

*This paper is from 2010 and has been reproduced for the Scottish Government's Legal Aid Payment Advisory Panel. It should be read alongside 'Note 1 2010 Economic Analysis of Criminal Legal Aid' and 'SLAB overview paper on market, contracts, grants'*

## **SLAB**

### **Cost Assumptions for Firms Providing Criminal Legal Work:**

#### **Introduction:**

This document is designed to explain Assumptions used in calculating the cost of running a Legal firm providing criminal business. It justifies assumptions made and outlines rational used.

#### **Section 1: Cost Data**

Costs have been laid out as a list. Ten headline costs from standard accounting headers are used. Underneath the 10 headline figures there is a further detailed breakdown of costs. It is at this detailed level that we have applied our assumptions. We look at each cost subdivision separately.

#### **Headline costs:**

- Internal Direct Costs
- Internal Indirect Costs
- Travel
- Accommodation
- Stationery
- Office Equipment
- Non Recurring Expenditure
- Case Related Costs
- Case Related Travel
- Miscellaneous

## Overview of Cost Assumptions

### Detail underneath headline Cost:

- Internal Direct Costs
  - Solicitors Salaries
  - NIC Employer - Solicitors
  - Locum costs / Employment of Agents
  
- Internal Indirect Costs
  - Staff Salary
  - Temp Staff Salaries
  - Agency Fees
  - Subscription to Professional body
  - NIC - Employers - Staff
  - Staff Recruitment & Media
  - Relocation Expenses
  - Corporate Activity
  - Travel/Subsistence - Training co
  
- Travel
  - Travel - Staff
  - Lunches/meetings external parties
  - Travel/Subsistence - Conferences
  - Parking Fees
  - Subsistence - Staff
  - Mileage - Staff
  - Taxi Costs
  - Motor insurance premiums
  - Lease payments
  - Nat. Ins. Employers on use of vehicle
  
- Accommodation
  - Rent
  - Water Rates
  - Domestic Rates
  - Heat & Light
  - Office consumables
  - Property maintenance
  - Cleaning
  - Property repairs
  - Building Alarm System
  - Confidential waste disposal
  
- Stationery
  - External print
  - Misc Office Supplies
  - Postage - franking machine
  - Postage - courier
  - Postage Stamps
  - Legal Post

## Overview of Cost Assumptions

- Office Equipment
  - Mobile Telephone Expenses
  - Telephone Rental
  - Telephone Calls
  - Telephone Handset replacements
  - Computer maintenance contract -
  - Software maintenance - PC
  - Broad Band Connections
  - Photocopy/Laser printer paper
  - Photocopiers - copy cost
  - Fax usage
  - Fax line rental
  - Vending machines - quarterly ran
- Non Recurring Expenditure
  - Hardware - Printer
  - Hardware - PC
  - Hardware - Peripheral
  - Software - PC
  - Office Machinery
  - Furniture
- Case Related Costs
  - Counsel / Faculty
  - Medical Experts
  - Photographers
  - Interpreters
  - Witness Expenses
  - Copying
  - External Precognition Clerks
  - Sheriff Officers Fees
- Case Related Travel
  - Travel / Subsistence - case rela
- Miscellaneous
  - Yearly Audit/Tax/Accounting Fees
  - Ongoing Accountancy Fees
  - Conferences
  - Library/Magazines
  - Pension scheme deductions
  - Bank Interest & Charges
  - Pub Relations - Other
  - Pub Relations - Advertising
  - Professional fees - non legal

## Overview of Cost Assumptions

### Assumptions:

The following is a list of the assumptions used to inform costs.

#### Internal Direct Costs:

- **Solicitor Salaries**  
£37,510 per salaried solicitor in the firm has been assumed; this figure has been arrived at after looking at several sources.
  1. The average salary of all internally employed solicitors
  2. Andrew Otterburns Benchmarks & Cost of Time survey 2007 with a 2008 increase reflecting the average increase seen in a year in the past 5 years.
- **NIC Employer – Solicitors**  
This is National Insurance for solicitors. It has been taken in to account at 12.8% of solicitor salaries.
- **Locum costs / Employment of Agents**  
Criminal Solicitor firms engage Agents (Qualified solicitors external to there firm) to carry out some elements of cases. In particular this is done at early stages of cases known as pleading diets. We assume it is done on 5% of all cases and when agents are used they will charge 20% of the total case income generated. This figure is therefore assumed.

