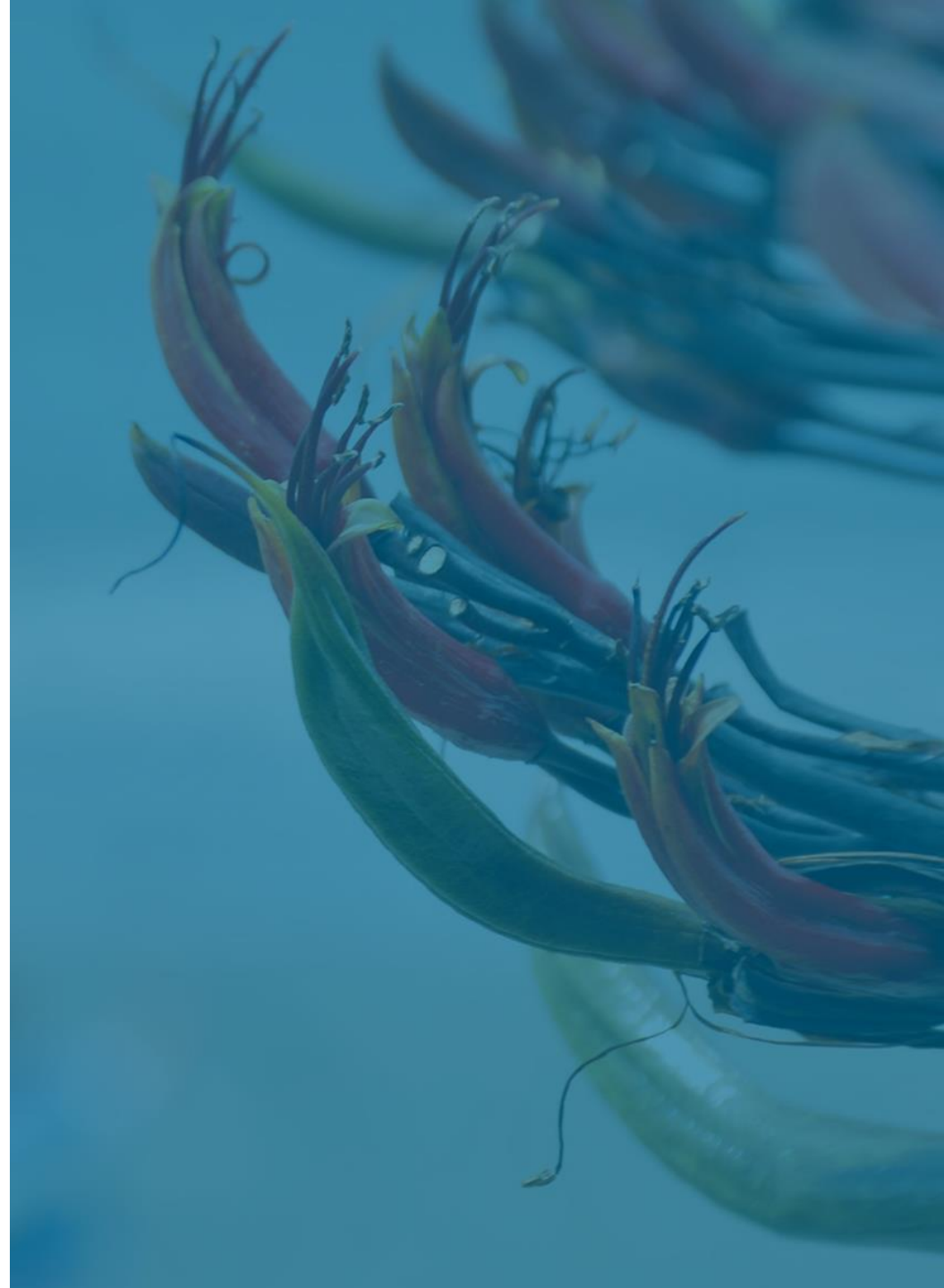


Benchmarking costs of law practice in New Zealand

March 2024

Contents

01	Executive summary	03
02	Introduction	06
03	Research Methodology	08
04	Survey Sample	11
05	Overhead Costs	17
06	Overhead Costs by Law Practice Size	25
07	Cost of Providing Legal Aid	31
08	Productivity	36
09	Operational Needs of Providing Legal Aid	43





Executive Summary

Executive Summary

The cost of practising law in New Zealand has increased by an average of 15.3% every year over the last three years, and rising cost pressures are experienced by law practices of all sizes and locations

\$1,255,193

Average non-recoverable overhead costs that a law practice in New Zealand must meet annually in order to breakeven

39.8%

Higher average non-recoverable overhead costs for legal aid providers vs non-legal aid providers (\$1,479,545 vs \$1,058,036)

68.1%

Of overhead costs for law practices in New Zealand are related to the costs of hiring, retaining and developing staff

Average overhead costs by law practice size

Barrister	\$100,525
Sole practitioner	\$166,200
Small (2-19 lawyers)	\$1,351,344
Medium (20-49 lawyers)	\$5,723,000
Large (50+ lawyers)	\$11,685,317

Average overhead costs by location type

Metro	\$936,875
Regional	\$1,622,996
Metro & Regional*	\$3,103,277

*Metro & Regional refers to practices who have locations in both metropolitan areas and regional centres

Difference in average overhead costs – legal aid vs non-legal aid providers

	Legal aid provider	Non-legal aid provider
Barrister	\$105,597	\$91,764
Sole practitioner	\$200,405	\$147,957
Small (2-19 lawyers)	\$1,278,873	\$1,399,022
Medium (20-49 lawyers)	\$5,058,745	\$6,719,383

Difference in average staff related costs – legal aid vs non-legal aid providers

	Legal aid provider	Non-legal aid provider
Barrister	\$47,699	\$36,801
Sole practitioner	\$124,851	\$99,728
Small (2-19 lawyers)	\$878,048	\$914,144
Medium (20-49 lawyers)	\$3,753,493	\$5,255,477

Executive Summary

On average a practising lawyer in New Zealand recovers 56.6% of their time worked and bills for 898 hours annually, and survey respondents indicated that their productivity over the last few years have been impacted by higher administrative burden

All law practices

56.6% **898**

Average utilisation
rate (2023)

Average billable
hours (2023)

Legal aid providers

53.3% **807**

Average utilisation
rate (2023)

Average billable
hours (2023)

Non- legal aid providers

61.0% **1,031**

Average utilisation
rate (2023)

Average billable
hours (2023)

Operational challenges identified

01
Finding
&
retaining
quality
staff

Recruiting staff with the right level of experience for the right work is a challenge, as well as the expectations of salary increases and career progression

02
Tech &
Digital
Upgrades

Law practices have been digitising and upgrading technology used to improve productivity and efficiency, but it is an ongoing investment

03
Managing
cashflow
and
workflow

Rising costs, slow debtor payments and fluctuating workflow creates cashflow and profitability pressures for law practices

04
AML & CFT
compliance

Simplification of compliance requirements such as AML & CFT are identified as one of the areas of improvement which would have a large impact on productivity and efficiency

05
Legal aid
rates &
billing

The increase in legal aid rates over the last 10-12 years are perceived to be insufficient to meet rising operational costs and legal aid administration

**Utilisation rate is calculated by comparing billable hours against the total working hours (ie. the sum of billable and non-billable hours) provided by survey respondents*



Introduction

Benchmarking the costs of practising law in New Zealand

Background

The New Zealand Law Society Te Kāhui Ture o Aotearoa ('Law Society') is undertaking a programme of work to increase access to justice in New Zealand and advocating for improvements to the justice system on behalf of the profession and the public. This includes the area of legal aid, for which a moderate increase in remuneration was achieved in Budget 2022. This work was supported by insights gained from an 'Access to Justice' survey sent to lawyers nationwide.

To further support the Law Society's evidence-based advocacy, data on the costs of practising law in New Zealand is needed. As the last available benchmarking report on the costs of practising law was completed pre-2005, a more up to date study is needed. This data will aid understanding of the impact on lawyers of regulatory requirements and other proposed changes. for example in relation to AML/CFT. It will also inform analysis of the minimum levels of remuneration needed in the legal aid system.

Benchmarking Report Purpose and Scope

This benchmarking report seeks to gain visibility on the current level of costs required to operate a law practice in New Zealand, as well as the costs and effort associated with providing legal aid. To do so, relevant information is collected from law practices via an online survey platform. Both quantitative financial data and qualitative feedback were collected anonymously to preserve commercial confidentiality. This report is focused on understanding the costs of operating and therefore no income or profitability information was requested in the survey.

Key Research Questions

- 1 What are the general costs of law practices in New Zealand?
- 2 What are the indicative costs associated with providing legal aid?
- 3 How does the cost of law practices differ across practice sizes and structures, and across metro vs regional locations?
- 4 How does productivity and efficiency differ across the industry?

Research Limitations

Due to anonymity and practicality, data provided by participants cannot be verified or audited for accuracy and are assumed to be a fair representation of their actual context.

Meaningful insights require a high level of detail in information requested from the law practices, which creates an inherent barrier to participation.

Participation in the study is completely voluntary, and there is minimal control over the sample representation and spread.



Research Methodology

Sampling Methodology

Survey population

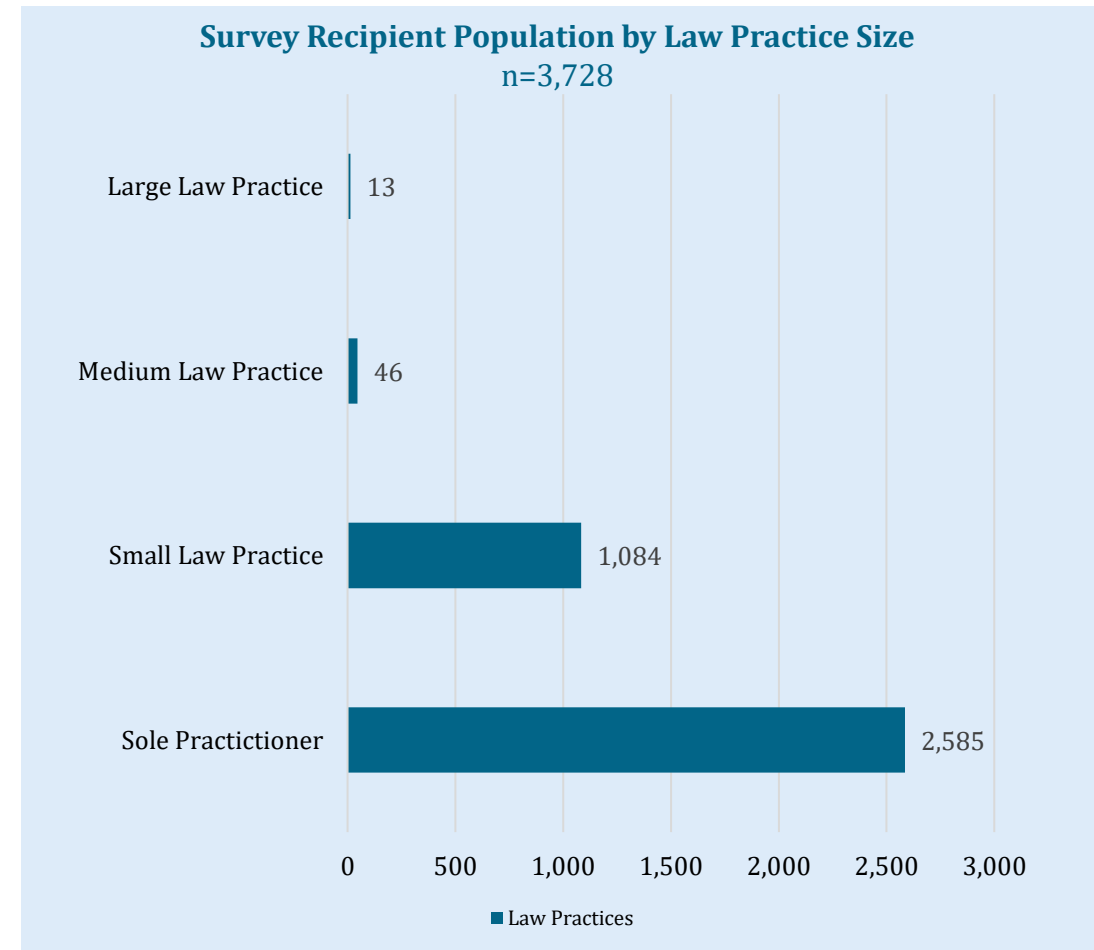
The survey population sampled were law practices in New Zealand, which have been categorised by size – sole practitioners, small law practice (2 to 19 lawyers), medium law practice (20 to 49 lawyers), large law practice (50+ lawyers).

Sample size

The survey was sent to 3,728 law practices and of these, 400 responses were received. Due to data completeness and quality, 260 of the responses received were determined to be usable for this benchmarking report. Of the responses used, 124 provided complete data for analysis of financial information.

Implications of sample size on the research study

Based on the total population size, a sample size of 124 responses has a margin of error of 8.7% and a 95% confidence interval. This means that there is a 95% confidence that the true mean value for the total population size lies within the sample size mean with a range of +/- 8.7%.



Survey design and features



Survey publication and communication

The survey was hosted on a 3rd party online platform and accepted responses from 19th October 2023 – 20th November 2023. It was distributed to law practices via an email from Law Society, with two reminder emails sent. The survey was also advertised on the Law Society's weekly e-newsletter LawPoints and on LinkedIn and Instagram social media pages.



Survey questions

The main survey asked for a mix of qualitative and quantitative questions across:

1. Size and location
2. Operational challenges and productivity
3. Financial information for the past three years
4. Operational requirements of providing legal aid [answered only by legal aid providers in the sample]

A secondary survey was sent to respondents who agreed to provide further detail on their legal aid operations.



Data anonymity and confidentiality

The survey asked for financial information relating to costs only, and did not ask for any commercially sensitive data such as revenue or profit. Responses were submitted anonymously and therefore were not identifiable by law practice. All information has been treated as confidential and aggregated to analyse indicative cost benchmarks and trends by law practice size.



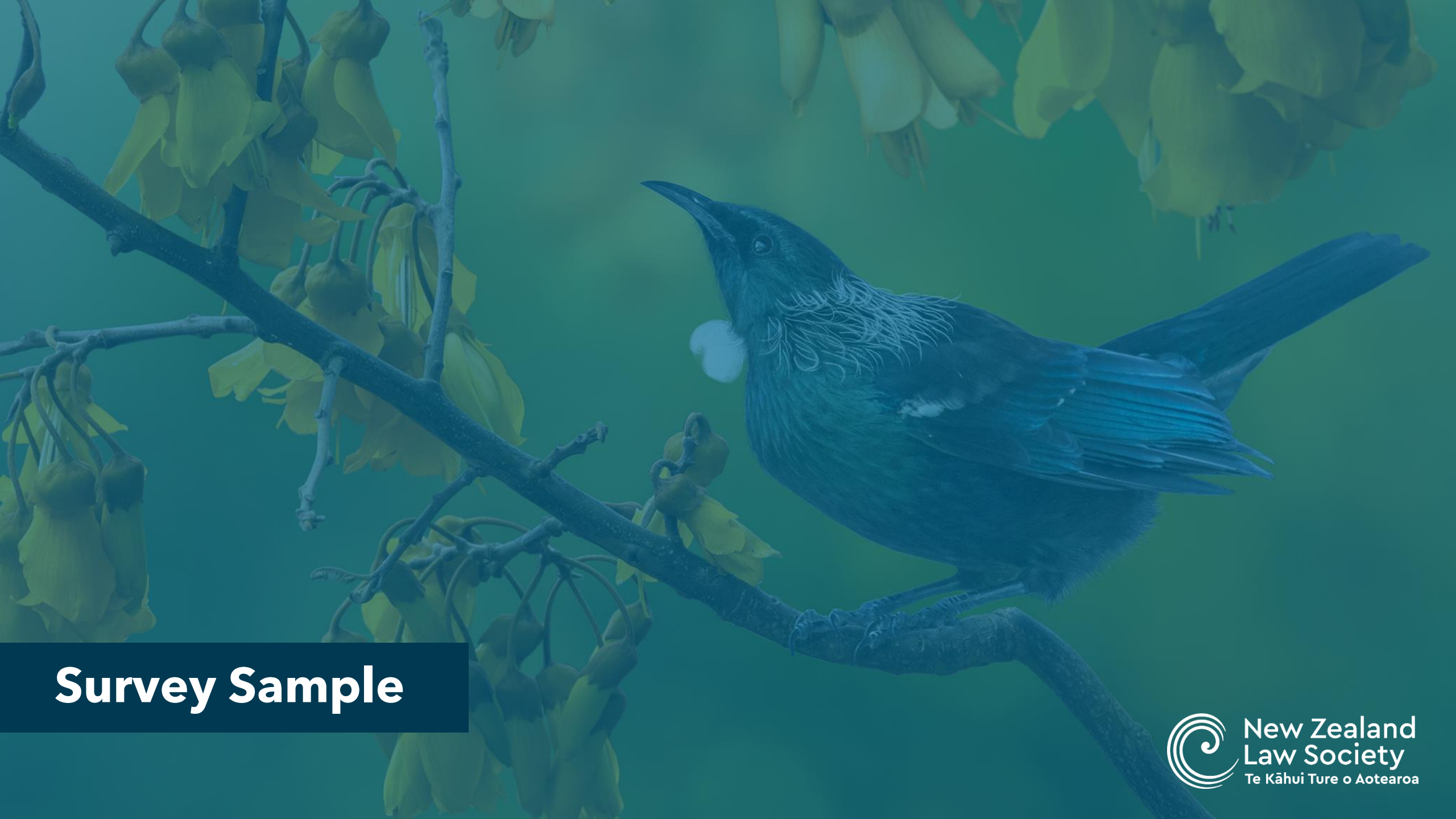
Survey duration

The main survey was estimated to require 45-60 minutes to complete. For larger practice sizes, the survey was best answered by both the practice manager and CFO (or CFO equivalent).



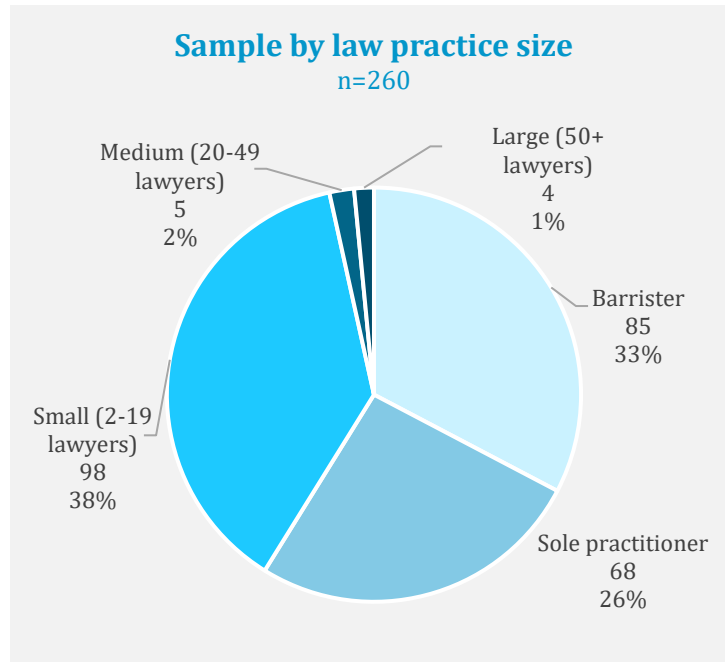
Data cleansing and analysis

Usability of responses received was determined based on quality and completion rate. Qualitative information were categorised by themes during analysis and any material anomalies in quantitative data used have been excluded.

