

The Law Society's Leadership and Management Section

Financial Benchmarking Survey 2026



The Law
Society

In association with Hazlewoods LLP

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Foreword

The legal industry is very noisy currently. Hardly a week passes without a new headline on AI, consolidation, external investment, regulatory reform, cyber risk or economic uncertainty. Each one of these issues matters. None of them, on its own, will determine the long-term success or failure of a law firm.

What this year's Financial Benchmarking Survey shows very clearly is that, beneath the distraction and the noise, the fundamentals still matter most. Firms that perform well do so because they have maintained discipline in the core operational drivers of a sustainable legal business: productivity, pricing, cost control, cash management, client service, people management and leadership capability.

The data demonstrates that revenues have continued to grow and that profitability has improved as a direct result of good overhead management. At the same time, it exposes how fragile those gains can be. Fee earner productivity (by recorded chargeable hours) remains below potential. Lock-up improvements would have a significant positive impact on resilience. Profits continue to be supported by factors outside firms' direct control. These are not new challenges, but they remain important - they have not

become less important because they do not grab the headlines.

One of the strengths of this report is that it does more than describe trends. Almost every page points towards where leadership attention would make the greatest difference. Whether the topic is time recording, billing behaviour, support staff deployment, overheads or working capital, the message is consistent: small, incremental improvements, applied consistently, compound into meaningful gains. Conversely, small weaknesses left unattended because there is no simple fix quietly erode resilience.

Law firm leadership can feel relentless. The responsibility is continuous, the decisions rarely straightforward, and the scrutiny unyielding. So it is worth pausing to reflect on why that leadership matters. The law underpins trust in civil society and the effective functioning of the justice system. Countless individuals and businesses, both big and small, rely on lawyers to protect them. Law firm leaders shape the opportunity for the next generation of their people; and provide security and purpose for current partners – not only in the organisational sense, but in the social sense of shared endeavour.

Running a firm well is therefore not simply a commercial exercise. It is an act of stewardship: of people, of professional standards and of institutions that matter well beyond the firm itself.

This survey exists to support that stewardship. Used thoughtfully, it offers both reassurance and challenge. I encourage you to engage with it in detail, to share it with your leadership teams, and to use it as a practical tool to refocus discussion on what really drives performance. In a distracted market, disciplined attention to the fundamentals remains the most valuable strategic choice a law firm leader can make.



Abby Winkworth
Chair, Law Society
Leadership and
Management Section
February 2026

About the Leadership and Management Section

The Leadership and Management Section is a community designed specifically to help partners, leaders, managers and operational staff in legal businesses excel in what they do.

The Section delivers essential best practice knowledge and insights in key legal practice management areas such as operations, people management, leadership, finance, business development, strategy, technology and innovation, effective client management and regulation.

As a member of this community, you can be confident you're up to date with the latest in legal practice management with access to a wide range of exclusive content, events and support delivered by practice management experts, including managing partners and legal consultants.

The comprehensive range of services and benefits includes:

- Free subscription to 4 x Managing for Success magazines per year, available in print and online
- Priority access to in-person places at Financial Benchmarking Survey launch events

- 4 x Member Talks per year (pre-recorded audio sessions)
- Gated articles shared online and via the newsletter
- Access to a variety of exclusive on-demand content and resources such as webinars, previous Section magazines, articles and Member Talks
- 30% discount on selected conferences such as the Law Society Risk & Compliance Conference and the Economic Crime Conference (saving of at least £88 per event)
- 20% discount on Law Society publications in the online Bookshop
- 15% discount on Law Society Gazette Jobs Board advertisements (saving between £164 - £375 per advertisement - T&Cs apply*)
- Free access to a selection of Risk and Compliance webinars (saving of £45 per event)
- Law Society Library Benefits - One hour free library research, first item free on LawDocs and priority access for Section members**
- Monthly Section newsletter

Membership of the Leadership and Management Section is open to solicitors along

with professionals who are involved in the management of a legal practice or department (whether it is HR, IT, innovation or marketing).

Individual membership costs £199, but why not take advantage of even greater savings with our corporate membership deal? For only £399 your firm can nominate up to six staff members (and £60 for each additional person), who can all enjoy the benefits of being a Leadership and Management Section member.

For more information, visit:

communities.lawsociety.org.uk/leadership-and-management
email: MSadmin@lawsociety.org.uk
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Will Graves
Membership
Engagement Manager,
The Law Society

* recruiters.jobs.lawgazette.co.uk/terms-and-conditions/#Sectionmemberdiscount.

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About Hazlewoods LLP

The *Leadership and Management Section Financial Benchmarking Survey* is written by the Legal Team of Hazlewoods LLP.

Hazlewoods has a niche specialism in advising the legal profession. We have worked with law firms since 1992, and we have a dedicated team of over 50 individuals who work with law firms all day, every day.

We are retained by over 200 law firms countrywide on a recurring basis, and advise at least 50 others each year on projects such as practice strategy, mergers and acquisitions, structure advice and implementation, external equity investment and dealings with the SRA. The scope of our service goes far beyond the normal compliance-based services provided by the majority of other accountancy practices, and we have a tremendous range of contacts in the sector. See more at www.hazlewoods.co.uk/sectors/legal-accountants.aspx

This is the 17th year that we have compiled the Leadership and Management Section Financial Benchmarking Survey. Over this period, our experience and understanding of the sector have enabled us to develop and constantly refine the questionnaires and interpret the results.

Should you have questions about anything at all in it, we would be delighted to hear from you (legal@hazlewoods.co.uk)

We would like to thank all law firms that took the time to complete and return the questionnaires, and we hope that you find the report both interesting and useful in your firm.



About Lloyds Banking Group Commercial Banking

Lloyds is delighted to return as the sponsor of the 2026 Financial Benchmarking Survey alongside The Law Society and Hazlewoods. The annual survey provides an important snapshot of legal sector performance, and is a highly valuable tool for firms to benchmark their performance and identify key areas of focus for growth and efficiency gains.

The legal sector continues to be central to the UK economy, and Lloyds is proud to be working closer than ever with The Law Society through our new partnership which we launched during 2025. Our extensive support for the sector is driven by our network of over 40 specialist Relationship Managers who are Lexcel trained and accredited, supporting firms across all regions of the UK. Our teams

are equipped to support the profession with a range of tailored products and services from funding for professional indemnity insurance to innovative payment solutions, partner capital loans and a range of secure accounts.

The 2026 data tells a positive story of growth for the legal sector, with increases in fee income the highest in 15 years, coupled with improved efficiencies across both the cost base and chargeable hours. These positive signals of sustainable growth come despite familiar and emerging challenges across areas of cyber security, talent recruitment and an evolving regulatory environment - demonstrating the strong resilience of the legal sector.



Martyn Kendrick

UK Head of Legal and Professional Services,
Lloyds Business & Commercial Banking

Find out more about how Lloyds is
supporting the UK legal sector:
www.lloydsbank.com/business/industry-expertise/legal-and-professionals



Introduction

Members of the Law Society's Leadership and Management Section are represented in law firms across England and Wales. For over 20 years, the Leadership and Management Section has produced the annual Leadership and Management Section Financial Benchmarking Survey with the active participation of that membership, and the recent growth in support from the wider legal practice community. The survey is widely regarded as the leading annual health check report for smaller and mid-sized practices.

This report is unique in providing detailed accounting and business metrics collected directly from solicitor firms across England and Wales, allowing those firms and others – particularly from the mid-market – to benchmark their performance against peers and over time.

The 2026 survey was carried out between July and November 2025 and the majority of participants have either a 31 March or 30 April accounting year end date.

A small proportion of firms reported results covering a period of more or less than 12 months and, where this was the case, their results have been pro-rated to cover a 12 month period to ensure consistency and comparability.

121 law firms from across England and Wales have taken part with a combined turnover of over £1.2billion, and we anticipate that most of the participants' income relates to domestic work.

Participants are analysed in more detail in the following section on page 6.

As in previous years, all participants provided two years' data, i.e. the most recent accounting period and the previous one, which has allowed us to compare two years' results on a true like-for-like basis.

Many of the charts throughout this report include the results for two accounting years. Most charts include three results for each turnover band; the lower quartile, median and upper quartile. The results for 2025 are

shown as bars and numbers, and the like-for-like results for 2024 are indicated using a dash (-) to highlight the positive or negative differences from 2025.

We consider that the response rates that we have seen for this voluntary survey are very good compared to other financial surveys of professional firms. In order to allow the findings to be statistically valid, we only provide full results for categories where a reasonable number of firms participate in the survey.

This year, we had more than 20 participants for each turnover band, and we therefore consider that the charts and statistics quoted throughout this report give a fair reflection of the median figures across all sizes of firms. Other than in the following section, we do not differentiate between firms with turnover greater than £10m and those with turnover greater than £35m.

For ease and consistency, throughout this report, we refer to the owners of the practices as Equity Partners, and that includes Directors and shareholders in Limited Companies.

Participants

121 law firms from across England and Wales took part in this year's survey, and fee income of all participants totals over £1.2billion - an average of £9.9million per practice.

As in previous years, we have categorised firms based on turnover. The turnover bands and the number of participants in each band are shown in the table below.

The total number of firms in England and Wales in each band is also shown.

Turnover band	Total number of firms	Number of participating firms	%
Up to £2million	7,629	23	0.3%
£2million to under £5million	794	31	3.9%
£5million to under £10million	308	28	9.1%
£10million to under £35million	232	34	14.7%
£35million+	155	5	3.2%
Total	9,118	121	1.3%

The strongest proportionate participation was amongst firms with a turnover between £5 million and £10 million and there was a lower proportion of participation from smaller firms, though this is due to the majority of firms overall across England and Wales being in the smallest band.

The locations of the participants are as follows:

Region	Number of participating firms
Eastern	10
Greater London	22
Midlands	17
North East	2
North West	7
South East	22
South West	30
Wales	3
Yorkshire	8
Total	121

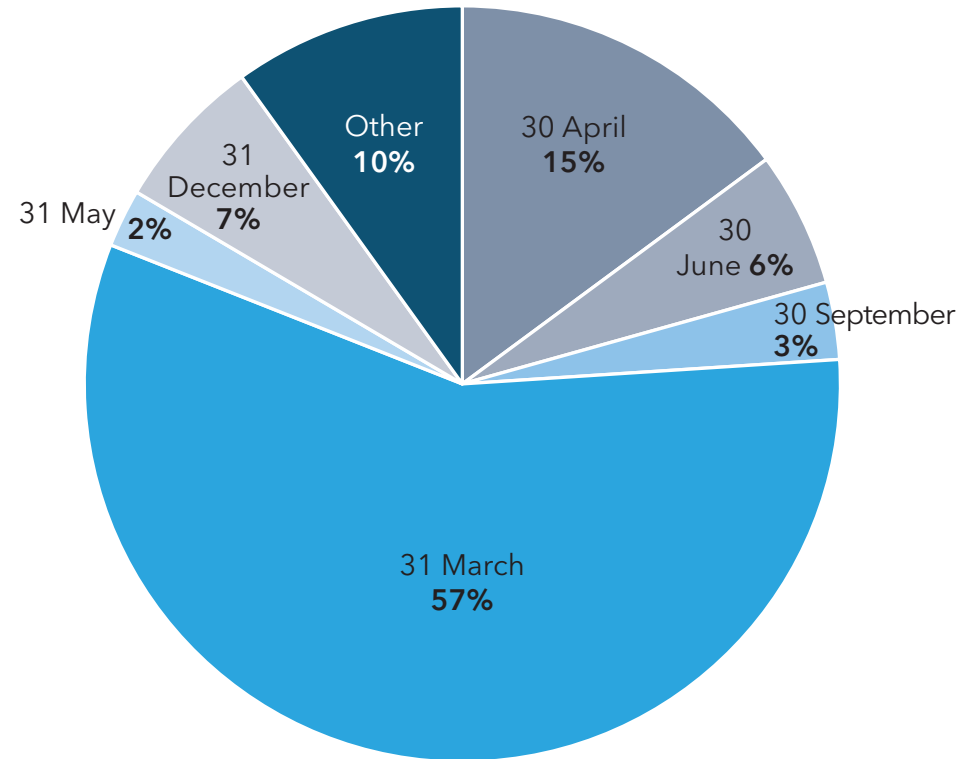
96% of participants traded as either a Limited Liability Partnership (LLP) or limited company. The remaining participants were unincorporated partnerships or sole practitioners. This is in different proportions to the percentages for the legal sector as a whole. According to SRA statistics, 58% of law firms were operating as a limited company, and 16% were operating as an LLP at the end of November 2025 and this is largely unchanged compared to the results from the previous year. These statistics, and more, can be viewed here:

www.sra.org.uk/sra/research-report/regulated-community-statistics/

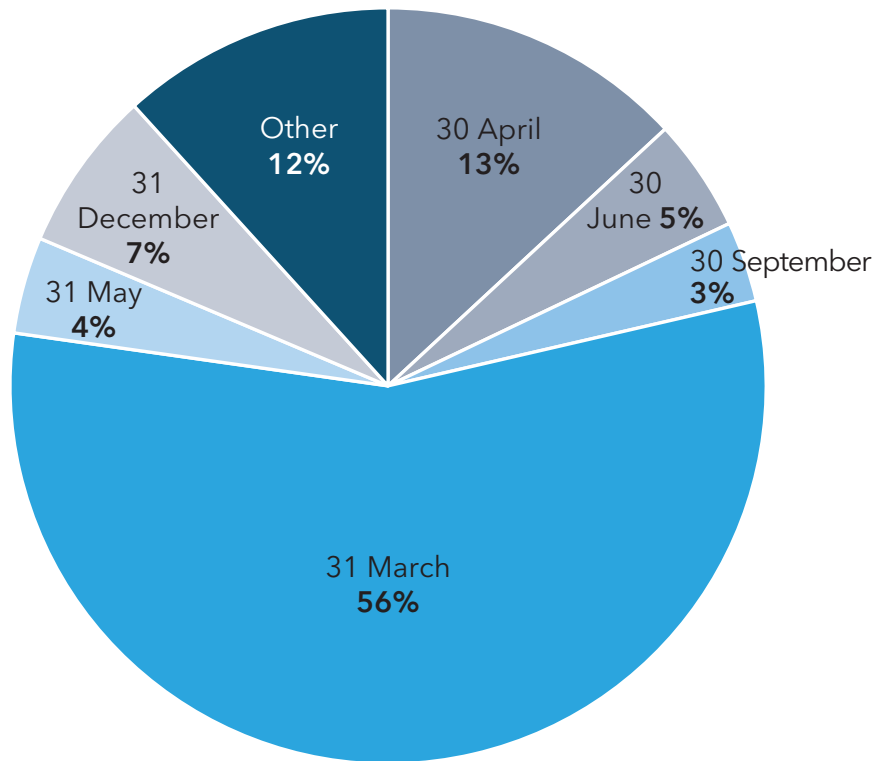
This difference between the survey participants and the sector reflects the fact that a larger proportion of mid-sized firms have taken part again this year, as the majority of the Top 200 law firms are either an LLP or limited company.