#### Internal Indirect Costs:

- **Staff Salary**  
The source for average administrative staff salaries was (*The Joslin Rowe Salary Survey 2005– 2006*).  
  
Seven Administrative roles were assumed to be relevant to a Legal practice.  
They were:  
Junior Legal Secretary, Legal Secretary, Legal Cashier, Cashroom Assistant, Filing Clerk, Receptionist, Payroll Clerk.  
The average was taken as the sum of all seven of these positions divided by 7.  
  
4% wage inflation was added to the costs for 2005 – 2006 this was to bring it up to relevant figures.  
  
The figure assumed is £16,464 per admin staff member.
- **Temp Staff Salaries**  
Most firms will not use temporary staff as they will work around holiday absences for staff.
- **Agency Fees**  
It is assumed this would be 15% of temporary staff salaries, however as temps are not used therefore this is zero.
- **Subscription to Professional body**  
We have accounted for several items under this heading as they are essential requirements for practicing criminal law:
  - The Law Society Practicing Certificate: £735 per year
  - Guarantee Fund Cost: £630 per year per principle or partner
  - Master policy £3,000 per criminal partner in firm per year (average).

## Overview of Cost Assumptions

- Complaints Levy, fees to a professional negligence complaints body: £410 per full year per solicitor
- Incidental financial business £70 per firm. With a further £60 per solicitor.
- **NIC - Employers – Staff**  
12.8% of admin staff salaries.
- **Staff Recruitment & Media**  
For firms with admin staff £500 is applied for admin staff advertising this will be infrequent and will vary greatly. For the advertisement of solicitor positions the business runs on word of mouth and directly approaching individuals, head hunting them the cost of recruitment media is therefore nil.
- **Relocation Expenses**  
It is assumed a firm will not pay for this.
- **Corporate Activity**  
Corporate activity is up to an individual firm. From solicitor interview we are aware that most firms will not pay for this form of staff development.
- **Travel/Subsistence - Training co**  
All legitimate business travel that Legal Aid should cover is held under case related travel. This is a separate cost line item.

### Travel:

Most travel costs for firms are case related and as such they are covered under the cases related costs and case related travel headings. For this reason most costs under this heading are marked as zero. The exceptions to the above rule are

- **Travel – Staff**  
There is a £1800 allowance per partner for Road Tax, Petrol, Service, MOT, and general repairs.
- **Motor insurance premiums**  
A standard rate of £400 per vehicle is used for this calculation. This is linked to a search of internet car insurance providers for business use.
- **Lease payments**  
It is common practice for partners to lease cars under the firms' name. These cars will be used for legitimate business travel as well as private use. A search of car lease providers can be done on the internet.

We have assumed a cost of £350 per month for a leased car.

Cars are leased for a full 12 months a year

Once leased a car will commit them to 3 years spending

There is the further assumption of one car per partner

## Overview of Cost Assumptions

### Accommodation:

- **Rent**

There is the assumption that all firms rent. This would be the highest cost option as it does not invest back in to the business or increase partner capital. Having a mortgage on a similar property proves no more expensive.

Rent has been worked out from available property on ([www.scottishproperty.co.uk](http://www.scottishproperty.co.uk)).

We searched the postcodes of all registered criminal firms and found equivalent rental costs by firm postcode. Using postcodes we identified the average rent per individual in the firm. Office space per individual is calculated as 120 square feet. This is above a recommended 100 square feet per person suggested by SLAB building services. This has been over estimated as we are aware there are pockets of higher cost rent within urban centres. A minimum of £4000 has been set for rent as smaller firms who are renting will find it hard to get cheaper accommodation.

- **Water Rates**

10% of Rent

- **Non Domestic Rates**

Non Domestic Rates are 45.8% of the ratable value of a property rising to 46.2% if it is over £29,000. We have taken ratable value to equal rent for this purpose although they are rarely the same with rent being higher than ratable value, because of this we think we are overestimation rates, however without more accurate details we have kept this in as a precautionary measure.

Data from:

<http://www.scotland.gov.uk/Topics/Government/local-government/17999/11199>

- **Heat & Light**

17.5% of Rent, this figure is arrived at by accountants through a survey of their clients.