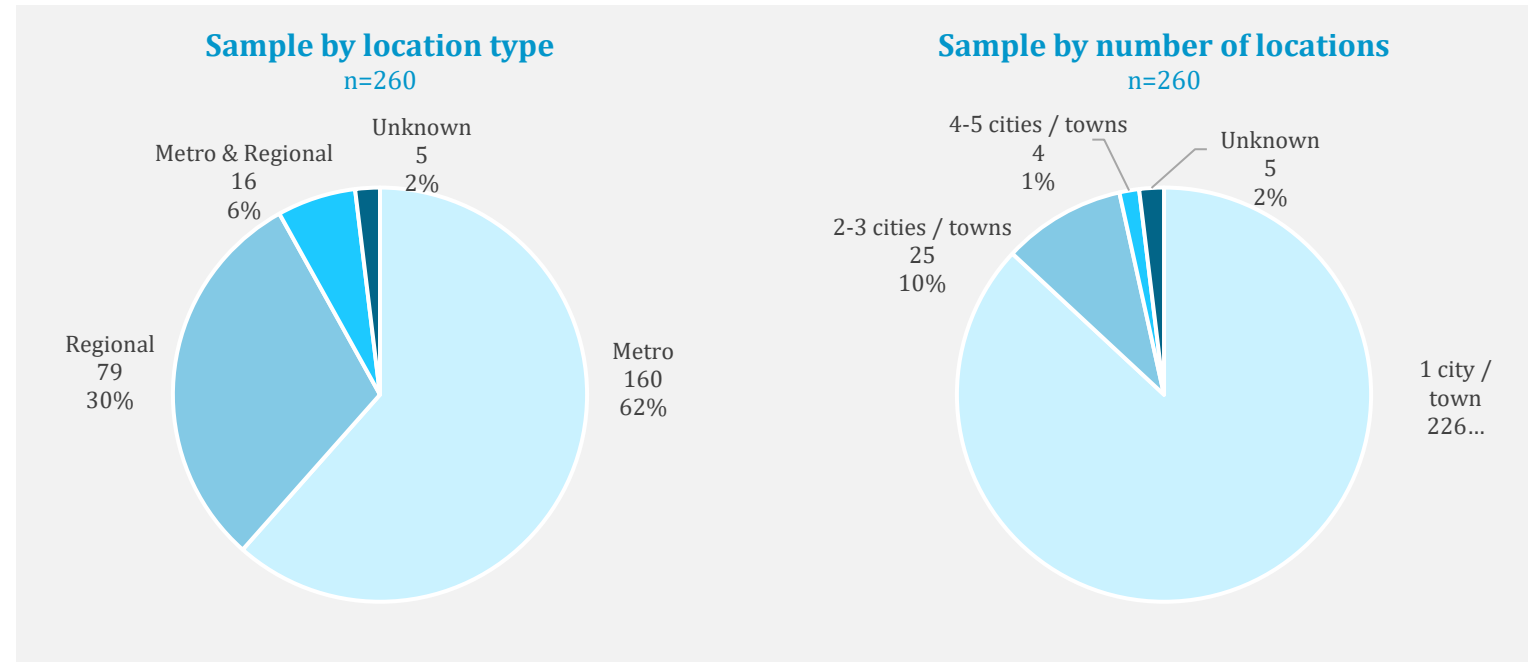


Survey Sample

Sample population demographics

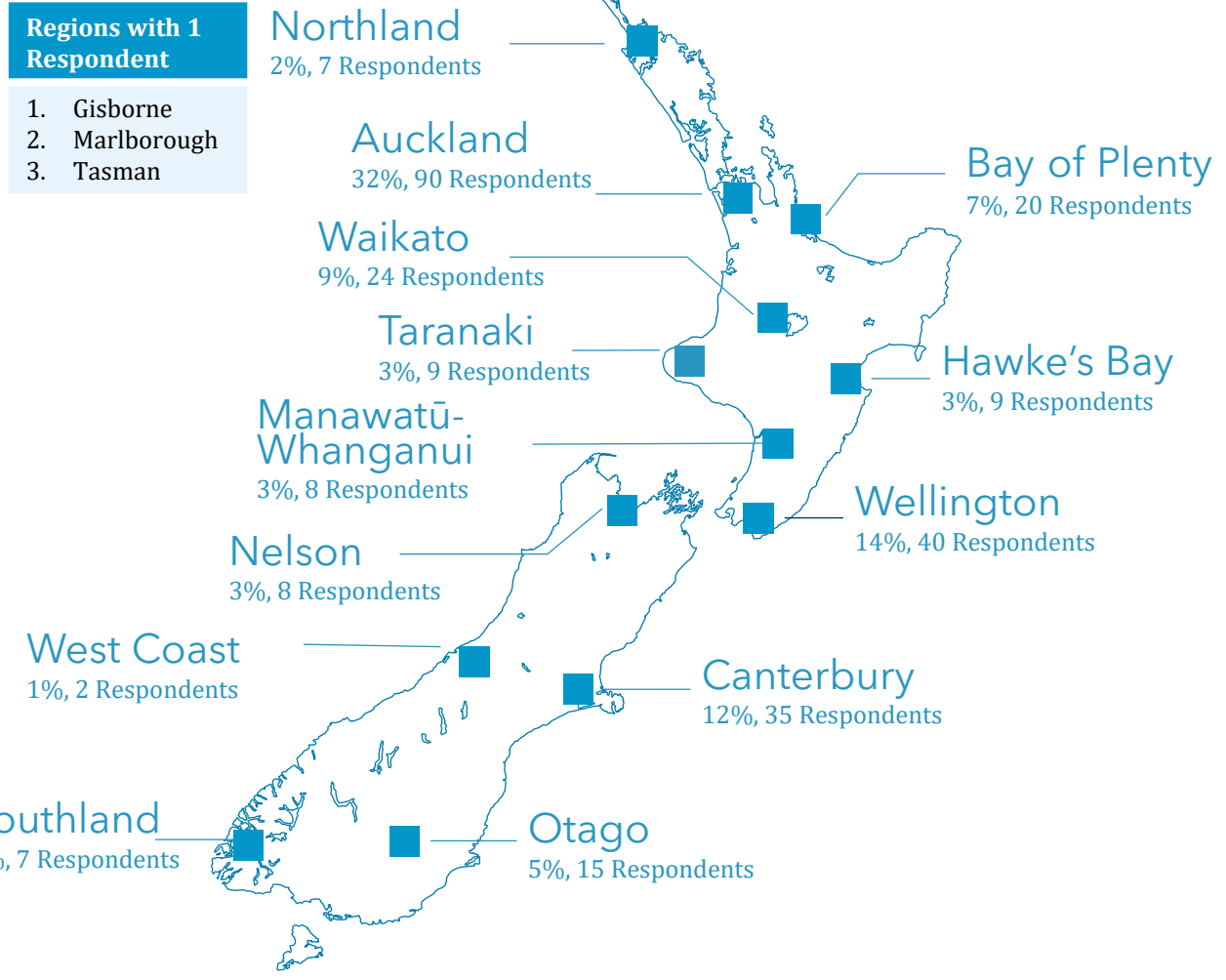


Survey respondents were categorised into different practice size categories based on how they self-identified themselves and how many partners / directors and practising lawyers they have in the practice.



Survey respondents were asked to identify if they had more than 1 branch, and if they were located in different cities and towns. Locations of survey respondents were categorised as either a metropolitan area or a regional centre, based on the classification used by [Stats New Zealand's function urban area code structure](#). Auckland, Hamilton, Tauranga, Wellington, Christchurch and Dunedin were considered metropolitan areas, and all other cities and towns considered regional areas.

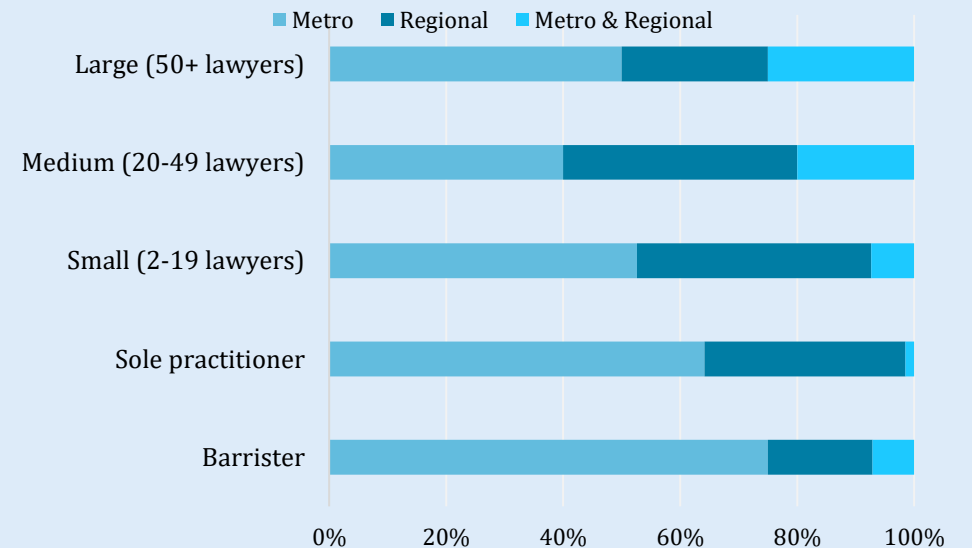
Sample population demographics



Geographic location of law practices in the sample population was well represented, reflecting a similar regional distribution as the general population of New Zealand.

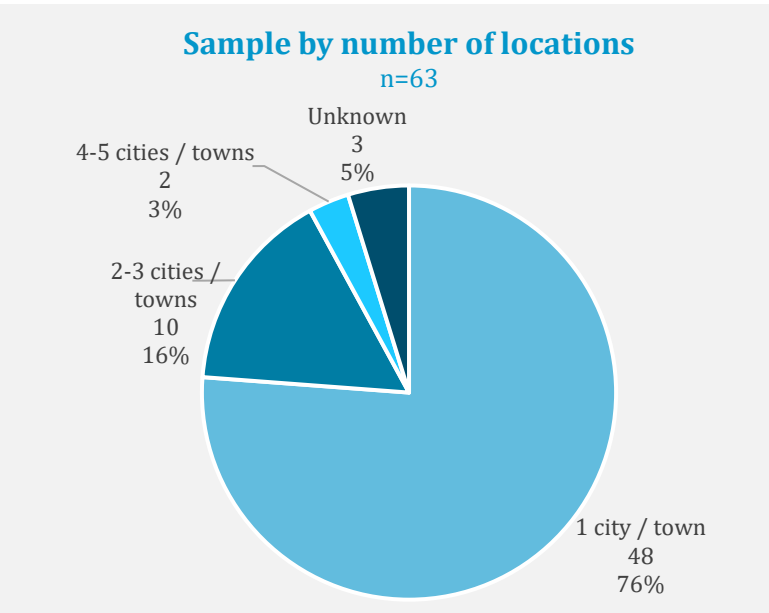
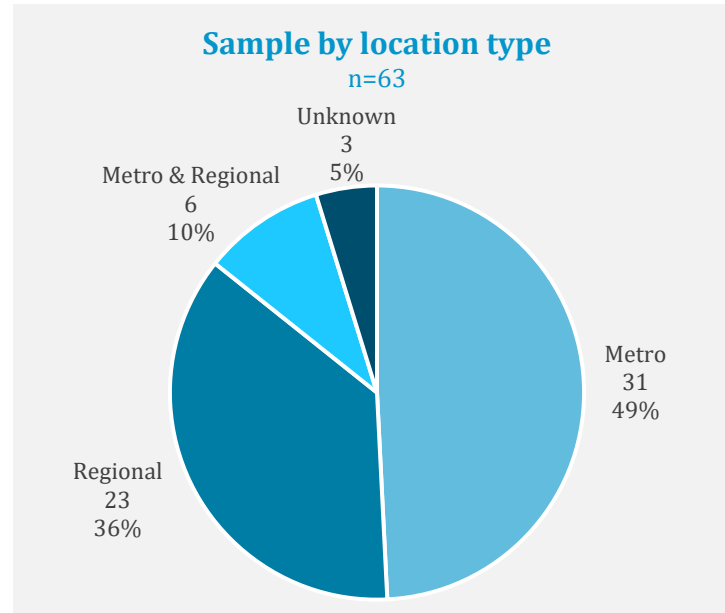
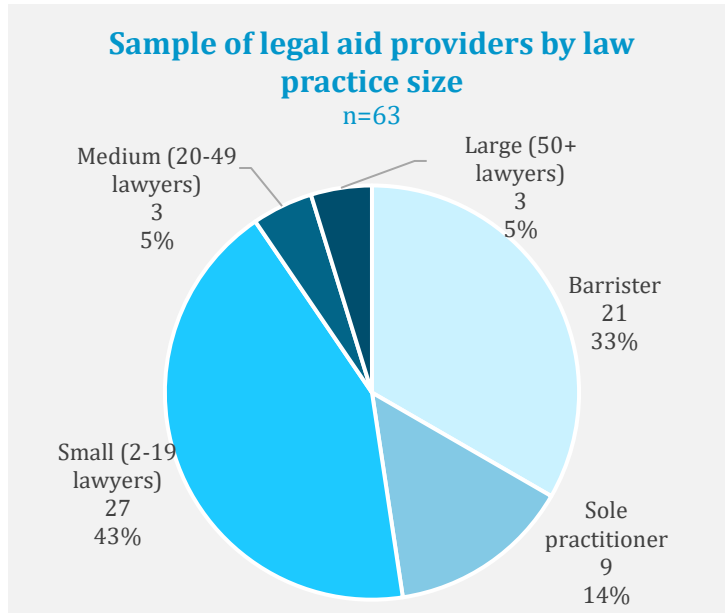
Metropolitan areas appeared to be a common location base for legal practices of all sizes and types, with a higher presence in regional centres for larger-sized practices:

Concentration of law practices by size and location type



*Law practices per region shown includes branch locations. For example, a law practice located in Auckland and Waikato is shown under both regions.

Sample population demographics - legal aid providers

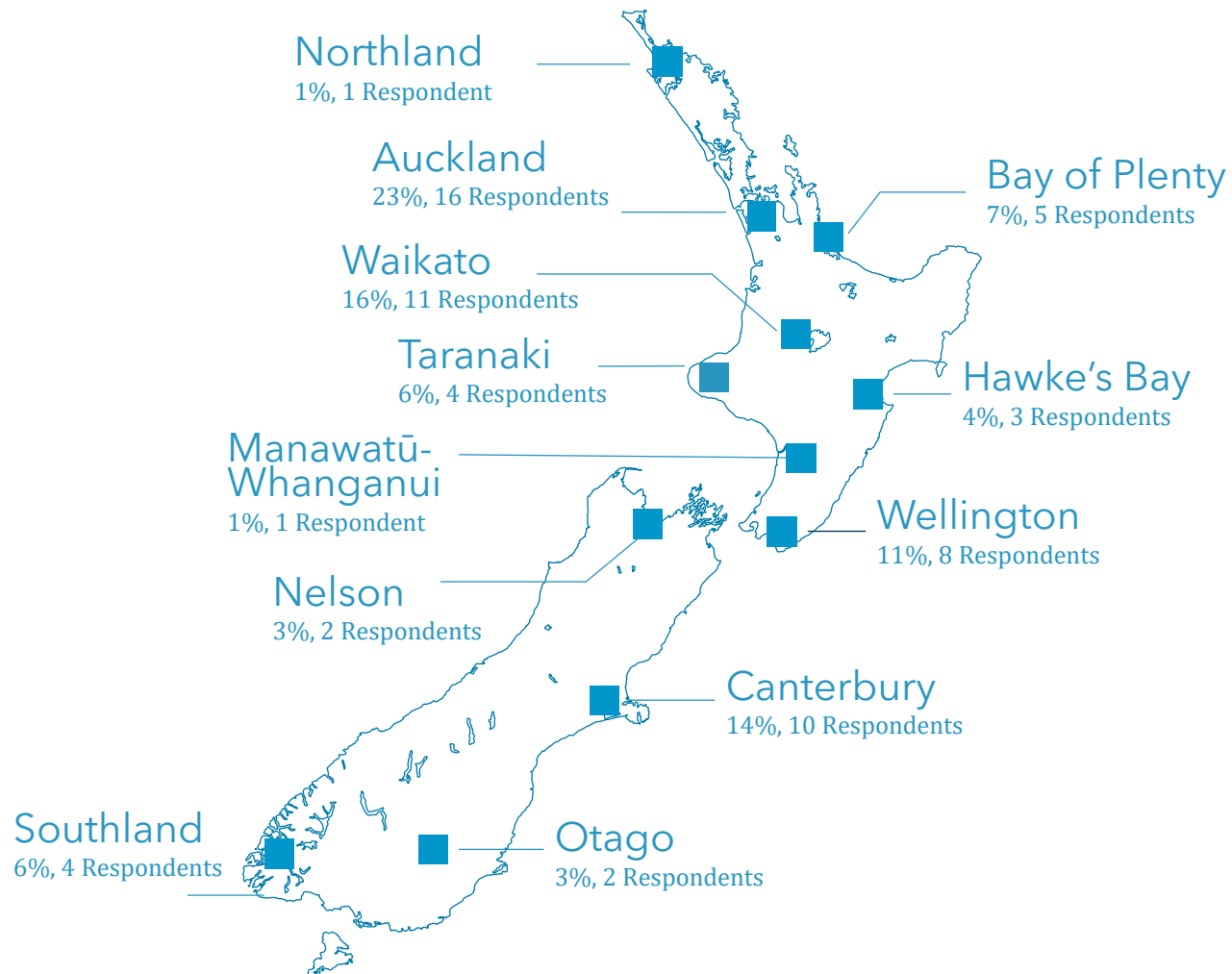


63 respondents within the sample population indicated that they provide legal aid. Based on data collected from these respondents, barristers and small law practices with 2-19 lawyers were the most common practice types that provide legal aid.

Legal aid providers were widely present in metro locations, but also had a high presence regionally:

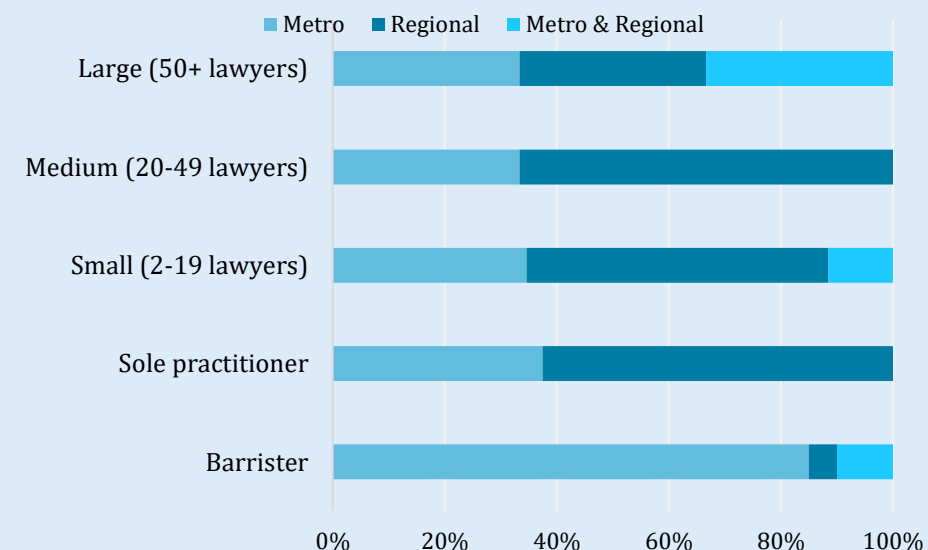
	Metro	Regional	Metro & Regional	Unknown
All law practices (n=260)	61.5%	30.4%	6.2%	1.9%
Legal aid providers (n=63)	49.2%	36.5%	9.5%	4.8%

Sample population demographics - legal aid providers



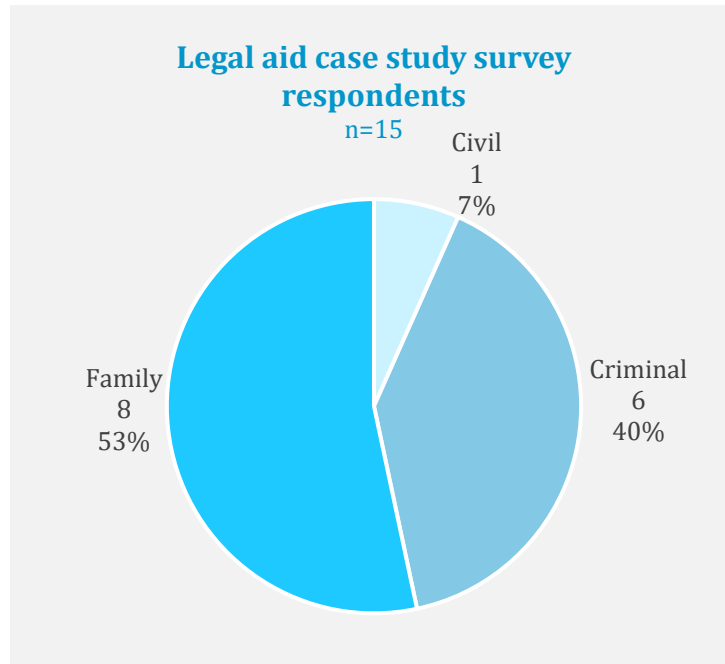
Data provided by the sample population indicated a stronger presence of legal aid providers in the regional centres. However, this finding may contain some inherent bias, as the survey did not include the Public Defence Service ('PDS'). PDS makes up a large pool of legal providers located in metropolitan areas, but have been excluded as they are considered in-house lawyers.

Concentration of legal aid providers by size and location type

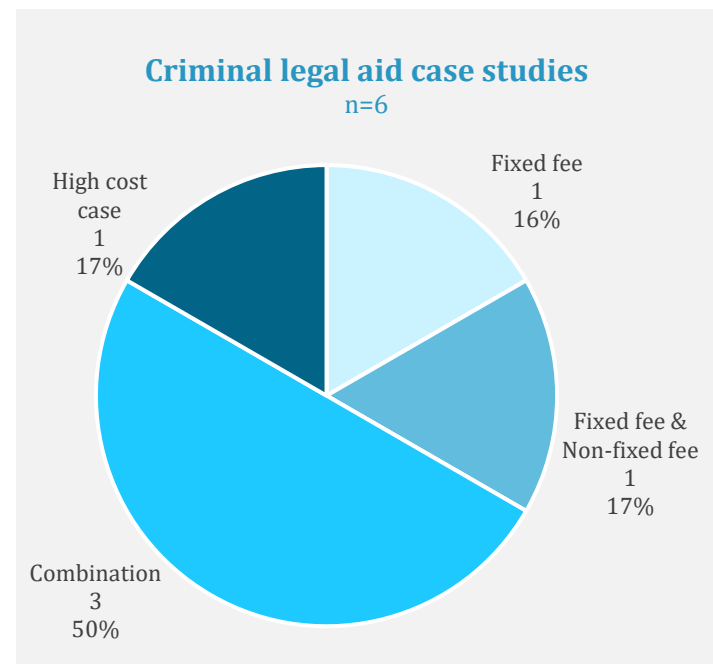


*Law practices per region shown includes branch locations. For example, a law practice located in Auckland and Waikato is shown under both regions.

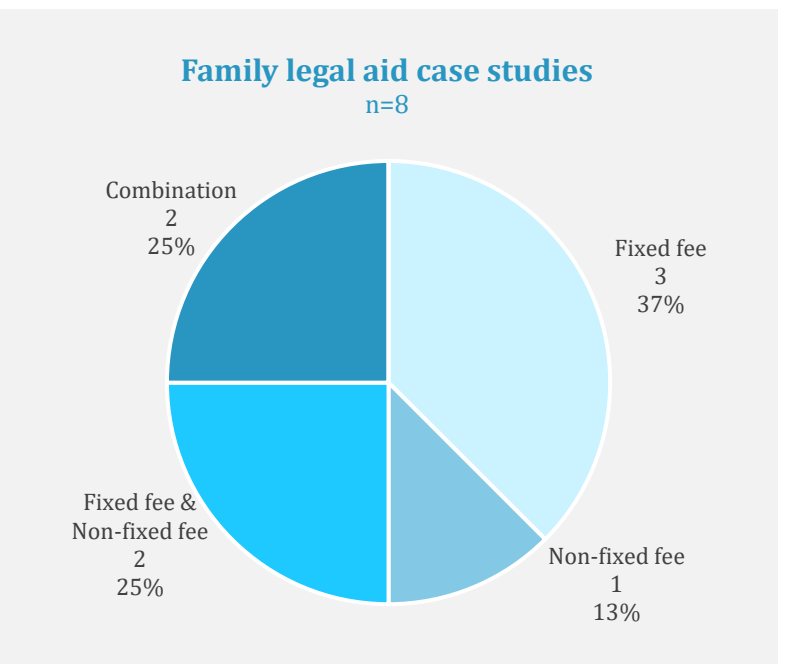
Sample population demographics - legal aid case studies



A secondary survey was sent to respondents who agreed to provide further detail based on their recent legal aid cases. There were 15 respondents who provided complete data.



Of the responses received, 1 was related to a civil legal aid case that was non-fixed fee in nature. 6 responses were related to criminal legal aid cases, half of which were combination cases. The remaining 8 responses were related to family legal aid cases, made up of different file types.