The SRA's statistics also show that the number of limited companies has increased by 17 in the last two years, whilst the total number of firms of all types has fallen by 376 over the same period. The total number of unincorporated partnerships and sole practitioners fell by 364 over this period. Much of this is due to the ongoing consolidation in the sector, and a number of sole practitioners have been attracted towards the platform law firm model.

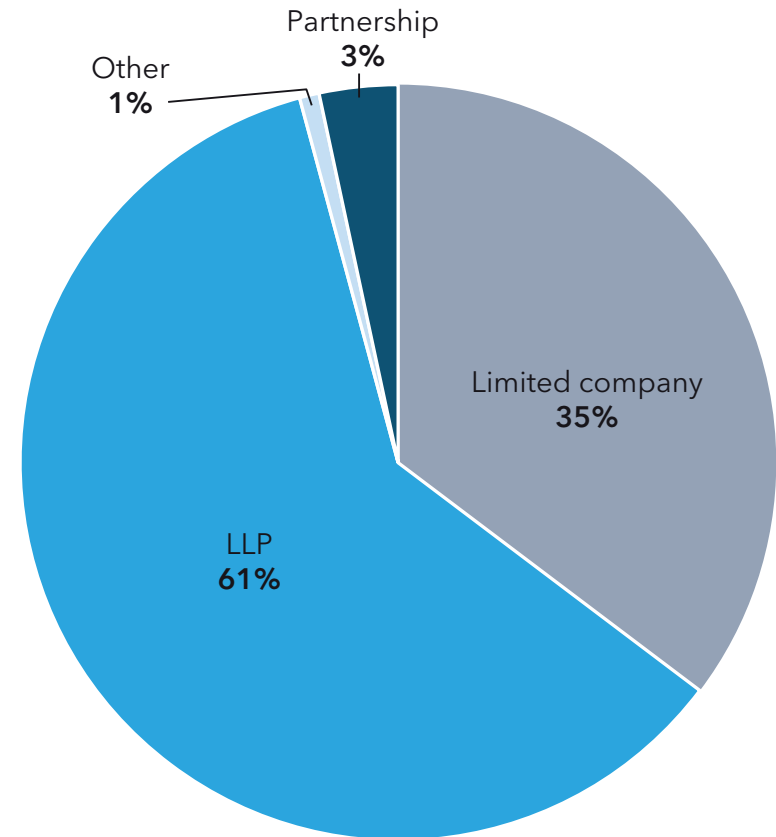
Financial year end of participating firms - this year



Financial year end of participating firms - last year



Structure of participating firms



Activity at the SRA

Early in the year the SRA closed its long awaited consultation on the future of client money. So far, we have seen relatively little come from this other than the promise that client money and profit earned on client account interest will be topics for further scrutiny in the future.

Sarah Rapson was appointed as the SRA's new Chief Executive in the latter part of the year and promptly set about outlining her priorities around restoring trust with legal professionals and the wider public, much of which had been put under strain following a string of highly public scandals such as Axiom Ince and the collapse of SSB.

Off the back of this, the SRA 2025/26 business plan has set out the short term priorities including further work on protecting client money (Axiom) and protecting clients in high volume claims cases (SSB).

In August, the SRA also released its first quarterly update, which addressed the various directives set by the LSB, with the follow on update (at the time of writing) being released at the beginning of December. These updates set out the roadmap for improvement in a number of core areas, including governance and oversight at the SRA, being proactive in dealing with risk indicators, authorisation, M&A oversight and client money protection.

Most policy reforms are on track for delivery - with Summer 2026 being a key target date for completion of most - and in December, a further consultation was launched which focused on the role of the Reporting Accountant. It will be no surprise if we soon see all Accountant's Reports being once again filed with the SRA irrespective of whether they are qualified or not.

For now then, the fundamental business model of how firms do business is unchanged, but the question of why or how law firms hold onto client money will not be far from the table.

A New Year consultation from the MoJ

In January 2026, the MoJ opened a consultation on a significant proposal: redirecting interest earned on lawyers' client accounts to fund the justice system. At the time of writing we are awaiting the outcome of this consultation but, as we consider later, this may have a profound impact on some firms.

Cyber security moved back into the spotlight

A few years ago, cyber security was a key focus at legal sector seminars and events across the country. As firms got to grips with protecting themselves against the risks, the level of public discussion eased a little.

This changed early in 2025 when a number of high-profile cyber attacks, including one against the LAA, once again intensified firms' resolve to not be caught out.

This has had far-reaching operational impact for firms relying on the LAA's CCMS system for submitting cost claims and has reminded everybody of the fragility of relying not just on one's own systems, but those of everybody in the legal service supply chain.

The 2025 Autumn Budget

Although firms are generally used to speculation in the run up to any Budget, the build up to the November 2025 Budget was unusual due to the scope and volume of speculation involved and we saw firms trying to take pre-emptive action to protect themselves against changes that never actually materialised.

There was still plenty for firms to be concerned about however, such as the increase in tax on savings income, which will impact on client interest income, increased tax on dividends and restrictions on salary sacrifice pension contributions. Other potential changes, such as the introduction of an effective employer's NIC equivalent tax on LLP members' profit shares have disappeared, at least for now.

1. 2025 - Looking back at an eventful year

Looking forward

There has been so much happening in the sector that it can be easy for firms to overlook the core operational challenges that face them every day, such as getting the most from staff, providing the best possible client service efficiently, and charging for it properly. Making sure the underlying business is running properly is key because there will always be a need for well-run law firms that deliver high quality results to clients in a cost effective way.

What do firms see as their key challenges?

This year, we asked firms for their views on the biggest challenges facing them, and asked them to rank from 1 to 5 from the following key considerations:

- Increases in employer’s NIC and the national living wage
- Sustainability of interest earned on client account
- Macroeconomic factors around the world - such as US tariff impacts on the global economy
- The impacts of AI on competitive advantage
- Clients’ decline in disposable income
- The impacts of AI on internal efficiencies
- Cyber security considerations
- Potential SRA regulatory changes
- Existing SRA regulations and actions
- Staff recruitment
- Staff retention
- Threats from consolidator firms
- Succession

We have combined the total scores allocated to each area by participants and plotted them on the following block graph.

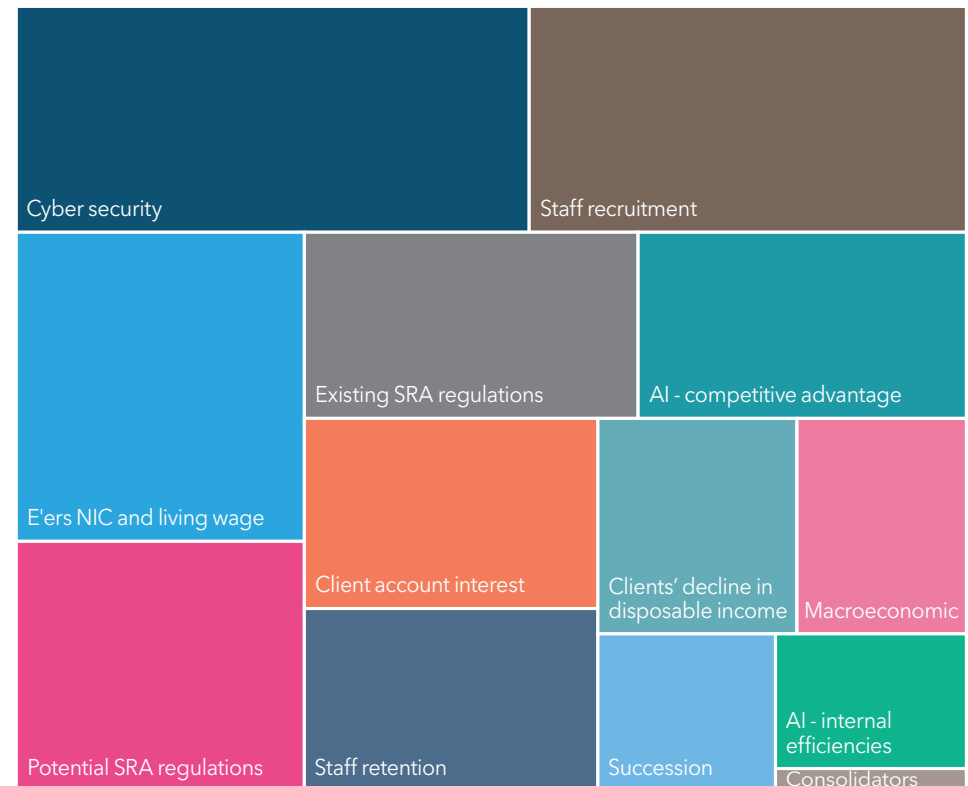
Cyber security is the single most prominent concern for the majority of participants.

While staff recruitment came a close second, all staff related issues, when added together, came out as a key theme here. Staff recruitment, staff

retention and increases to employer’s NIC and the living wage make up almost 1/3 of total scores.

SRA regulatory considerations when combined are next, making up 18% of the total, and AI related matters are 12%.

Perhaps surprisingly, consolidators are by far the smallest concern for firms, despite this being an issue that is gaining prominence in the legal press due to a particularly active M&A market and growing interest from Private Equity.



Using benchmarking information to improve your performance

Fee earner breakeven point

By combining our findings throughout this report we are able to calculate the expected breakeven point for a fee earner. This is defined as the fees a firm must generate per fee earner before any profit (sometimes also referred to as fee earner contribution) is earned. As illustrated below, this is substantially more than simply the median cost of a fee earner.

	2025 £	2024 £
Median fee earner cost, including notional salaries for equity partners (Figure 5.4)	70,551	70,867
Median support staff cost per fee earner (Figure 5.9)	27,061	25,655
	97,612	96,522
Median non-salary overheads per fee earner (Figure 6.9)	46,916	47,098
Breakeven point per fee earner	£144,528	£143,620

Working on an average target of say 1,100 chargeable hours per annum per fee earner, or 220 chargeable days per annum, this equates to the following:

	2025 £	2024 £
Cost per hour	£131.39	£130.56
Cost per day	£656.95	£652.82

In Figure 4.5 we see that the median fee income per fee earner in 2025 was £162,060, which equates to £147.33 per hour based on 1,100 chargeable hours per annum. This means that 89% of fees earned by a fee earner are used to cover their costs. Looking at it another way, if a firm has a 31 March year end, on average it takes until the last third of February for a fee earner to earn sufficient fees to cover his or her total costs for the year, and for the firm to start earning 'super-profits' for the equity partners.

These figures assume an average of five chargeable hours per day, but as we see at Figure 4.8, the median number of actual chargeable hours recorded by fee earners in many firms is well below 1,100 chargeable hours per annum, though there has been another small improvement compared to last year.

Areas to focus on

Sections 5 (Employment costs) and 6 (Profitability) include some pointers on key overheads, such as fee earner costs, support staff costs and accommodation costs, and these may help to identify areas for potential savings.

The fee earner break-even point has risen again this year, but this has been largely due to increased support staff costs as other costs, including fee earner wages and other cost of living expenses, have remained relatively flat at a 'per fee earner' level.

We will see in section 6 that profit per equity partner (PEP) has risen again this year. This is encouraging as firms need to continue to focus on increasing topline performance in an efficient and sustainable way.

Fee earner performance

Fee income is driven by a combination of fee earner numbers per partner (fee earner gearing), chargeable hours recorded (productivity) and the amount billed and received for each of those hours recorded (recovery rate).

While fee earner gearing is an important metric when the industry is performing well,

2. Using benchmarking information to improve your performance

it is clear from our findings at section 4.8, and over recent years, that the ability for fee earners to convert their time into chargeable hours should still be a point of focus for everybody. Whilst it is encouraging that we have now seen a rise in chargeable hours per fee earner for the second year in a row, there is still a clear gap between reality and expectation and firms should avoid 'gearing up' for the sake of it.

Referring back to an example that we have used in previous years, let's assume a fairly modest firm with 20 fee earners, all with an hourly charge out rate of £200. Fee earners record an average of 1,100 chargeable hours each per year, and recover (i.e. bill) 80% of the recorded WIP value, resulting in total fee income of:

20 x £200 x 1,100 x 80% = £3.52million

If the fee earners are able to increase their recovery rate by just 1%, annual fee income and profitability will increase by £44,000.

A 1% improvement in productivity represents just one additional (and chargeable) 6-minute unit per fee earner per day.

A 1% improvement in both productivity and recovery increases income and profits by almost £80,000.

Why time recording matters

There is still much debate around the future of the billable hour. Whilst there might be an argument around its validity from the perspective of fixed fee work, it remains a cornerstone of law firm financial management and the only truly reliable way to properly measure fee earner efficiency.

