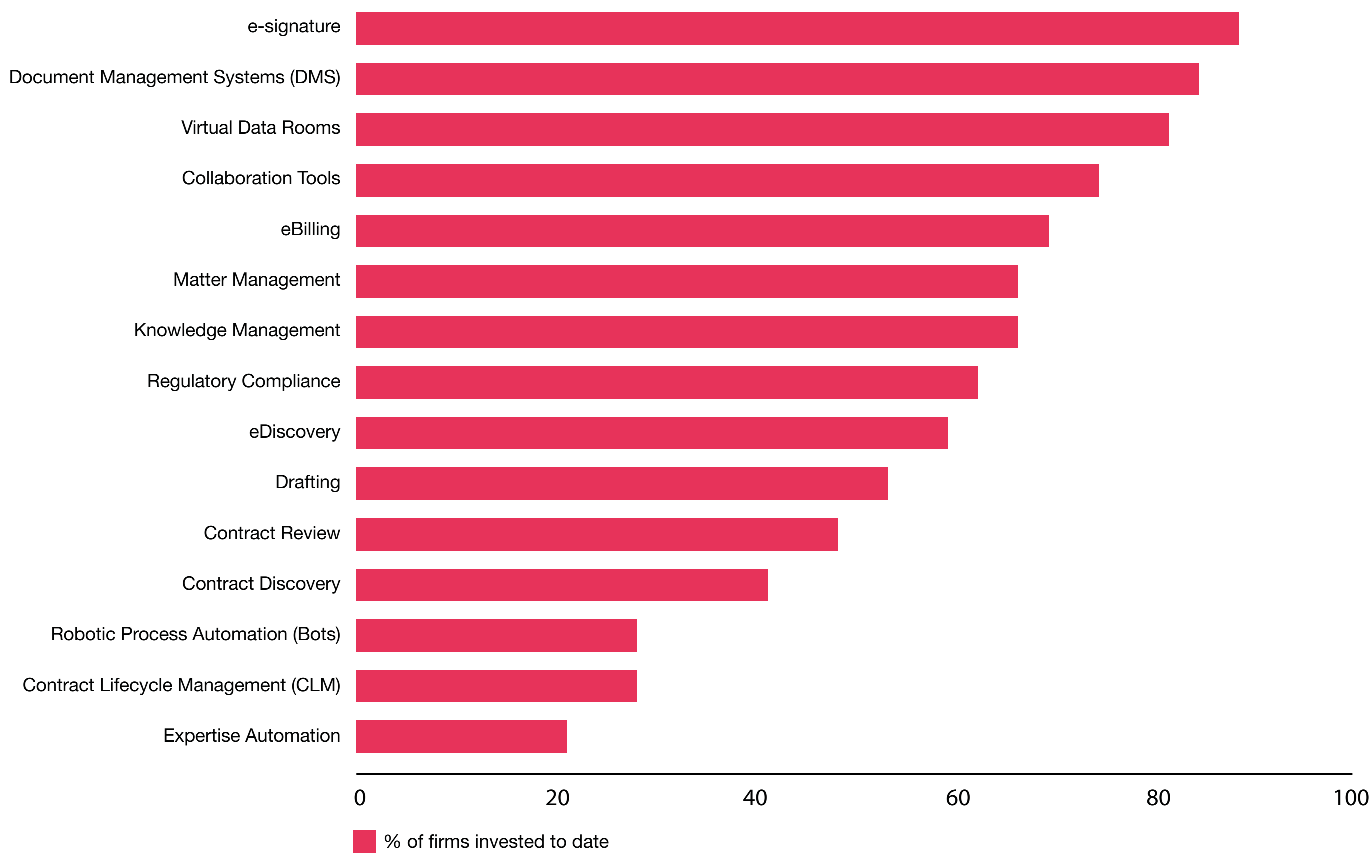
## Cyber risk

- The cyber threat has been rated as the top concern by participants to our survey, with 90% of Top 100 firms being either 'extremely concerned' or 'somewhat concerned' about cyber risk.
- Almost all Top 100 firms are confident that they are capable of identifying and responding to a range of cyber security incidents.
- Phishing attacks to gain access to client money, unintentional incidents caused by staff and loss or leakage of confidential information were security incidents to have occurred most frequently over the course of the last year.
- Across the range of potential cyber security incidents, between 15% and 31% of Top 100 firms state that they don't know if an attack has taken place or not and this continues to indicate that not all firms have the capability to identify cyber attacks. This is considered an area for urgent improvement.
- In 2020, 72% of Top 100 firms indicated that their senior management were involved in a crisis management exercise in the last twelve months. This has fallen to 52% in 2021. This reduction is likely due to the impact of the pandemic; however, we continue to view crisis management exercises as an important preparatory tool that should be completed, as a minimum, every twelve months, especially with the ever growing threat of ransomware attacks.
- There is a significant range of cyber security annual spend as a percentage of fee income across the Top 100 firms, ranging from 0.03% to 0.72%. The average across the bandings is 0.36% in Top 10, 0.25% in Top 11-25, 0.40% in Top 26-50 and 0.31% in Top 51-100 firms.