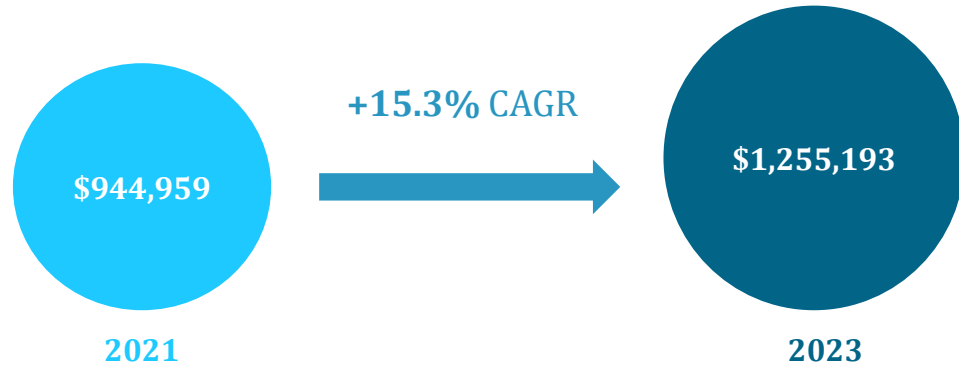




Overhead Costs

Total overhead costs

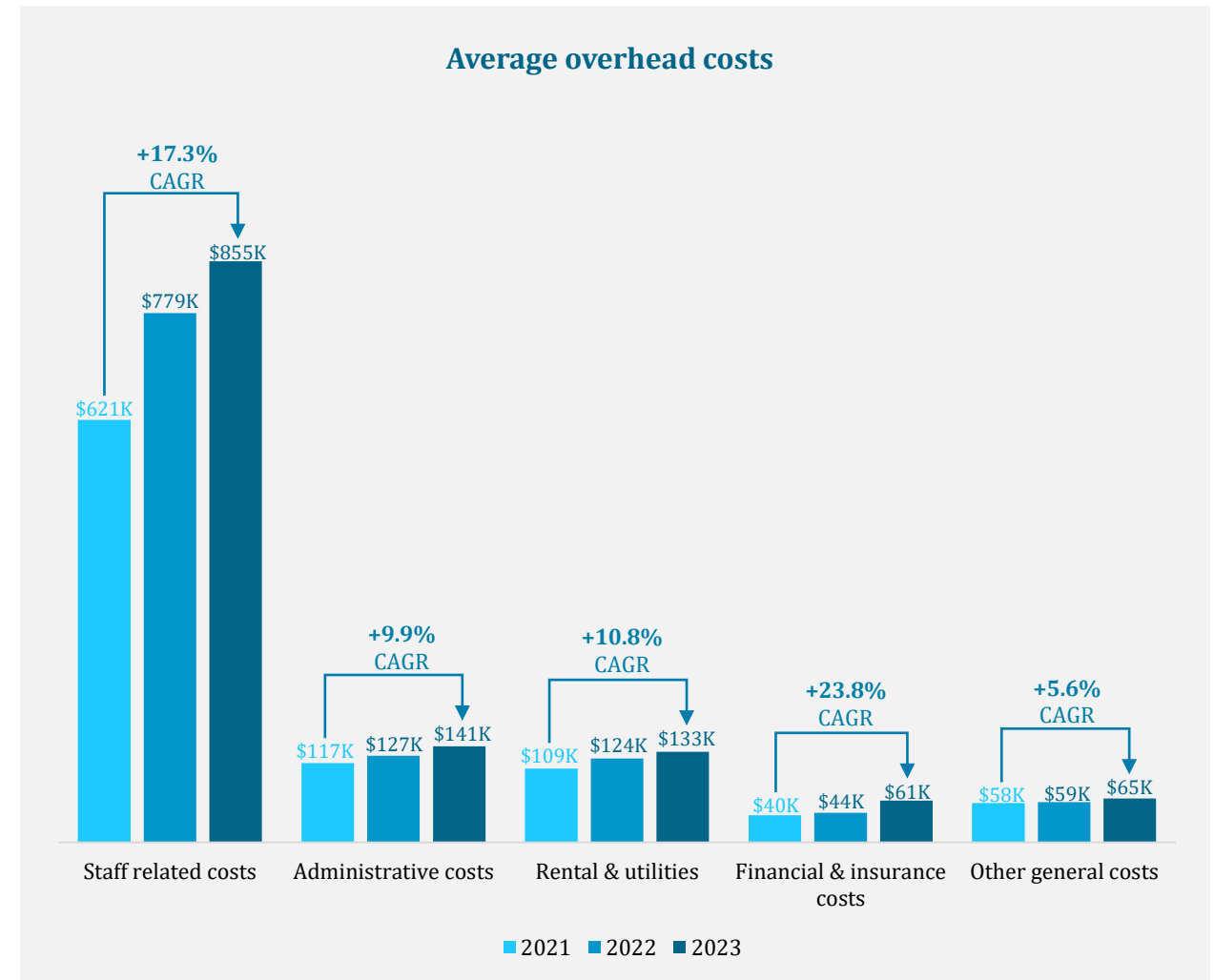
The average overhead costs for a law practice in New Zealand has increased by 15.3% annually from 2021 to 2023



Overhead costs for law practices include staff related costs, administrative costs, rental and utilities costs and financial and insurance costs. All overhead cost types have increased every year from 2021 to 2023.

Staff related costs were the biggest cost driver of overhead costs, with law practices spending an average of \$854,866 in 2023 on hiring, retaining and developing employees. It had the second highest increase rate, at a CAGR of 17.3% every year from 2021 to 2023 and was likely a reflection of New Zealand’s inflationary economic environment.

The impact of the current cost of living crisis was also seen in rental and utilities costs, from an average of \$108,533 in 2021 to \$133,156 in 2023. Almost half of the increase in administrative costs was attributable to the increase in spend on technology and software, as law practices invested in their systems and digitalising their practice.



*CAGR is the Compounded Annual Growth Rate, and refers to the annualised average rate of increase or growth over a specified number of years

Total overhead costs

Overhead costs have increased for legal practices of all sizes from 2021 to 2023

The rate of increase in average overhead costs was highest for sole practitioners, with a CAGR of +16.7% from 2021 to 2023. The biggest reasons for this were an increase in staff related costs, administrative costs and rental and utilities costs. Barristers were similarly impacted.

The increase in overhead costs for small law practices was mainly driven by higher staff related costs, particularly salaries and wages. They also bore a high increase in professional indemnity insurance costs over the last 3 years. Larger sized practices were not immune to cost pressures either, with both medium and large practices experiencing increases across all costs.

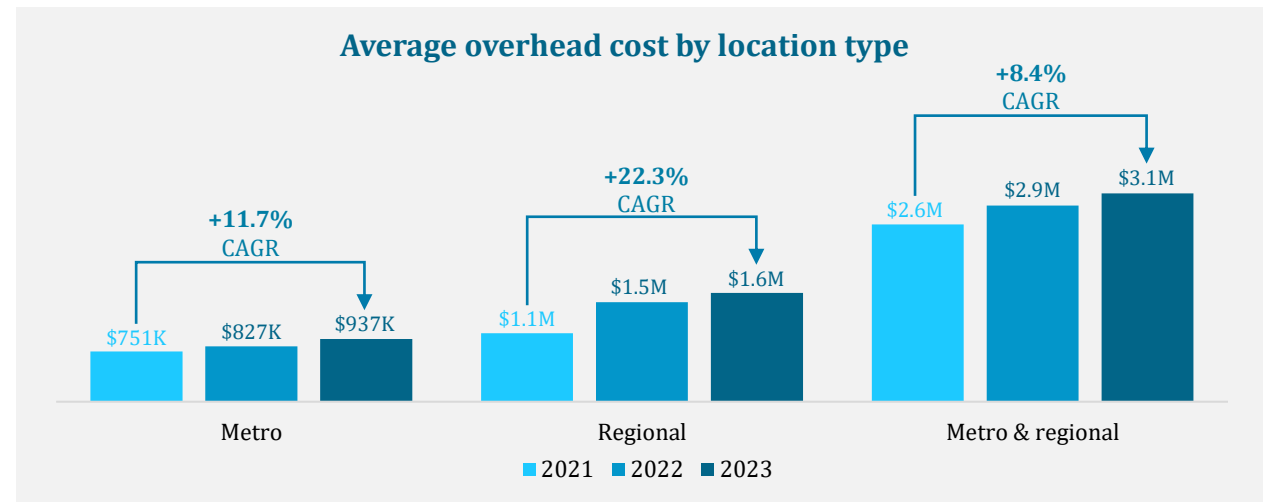
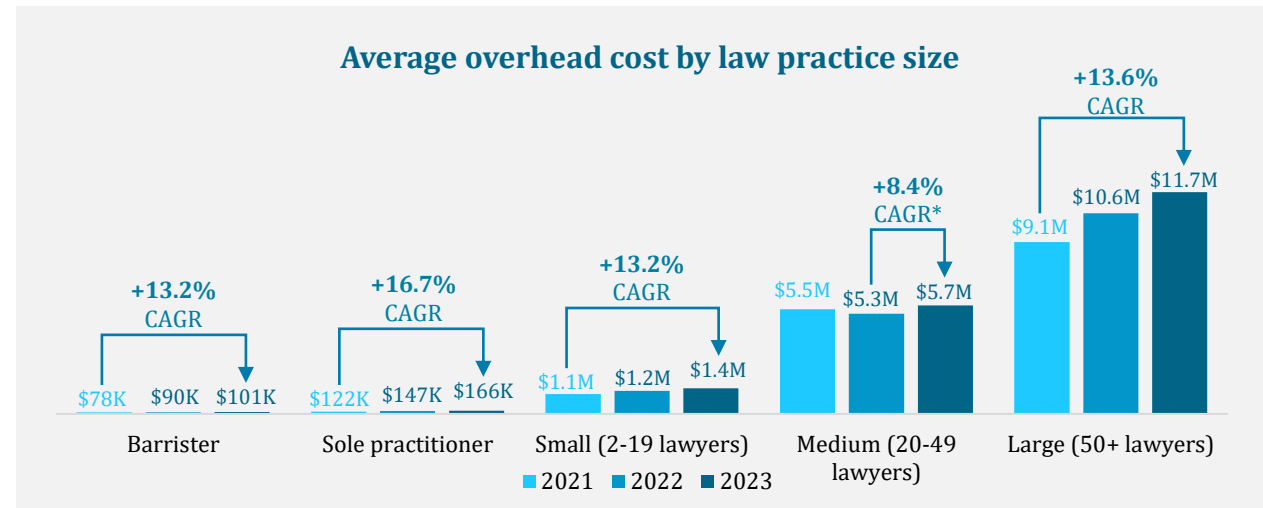
Overhead costs for law practices in regional centres were increasing faster than those in metropolitan cities

Overhead costs for law practices based regionally have increased by an average of +22.3% annually from 2021 to 2023, almost double that of their metropolitan based counterparts.

Law practices in regional centres tended to be bigger in size. 66.3% of practices in metropolitan cities were barristers or sole practitioners, compared to 48.1% in regional centres.

Practices that operated in multiple locations across both metropolitan cities and regional centres had a slower rate of cost increase. This may be due to being able to offset or centralise some of their overhead costs.

*Costs for respondents with more than one branch have been allocated evenly per branch



*CAGR for Medium Law Practices is calculated from 2022 to 2023 instead, as data points with zero values for 2021 have been excluded due to materiality of impact on the analysis

Staff related costs

\$854,866

Average staff related costs in 2023

+17.3%

CAGR of average staff related costs from 2021 to 2023

95%

Of staff related costs are related to Salaries, Wages & ACC

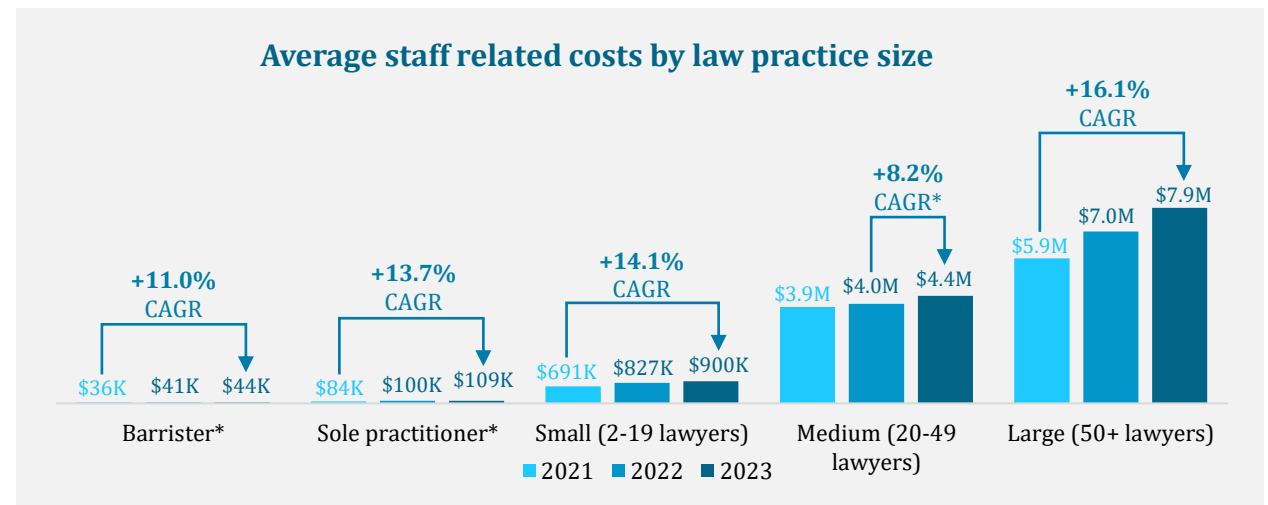
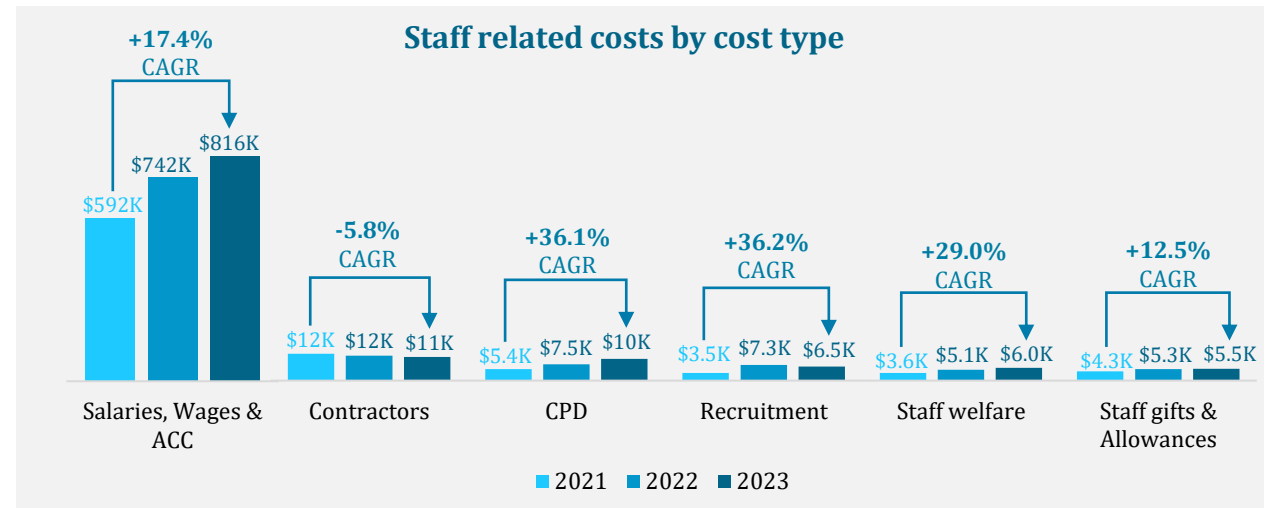
Salaries, wages & ACC were the biggest staff related costs, which was as expected for a labour-centric service industry.

Costs for recruitment and CPD increased at the highest rate, aligning with comments from survey respondents on the difficulties of attracting and retaining quality staff at the right level of experience.

Spend on contractors has decreased for small, medium and large practices but increased for barristers and sole practitioners, likely due to their need for flexible staffing.

Medium-sized practices had the highest average staff cost per employee. Their larger counterparts were more comparable to smaller practices, likely due to better economies of scale.

Legal practice size	Average staff cost / employee (2023)
Barrister*	\$14,098
Sole practitioner*	\$56,892
Small (2-19 lawyers)	\$62,364
Medium (20-49 lawyers)	\$85,378
Large (50+ lawyers)	\$62,467



*It is assumed that the staff related cost data provided does not include salaries or distributions paid to barristers and sole practitioners themselves
 **CAGR for Medium Law Practices is calculated from 2022 to 2023 instead, as data points with zero values for 2021 have been excluded due to materiality of impact on the analysis

Administrative costs

\$141,161

Average administrative costs in 2023

+9.9%

CAGR of average administrative costs from 2021 to 2023

33.5%

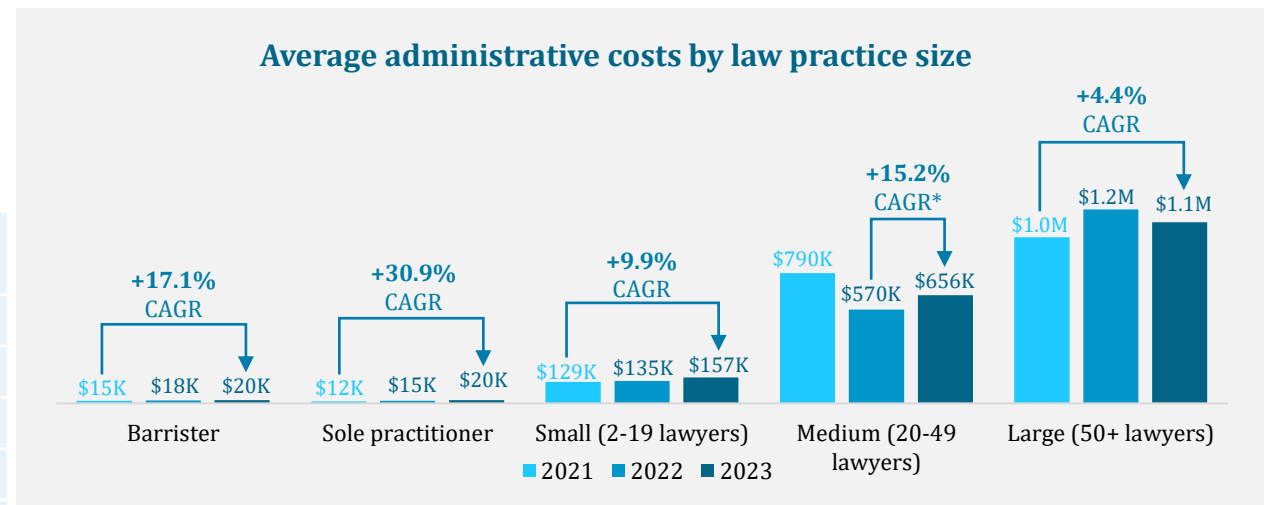
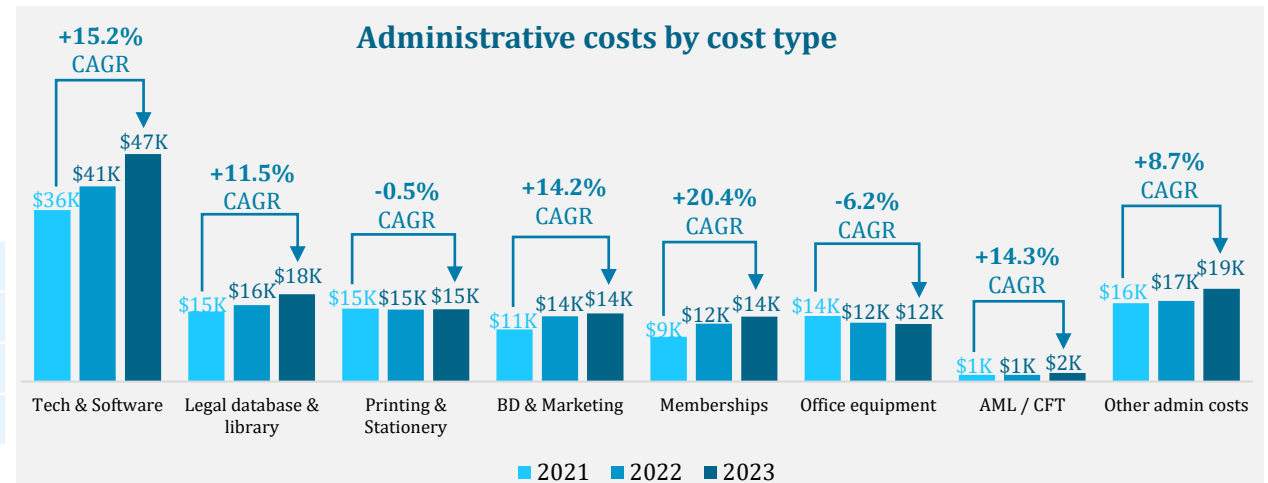
Of administrative costs are related to Tech & Software costs

Law practices spent most of their administrative costs on upgrading tech and software. They were also absorbing cost increases that they did not have control over, such as compliance and the increase in travel costs due to Covid-19 and inflation.

Other admin costs	Average cost (2023)
Accounting & Advisory	\$8,789 (-1.1% CAGR)
General travel	\$8,386 (+24.2% CAGR)
Freight & Courier	\$2,101 (+5.6% CAGR)

Large practices had the lowest admin cost per employee, reflecting the relative efficiency of their operations. Survey data suggested that medium practices had yet to fully optimise their practice management: 42% of their admin costs were spent on tech & software, which is higher than all other practice sizes.