- **Office consumables**

6% of Rent

- **Property maintenance**

5% of Rent

- **Cleaning**

7% of Rent based on accountants client review. A minimum has been set at £520 per year, £10 per week.

- **Property repairs**

5% of Rent, this is in addition to 5% for maintenance.

- **Building Alarm System**

Most firms will have 2 alarm systems to protect the property against break in and incase of fire. It is likely that the burglar alarm will be a centrally monitored alarm and will have an ongoing cost linked to the monitoring of the alarm. Monitoring costs around £40 per quarter. Fire alarm maintenance is contained under property maintenance.

- **Confidential waste disposal**

A shredder costs £200 spread over 4 years is £50 per year. A small firm will have one and larger firms an increasing number.

## Overview of Cost Assumptions

### Stationery:

- **External print**

We anticipate a solicitor will use 2500 Letter Heads, 500 Compliment slips, 250 Business cards per sol and requires some Promotional materials.

3 online quotes were viewed from:

<http://www.edmonds.co.uk>

<http://www.bmpress.co.uk>

<http://www.edinburghprint.com>

The Average cost was £265 per solicitor per year.

- **Misc Office Supplies**

We have used a 1 to 1.5 ratio for external print to Office supplies, with office supplies being the higher.

- **Postage - franking machine**

This is the cost associated with posting letters and the running of a franking machine. We believe most firms use franking machines due to the volume of mail put through the business. The cost is £650 per solicitor in the firm, including partners.

- **Postage – courier**

The use of couriers is not common place within Criminal Firms, if they are used it tends to be for specific cases, as such any courier cost should be marked as case related costs. This is therefore Zero.

- **Postage Stamps**

The cost of all postage is covered by Postage - franking machine this item is therefore Zero

- **Legal Post**

Legal post is a postal system we see being used by Criminal solicitors. The charges for this service are found at: [www.legalpost.co.uk](http://www.legalpost.co.uk)

The Charges per month are:

Partners £41.6

Paralegals £35.4

Associates £36.4

Fee Earners £36.4

### Office Equipment:

- **Mobile Telephone Expenses**

£35 per solicitor per month, this is a standard small business contract offered by a number of providers.

- **Telephone Rental**

£50 per month per solicitor

## Overview of Cost Assumptions

- **Telephone Calls**  
It is suggested that Criminal Practice is a heavy phone use business £50 per month per solicitor has been factored in for usage.
- **Telephone Handset replacements**  
Zero cost as not a regularly required.
- **Computer maintenance contract**  
This is a volume item linked to the number of solicitors in a firm. £300 per solicitor is suggested from solicitor interview.
- **Software maintenance – PC**  
A retaining contract is required to keep Anti-virus software and systems backups this is likely to be low for sole practitioners rising with partner numbers and the need for networking. We have allocated £500 for single partner firms and £2,500 for larger firms with more than one partner.
- **Broad Band Connections**  
These costs are from BT Business Broadband rates, it is a sliding scale from £20, £30 to £40 per month depending on number of connections.
- **Photocopy/Laser printer paper**  
This cost is £200 per solicitor per year. 1p per sheet for 20000 sheets
- **Photocopiers - copy cost**
- Included under, Photocopy/Laser printer paper
- **Fax usage**  
This cost is £200 per solicitor per year. 1p per sheet for 20000 sheets
- **Fax line rental**  
This will be banded on firm size £20 - £30 - £40 per month depending on the size of a business.
- **Vending machines**  
These relate to water coolers, most firms will not have them, however we have accounted for 1 cooler at £20 per month for firms over 5 solicitors and 2 coolers at the same cost for firms with 10 or over solicitors. There is a legal requirement to provide water on each floor, be it from a tap or a cooler.

### Non Recurring Expenditure:

This is expenditure we see periodically on items that are wasting assets we have assumed every 4 or 6 years depending on the items. We assume they have zero residual value and we are working on the assumption that they are worth nothing after their useful lifespan.

- **Hardware – Printer**  
A small printer will cost £200 this is spread over 4 years. 1 printer is allocated per solicitor as they deal with sensitive data and will have one at their desk. This is in addition to a Larger Printer/Scanner/Photocopier with costs held under Office Machinery.
- **Hardware – PC**  
A PC costs £600 and is spread over 4 years; there is 1 computer for every member of staff, Solicitors and Admin.