This assumes it is always done properly of course.

Even where client billing is based on fixed fees, accurate and consistent time recording is essential. Hours logged may not always match the amount firms bill to clients, but without

reliable data, firms cannot really know how to monitor efficiency, or the amount of effort expended in getting work over the line.

All said, it is important to separate the benefits of time recording from those of pricing. There is a strong commercial argument for 'value based pricing' and firms should not be afraid to adapt their pricing models to match the complexity and benefit to the client of certain work types, but this should be carried out in conjunction with, rather than instead of, proper time recording.

Our common experience is that not all fee earners record time fully, especially on fixed-fee matters. Some firms adopt policies requiring only chargeable time to be recorded, or do not impose minimum daily hours, but there is a risk of blind spots, where non-chargeable time is untracked and accountability and value around non chargeable time suffers. In worst cases, good quality additional chargeable time is not recorded, and fee income suffers.

2. Using benchmarking information to improve your performance

All of this raises a fundamental question: if you don't know how long a job takes, how can you judge profitability or efficiency? If fee earners omit time and then apply billing reductions, you risk "double discounting." While this may make recovery rates look good for the individual, it erodes profitability for the firm.

Having established that incomplete time data makes it difficult to measure capacity accurately or set appropriate gearing levels, there is a wider cultural point to consider, and firms should ask why time is not being fully recorded. For example:

- Is work being delegated too far, leaving juniors overwhelmed by complex tasks?
- Is work not being delegated as it should?
- Do partners with higher hourly charge rates feel they are unable to charge all of their time to clients, even where they are adding real value to the output?
- Do individual fee earners feel under pressure from clients or partners to under-record their time in order to keep the client happy?

- Do individual fee earners feel under pressure to charge fewer hours so that their recoverability looks better compared to their peers?

These questions matter because they can affect both financial performance and staff wellbeing.

In summary, fee earners should have clear productivity and recovery targets and these should be monitored regularly. Recording and billing processes must be simple and efficient.

For rainmakers, business development time should also be tracked to reflect their contribution beyond fee earning.

Productivity targets should vary by seniority. We would expect senior lawyers with management duties to have lower targets, while those with no other responsibilities should aim higher.

Once targets for productivity and recovery are set, firms can calculate expected fee income per fee earner and benchmark themselves against industry norms. The goal should be to position the firm in the upper quartile for turnover and, ultimately, profitability.

Time recording is not just an administrative task. It underpins pricing, profitability, capacity planning, and strategic decision-making. Without accurate data, firms operate in the dark, risking inefficiency and margin erosion.

A robust, firm-wide time recording policy is therefore essential for any firm seeking sustainable profitability.

- Median practice fee income increased by 11.2% compared to a 6.1% increase in 2024. The rate of increase is the highest that it has been in over 15 years.
- Median fee income per equity partner of £1,192,065 (2024: £1,110,277).
- Median fee income per fee earner of £162,060 (2024: £149,461).
- The median cost of a fee earner, including fixed share partners and notional salaries for equity partners, was £70,551 per fee earner, compared to £70,867 in 2024; a fall of 0.4%.
- Total median salary costs, including fixed share partners and notional salary costs for equity partners, as well as support staff costs, as a percentage of fee income was 63.9% compared to 64.4% in 2024.
- The ratio of fee earners to equity partners decreased to 6.3: 1 from 6.7: 1 in 2024.
- The median number of chargeable hours recorded per fee earner was 807, up from 756 in 2024.
- The median hourly cost of a fee earner (based on 1,100 chargeable hours per year) was £131.39, compared to median hourly fees per fee earner of £147.33. Therefore, 89% of fees earned are used to cover costs.

- The median spend on support staff, including secretaries, reception, HR, finance and other back office functions, was £27,061 per fee earner, compared to £25,655 in 2024.
- The median spend on non-salary overheads per fee earner was £46,916 compared with £47,098 in 2024, and as a proportion of fee income, non-salary overheads decreased to 28.4% from 31.0% in 2024.
- Total year end lock-up days (WIP and debtors combined) decreased to 134 days from 146 days excluding unbilled disbursements and to 144 days from 156 days in 2024 including unbilled disbursements.
- Median equity partner capital (combined total of capital account, current account and tax reserves in a partnership, or retained profits and directors' loan accounts in a limited company) rose to £336,500 from £321,562 per partner.
- Median net PEP (before deducting notional salaries for partners) increased to £290,183 in 2025 from £256,726 in 2024 driven by strong performance in core legal services.

4.

Fee income

Our detailed analysis starts by reviewing income growth. We have measured income performance by equity partner and by individual fee earner. We reveal the effects on revenue from changing the gearing in a firm; that is the ratio of fee earners to equity partners.

Most of the charts throughout this and later sections include the results for two accounting years, and the results are analysed into turnover

bands. Most charts include three figures for each turnover band: the lower quartile, median and upper quartile. The results for 2025 are shown as columns and numbers, and the results for 2024 are shown as a dash, i.e. -. The dashes show the like-for-like 2024 results for the participants in this year's survey, so may not correlate exactly with the findings from last year's survey, which included different participants.

Key points are:

- 85% of the participants in the survey reported year-on-year fee growth in 2025, with 55% seeing growth of 10% or more and 22% seeing growth of at least 20%. Smaller firms in the survey saw a wider range of fee change than other turnover groups, as shown in Figure 4.1, and that is a trend that we have seen in previous years. This year however, the range of fee change is narrower than we have seen in the past.
- This is the 16th consecutive year that we have reported a median fee increase, although it should be noted that the composition of the sample across those 16 years will have varied. The last time we saw a general reduction in fees was in 2009, when firms were struggling with the impact of the global recession of the time. It is encouraging therefore that firms seem resilient to the many economic challenges of recent years.

- Participants reported median fee income per equity partner of £1,192,065 compared to £1,100,277 in 2024; an increase of 7.4%. This is a little lower than the 9.9% increase we saw in last year's survey.
- Firms across all regions of England and Wales reported a median increase in fee income.
- Following a fall last year, residential conveyancing work was the strongest performer this year, with a median increase of 27.4%. All other work types returned positive results, with private client work, such as probate and trust administration work, seeing the next highest increase at 14.0%, this is broadly in line with last year, demonstrating that this is one of the more consistent income streams. Litigation work performed well again, improving slightly over last year's results.



Figure 4.1: Change in fee income compared to previous year's fee income (%)

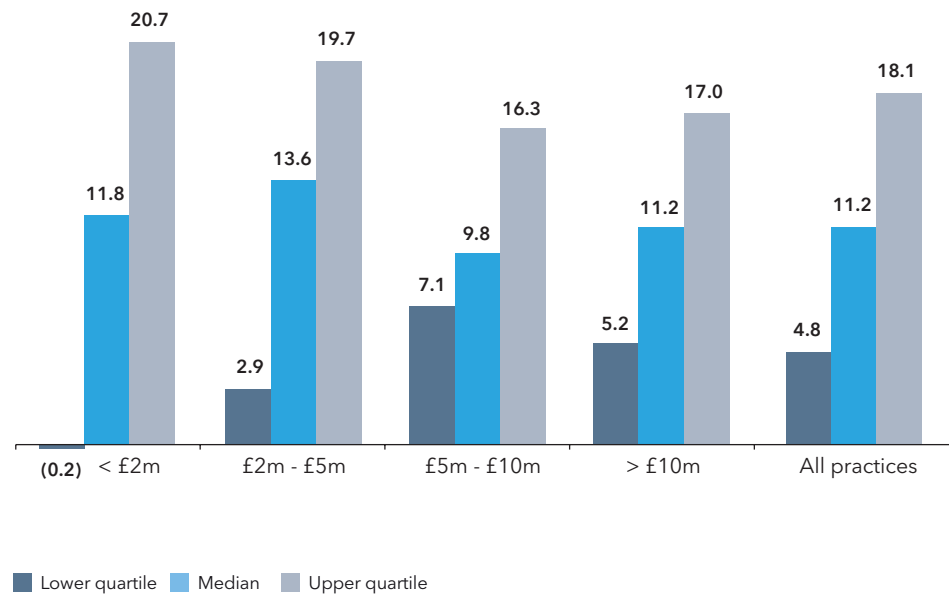
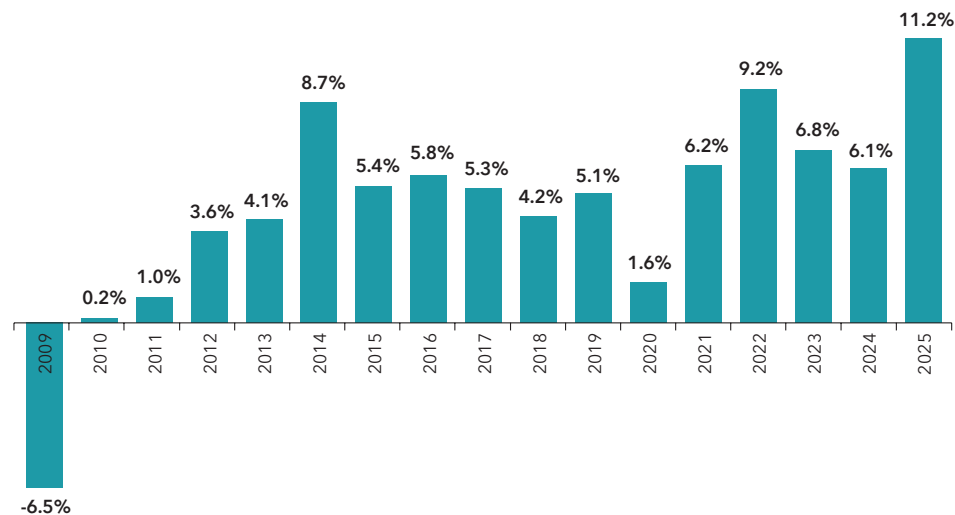
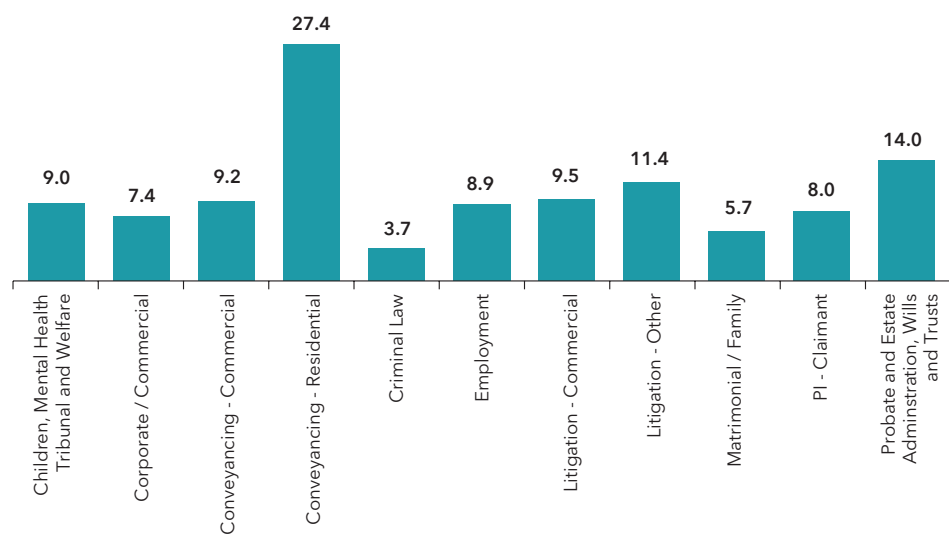


Figure 4.2: Median changes in fee income over the last 17 years (%)



4. Fee income

Figure 4.3: Change in fee income compared to previous year's fee income by specialism (%) (median figure only)

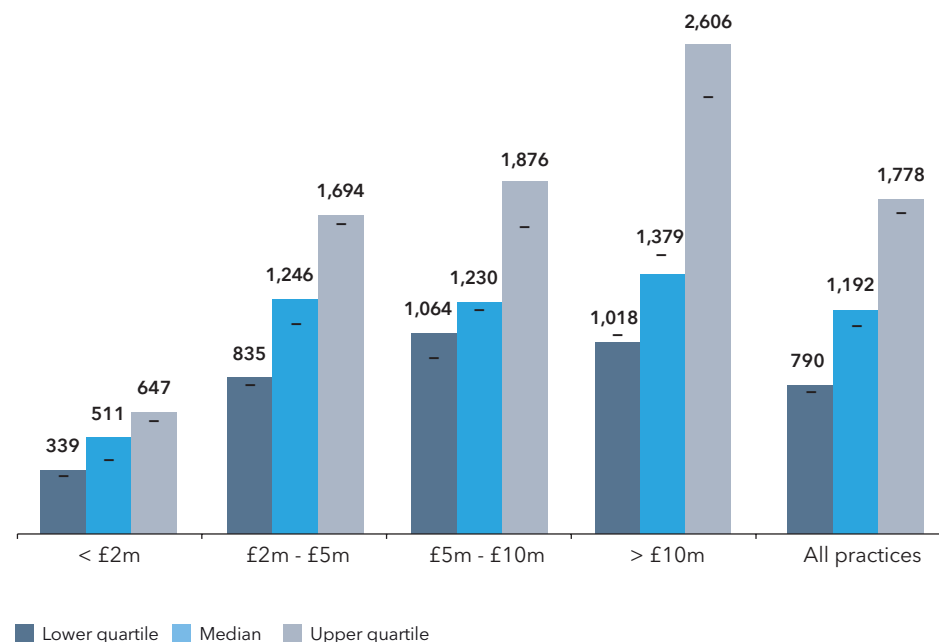


Equity partner performance

Like last year, the majority of participants in the survey reported little change to the number of partners between 2024 and 2025.

For most firms, the growth shown in Figure 4.1 has resulted from increased fee income per equity partner, rather than a reduction in partner numbers. All turnover groups up to £10m saw a rise in fee income per equity partner and the overall median growth across all firms was 7.4%. Firms in the over £10m band saw a decrease this year from a median of £1,480,775 in 2024 to £1,379,134 in 2025; a fall of 6.9%.