Legal practice size	Average admin cost / employee (2023)
Barrister	\$6,577
Sole practitioner	\$10,338
Small (2-19 lawyers)	\$10,846
Medium (20-49 lawyers)	\$12,863
Large (50+ lawyers)	\$8,683



*CAGR for Medium Law Practices is calculated from 2022 to 2023 instead, as data points with zero values for 2021 have been excluded due to materiality of impact on the analysis

Rental and utilities

\$133,156

Average rental and utilities costs in 2023

+10.8%

CAGR of average rental and utilities costs from 2021 to 2023

78.4%

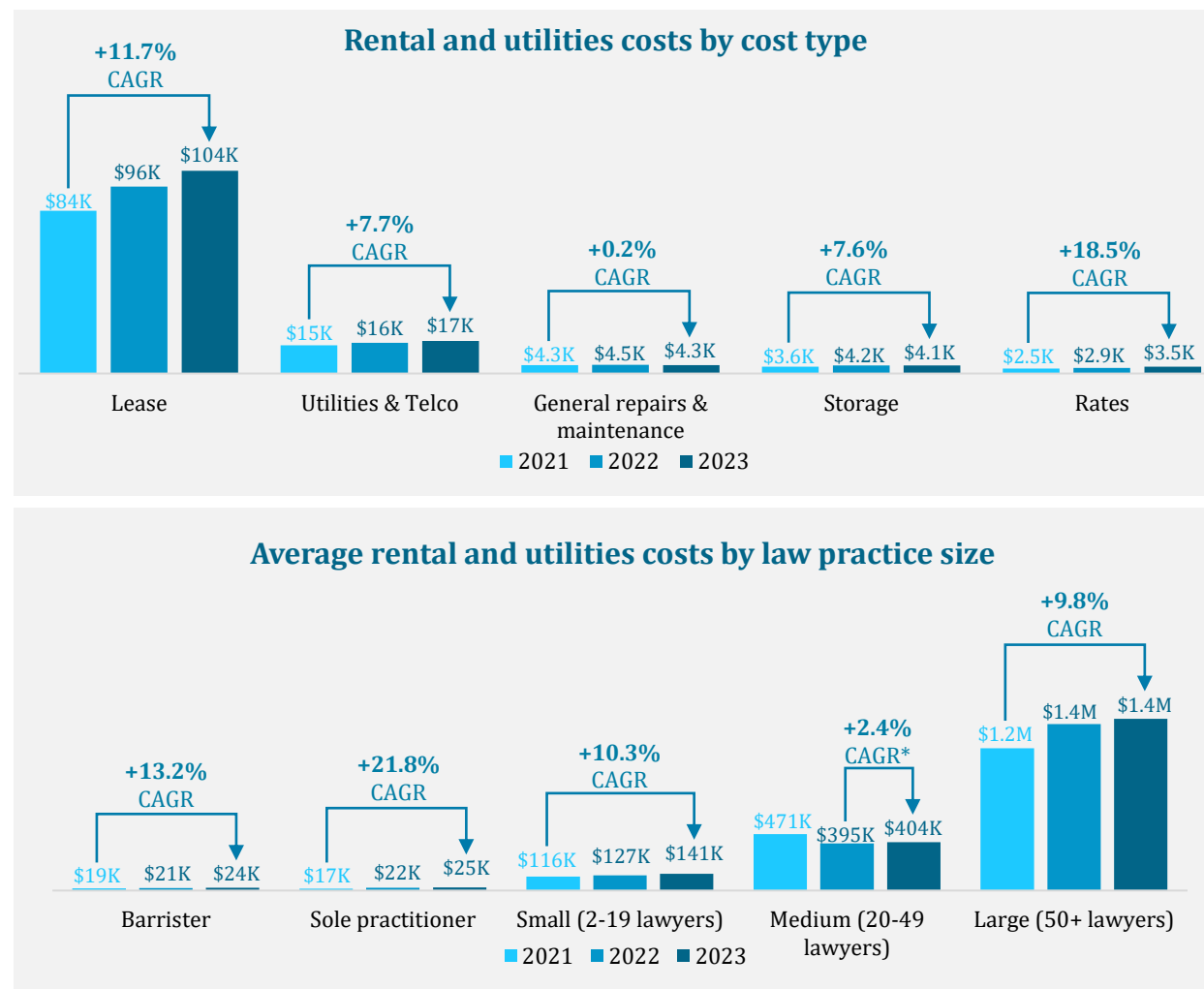
Of rental and utilities costs are related to Lease costs

Rental and utilities cost increases were largely outside of law practices' direct control (e.g. rental contract prices, utilities rates).

Lease was the biggest type of rental and utilities cost for law practices. Average lease costs were continuously increasing, despite some barristers and sole practitioners leveraging their smaller operations size to work remotely or reduce physical office space.

Barristers and sole practitioners had similar premise size needs, and average rent sits around the \$20k mark. However, the average rent price per practice increased significantly as the scale of practice grows.

Legal practice size	Avg lease cost / practice (2023)	Avg # of employees / practice
Barrister	\$20,675	3
Sole practitioner	\$19,602	2
Small (2-19 lawyers)	\$107,647	14
Medium (20-49 lawyers)	\$303,354	51
Large (50+ lawyers)	\$1,193,196	127



*CAGR for Medium Law Practices is calculated from 2022 to 2023 instead, as data points with zero values for 2021 have been excluded due to materiality of impact on the analysis

Financial and insurance

\$61,382

Average financial and insurance costs in 2023

+23.8%

CAGR of average financial and insurance costs from 2021 to 2023

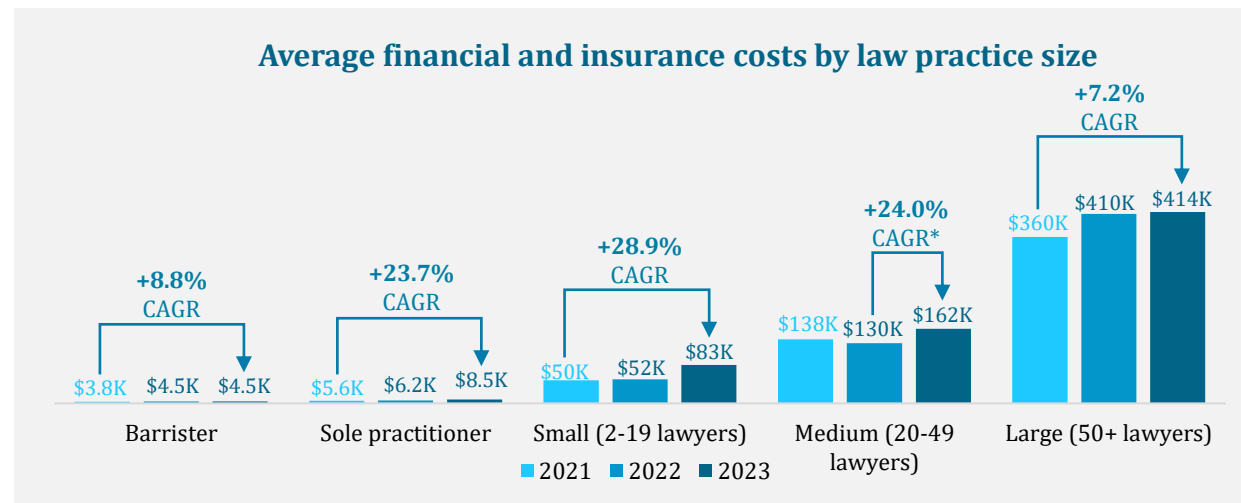
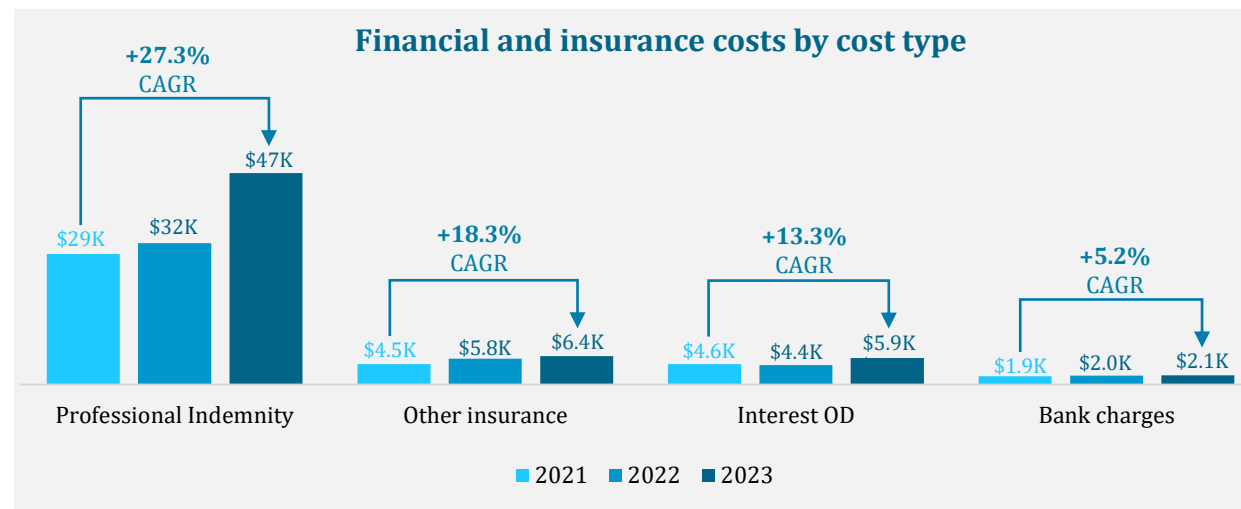
76.7%

Of financial and insurance costs are related to Professional Indemnity Insurance

Anecdotal feedback from survey responses suggested that the costs of professional indemnity for law practices are lower in Australia. Using one data point as an illustrative example, the [Law Society of Tasmania Professional Indemnity Scheme](#) is 43% cheaper for sole practitioners, currencies held equal. Further research and analysis will need to be conducted to fully validate this.

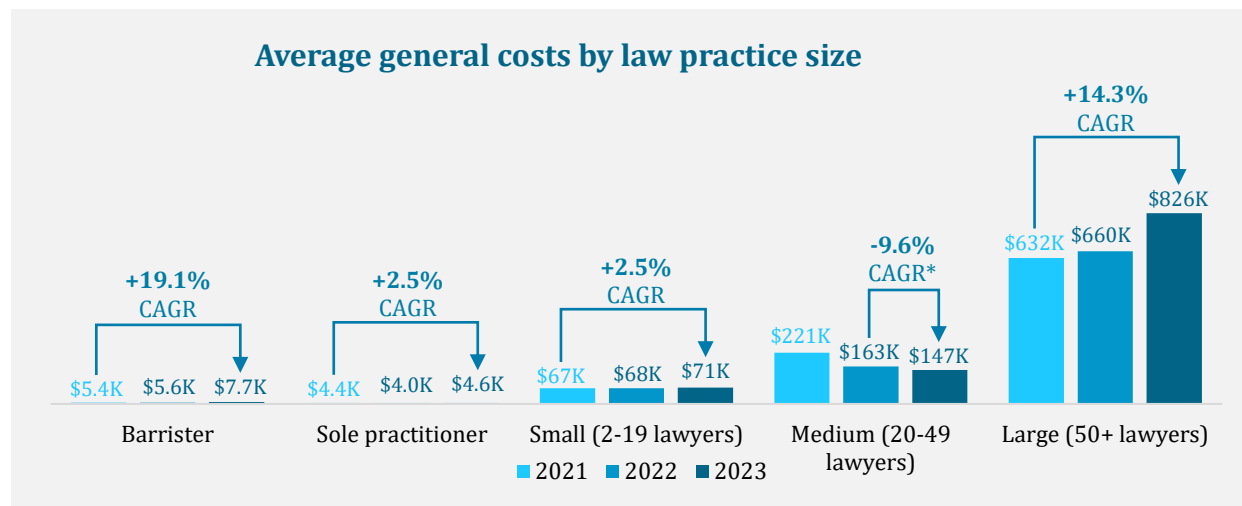
Survey data suggested that barristers, sole practitioners and smaller practices were more likely to be impacted by professional indemnity insurance increases.

Legal practice size	Avg Professional Indemnity / practice (2023)	CAGR (2021 to 2023)
Barrister	\$2,850	25.7%
Sole practitioner	\$7,227	21.6%
Small (2-19 lawyers)	\$66,044	33.1%
Medium (20-49 lawyers)	\$100,996	(2022 to 2023 increase)* 18.0%
Large (50+ lawyers)	\$306,458	9.1%



*CAGR for Medium Law Practices is calculated from 2022 to 2023 instead, as data points with zero values for 2021 have been excluded due to materiality of impact on the analysis

Other general costs

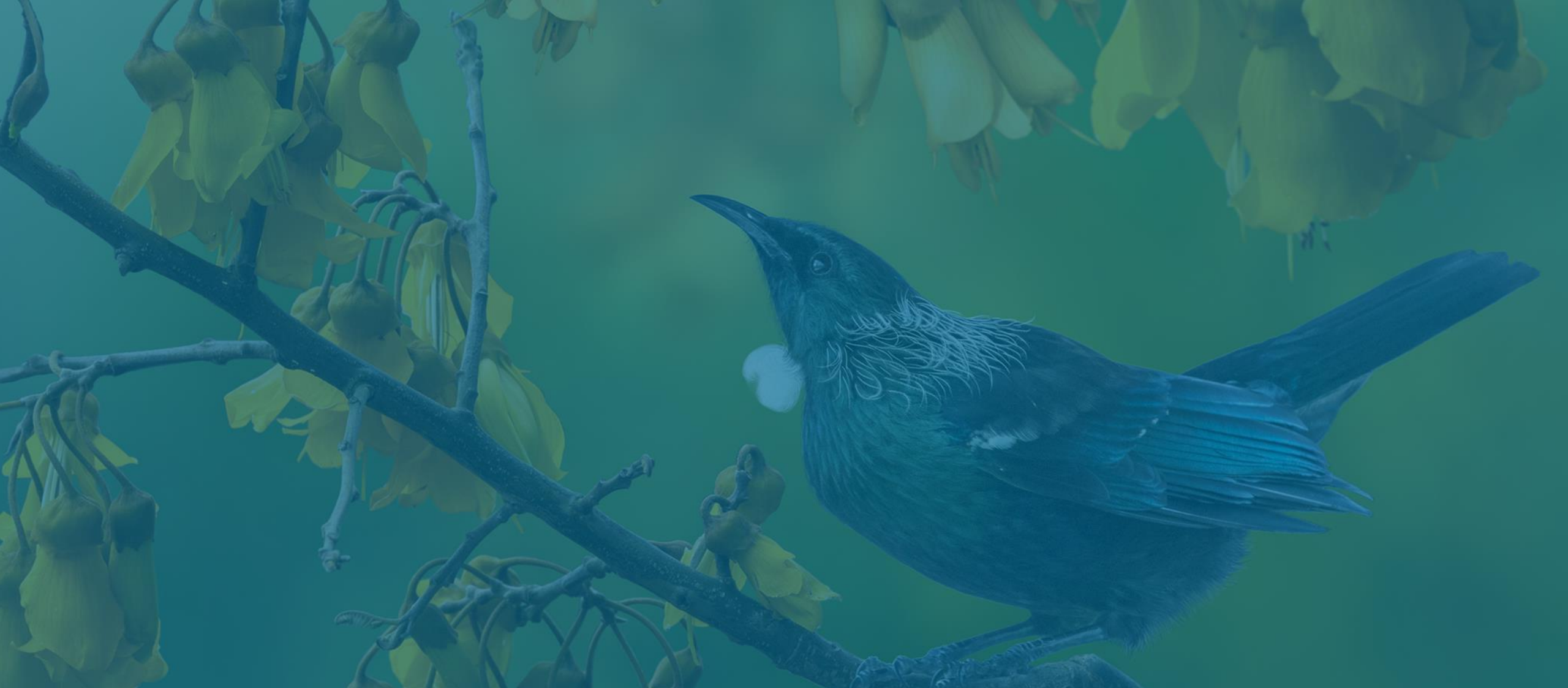


*CAGR for Medium Law Practices is calculated from 2022 to 2023 instead, as data points with zero values for 2021 have been excluded due to materiality of impact on the analysis

Other general costs include any other costs of operating a law practice which were not captured by previous sections in the survey. As the total of other general costs only accounted for 5% of all overhead costs, further breakdown to individual categories would not provide sufficient detail.

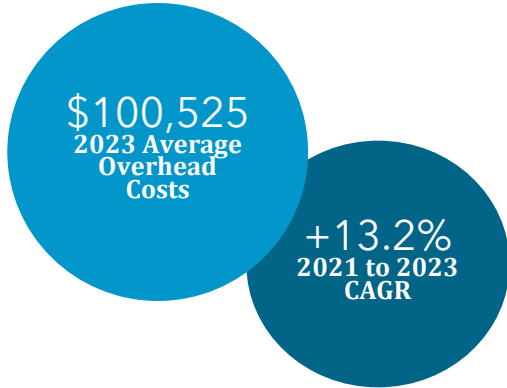
The table on the right summarises the examples of other general costs incurred by the different law practice size types. Common other general costs across all law practice sizes include sundry expenses (e.g. groceries for the office, cleaning, document destruction and donations), depreciation, and bad debts, which are outstanding debt amounts that are deemed to be no longer recoverable.

Law practice size	Common examples of other general costs
Barrister	<ul style="list-style-type: none"> Cleaning and office related expenses Transport related expenses (e.g. vehicle expense) Entertainment and gifts Groceries and consumables
Sole practitioner	<ul style="list-style-type: none"> Transport related expenses (e.g. vehicle expense) Cleaning and office related expenses Groceries and consumables
Small (2-19 lawyers)	<ul style="list-style-type: none"> Cleaning and office related expenses Bad debts and debt collection expenses Groceries and consumables Depreciation Entertainment and gifts Transport related expenses (e.g. vehicle expense) Advertising and sponsorships
Medium (20-49 lawyers)	<ul style="list-style-type: none"> Cleaning and office related expenses Groceries and consumables Bad debts and debt collection expenses Entertainment and gifts Depreciation
Large (50+ lawyers)	<ul style="list-style-type: none"> Bad debts and debt collection expenses Fringe benefit tax and tax administration costs Cleaning and office related expenses Groceries and consumables Depreciation External consultancy fees



Overhead Costs by Law Practice Size

Total overhead costs Barristers



Main cost drivers:

- Staff related costs*
(43.5% of total overhead costs)
- Rental & utilities
(24.1% of total overhead costs)
- Administrative costs
(20.3% of total overhead costs)

**It is assumed that the Salaries & CPD cost data provided does not include salaries or distributions paid to barristers themselves*

Common challenges faced

Cost of living crisis

*“cost of everything else increasing”
“cost of practising – certificate, memberships,
legal research subscriptions”
“chamber rent and fees”*

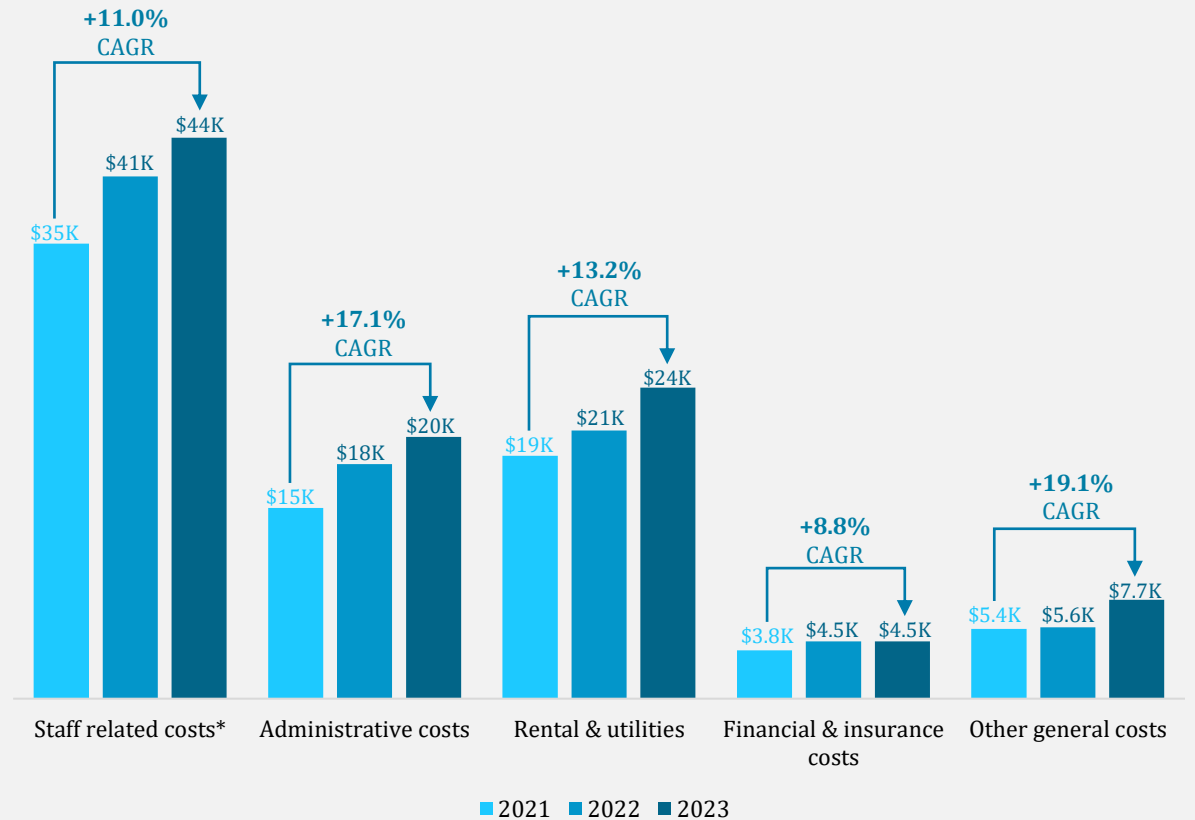
Lack of administrative support

*“finding good administrative support”
“[need to] ensure all administrative, billing,
accounting, marketing, compliance and other
requirements/needs are met”*

Pipeline & workflow management

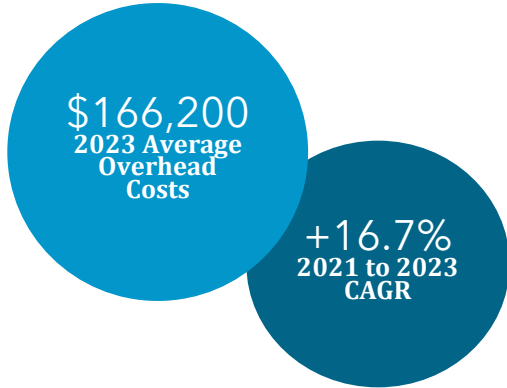
*“too much work and inconsistency of intensity”
“client expectations of cost”
“accommodating unscheduled urgent matters”*