- A dedicated cyber security resource exists in approximately 80% of Top 10 and 11-25 firms. This drops to 56% and 44% in Top 26-50 and 51-100 firms respectively.

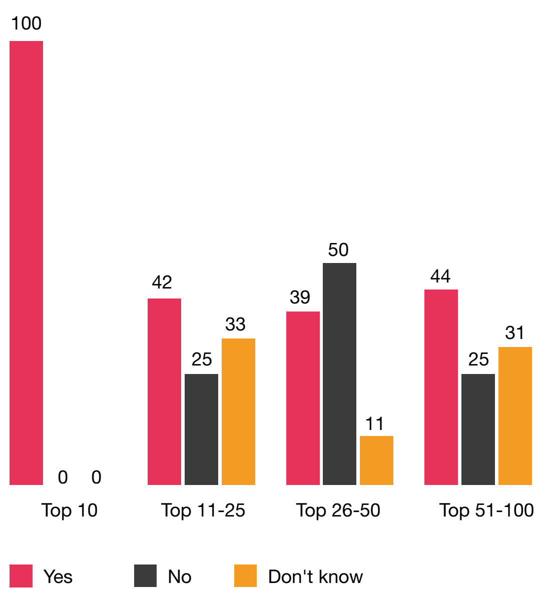
## Office of the future

- 'Collaboration' is expected to be the most important use for the office going forward, with 80% of Top 10, 83% of Top 11-25, 94% of Top 26-50 and 81% of Top 51-100 firms citing it as a top three purpose for their office.
- Changes to office space are expected and are more likely outside the Top 10. All Top 26-50 firms stated it was 'extremely likely' or 'likely' that they would reconfigure their office space as a result of the pandemic. In Top 10, 11-25 and 51-100 firms this drops to 70%, 75% and 88% respectively.
- A range of initiatives were taken to maintain employee engagement and wellbeing during the course of the pandemic to date, with flexible working hours being the most common initiative across all firms (at least 75% across the bandings).
- Other common initiatives were mentoring and coaching schemes, additional training, provision of medical insurance and regular all staff/town hall meetings, with at least 75% of firms across the Top 100 providing such initiatives. We expect firms to retain these initiatives once the new normal of office usage is set.
- Virtual working has had a positive impact on productivity, with 83% of Top 10, 67% of 11-25, 89% of 26-50 and 75% of 51-100 firms stating it had a 'very positive' or 'positive' impact.

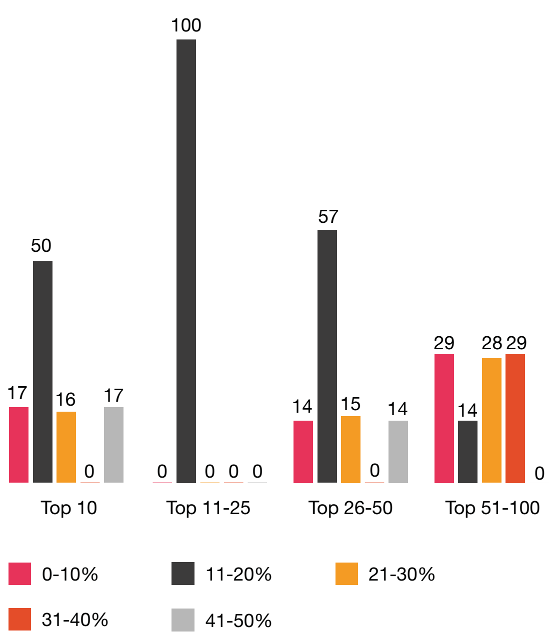
## Legal technologies - Firms' investment to date