Figure 4.4: Fee income per equity partner (£'000)

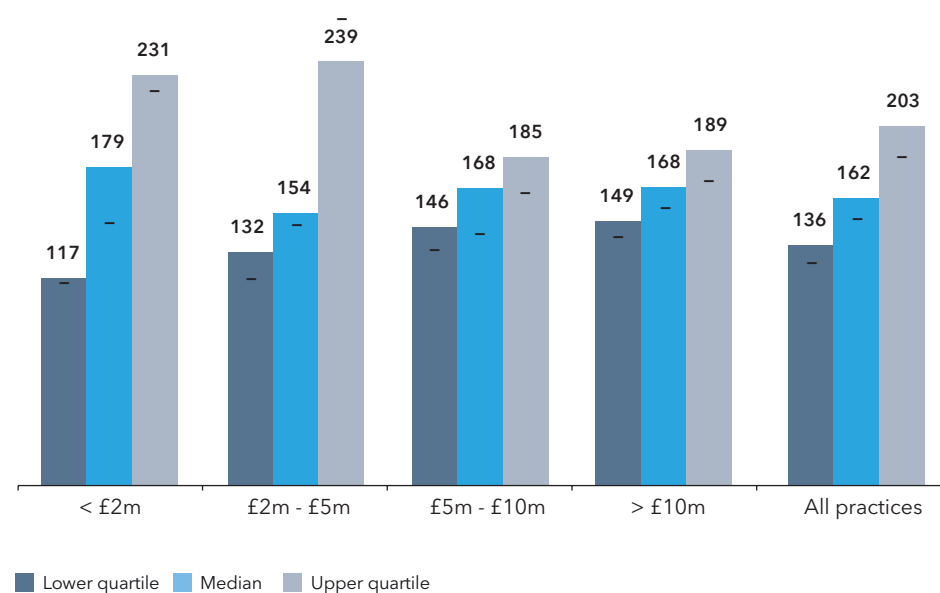


Income by individual fee earner

Key points here are as follows:

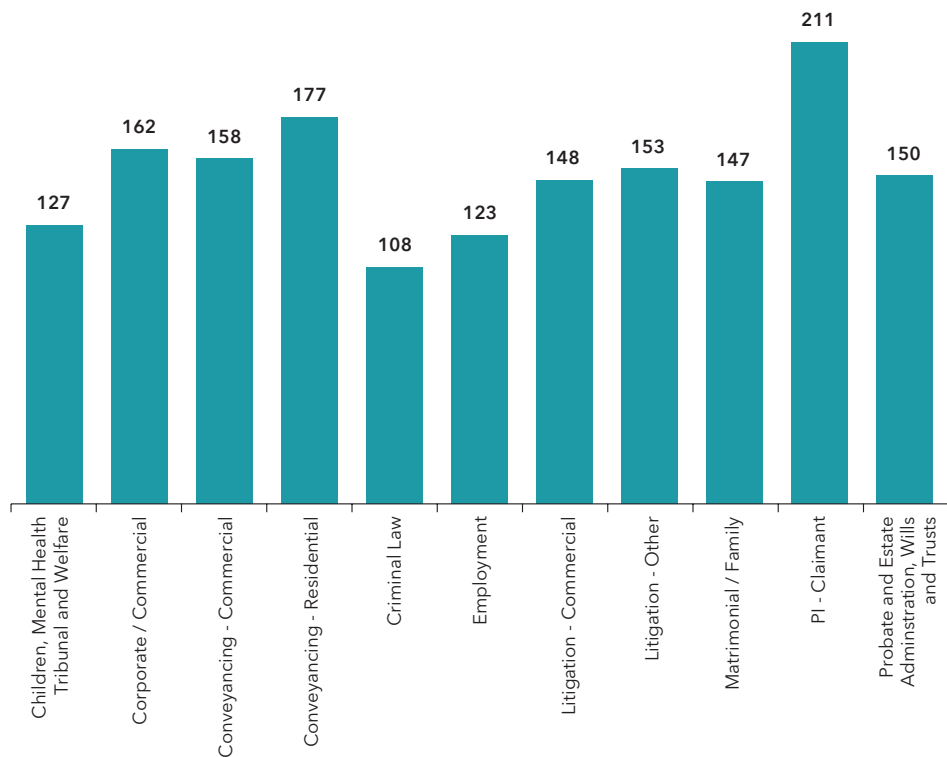
- The total number of fee earners for participating firms was 7,160 compared to 6,999 in those same firms in 2024; a rise of 2.3%.
- Median fees per fee earner were £162,060, compared to £149,461 in 2024 - an increase of 8.4%. Firms across all turnover bands saw a median increase again this year.
- It is encouraging this year that firms appear to have been able to improve core business performance by increasing fee earner chargeable time. While we will see that fee earner capacity is still a challenge for firms, there are strong signs of improvement.
- It is important that we repeat the message from previous surveys and remind all firms that there needs to be close monitoring of productivity and recovery rates. This should remain a priority as, if fee earners are not fully recording both chargeable and non-chargeable time, is very difficult to know whether work is being carried out efficiently and profitably, or what real fee earning capacity looks like. There is still resistance to this among firms that we speak with, especially those that carry out a large amount of fixed fee work.
- Participants in this year's survey reported a median of 807 chargeable hours recorded per fee earner in 2025, compared to 756 in 2024; a rise of 6.7%. This increase is pleasing and continues a trend that we saw last year, but it is vital that firms grasp the issues of productivity and recoverability of fee earner time, as this still falls well below the generally accepted target of at least 1,000 to 1,100 chargeable hours.

Figure 4.5: Fee income per fee earner (£'000)



4. Fee income

Figure 4.6: Fee income per fee earner by specialism (£'000) (median figure only)



Fee earner gearing

Fee earner gearing (the ratio of fee earners to equity partners) is a key indicator, not only as an absolute measure, but also as a trend over time.

In our calculations we have included equity partners in the number of fee earners unless they are non-lawyer managers. For example, if a firm comprises two equity partners and three other fee earners then the ratio is 2.5:1 (i.e. five divided by two).

In improving economic conditions, the ratio of fee earners to equity partners tends to increase as firms grow, with the opposite happening in times of recession.

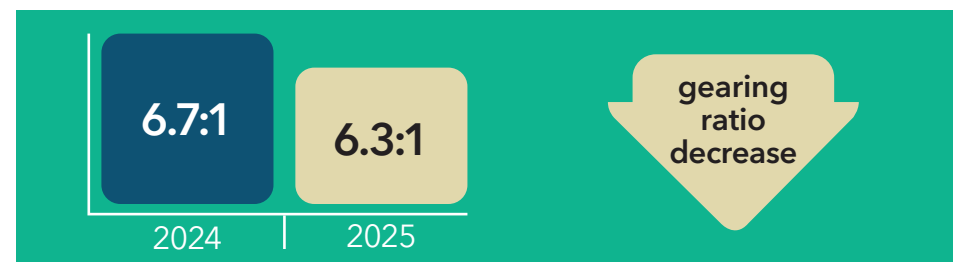
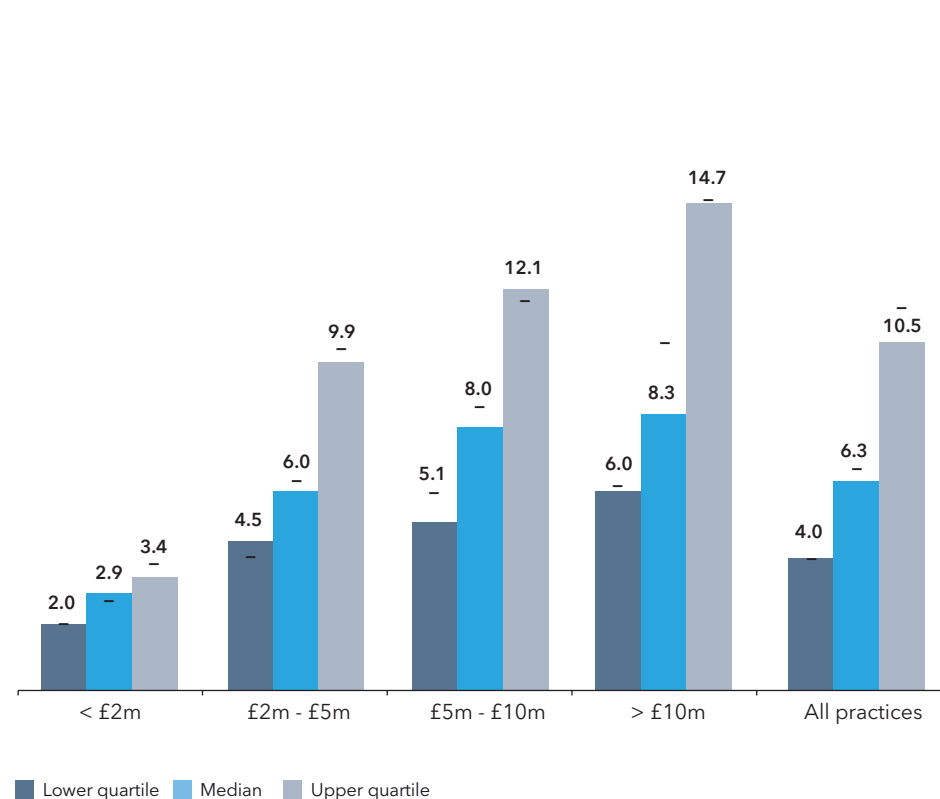
Back in 2009, when Hazlewoods first carried out the survey, the median ratio was 4:1, and the general economic climate then was challenging. Since then, we have seen a steady rise in fee income, and the gearing ratio gradually crept up to 6.0:1 immediately prior to the pandemic. The 2025 results show a fall for the first time in several years, with a median of 6.3:1 compared to 6.7:1 in 2024.

All turnover bands, except for smaller firms, saw a decrease, with the most prominent fall being in the larger firms.

We know that staff recruitment is a significant challenge facing most firms, but we have also seen that keeping existing staff working at capacity is still well behind where it should be. As noted previously, we have not seen a significant rise in the number of equity partners across firms, and we are not aware of a particular tightening in the recruitment market and so we may be observing an adjustment in firms' approach to recruitment and a greater focus on getting the most from existing staff.

It is also possible that the gradual expansion of AI across law firms has contributed towards the reduction in fee earner gearing. Our experience is that many smaller firms are watching and waiting to ride the "AI wave", happy to let larger firms invest often significant amounts in the rapidly changing technology.

Figure 4.7: Number of fee earners per equity partner



4. Fee income

Chargeable hours

As explained in section 2, productivity (i.e. the amount of chargeable time recorded) has a direct impact on fee income and profitability, as every additional chargeable unit that can be recorded and billed goes straight to the bottom line.

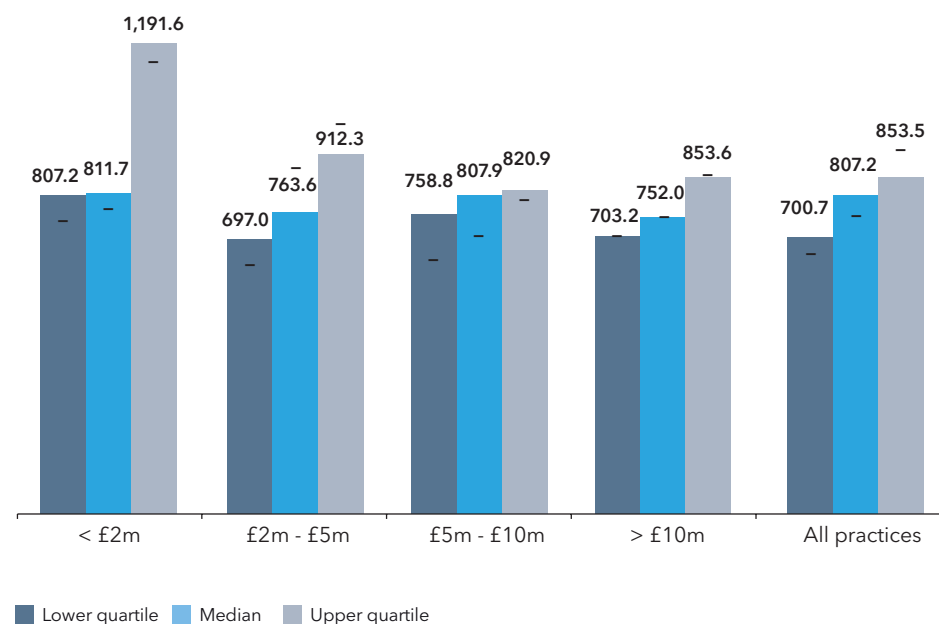
We asked participating firms for the total number of chargeable hours recorded by all of their fee earners (including partners), and the findings are shown at Figure 4.8.

For many years now, the general rule of thumb used by many firms is that fee earners should be charging between 1,000 and 1,100 chargeable hours per year. This does vary of course, and our experience is that larger, typically city-based, firms have steeper targets.

This year, we have seen an increase in the median number of chargeable hours, from 756 in 2024 to 807 in 2025. Whilst the shortfall compared to target remains a concern, this is the second consecutive year that we have seen a rise.

It is worth noting that, when you consider that a full time fee earner working say 35 hours per week has a capacity of 1,600 chargeable hours per year, after allowing for holidays, sickness and training, this median still only represents around half of the available workable hours.

Figure 4.8: Chargeable hours recorded per fee earner



People represent not just the greatest asset for law firms, but also the primary cost. The total costs are broken down into three principal categories:

- Equity partners
- Fee earners
- Support staff

Figure 5.1 compares the total cost of all these people against fee income. This includes notional salaries for equity partners, which we have once again set at the same level as the median highest employed fee earner’s salary for the size of practice, plus 15%, to reflect employer’s NIC and employer pension contributions. Of course, employer’s NIC rose from April 2025, and there were significant minimum wage changes among the younger workforce, and so there will be some element of those rises reflected in these figures.