## Overview of Cost Assumptions

- **Hardware – Peripheral**  
£120 per solicitor spread over 4 years this accounts for modems, routers and similar equipment.
- **Software – PC**  
This cost is associated to the cost of MS Office for all staff and case management software for all staff. Most Criminal firms do not use case management software but it is possibly a good way for firms to go. Software costs £200 per member of staff spread over 4 years.
- **Office Machinery**  
£3000 for a combined Scanner / Printer / Photocopier we have spread this over 4 years This will be around £180pa for maintenance (noted as £15 pcm) for between 1 to 3 machines. Franking machine cost around £30 pcm
- **Furniture**  
Each member of staff is calculated as having the following items: chair for work station, chair for meeting, desk, pedestal for files and office equipment, filing cabinet, double door cupboard and a bookcase. The total cost calculated for these was £1,015.20. This was spread over 6 years as a lifespan of the furniture. Some items will last longer.

### Case Related Costs:

Case related costs are linked to both “Fixed Fee” & “Time and Line” cases. The treatment of Case related costs differs between these two types of payment method.

The “Fixed Fee” system is designed to account for case related costs in the provision of a fixed fee; the types of costs under this header are mainly relevant to “Time & Line” cases and are noted as Zero for fixed fee cases. There is one exception to this a firm is expected to carry out precognition work for fixed fee cases.

The “Time and Line” system allows firms to charge for case related outlays separate to solicitor fees. We assume no cost for case related work as it is reimbursed by the board through the outlay system, as such the result of case related costs will be directly paid off by outlays. The exception to this is external precognitions.

- **External Precognition Clerks**  
SLAB data shows that the average solemn case has 3.7 Precognitions. From research we assume the use of an external precognition agent costs £30 per precognition. In addition we believe these will be done externally in a quarter of these instances. If working full time on criminal work we believe the average solicitor will do roughly 20 solemn cases a year. Precognitions have decreased since crown disclosure came in to being.

### Case Related Travel:

- **Travel / Subsistence - case related**  
This is assumed as zero cost to the firm as it can be claimed back from the Legal Aid Board as outlays. Outlay income is designed to cover these expenses and as such we do not count it as a cost or an expense to the business. Travel on fixed fee cases is regarded as part of normal business and travel to work; it can not be claimed as a business cost. The cost of traveling to a regular place of work is born by the employee rather than the firm.

## Overview of Cost Assumptions

### Miscellaneous:

- **Yearly Audit/Tax/Accounting Fees**  
We have calculated this as linked to the size of the firm £1000 per solicitor per year. Most firms are Partnerships and do not have to provide audited accounts. The main Accounting fee will be VAT accounting. A further personal income tax return will be relevant for partners however it should come out of personal income and not be a cost to the business.
- **Ongoing Accountancy Fees**  
Accountants tend to be used for Time & Line cases which make up about 15% of all cases done. When they are used they charge about 5% of total bill for the case depending on the volume of business they do for a solicitor.
- **Conferences**  
Zero
- **Library/Magazines**  
This is £200 per year per solicitor with an additional £2000 for firms over 5 solicitors as they are likely to purchase access to online resources.
- **Pension scheme deductions**  
It is normal for firms to provide a 5% contributory pension scheme for all employees. Therefore this is 5% of employed solicitor and administrative staff salaries combined.
- **Bank Interest & Charges**  
There is the assumption that a firm has to use overdraft facilities and incurs charges due to this £350 per year per solicitor has been factored in.
- **Pub Rels – Other**  
Zero
- **Pub Rels – Advertising**  
Yellow pages are the main form of Advertising. Some of the larger firms advertise on the radio, however, a majority rely on walk in custom or word of mouth. Most have nothing above Yellow pages advertisement. This cost will vary region and by the number of books they advertise in. The cost is likely to be low for smaller firms £500 at most. For larger firms we have increased incrementally in line with solicitor numbers at £750 per solicitor.
- **Professional fees - non legal**  
Zero, apart from accountants fees that have been covered separately we do not anticipate regular use of any professionals outside of case related costs, medical experts and the like. Surveyors may be used on the properties however that assumption of renting also factors in this cost, it will be borne by a landlord.