## Number of firms that expect to reduce office footprint




## Expected percentage reduction in office footprint



# Appendix: Key performance indicators

## UK

| Top 10 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| UK fees per chargeable hour (£) | 283 | 297 | 302 | 315 | 331 | 347 |
| UK fees per full equity partner (£000) | 2,705 | 2,729 | 2,935 | 3,063 | 3,187 | 3,360 |
| UK fees per fee earner (£000) | 378 | 380 | 395 | 415 | 414 | 442 |
| UK profit per full equity partner (£000) | 1,068 | 1,043 | 1,066 | 1,120 | 1,067 | 1,275 |
| UK profit per fee earner (£000) | 154 | 152 | 152 | 155 | 148 | 179 |
| Profit margin (%) | 38.7 | 36.9 | 36.6 | 35.5 | 33.8 | 38.2 |
| Staff cost ratio (%) | 36.7 | 38.5 | 39.4 | 37.9 | 38.9 | 37.1 |
| 1->9 year PQE fee earner utilisation (hours) | 1,461 | 1,395 | 1,478 | 1,465 | 1,341 | 1,387 |
| Lock up days (year end) | 121 | 124 | 123 | 122 | 120 | 115 |
| Average number of full equity partners-UK | 143 | 147 | 142 | 146 | 151 | 153 |
| Average number of fee earners (incl. partners)-UK | 1,046 | 1,101 | 1,065 | 1,165 | 1,137 | 1,107 |

| Top 11-25 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| UK fees per chargeable hour (£) | 238 | 256 | 266 | 285 | 300 | 293 |
| UK fees per full equity partner (£000) | 2,160 | 2,277 | 2,416 | 2,491 | 2,473 | 2,450 |
| UK fees per fee earner (£000) | 289 | 290 | 303 | 325 | 321 | 332 |
| UK profit per full equity partner (£000) | 614 | 647 | 729 | 734 | 710 | 768 |
| UK profit per fee earner (£000) | 97 | 90 | 95 | 98 | 95 | 106 |
| Profit margin (%) | 28.2 | 27.7 | 28.8 | 28.5 | 27.5 | 28.8 |
| Staff cost ratio (%) | 40.6 | 42.5 | 41.8 | 41.1 | 41.4 | 42.7 |
| 1->9 year PQE fee earner utilisation (hours) | 1,333 | 1,272 | 1,309 | 1,347 | 1,289 | 1,339 |
| Lock up days (year end) | 113 | 121 | 122 | 121 | 115 | 109 |
| Average number of full equity partners-UK | 82 | 78 | 74 | 70 | 72 | 73 |
| Average number of fee earners (incl. partners)-UK | 715 | 722 | 644 | 653 | 575 | 574 |

| Top 26-50 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| UK fees per chargeable hour (£) | 203 | 210 | 213 | 228 | 223 | 225 |
| UK fees per full equity partner (£000) | 1,844 | 1,734 | 1,974 | 2,037 | 2,228 | 2,149 |
| UK fees per fee earner (£000) | 208 | 216 | 224 | 237 | 223 | 224 |
| UK profit per full equity partner (£000) | 397 | 415 | 467 | 516 | 467 | 516 |
| UK profit per fee earner (£000) | 51 | 56 | 61 | 68 | 55 | 61 |
| Profit margin (%) | 23.1 | 25.2 | 24.2 | 24.7 | 22.2 | 24.9 |
| Staff cost ratio (%) | 42.4 | 42.3 | 42.3 | 43.2 | 45.1 | 42.7 |
| 1->9 year PQE fee earner utilisation (hours) | 1,240 | 1,205 | 1,230 | 1,235 | 1,216 | 1,210 |
| Lock up days (year end) | 117 | 120 | 129 | 128 | 126 | 116 |
| Average number of full equity partners-UK | 51 | 53 | 59 | 59 | 57 | 54 |
| Average number of fee earners (incl. partners)-UK | 491 | 497 | 536 | 513 | 539 | 528 |