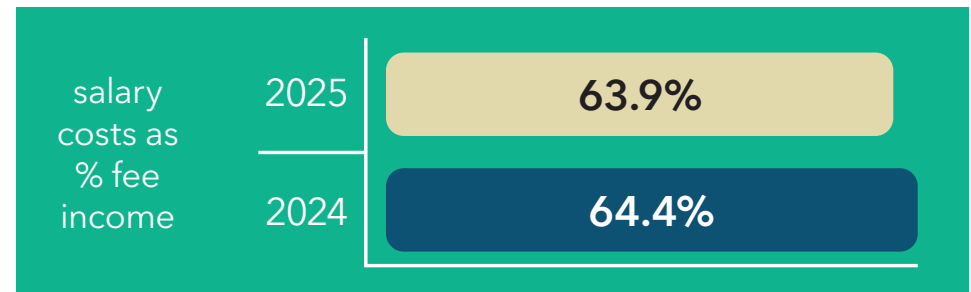
The median 2025 total is 63.9%, compared to 64.4% in 2024, giving a median gross margin/contribution of 36.1% (2024: 35.6%). This increase in margin reverses the fall seen last year and suggests that fee earner costs have risen at a slower rate than the underlying growth in fee income, which is encouraging.

This rise is particularly pleasing in light of the issues discussed so far and our experience from speaking with law firms has been that, as cost of living ‘shocks’ are more or less in the past, staff pay rise expectations

have started to soften. Although the 2025 results will include a degree of past high pay increases following sharp cost of living rises from previous years, we expect to see this metric continuing to fall over time.

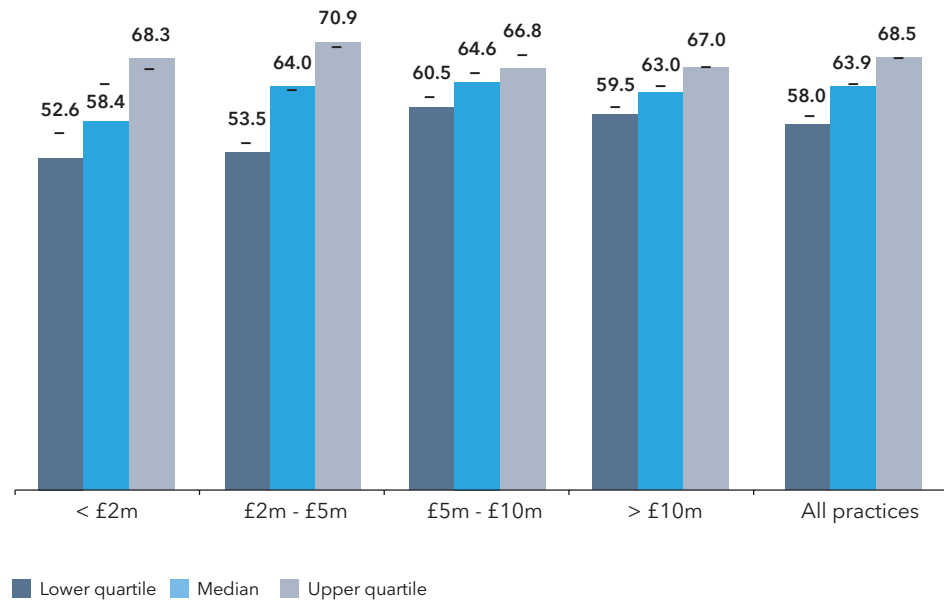
This decrease in salary costs can also be looked at in conjunction with the levels of chargeable hours per fee earner, which was discussed in the previous section. If firms are able to make continued progress with increasing chargeable hours, they will be in a much stronger position than we have been seeing since Covid.

As noted above, the rise in employer’s NIC rates and minimum wage changes will have full impact in the 2026 figures and so it will be interesting to revisit these particular statistics next year.



5. Employment costs

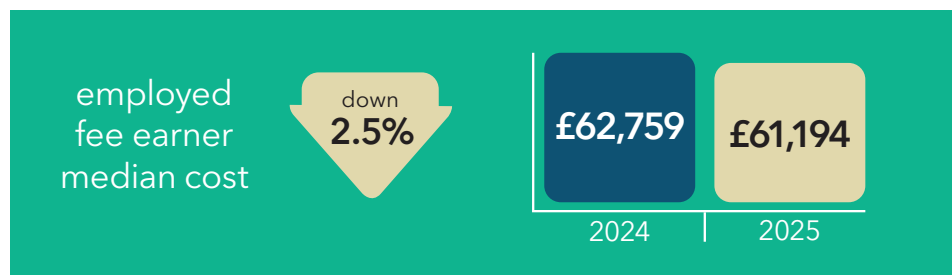
Figure 5.1: Total salary costs, including notional salaries, as a percentage of fee income (%)



Employment costs - employed fee earners

Having established the contribution margin, we can now look in more detail at how much firms are spending on their fee earner employees. In Figure 5.2 we include salaries, fixed share partners, consultants, temporary staff and all usual payroll and pension costs for fee earning staff. No redundancy or recruitment costs are included here, nor any notional salaries for equity partners.

In terms of actual head count on a full-time equivalent basis, the total number of fee earners for participating firms was 7,160 compared to 6,999 in those same firms in 2024; a rise of 2.3%.



Key findings are:

- Expenditure on fee earners as a percentage of fee income is highest for firms with turnover of less than £2m. Last year, it was firms in the £2m-£5m band that were highest.
- The median cost of an employed fee earner fell by 2.5%, from £62,759 in 2024 to £61,194 in 2025.
- The average fee earner cost is not consistent across all turnover bands, and firms in the £5m-£10m band saw the largest fall, while those in the below £2m band saw a similarly high increase.
- Firms with turnover greater than £10m were relatively stable but unsurprisingly employ the most expensive staff. The average fee earner cost for them increased from £64,440 in 2024 to £65,976 in 2025; a rise of 2.4%.

5. Employment costs

Figure 5.2: Expenditure on employed fee earners as a percentage of fee income (%)

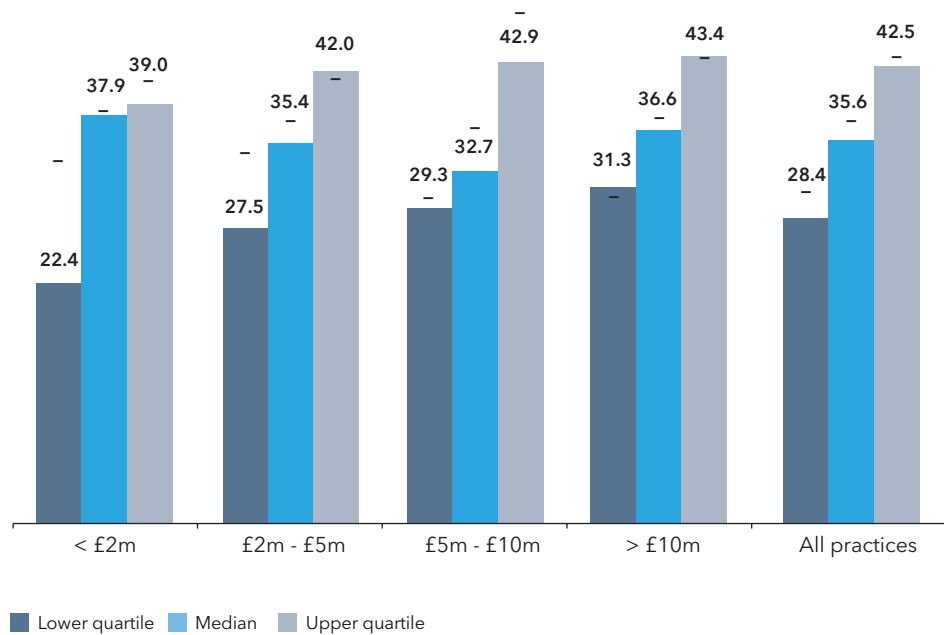
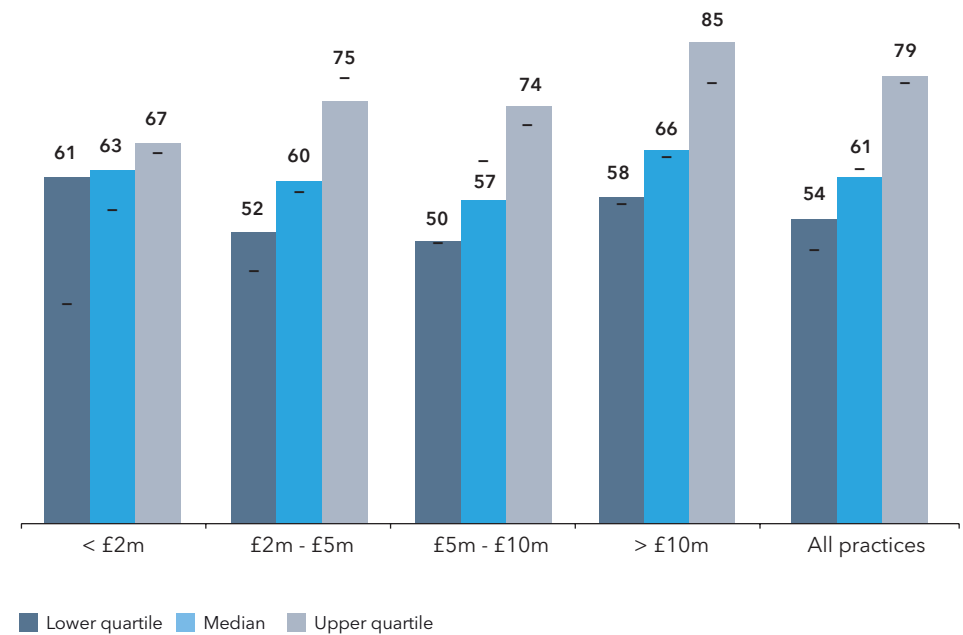


Figure 5.3: Cost per employed fee earner (excluding notional salaries for equity partners) (£'000)



Employment costs - all fee earners, including equity partners

Building on the results in Figure 5.3, we now show the cost per fee earner, including a notional salary cost for equity partners. This graph shows the “true” cost of a fee earner, combining employee salaries, fixed share partners’ profit shares, consultants, temporary staff and normal payroll and pension costs, and a notional cost for equity partners.

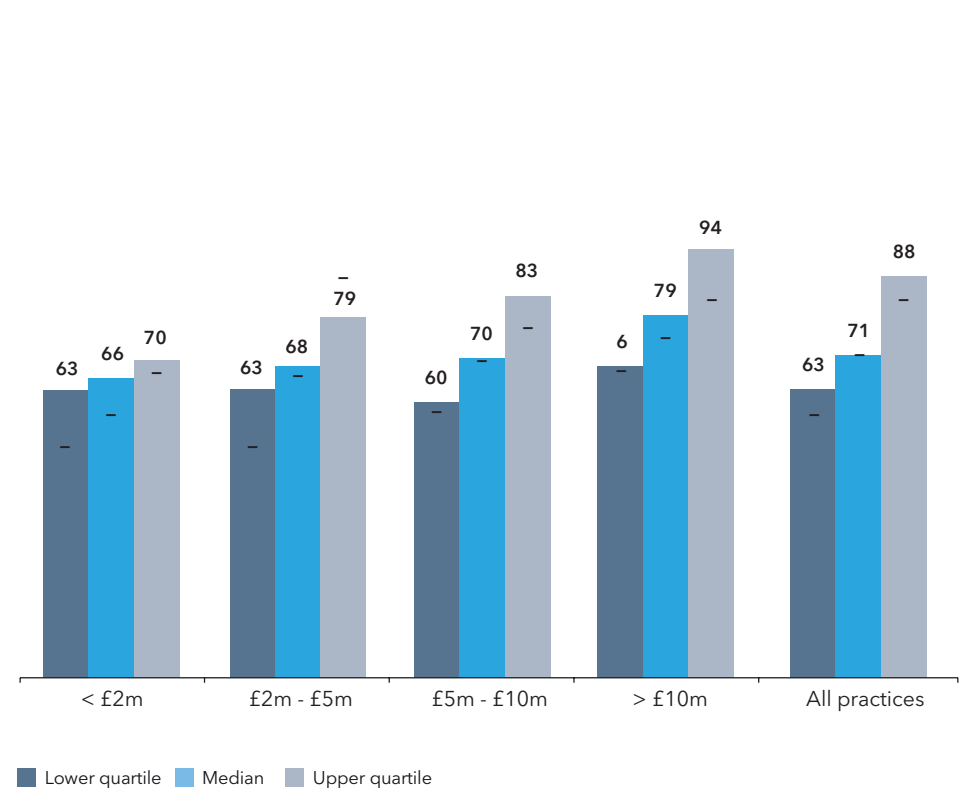
Notional salaries are based on the highest fee earner salary for the turnover band, plus an extra 15%, to reflect the additional costs that would have been incurred if the equity partners had been employed, such as employer’s NIC and pension contributions.

When equity partners are included, the median ‘true’ cost of a fee earner is £70,551, down slightly from £70,867 in 2024.

Notional salary rates are shown on Figure 6.4. The median notional salary across all turnover bands is £118,000 although, as with other staff costs, notional salaries vary significantly depending on the size of the firm.