Average overhead costs for barristers



Total overhead costs

Sole practitioners

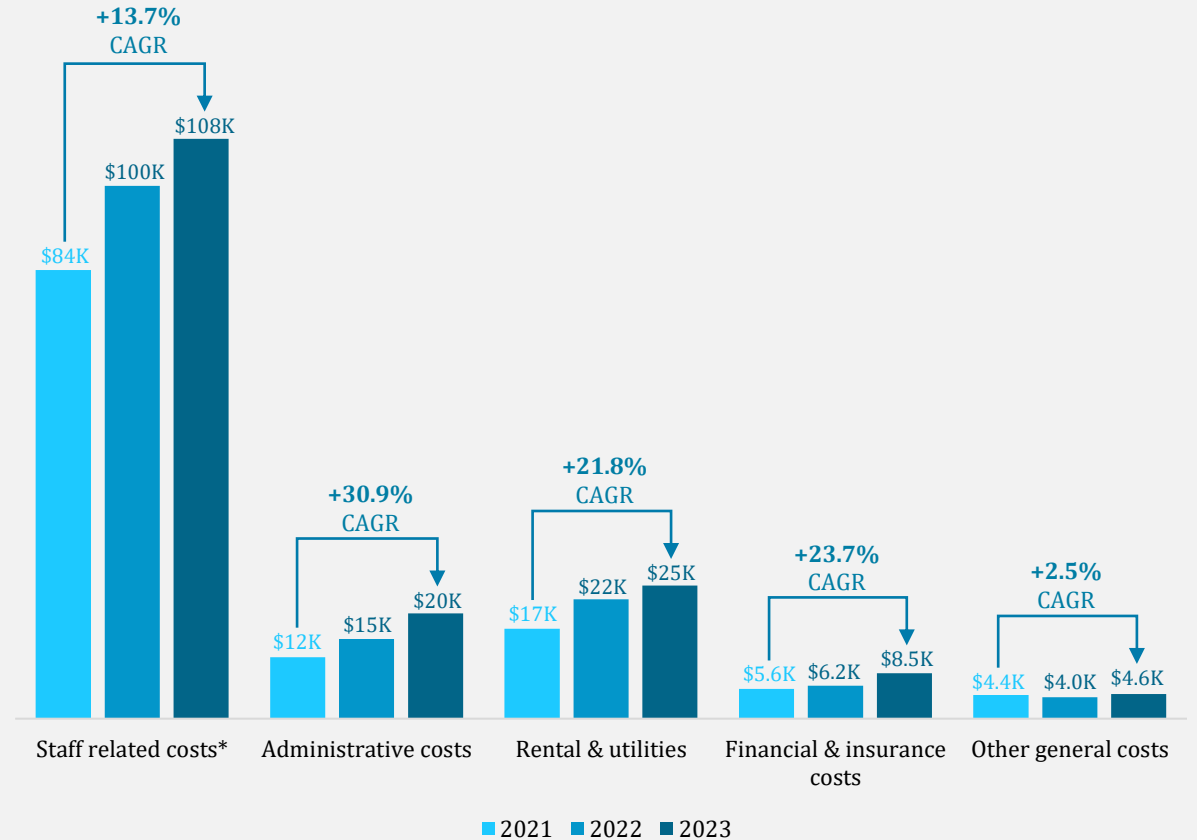


Main cost drivers:

- Staff related costs* (65.3% of total overhead costs)
- Rental & utilities (15.0% of total overhead costs)
- Administrative costs (11.9% of total overhead costs)

**It is assumed that the Salaries & CPD cost data provided does not include salaries or distributions paid to sole practitioners themselves*

Average overhead costs for sole practitioners



Common challenges faced

High increase in insurance costs

“Dramatic increases in professional indemnity insurance (100% increase in 6 years)”
“Not always cost effective – eg. Indemnity insurance is horrendous”

High compliance requirements

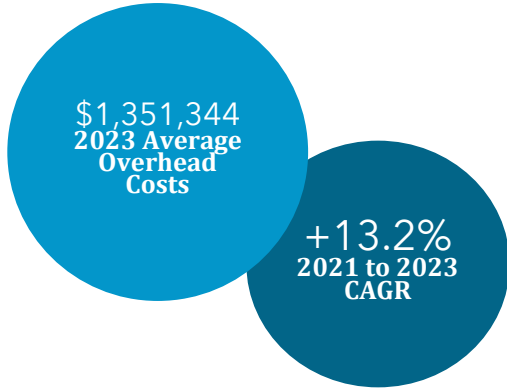
“Compliance takes up a lot of time which is not chargeable”
“...disproportionate amount of time spent on AML/CFT...”

Debtor collection

“finding clients and getting paid from clients”
“Getting private clients to pay”
“Securing payment from Legal Aid Services, Te Arawhiti and the Māori Land Court”

Total overhead costs

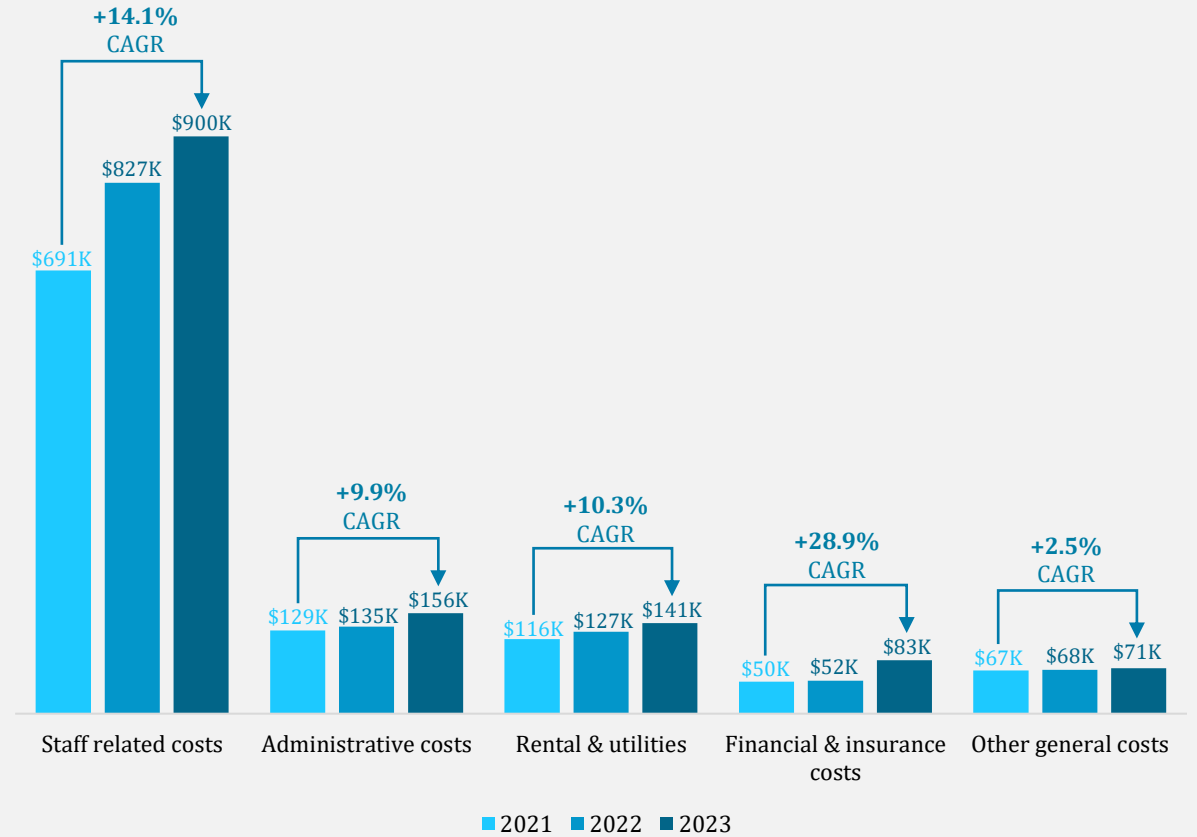
Small (2-19 lawyers)



Main cost drivers:

- Staff related costs (66.6% of total overhead costs)
- Administrative costs (11.6% of total overhead costs)
- Rental & utilities (10.4% of total overhead costs)

Average overhead costs for small law practices



Common challenges faced

Staffing challenges

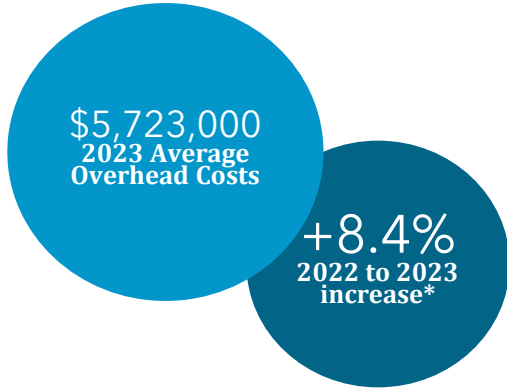
- “Finding the right legal staff, especially outside of the city”
- “Staffing particularly at intermediate and senior level”
- “Managing staff numbers to match demand”
- “Attracting and retaining quality legal staff”
- “Paying competitive salaries”

High compliance requirements

- “AML compliance”
- “Increased compliance burden, AML is a significant cost”
- “Keeping up to date with and complying with all changes to legislation”
- “...two routine external audits this year”

Total overhead costs

Medium (20-49 lawyers)



Main cost drivers:

- Staff related costs (76.1% of total overhead costs)
- Administrative costs (11.5% of total overhead costs)
- Rental & utilities (7.1% of total overhead costs)

Common challenges faced

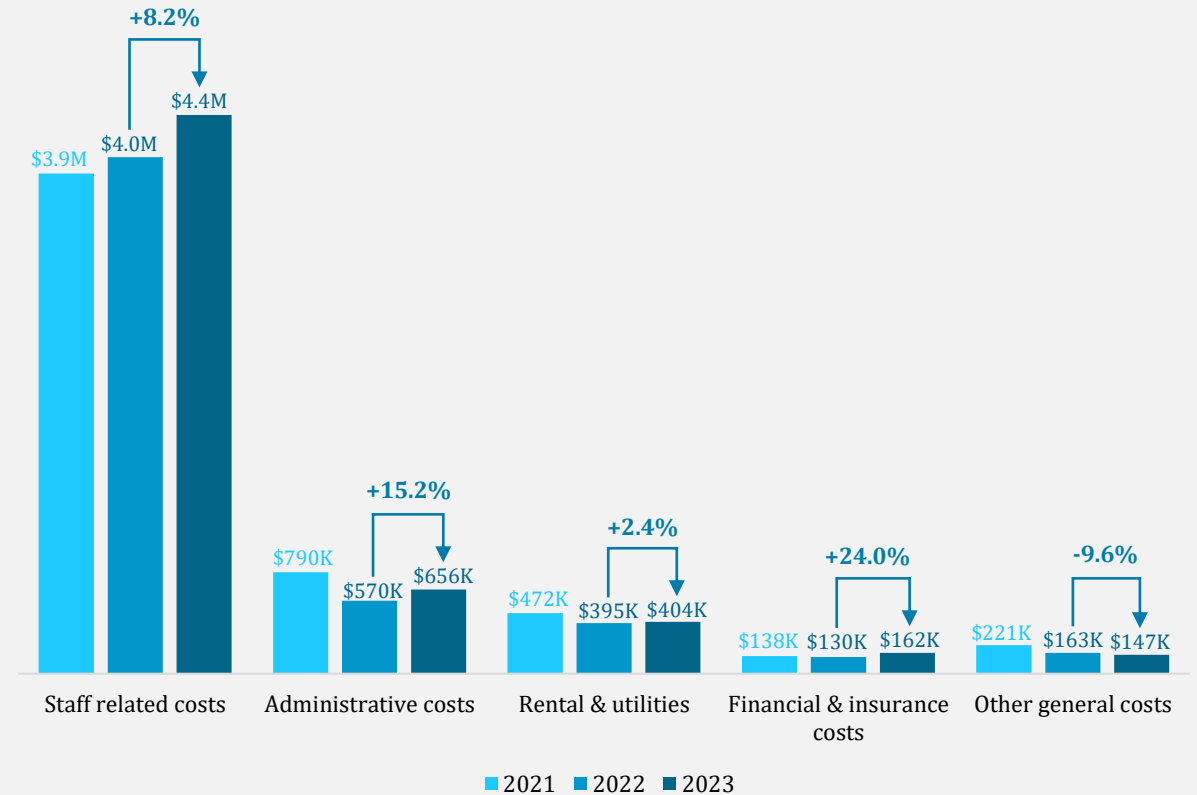
Staffing challenges

“Recruiting and retaining solicitors of appropriate ability and experience”
“Attracting and retaining staff”
“Finding relevant qualified legal staff in the 3-6 year band”
“Staff are a significant challenge as the work environment is changing”

High compliance requirements

“AML processes and practices including increased rules and regulations”
“Legislative constraints and associated costs are increasing, AML being a significant one”
“Cost and time involved with compliance and auditing”

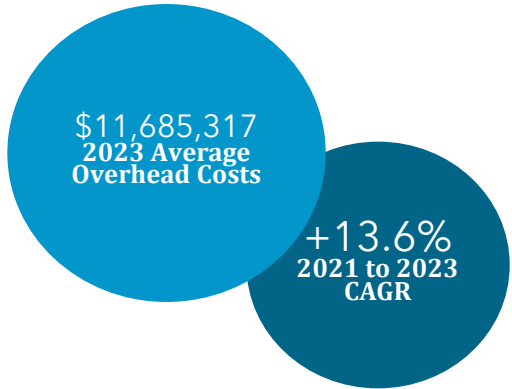
Average overhead costs for medium law practices



*CAGR for Medium Law Practices is calculated from 2022 to 2023 instead, as data points with zero values for 2021 have been excluded due to materiality of impact on the analysis

Total overhead costs

Large (50+ lawyers)



Main cost drivers:

- Staff related costs (67.7% of total overhead costs)
- Rental & utilities (12.3% of total overhead costs)
- Administrative costs (9.4% of total overhead costs)

Common challenges faced

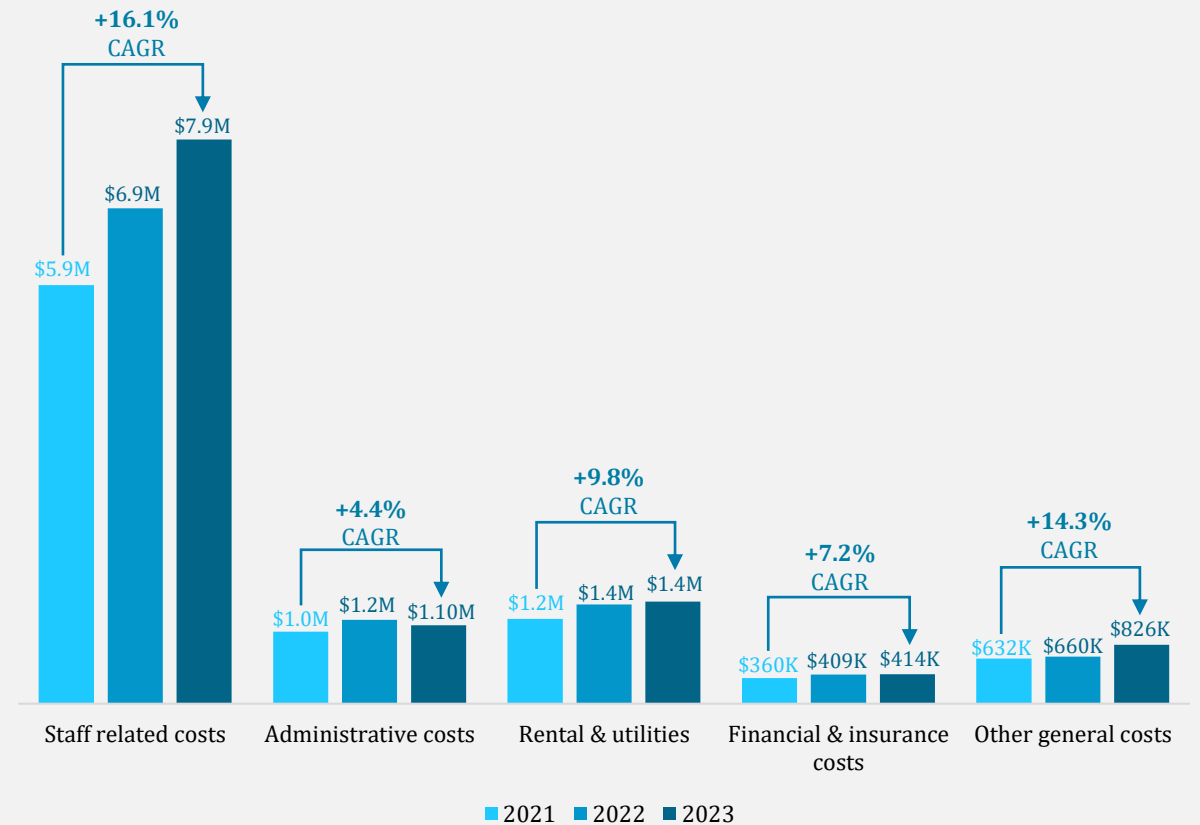
Staffing challenges

- “Recruiting experienced lawyers particularly in our provincial offices”
- “Shortage of skilled staff”
- “Leadership training and emphasis on managing performance”
- “Greater supply of quality experienced lawyers”

Process & Systems

- “Implementing good processes that are standard across the whole business”
- “Upgrading IT systems”
- “Implementation of standard processes across the firm”
- “Creating efficiencies in debtor processes”

Average overhead costs for large law practices

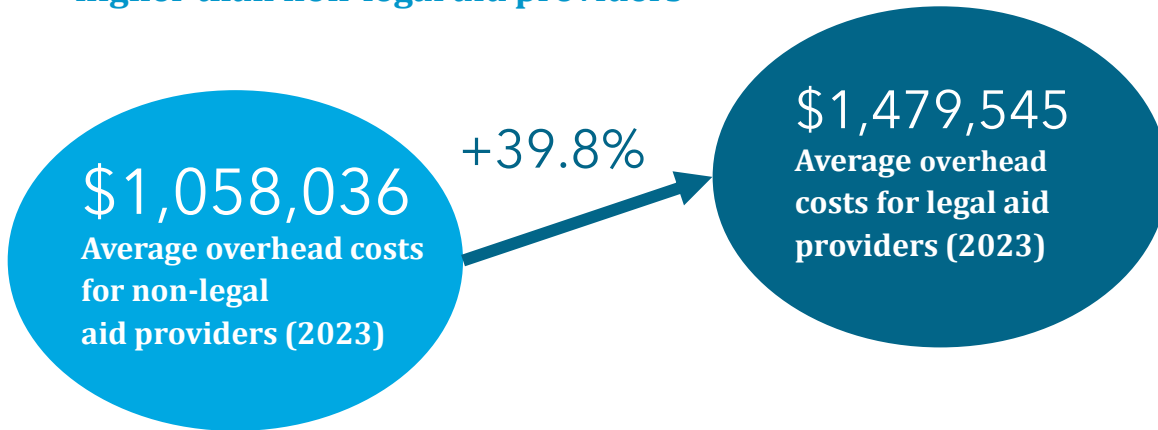




Cost of Providing Legal Aid

Total overhead costs - legal aid providers

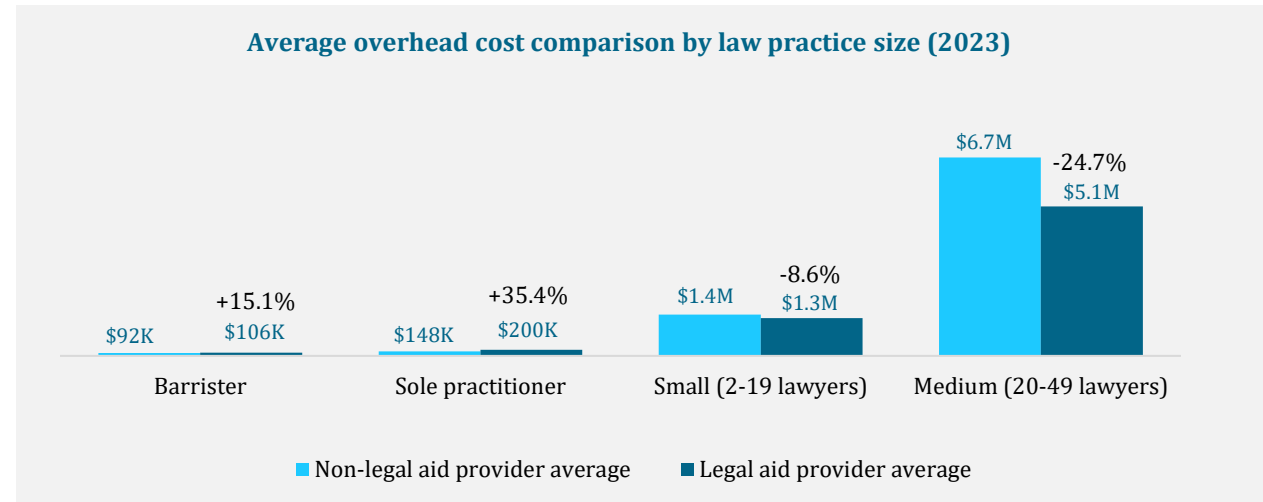
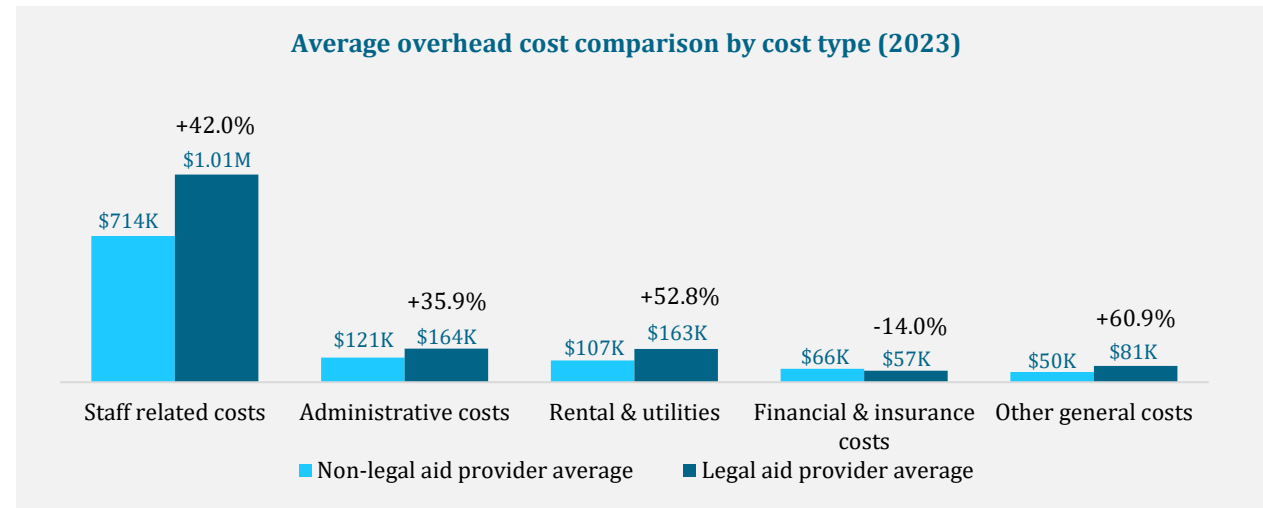
The average overhead costs for legal aid providers was 39.8% higher than non-legal aid providers



Legal aid providers spent 42.0% more on staff costs, with an average cost of \$1,014,728 per practice. They also tended to have higher administrative costs, which may reflect the additional processes and requirements of providing legal aid.