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| **Top 51-100** | | | | | | |
| UK fees per chargeable hour (£) | 194 | 178 | 201 | 200 | 213 | 206 |
| UK fees per full equity partner (£000) | 1,708 | 1,627 | 1,630 | 1,959 | 1,792 | 1,855 |
| UK fees per fee earner (£000) | 181 | 169 | 183 | 188 | 207 | 191 |
| UK profit per full equity partner (£000) | 394 | 347 | 381 | 460 | 452 | 445 |
| UK profit per fee earner (£000) | 44 | 40 | 47 | 49 | 58 | 52 |
| Profit margin (%) | 22.4 | 23.0 | 24.6 | 22.9 | 26.3 | 24.6 |
| Staff cost ratio (%) | 42.8 | 45.6 | 44.7 | 45.3 | 44.7 | 45.5 |
| 1->9 year PQE fee earner utilisation (hours) | 1,050 | 1,038 | 1,122 | 1,122 | 1,139 | 1,086 |
| Lock up days (year end) | 140 | 146 | 135 | 133 | 119 | 120 |
| Average number of full equity partners-UK | 24 | 24 | 27 | 25 | 28 | 29 |
| Average number of fee earners (incl. partners)-UK | 209 | 219 | 229 | 330 | 244 | 256 |

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| **Outside top 100** | | | | | | |
| UK fees per full equity partner (£000) | 1,037 | 1,090 | 1,140 | 1,313 | 1,676 | 1,525 |
| UK fees per fee earner (£000) | 140 | 128 | 138 | 145 | 134 | 135 |
| UK profit per full equity partner (£000) | 233 | 210 | 269 | 333 | 330 | 337 |
| UK profit per fee earner (£000) | 36 | 28 | 35 | 37 | 27 | 30 |
| Profit margin (%) | 22.9 | 20.5 | 25.4 | 25.4 | 19.8 | 22.1 |
| Staff cost ratio (%) | 43.2 | 47.5 | 43.6 | 42.9 | 45.6 | 41.3 |
| 1->9 year PQE fee earner utilisation (hours) | 1,045 | 973 | 1,084 | 1,022 | 1,016 | 1,033 |
| Lock up days (year end) | 135 | 154 | 139 | 134 | 131 | 129 |
| Average number of full equity partners-UK | 15 | 14 | 16 | 15 | 11 | 11 |
| Average number of fee earners (incl. partners)-UK | 102 | 95 | 91 | 112 | 115 | 104 |

## Global

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| **Top 10** | | | | | | |
| Fees per all partners (£000) | 1,787 | 1,949 | 2,065 | 2,154 | 2,167 | 2,213 |
| Fees per fee earner (£000) | 352 | 379 | 408 | 410 | 387 | 415 |
| Profits per all partners (£000) | 723 | 790 | 810 | 916 | 804 | 927 |
| Profits per fee earner (£000) | 139 | 151 | 158 | 158 | 142 | 171 |
| Profit margin (%) | 38.7 | 38.3 | 37.9 | 38.0 | 35.2 | 39.9 |
| Staff cost ratio (%) | 39.8 | 39.8 | 40.3 | 39.4 | 40.6 | 38.6 |
| Average number of partners-global | 480 | 477 | 473 | 481 | 489 | 499 |
| Average number of fee earners (incl. partners)-global | 2,393 | 2,390 | 2,354 | 2,640 | 2,666 | 2,592 |

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| **Top 11-25** | | | | | | |
| Fees per all partners (£000) | 982 | 1,039 | 1,052 | 1,102 | 1,162 | 1,221 |
| Fees per fee earner (£000) | 268 | 281 | 270 | 293 | 285 | 310 |
| Profits per all partners (£000) | 304 | 338 | 362 | 370 | 375 | 431 |
| Profits per fee earner (£000) | 82 | 91 | 93 | 98 | 92 | 109 |
| Profit margin (%) | 30.0 | 33.3 | 34.3 | 33.6 | 31.6 | 34.1 |
| Staff cost ratio (%) | 42.0 | 42.6 | 42.0 | 43.0 | 44.1 | 43.7 |
| Average number of partners-global | 159 | 200 | 237 | 246 | 253 | 280 |
| Average number of fee earners (incl. partners)-global | 611 | 778 | 995 | 939 | 1,069 | 1,128 |

Note: profit is stated before full and fixed share equity partner remuneration.

# Notes

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