Figure 5.4: Cost per fee earner (including notional salaries for equity partners) (£'000)



5. Employment costs

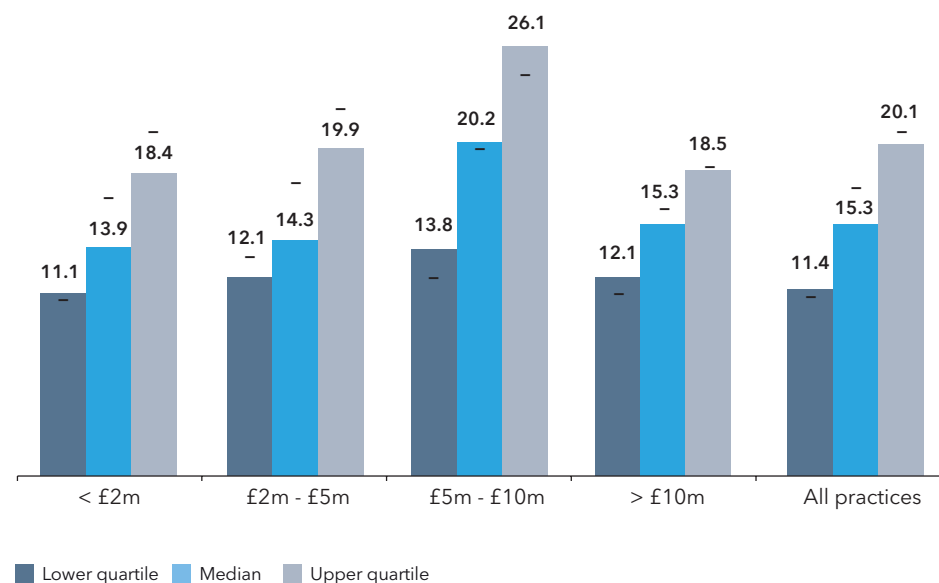
Employment costs - support staff

In terms of actual head count on a full-time equivalent basis, the total number of people employed in a non-fee earning capacity across all participants in our survey was 5,250 in 2025, compared to 5,067 in 2024; an increase of 3.6%. Last year we saw a decrease of 57 people (1.0%).

Within that total we looked in more detail at their specific roles and noted the following statistics:

- The number of secretaries per fee earner decreased from 0.46:1 to 0.44:1.
- The number of other support staff per fee earner (accounts, administration, marketing, receptionists, IT, etc.) was consistent at 0.35:1. This was exactly the same ratio that we saw in last year's survey, which itself was unchanged compared to the prior year.
- As a result of the small decrease in support staff gearing while fee income is increasing, the total expenditure on support staff as a percentage of fee income has decreased from 17.5% in 2024 to 15.3% in 2025.
- The median cost per member of support staff (including secretaries) rose to £34,954 in 2025 compared to £29,971 in 2024 and the median support staff cost per fee earner, including secretarial support, also rose to £27,061 in 2025, compared to £25,655 in 2024.
- Despite the increase in the median staff cost metrics, these results suggest that firms are generally satisfied with their levels of non-fee earning staff members and are operating at a reasonably efficient level. It will be interesting to see whether AI has an impact on support staff numbers in future.

Figure 5.5: Expenditure on support staff as a percentage of fee income (%)



secretaries per fee earner	0.44:1		other support staff per fee earner	0.35:1
median cost per support staff	Increased		median support staff cost per fee earner	Increased

Figure 5.6: Cost per support staff member (£'000)

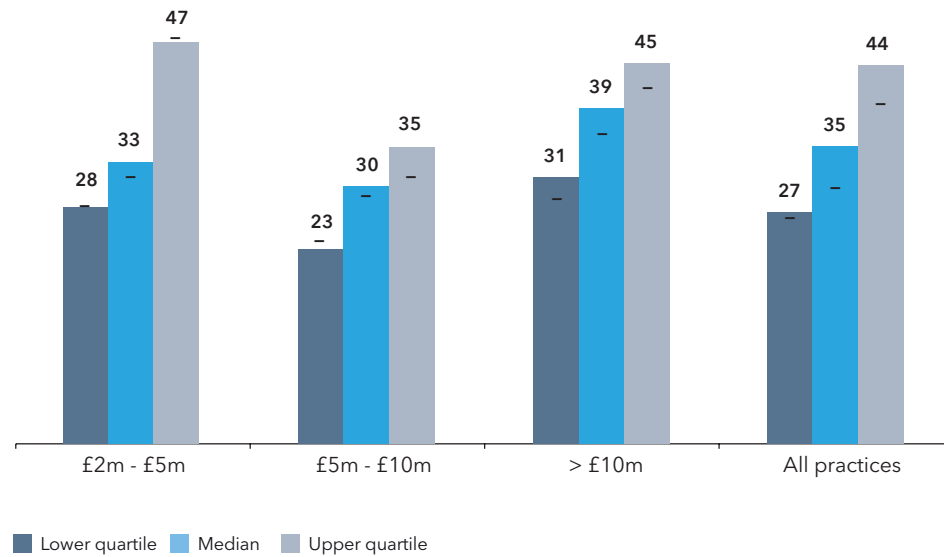
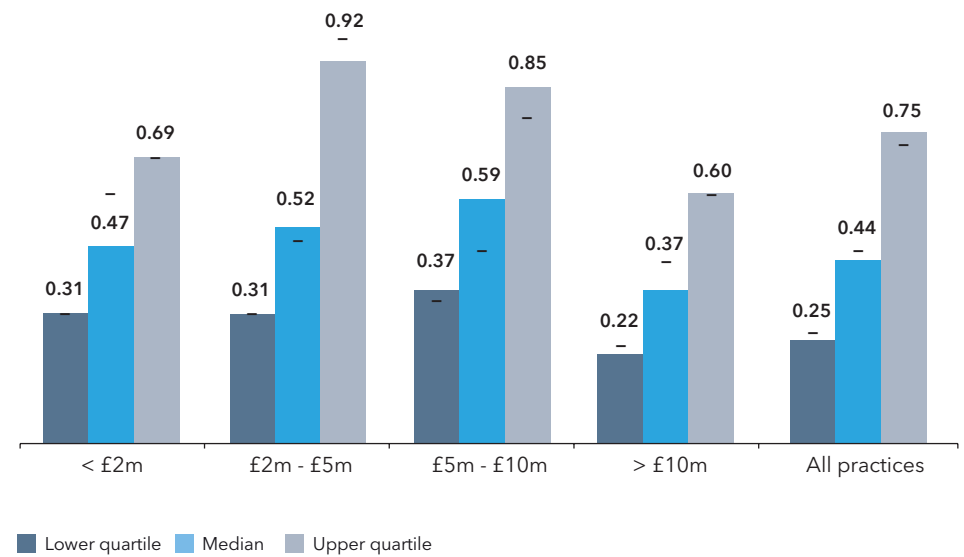


Figure 5.7: Number of secretaries per fee earner



5. Employment costs

Figure 5.8: Number of other support staff per fee earner

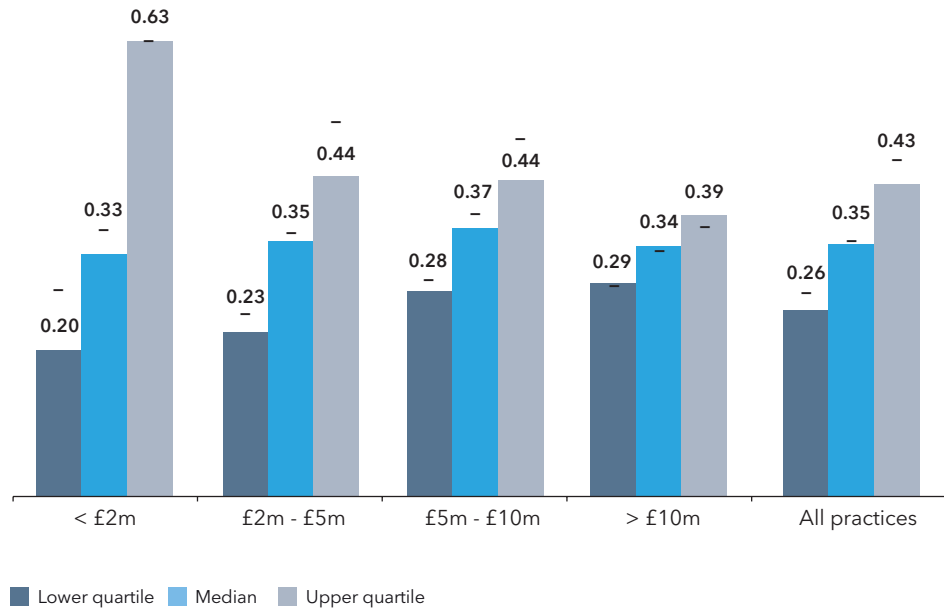


Figure 5.9: Cost of support staff per fee earner (£'000)

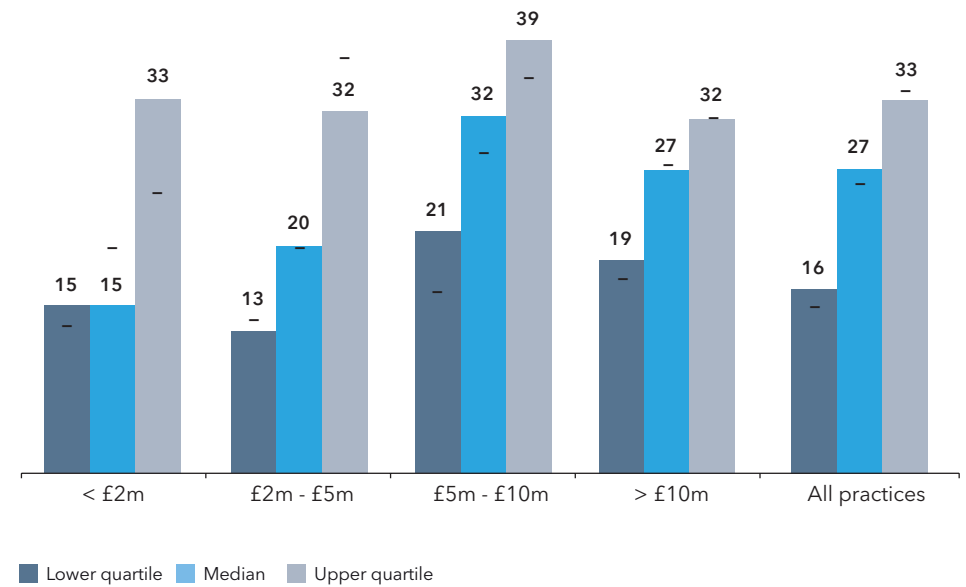
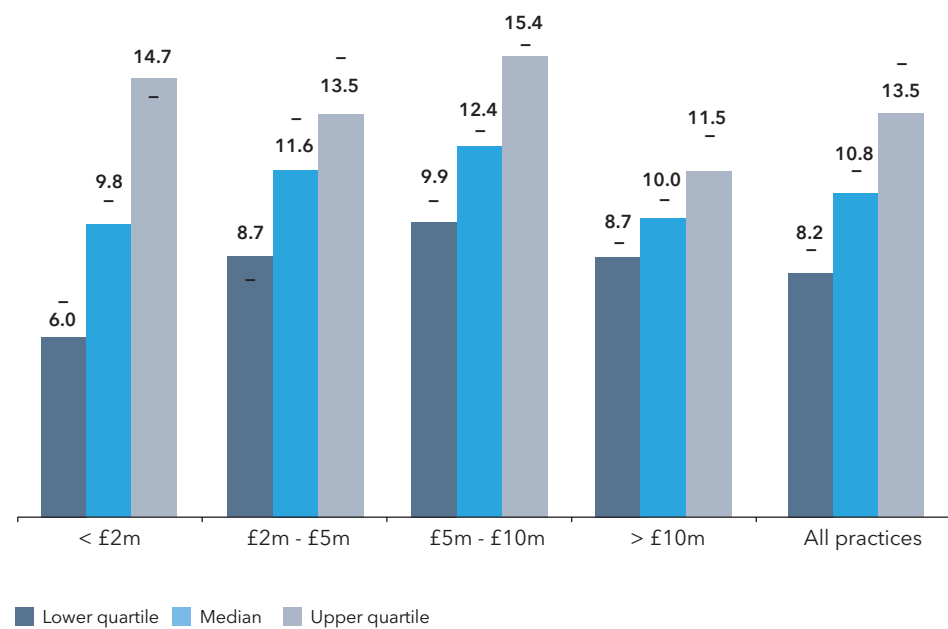


Figure 5.10: Total FTE headcount per £1million of fee income

6.

Profitability

Last year, we reported that, following falls in 2022 and 2023, profitability increased sharply in 2024. Client interest was more or less behind all of the year on year increase in PEP.

This year, we have again seen an increase in profitability, albeit at a more moderate rate than in 2024. PEP increased by 13.0% in 2025.

Looking deeper into the makeup of that PEP, we see that client interest, accounts for far less of the total PEP increase.

This is an encouraging statistic given the importance of core legal services driving performance.

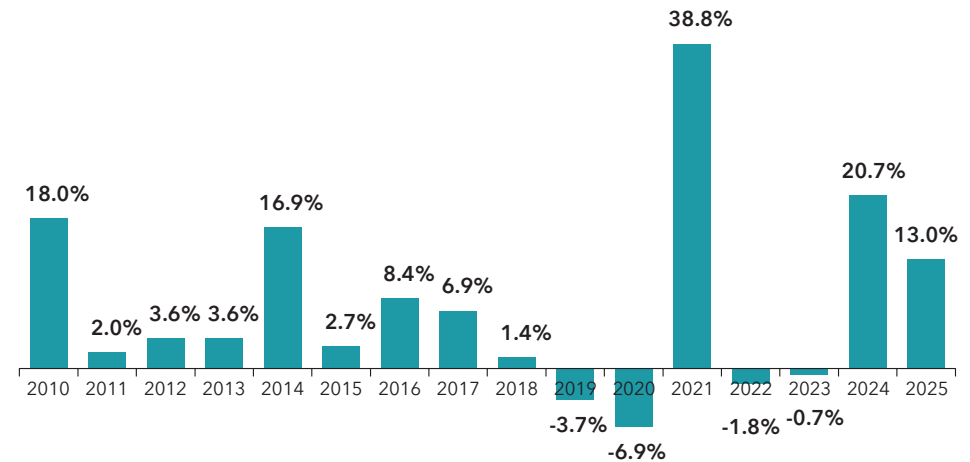
As you can see in the following graphs, PEP excluding interest in 2023 actually fell by 7.8% compared to 2022, while 2024 PEP increased by only a very small amount; 1.2% compared to a total PEP rise of 20.7%. 2025 saw a 10.5% increase in PEP excluding interest.