Costs for small sized practices who provide legal aid were approximately the same as non-legal aid providers. However, comments from survey respondents indicated that they were not adequately compensated for non-recoverable time spent on grant amendments, invoicing and liaising with legal aid clients who require more hands-on support than private clients.

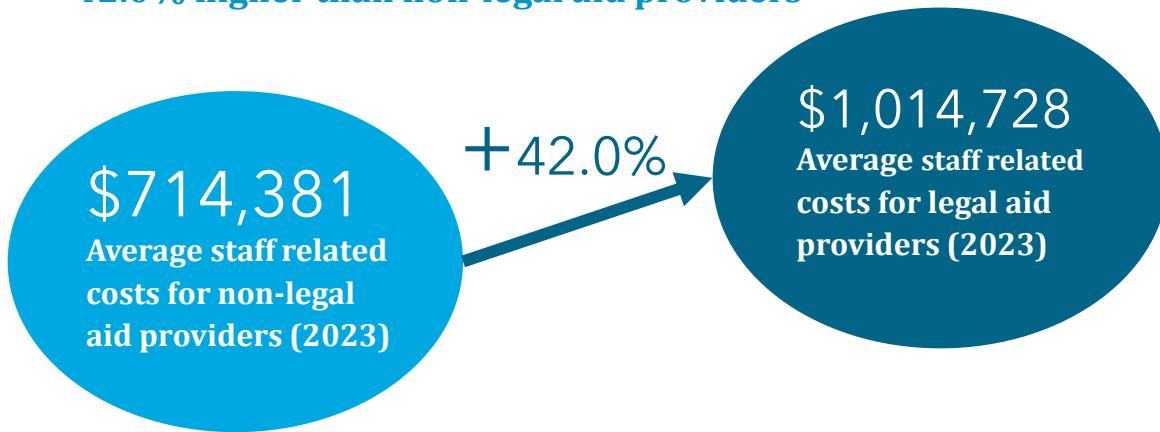
Average overhead costs for medium sized practices who provided legal aid was lower than non-legal aid providers. However, this may be impacted by their size difference. On average, medium sized legal aid providers were smaller with 49 employees vs 54 employees for non-legal aid providers.



*Cost comparison for large law practices who provide legal aid vs those that don't is not available as all large law practices who responded to the survey are legal aid providers

Staff related costs - legal aid providers

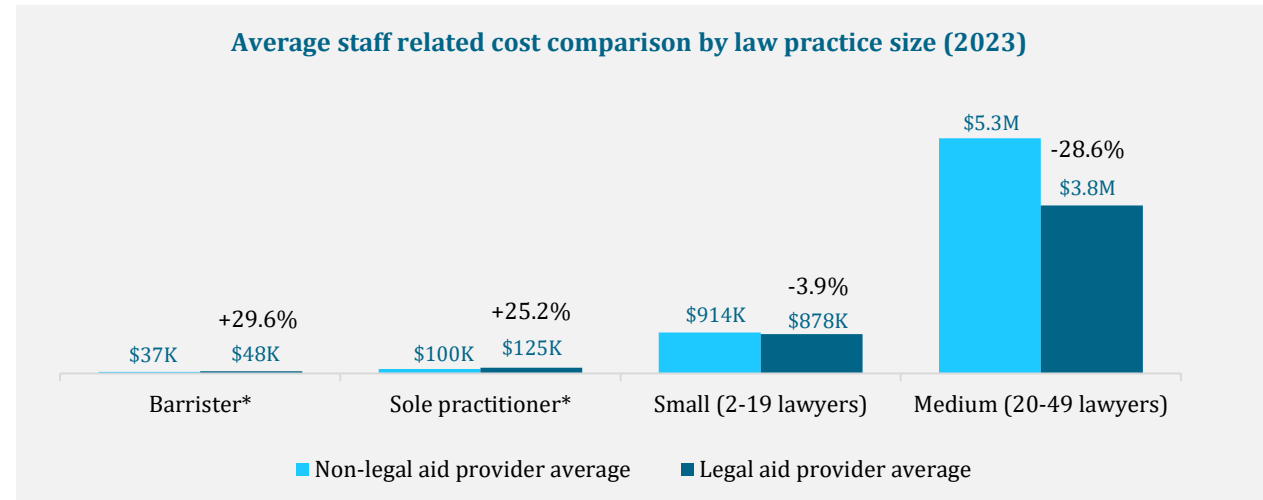
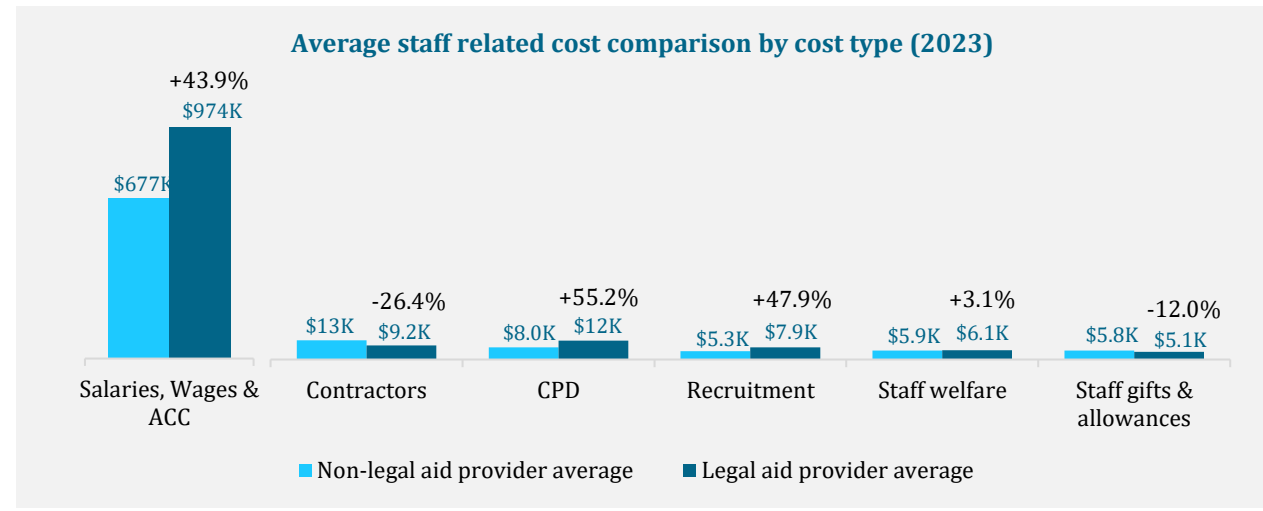
The average staff related costs for legal aid providers was **42.0% higher** than non-legal aid providers



Legal aid providers spent 43.9% more on salaries, wages and ACC, with an average cost of \$974,142 per practice. They also tended to spend more on continuing professional development (“CPD”) and recruitment. These higher staff costs may reflect the need for legal aid providers to hire and retain staff at the right experience level needed to navigate the complexities of legal aid cases.

Overall staff costs for small sized legal aid providers were lower than non-legal aid providers. However, all staff related cost types other than gifts and allowances have increased annually from 2021 to 2023. In addition to increasing salaries and wages, notable cost increases were related to CPD, recruitment and staff welfare.

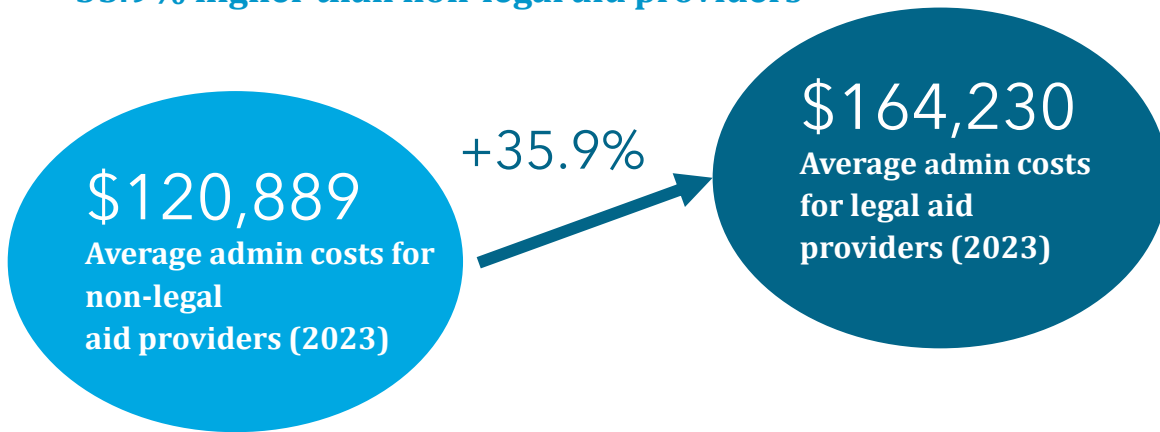
Medium sized legal aid providers tended to be smaller and had fewer employees, resulting in a lower average staff cost vs non-legal aid providers.



*It is assumed that the staff related cost data provided does not include salaries or distributions paid to barristers and sole practitioners themselves
 *Cost comparison for large law practices who provide legal aid vs those that don't is not available as all large law practices who responded to the survey are legal aid providers

Administrative costs – legal aid providers

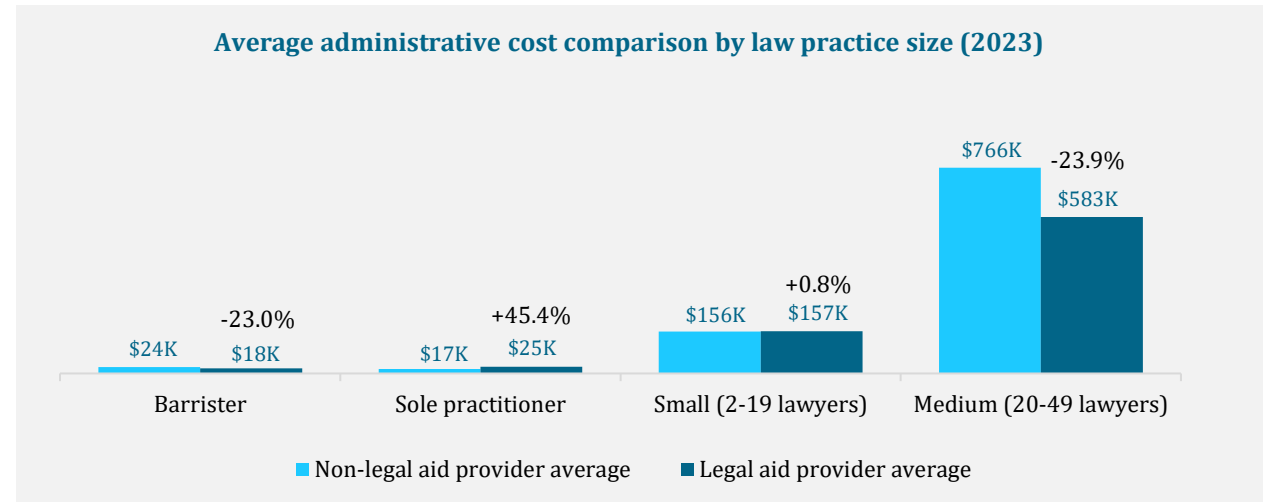
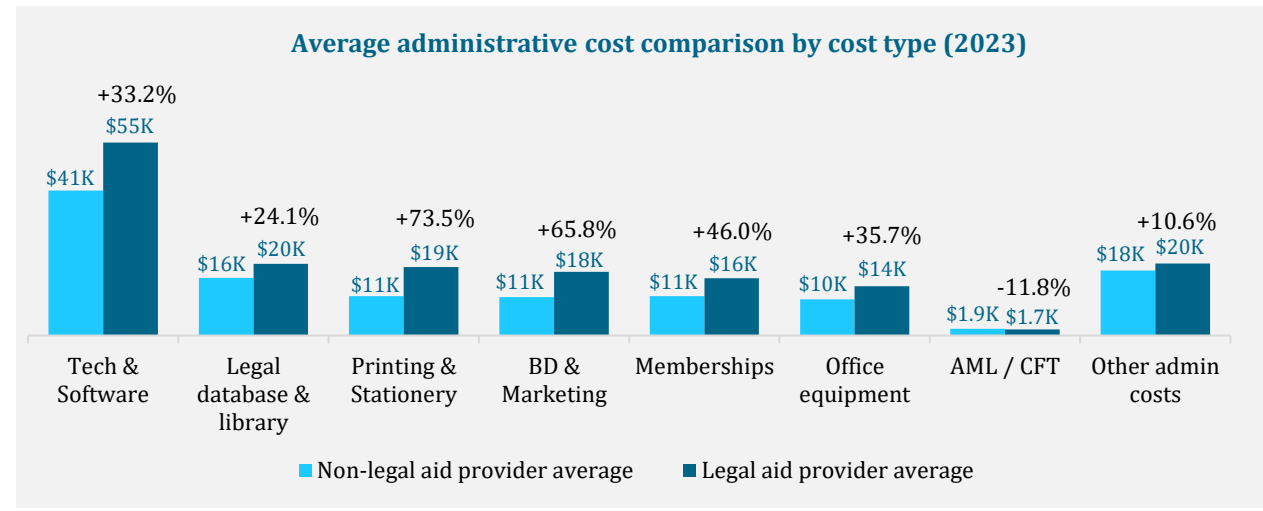
The average administrative costs for legal aid providers was 35.9% higher than non-legal aid providers



Legal aid providers spent 33.2% more on technology and software, with an average cost of \$54,504 per practice. Other significant administrative cost differences between legal aid providers and non-legal aid providers were costs for printing and stationery and business development.

Administrative costs were higher for all law practices except medium sized practices. Sole practising legal aid providers spent 45.4% more on administrative costs than non-legal aid providers. They spent twice as much on technology and software and three times as much on legal databases and libraries. Printing and stationery costs were also much higher for sole practising legal aid providers.

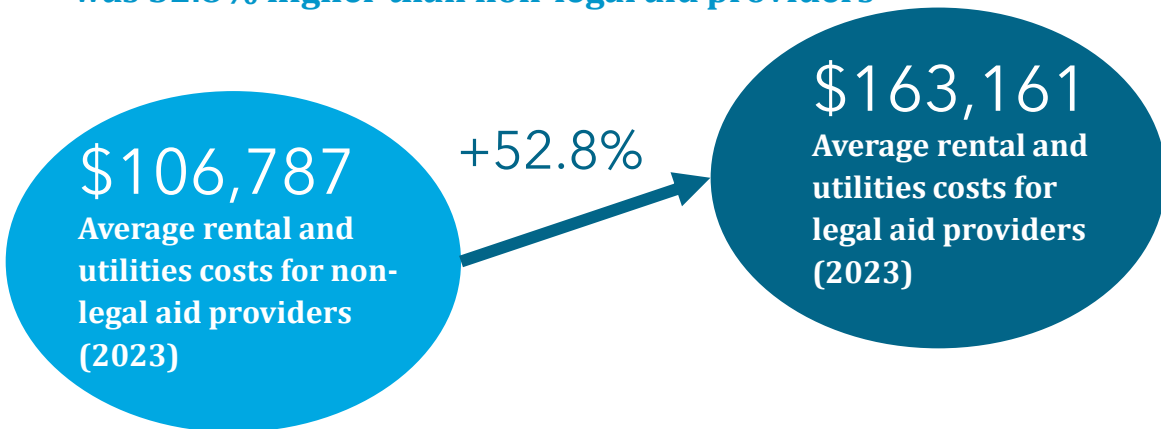
Medium sized legal aid providers had a lower average administrative cost, but spent significantly more on business development than non-legal aid providers.



*Cost comparison for large law practices who provide legal aid vs those that don't is not available as all large law practices who responded to the survey are legal aid providers

Rental and utilities costs – legal aid providers

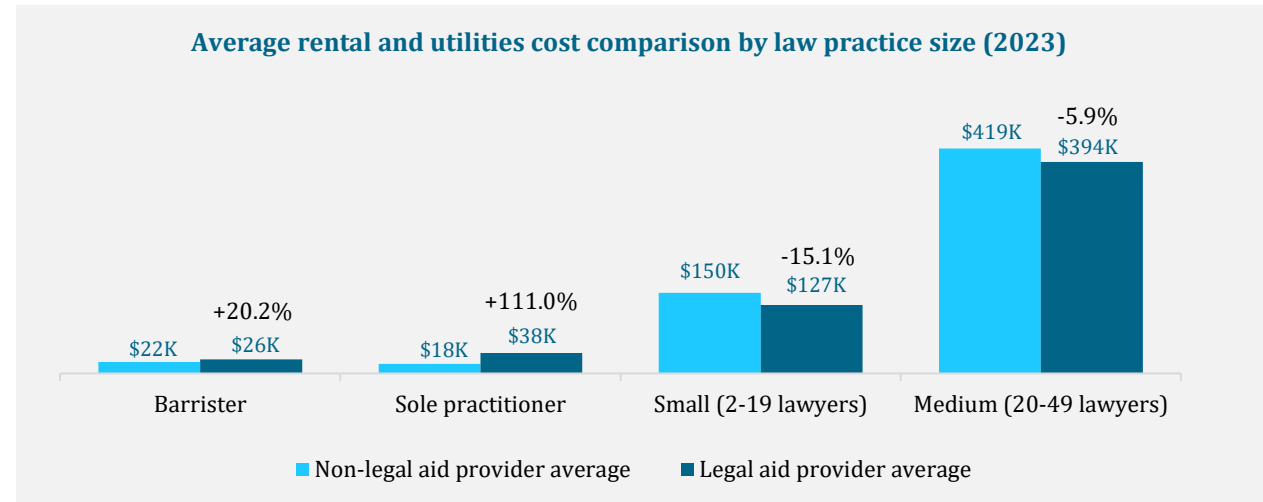
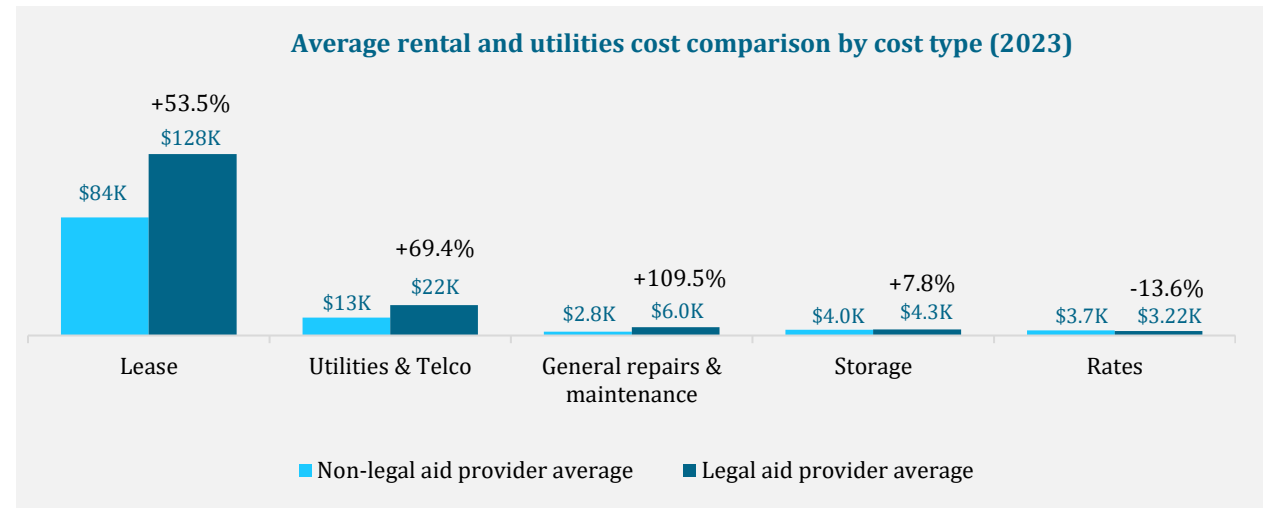
The average rental and utilities costs for legal aid providers was 52.8% higher than non-legal aid providers



Legal aid providers spent 53.5% more on their lease costs, with an average cost of \$128,206 per practice. Their utilities and telecommunications cost was 69.4% higher, averaging \$21,496 per practice. This may be due to having a larger average practice size (17.5 staff) compared to non-legal aid providers (8.5 staff).

Average lease costs for sole practising legal aid providers were double that of their non-legal aid provider counterparts. All other rental and utilities costs were also higher for legal aid providers, except for storage. However, this may have been due to difference in the categorisation of storage costs. For example, some storage costs may be already included in total lease costs.

Barrister legal aid providers had higher lease costs but lower utilities and telecommunications costs. Small and medium sized legal aid providers were the opposite. They tended to have lower lease costs than non-legal aid providers, but higher utilities and telecommunications costs.