Over a quarter of fee income was spent on non-salary overheads, though this had fallen compared to 2024. The median non-salary overhead cost per fee earner was £46,916, compared to £47,098 in 2024. These overheads made up 28.4% of fee income in 2025 compared to 31.0% in 2024.

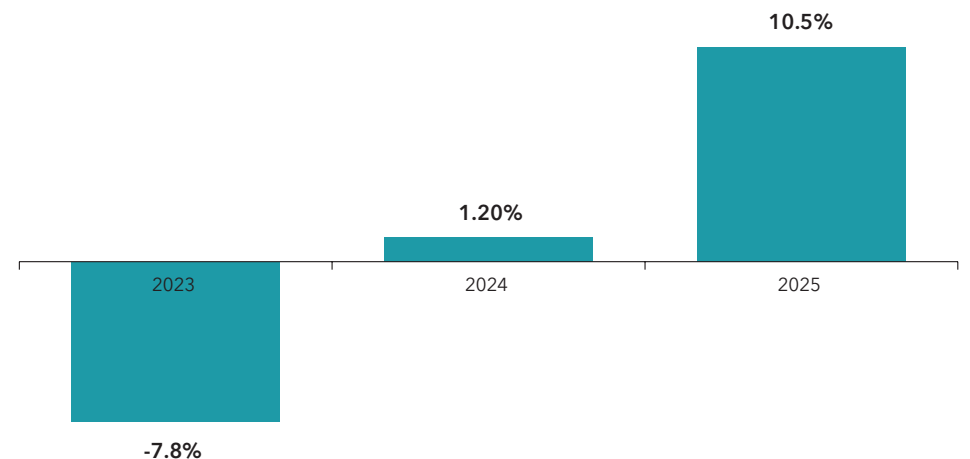
We have looked in further detail at the breakdown of this expenditure, and in particular specific costs such as professional indemnity insurance cover, marketing, accommodation costs, staff recruitment and external staff training later in this section.

If we combine the findings in sections 4, 5 and 6 of this survey, we arrive at the proportions shown on the following page.

Median changes in PEP (%)



Median changes in PEP excluding client interest (%) - last 3 years only



Overheads and profitability as a proportion of fee income (median results only)

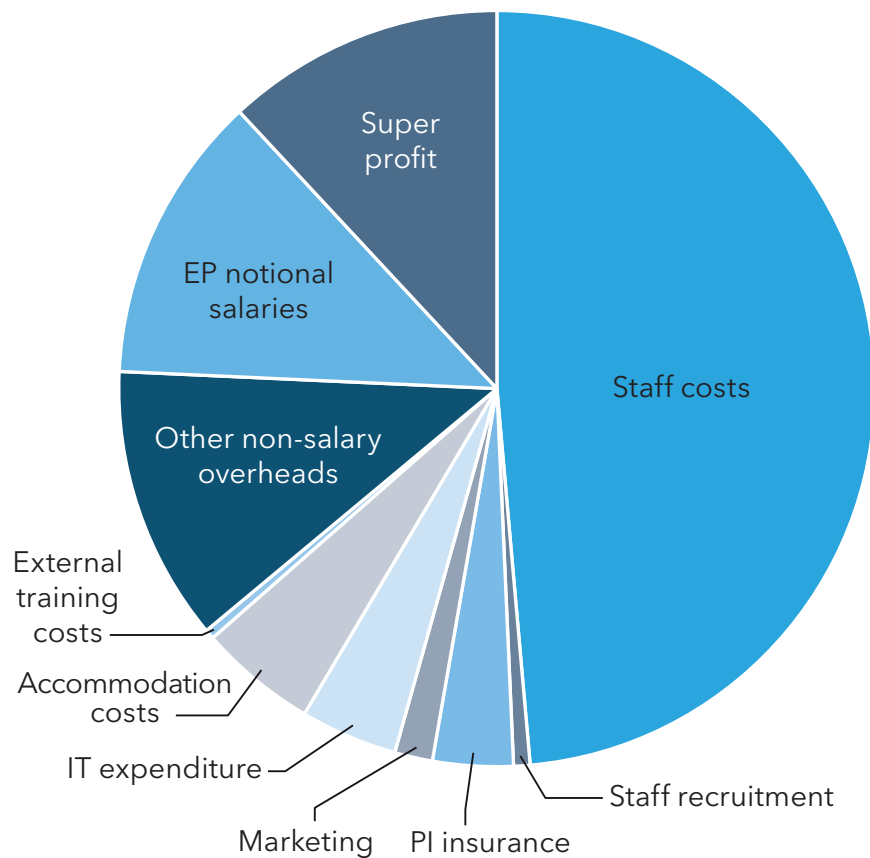
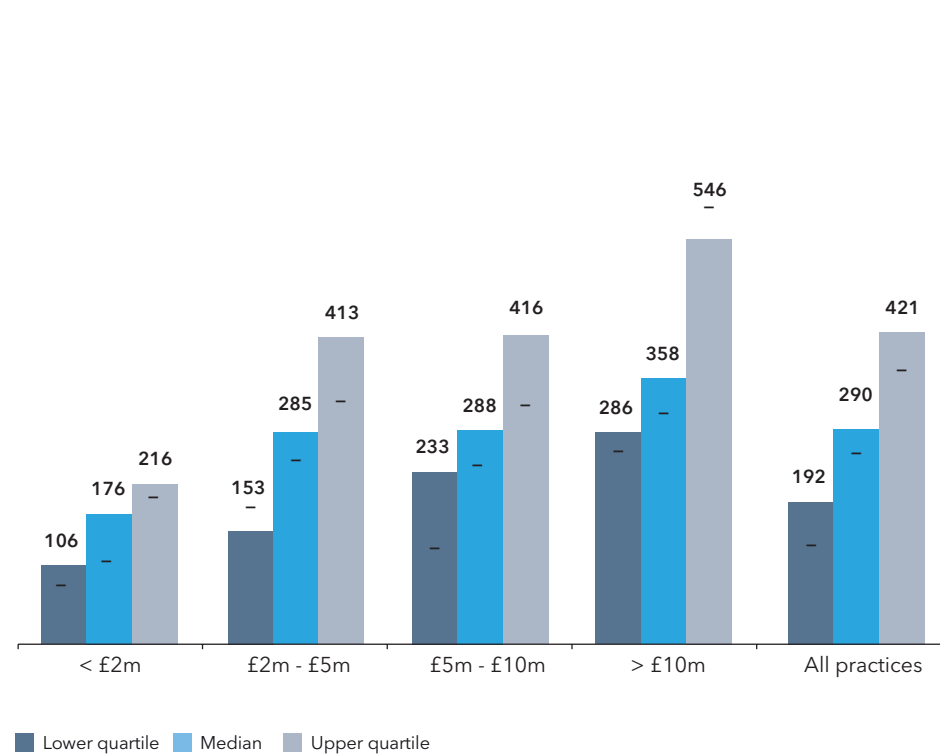


Figure 6.1: Profit per equity partner (£'000)



6. Profitability

Figure 6.1a: Profit per equity partner excluding interest (£'000)

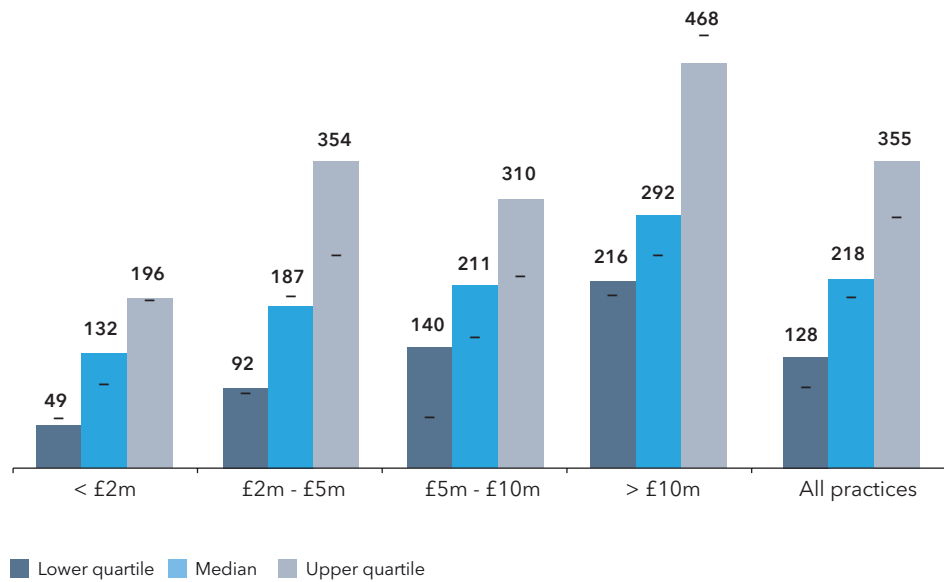


Figure 6.1b: Total interest as % of profit (%)

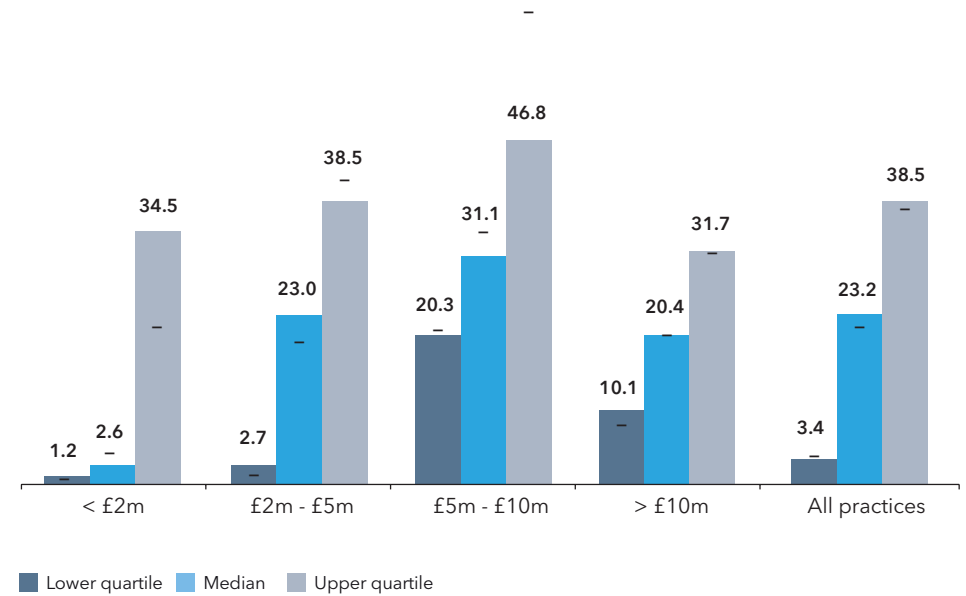


Figure 6.2: Profit per fee earner (£'000)

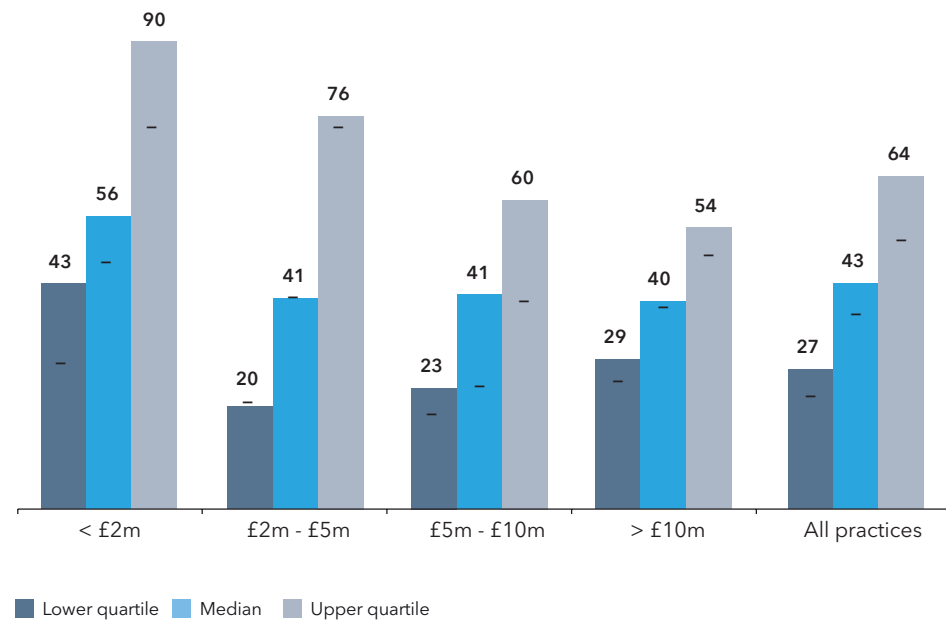
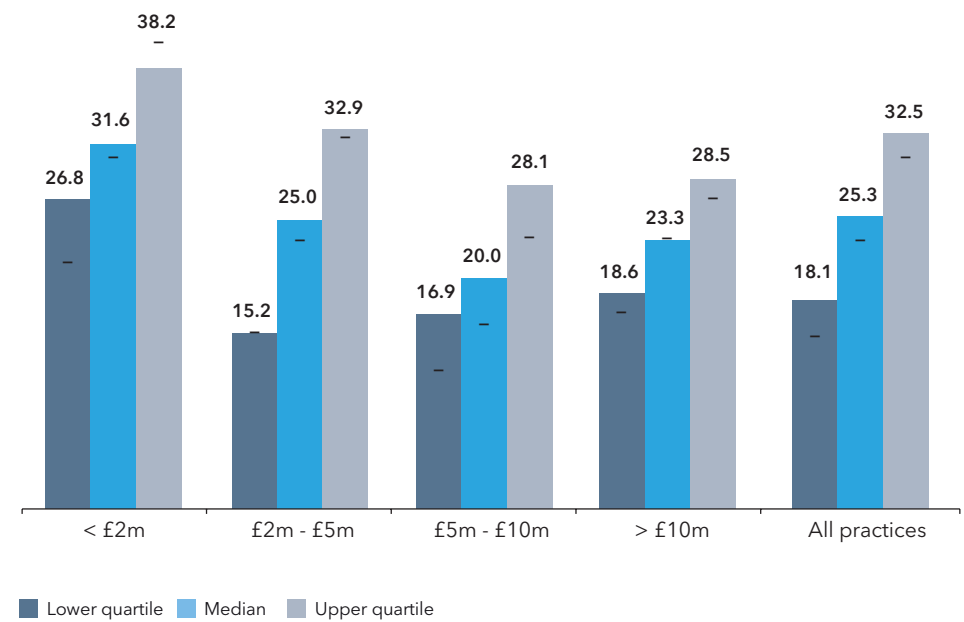


Figure 6.3: Profit as a percentage of total income (%)



6. Profitability

Profitability - return on investment, i.e. super-profit

As law firm owners, equity partners expect to be rewarded with a 'salary' equivalent for the work that they do. They also expect a return for their capital invested in the firm and an additional "super-profit" for the additional risk that they face through being business owners rather than employees. We refer to these three layers of remuneration as notional salary, notional interest and super-profit.