*Cost comparison for large law practices who provide legal aid vs those that don't is not available as all large law practices who responded to the survey are legal aid providers



Productivity

Average productivity of law practices

56.6%

Average utilisation rate per practising lawyer 2023

898

Average billable hours per practising lawyer 2023

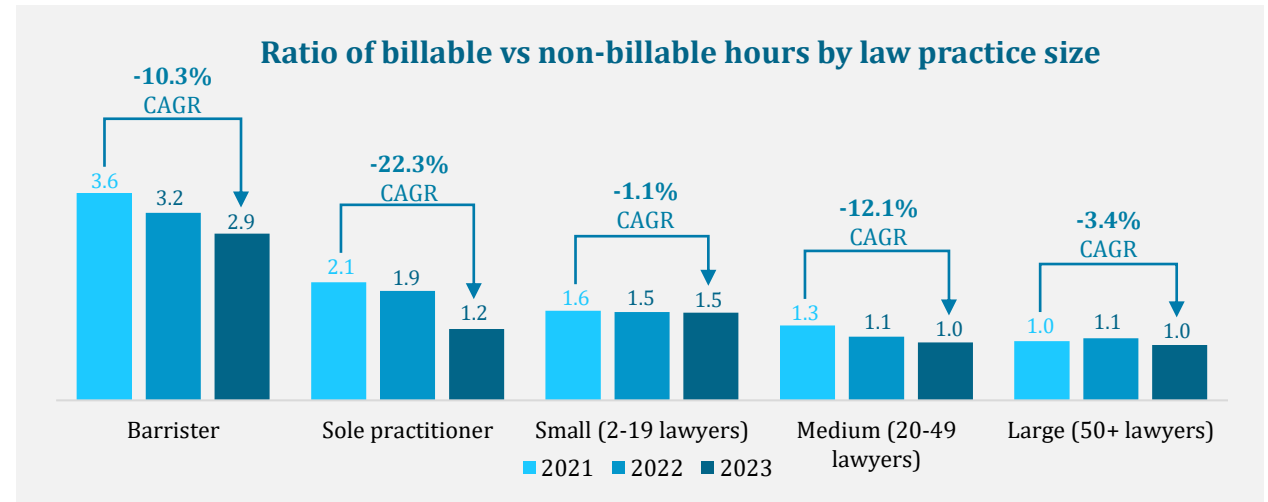
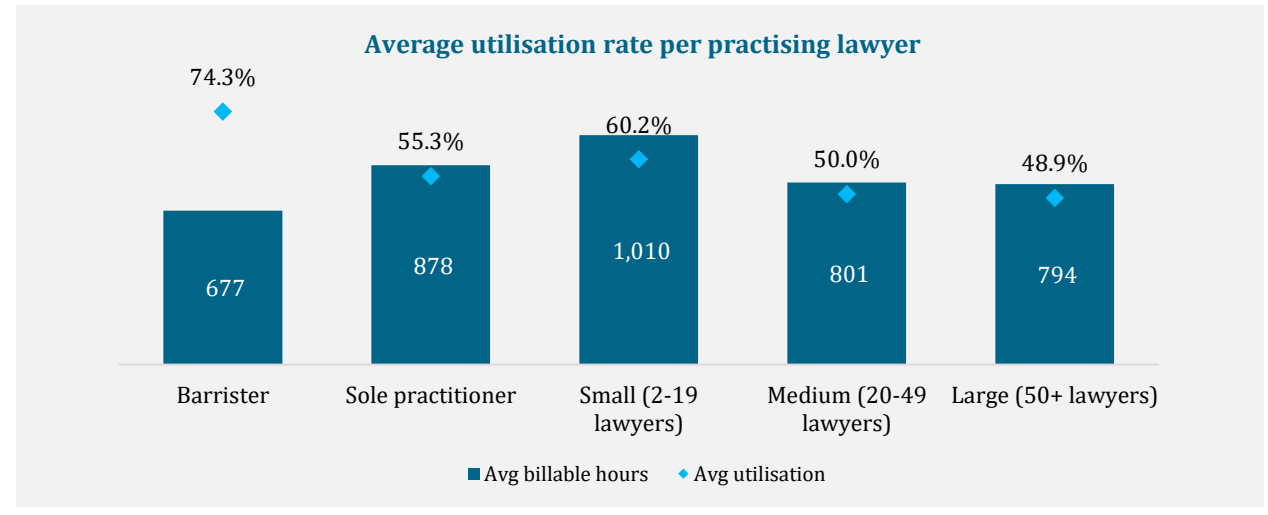
-4.2%

Decline in ratio of billable vs non-billable hours from 2021 to 2023

The average utilisation rate shown here was calculated by comparing billable hours against the total working hours (ie. the sum of billable and non-billable hours). Examples of non-billable work include pro bono work, business administration and development, staff training and management, cashflow management, participation in legal industry committees and activities, AML/CFT compliance.

On average, practising lawyers in New Zealand had an average utilisation rate of 56.6% which equated to an average of 898 billable hours annually. Barristers and lawyers in small practices tended to have a higher than average utilisation rate. Lawyers in medium and large practices had the lowest relative utilisation rate. However this measure does not take into account factors such as fee rates or the nature of the billable client work.

The ratio of billable to non-billable hours has decreased over the last three years from an average of 1.42 billable hours for every hour of non-billable work in 2021 to 1.30 in 2023. This downward trend is similar for all law practice sizes, which may suggest that law practices are facing increasing productivity challenges.



*Productivity measures are an estimate, as not all law practices accurately monitor or track billable and non-billable hours

Average productivity of legal aid providers

53.3%

Average utilisation rate per practising lawyer 2023

807

Average billable hours per practising lawyer 2023

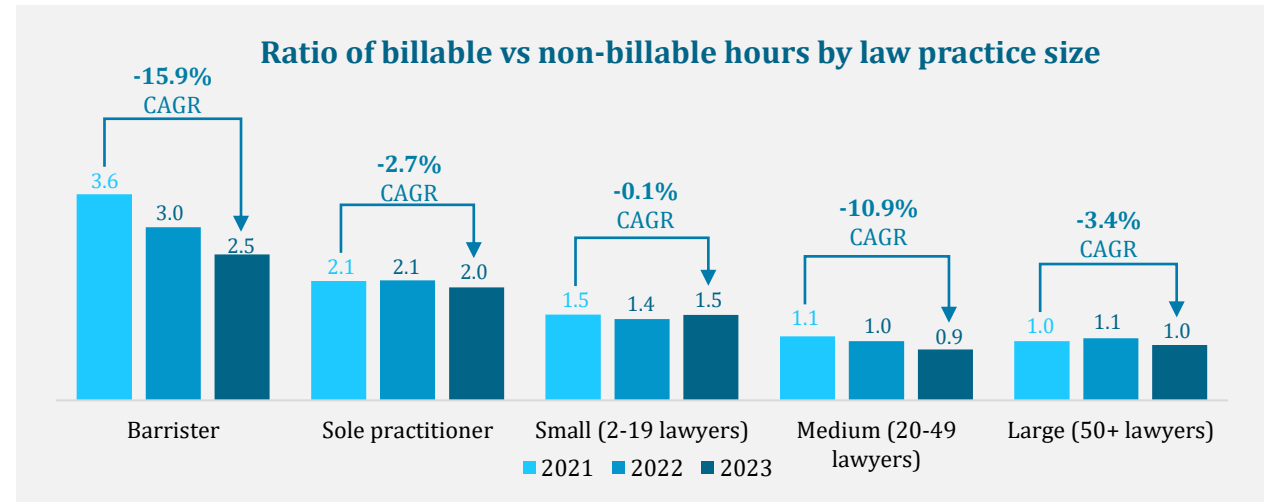
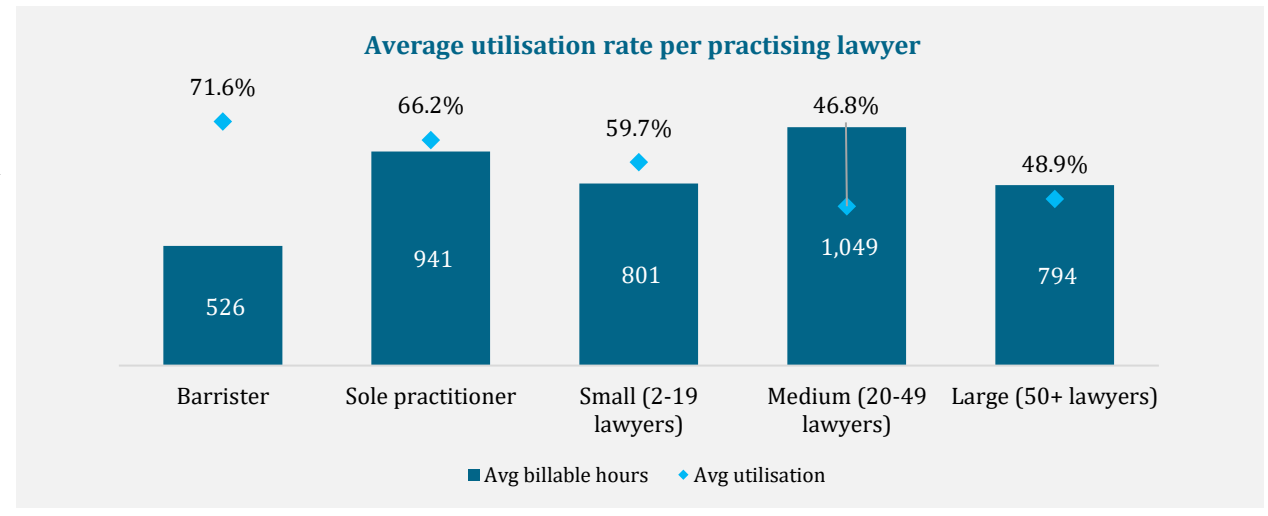
-3.9%

Decline in ratio of billable vs non-billable hours from 2021 to 2023

On average, practising lawyers who provided legal aid in New Zealand had an average utilisation rate of 53.3% which equated to an average of 807 billable hours annually. This was lower than the average utilisation rate for all law practices (56.6%), and that of non-legal aid providers (61.0%).

Medium and large practices who provided legal aid had a lower than average utilisation rate. By contrast smaller practice sizes, barristers and sole practitioners, had a higher than average utilisation rate. However this measure does not take into account factors such as the proportion of legal aid vs private client work.

The ratio of billable to non-billable hours for legal aid providers has decreased over the last three years from an average of 1.24 billable hours for every hour of non-billable work in 2021 to 1.14 in 2023. Despite having the highest utilisation rate amongst all legal aid providers, the ratio of billable to non-billable hours for barristers has declined the fastest over the last three years. Comments from survey respondents indicated that this may be due to onerous legal aid processes around forms, invoicing and grant amendments.



*Productivity measures are an estimate, as not all law practices accurately monitor or track billable and non-billable hours

Average productivity of non-legal aid providers

61.0%

Average utilisation rate per practising lawyer 2023

1,031

Average billable hours per practising lawyer 2023

-3.5%

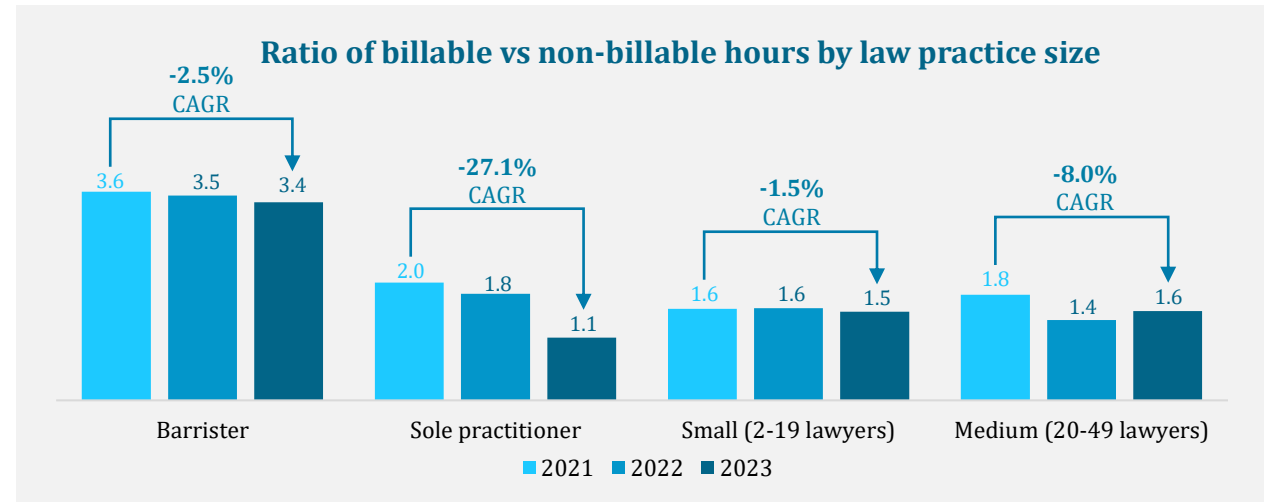
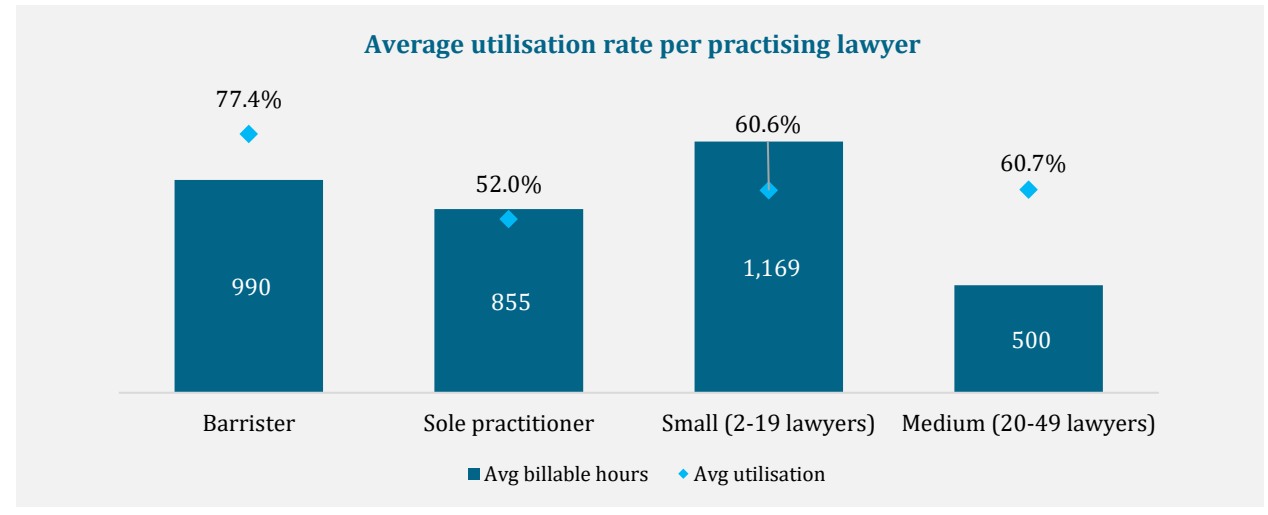
Decline in ratio of billable vs non-billable hours from 2021 to 2023

On average, practising lawyers in New Zealand who provided a service only to private clients had an average utilisation rate of 61.0% which equated to an average of 1,031 billable hours annually. This was higher than the average utilisation rate for all law practices (56.6%), and that of legal aid providers (53.3%).

Amongst non-legal aid providers, barristers were the only practice size that had a higher than average utilisation rate. Sole practitioners on the other hand, had the lowest utilisation rate and their ratio of billable hours have declined fastest over the last three years.

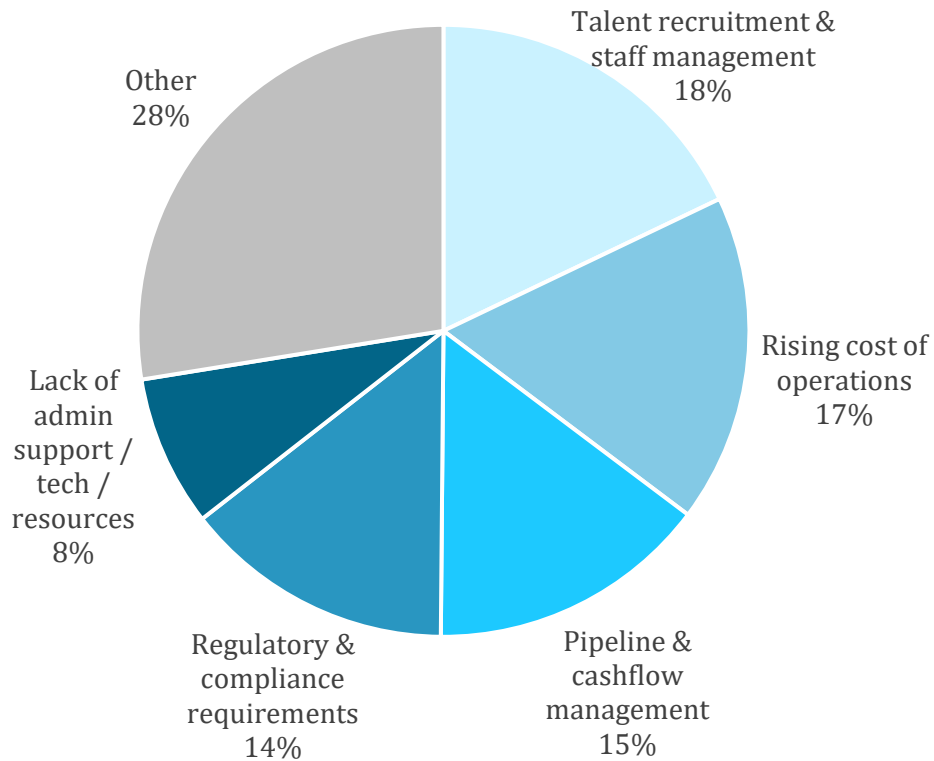
Survey respondents who were sole practitioners highlighted regulatory and compliance requirements as well as pipeline and cashflow management as their biggest operational challenges.

The ratio of billable to non-billable hours for non-legal aid providers has decreased over the last three years from an average of 1.68 billable hours for every hour of non-billable work in 2021 to 1.56 in 2023. However, the rate of decline is slightly slower than for their legal aid counterparts.



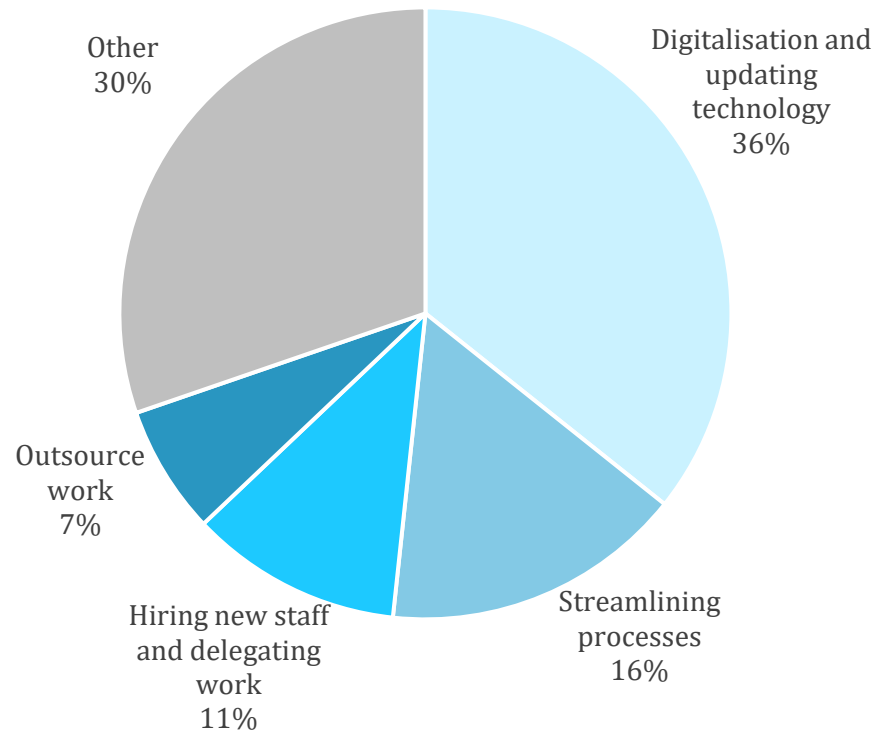
*Productivity measures are an estimate, as not all law practices accurately monitor or track billable and non-billable hours

Operational challenges impacting practice management



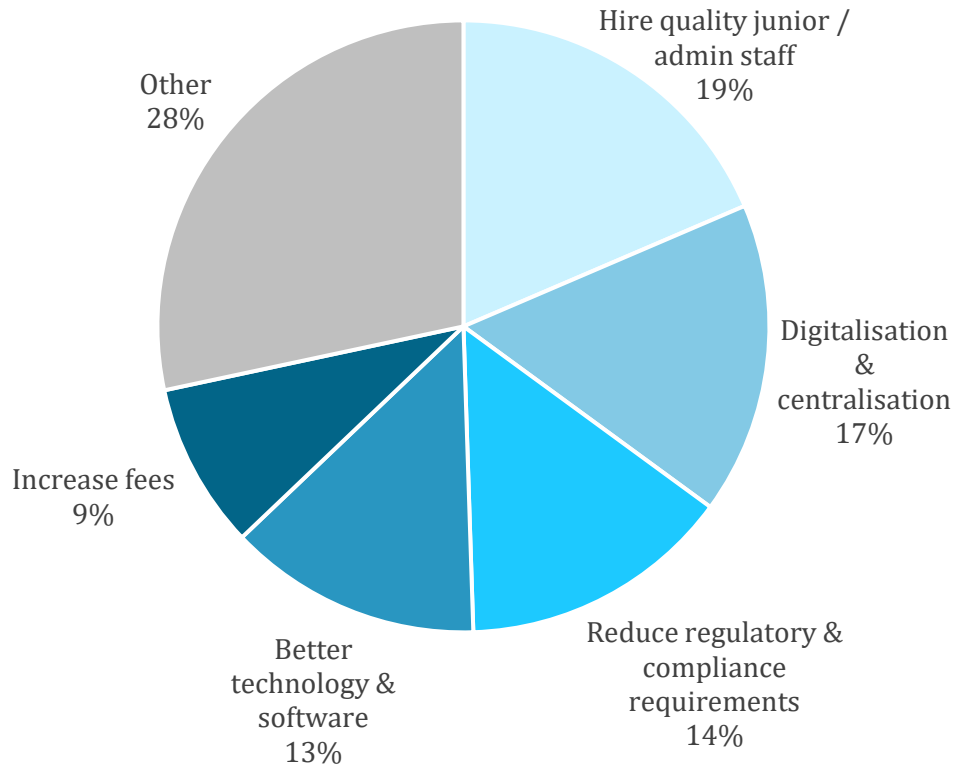
Operational Challenge	Comments from survey respondents
Talent recruitment & staff management	<ul style="list-style-type: none"> “Recruiting and retaining solicitors of appropriate ability and experience” “Shortage of family lawyers” “Recruiting experienced lawyers particularly in our provincial offices” “Managing staff stress and interpersonal conflicts” “Career and rewards progression management of upwardly mobile staff under financial and lifecycle time pressures” “Acquiring good staff and managing staff to work efficiently and profitably”
Rising cost of operations	<ul style="list-style-type: none"> “The cost of keeping up with technology and the cost of accessing legal databases is a significant financial challenge” “Big increases in staff wages to keep pace with inflation and market” “Cost of professional indemnity insurance” “Costs (lease, insurance, office supplies, wages requirements) are rising but Legal Aid and Ministry of Justice payments are not keeping up with the cost increases”
Pipeline & cashflow management	<ul style="list-style-type: none"> “Reduced work in some specialised areas ie. conveyancing due to inflation” “Maintaining a consistent revenue stream” “Debtors, as well as processing timeframe getting longer” “Getting paid on time or timely for work”
Regulatory & compliance requirements	<ul style="list-style-type: none"> “AML / CFT compliance” “AML processes and practices including increased rules and regulations” “Legislative constraints and associated costs are increasing, AML being a significant one” “Compliance – mainly AML”
Lack of administrative support / technology / resources	<ul style="list-style-type: none"> “Doing the work and also the administration required to operate the business” “Keeping up with technology” “Process improvement and technology improvements with a workforce who is not used to change”

Initiatives implemented to improve efficiency & productivity

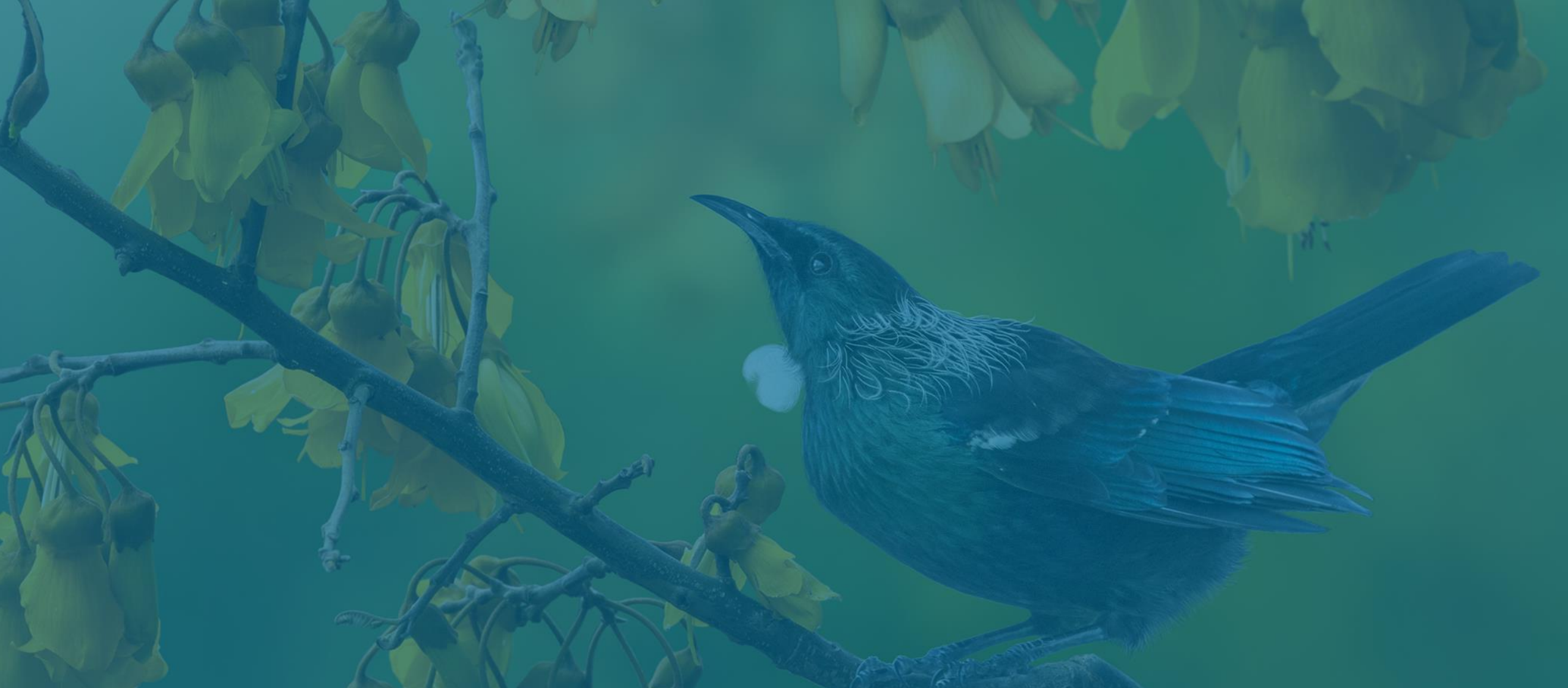


Initiatives implemented	Comments from survey respondents
Digitalisation and updating technology	<ul style="list-style-type: none"> “Legal management system, templates, dictation, moving to electronic files exclusively” “New practice management software” “Used digital tools to improve timesheets and invoicing” “Aunoa web based invoicing system” “Leveraging technology / software for repetitive tasks and record keeping / compliance”
Streamlining processes	<ul style="list-style-type: none"> “Creating efficiencies in debtor processes and the collection of overdue accounts” “Streamline file management processes” “We have improved firm forms and introduced workflow to be used with our practice management system”
Hiring new staff and delegating work	<ul style="list-style-type: none"> “Streamlining legal aid administration work and delegating much of that work” “Employed a business / practice manager” “We have hired two lawyers and a law clerk in the past 3 years in order to expand our client base”
Outsource work	<ul style="list-style-type: none"> “I have been using contract lawyers occasionally to assist with junior tasks (legal research and minor appearances” “AML compliance independent advisor used” “Use of outsourcing or third party providers”
Other	<ul style="list-style-type: none"> “Increase private fees as much as possible “while ensuring we are competitive with the market” “Work more with private clients and less with legal aid clients” “Leadership training and emphasis on managing performance”

Changes which would have the biggest operational impact

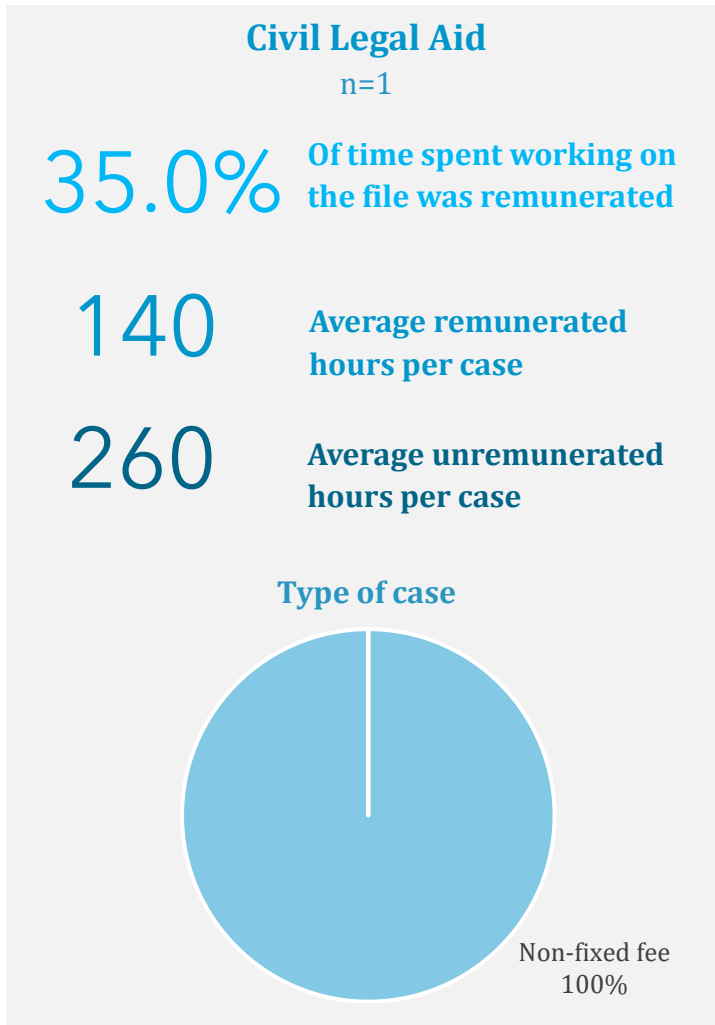


Impactful changes	Comments from survey respondents
Hire quality junior or administrative staff	<ul style="list-style-type: none"> “Admin staff, which are difficult to afford when a large part of the practice is on legal aid or lawyer for child rates” “Greater supply of quality experienced lawyers” “Ability to easily recruit when required” “Being able to employ suitably qualified persons to assist with workload” Getting someone on board who can use my practise management software better than me and unlock the automation tools”
Digitalisation and centralisation	<ul style="list-style-type: none"> “Having one system that worked for all areas of practice” Being able to share costs with other sole practitioners” “Centralised AML – so it does not need to be repeated by banks, accountants, lawyers, real estate agents. If we could easily access other entities’ AML that would save a lot of time and cost”
Reduce regulatory and compliance requirements	<ul style="list-style-type: none"> “Lowering stringent regulatory compliance” “Less compliance and unnecessary compulsory continuing education” “Less time on regulatory compliance admin – it causes cost and distraction from what we actually want to do (providing legal services to our clients), and adds no value to what we are doing”
Better technology and software	<ul style="list-style-type: none"> “Affordable practice management software....there is a high cost barrier to getting good software” “Further adoption of AI and technology” “Long-term continuing with the automation of the office”
Increase fees (private clients and legal aid)	<ul style="list-style-type: none"> “Legal aid payment that is adjusted for the increase in inflation over the past 12 years” “Higher fee income” “A higher income to enable me to obtain more support (PA, junior, accounting”



Operational Needs of Providing Legal Aid

Case study - Civil Legal Aid



\$21,600 was invoiced for a civil legal aid case

This was in relation to a judicial review case, where no specialist reports were required. In total, the legal aid provider spent 400 hours working on this civil legal aid case which included both remunerable and non-remunerable time.

Of the total 400 hours worked, 260 hours were unremunerated

Once the unremunerated hours are factored in, the actual hourly rate received by the legal aid provider for this particular civil legal aid case is \$54.00. This is lower than the hourly rates provided by the Ministry of Justice for civil legal aid*. For example, remuneration for an FC1 civil case worked on by a Level 1 experience lawyer should theoretically be almost double at \$103.00 per hour.

In addition to unremunerated time, the legal aid provider was also unable to fully recover disbursement costs

For this particular civil legal aid case, there were two disbursements with a total value of \$1,800 which could not be recovered through the legal aid process.

Source: Justice.govt. (2023). Family or civil fee rates

Case study - Criminal Legal Aid

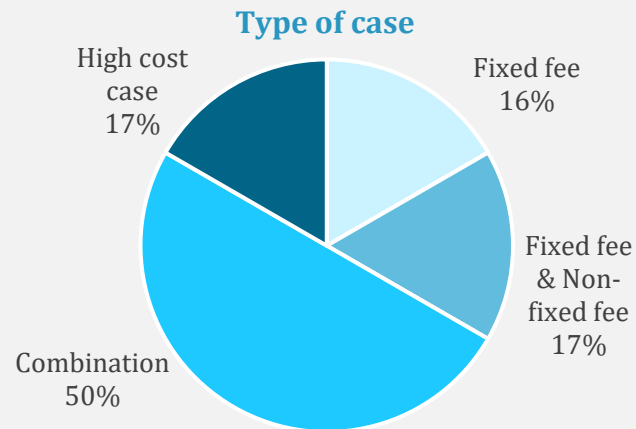
Criminal Legal Aid

n=6

72.2% Of time spent working on the file was remunerated

123 Average remunerated hours per case

47 Average unremunerated hours per case



\$15,351

Average amount invoiced per case

\$89.94

Average hourly rate, inclusive of unremunerated time

\$2,000

Unremunerated disbursement costs

On average, the remuneration received for a criminal legal aid case was \$15,351

The lowest remuneration rate per hour related to a combination* case, with the highest remuneration rate per hour relating to fixed fee/non-fixed fee case.

**Combination cases involved a mix of fixed fee, fixed-fee plus, non-fixed fee, and high-cost case. The hourly rates were extrapolated from the total invoice amount for each case and the total number of hours worked on that case.*

'Combination' type criminal legal aid cases have the highest ratio of unremunerated hours at 52.7% unremunerated time

Once the unremunerated hours are factored in, the actual hourly rate is \$89.94. This is lower than the hourly rates provided by the Ministry of Justice for criminal legal aid*. For example, a PAL1 criminal case worked on by a Level 1 experience lawyer should theoretically be remunerated at \$103.00 per hour.

Only the 'High-Cost' type criminal legal aid case had unremunerated disbursements

The legal aid provider who worked on a 'High Cost' criminal legal aid case had ten disbursements with a total value of \$2,000 which could not be recovered through the legal aid process.

Source: Justice.govt. (2023). Criminal fee rates

Case study - Family Legal Aid

Family Legal Aid

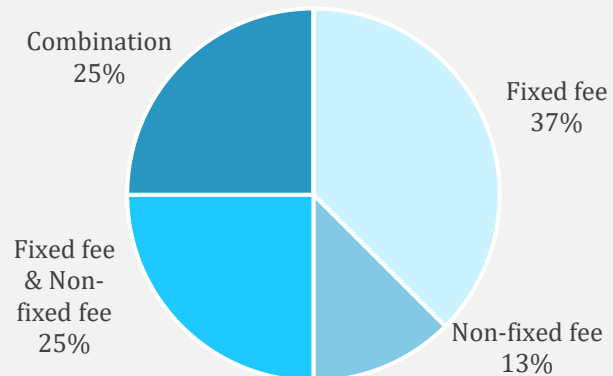
n=8

85.2% Of time spent working on the file was remunerated

104 Average remunerated hours per case

18 Average unremunerated hours per case

Type of case



\$16,371

Average amount invoiced per case

\$137.42

Average hourly rate, inclusive of unremunerated time

\$0

Unremunerated disbursement costs

On average, the remuneration received for a family legal aid case was \$16,371

'Fixed Fee' type of family legal aid cases have the highest remuneration per hour worked at \$186.15. Other types of family legal aid cases have a similar rate and range between \$128.33 to \$137.50 per hour.

Despite having the highest hourly rate, 'Fixed Fee' family legal aid cases also have the highest ratio of unremunerated hours at 21.6%

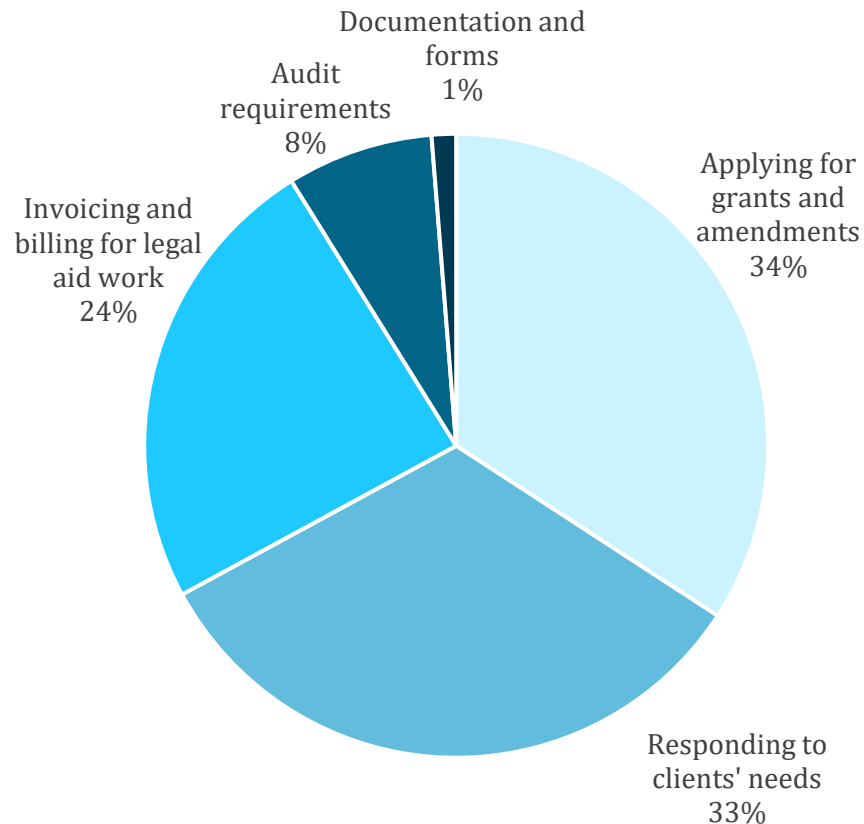
Once the unremunerated hours are factored in, the actual hourly rate is \$137.42. This is comparable to the midrange of Ministry of Justice's hourly rates for family legal aid*. It is similar to the hourly rate of a FC2 case worked on by a Level 2 experience lawyer or a FC3 case worked on by a Level 1 experience lawyer.

Family legal aid providers have leveraged their experience with the legal aid system to optimise their operations

Family legal aid providers appear to be able to better recover their time and disbursements due to investment in their systems and usage of prior cases as an evidence base for future grants and amendment applications. However, they too experience the cost pressures of low fixed fee rates and challenges of working with clients with complex issues.

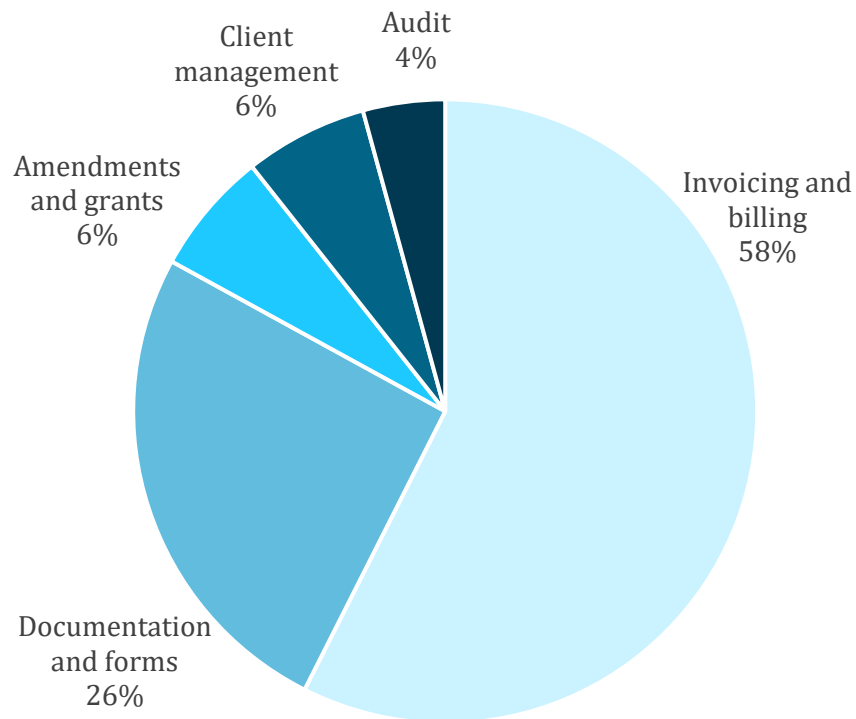
Source: Justice.govt. (2023). Family or civil fee rates

Operational challenges of providing legal aid



Operational Challenge	Comments from survey respondents
Applying for grants and amendments	<ul style="list-style-type: none"> • “Checking the grants, ensuring the ATGs are filed, writing to legal aid and seeking funding” • “Keeping on top of legal aid grants, seeking amendments” • “Completing application and amendment to grant forms takes up valuable time in having to do so, which detracts from our role in providing legal advice”
Responding to clients' needs	<ul style="list-style-type: none"> • “Legal aid clients can be more difficult to deal with than usual clients and require more explanation / time” • “Generally we experience legal aid clients need a lot more communication and management. Their files are more complex so take more time and are in court longer than private cases” • “Clients require more hand-holding than private clients, and often need more in-person support from me”
Invoicing and billing for legal aid work	<ul style="list-style-type: none"> • “A lot more time spent invoicing and justifying invoices” • “Invoice templates don't generate automatically like our private invoices do” • “6 month billing rule results in the need for regular billing of small amounts” • “Admin of special invoicing processes”
Audit requirements	<ul style="list-style-type: none"> • “Time preparing files for audit that is non-chargeable” • “Regular audits and then appealing the results of the audits” • “Extra administration of audits”
Documentation and forms	<ul style="list-style-type: none"> • “The initial work to confirm that the client is eligible for legal aid” • “Preparing the legal aid application form” • “First we have to make a formal application to get aid and provide information. It is quite common for Legal Aid to write back and ask for additional information”

Additional processes and systems needed to support legal aid



Additional processes & systems

Comments from survey respondents

Invoicing and billing	<ul style="list-style-type: none"> • “We can’t use generic legal practice software because of legal aid billing requirements” • “Billing has to be done manually as our client database doesn’t work cohesively with what is required for billing” • “Different billing system – meaning we have to create two invoices” • “Limitations on disbursements and the requirement of having to apply for more funding can incur time delays for legal aid clients and unrecoverable time for clients”
Documentation and forms	<ul style="list-style-type: none"> • “Translation services for documents, letters” • “Different forms and use of websites” • “Specific legal aid forms are required to be completed as well as particular time frames that need to be adhered to” • “More complex letters of engagement”
Amendments and grants	<ul style="list-style-type: none"> • “It requires different monitoring processes around WIP vs funding in comparison to a private client” • “Significant time is spent applying for legal aid grants (for civil legal aid) and amendments to grants (for both civil and criminal legal aid)”
Client management	<ul style="list-style-type: none"> • “Legal aid doesn’t pay for us to email, send letters or discuss things over the telephone. Therefore this has to be kept to a minimum” • “Most legal aid clients require more discussion in terms of instructions... And require face-to-face contact to update instructions”
Audit	<ul style="list-style-type: none"> • “Auditing of files” • “Regular auditing”

Ngā mihi





Disclaimer and Inherent Limitations

KPMG's report dated March 2024 was prepared by KPMG, a New Zealand partnership (KPMG), solely in accordance with the terms set out in the engagement letter agreed between KPMG and New Zealand Law Society (Client, you), and for no other purpose. Other than KPMG's responsibility to the Client, none of KPMG, any entities directly or indirectly controlled by KPMG, or any of their respective members or employees undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility. KPMG and its controlled entities expressly disclaim any and all liability for any loss or damage of whatever kind to any person acting on information contained in KPMG's report, other than the Client.

KPMG's report is based upon information provided by the Client. KPMG have considered and relied upon this information. KPMG believe that the information provided was reliable, complete and not misleading and has no reason to believe that any material facts have been withheld. The information provided has been evaluated through analysis, enquiry and review for the purpose of KPMG's report. However, KPMG does not warrant that these enquiries have identified or verified all of the matters which an audit, extensive examination or due diligence investigation might disclose. Nothing in this report constitutes legal advice or legal due diligence and no one should act upon any such information without seeking independent legal advice.

The statements and opinions expressed in KPMG's report have been made in good faith and on the basis that all relevant information for the purpose of preparing KPMG's report have been provided by the Client and that all such information is true and accurate in all material aspects and not misleading by reason of omission or otherwise. Accordingly, none of KPMG, its controlled entities, or any of their respective partners, directors, employees or agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based, or for any errors in the analysis, statements and opinions provided in this report resulting directly or indirectly from any such circumstances or from any assumptions upon which KPMG's report is based proving unjustified.

KPMG's report was prepared based on the information available at the time. KPMG has no obligation to update the report or revise the information contained therein due to events and transactions occurring subsequent to the date of the report.

© 2024 KPMG New Zealand, a New Zealand Partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.