As noted in section 5, equity partner notional salaries have been calculated based on firms' highest fee earner salary plus an extra 15% to reflect the incidental costs of employment such as employer's NIC and pension contributions.

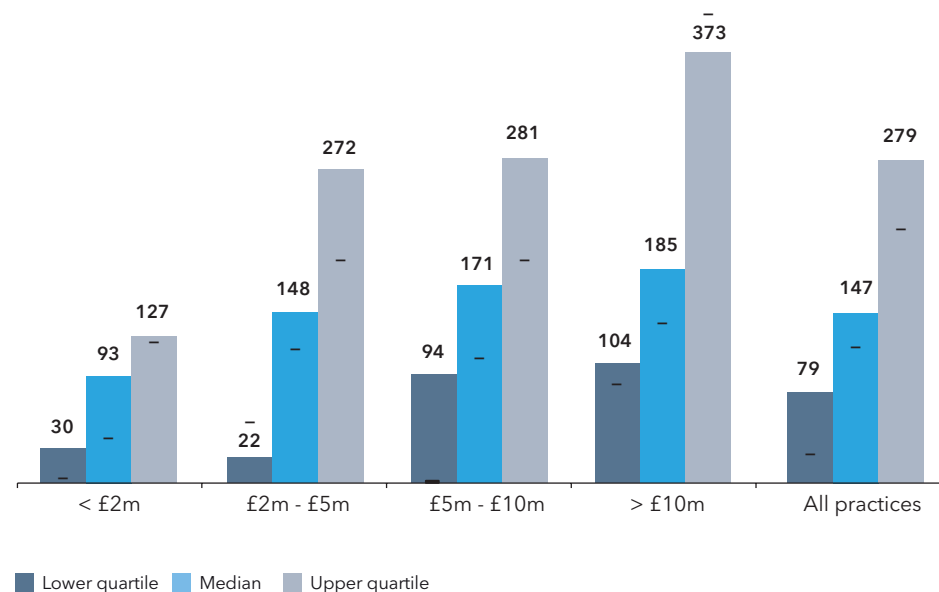
Notional interest has been set at 5% of partner capital/company reserves for both 2025 and 2024.

Total super-profits are simply the net profit less notional salaries and notional interest.

In Figure 6.4 we show the "super-profit" per equity partner. In 2025, the median 'super-profit' was £147,431, compared to £117,250 in 2024; a rise of 25.7%. This increase is consistent with the other positive results that we have seen elsewhere in this survey.

We also noted that super-profits per fee earner rose, from a median of £15,403 in 2024 to £23,204 in 2025; a rise of 50.6%.

Figure 6.4: Super-profit per equity partner (£'000)



Notional salaries (£'000)

2025	63	103	100	140	118
2024	59	96	98	135	113

Figure 6.5: Super-profit per fee earner (£'000)

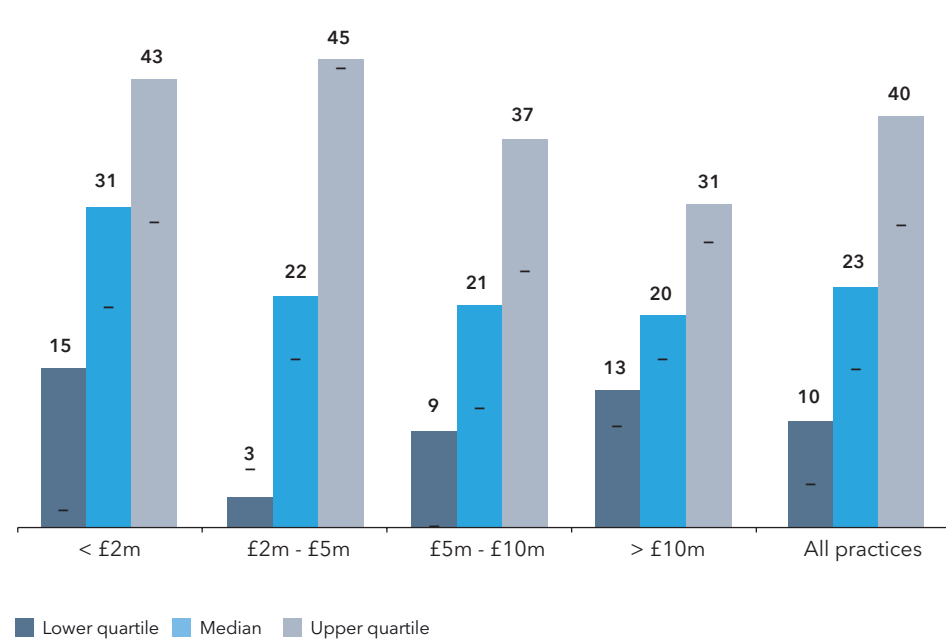
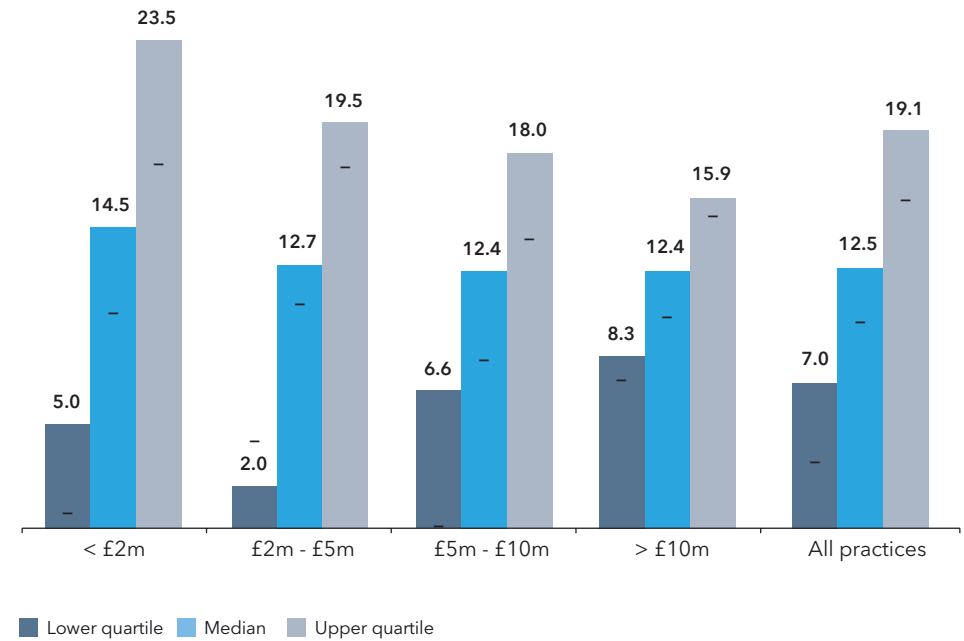


Figure 6.6: Super-profit as a percentage of total income (%)



6. Profitability

Return on capital employed (ROCE)

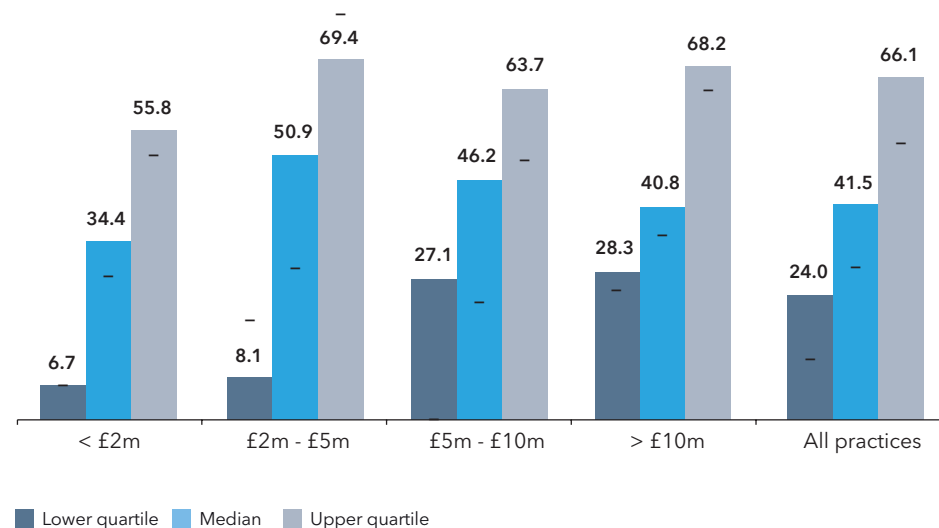
ROCE is a measure of the returns made by a firm on the resources available to it. For a law firm, ROCE is measured in terms of super-profits as a percentage of partner capital in a partnership or LLP or retained profits and share capital in a limited company.

In the context of the returns made to the owners of a law firm, we use super-profit, as this takes account of notional salaries for partners, and notional interest on partners' capital and so is representative of the reward to the partners for the risk they take in being owners of the business.

The results show a median ROCE of 41.5% for 2025, compared to 29.3% in 2024. Naturally, firms looking to attract new partners will be more successful with higher levels of ROCE and the range of returns between the lower performers and the higher performing firms is apparent at all levels of turnover.

ROCE is a key measure for potential investors in law firms, including other law firms and other acquirers who will pay more when a practice is achieving ROCE in line with the best performers in their size category, particularly when the costs of borrowing for investment are currently higher than they used to be.

Figure 6.7: Return on Capital Employed (super-profit as a percentage of partner capital) (%)



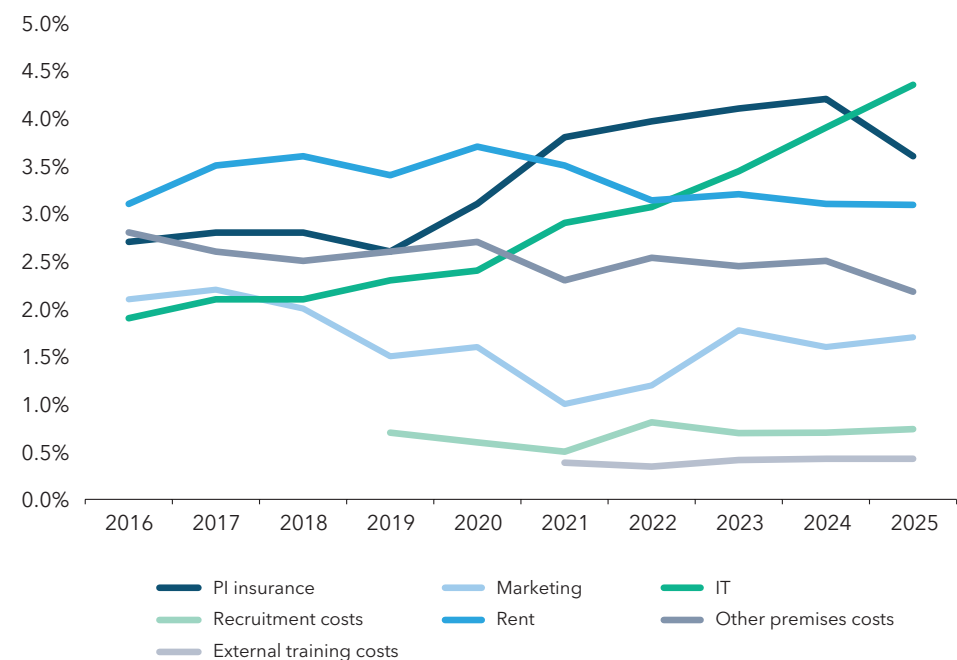
Non-salary overheads

The charts over the next few pages show that, whilst firms have continued to work hard to control their overheads, there has been an increase in non-salary overheads overall, and while this is modest, the ongoing rise in IT costs has been the main driver here.

PI insurance as a proportion of fee income has fallen this year for the first time since 2019 and, whilst this has historically been the primary non salary overhead alongside property costs, IT costs, driven by ongoing consolidation in the software supplier market and increasing spend on AI, have now overtaken everything else. The challenge now for firms will be how to make these increasing costs work for them through, for example, exploiting the opportunities in the AI market which, as we saw in section 1, is not currently a key priority for the majority of firms.

Most other costs have remained relatively stable this year, though premises costs have fallen.

Median spend on non-salary overheads (as a % of fee income)



6. Profitability

Figure 6.8: Non-salary overheads as a percentage of fee income (%)

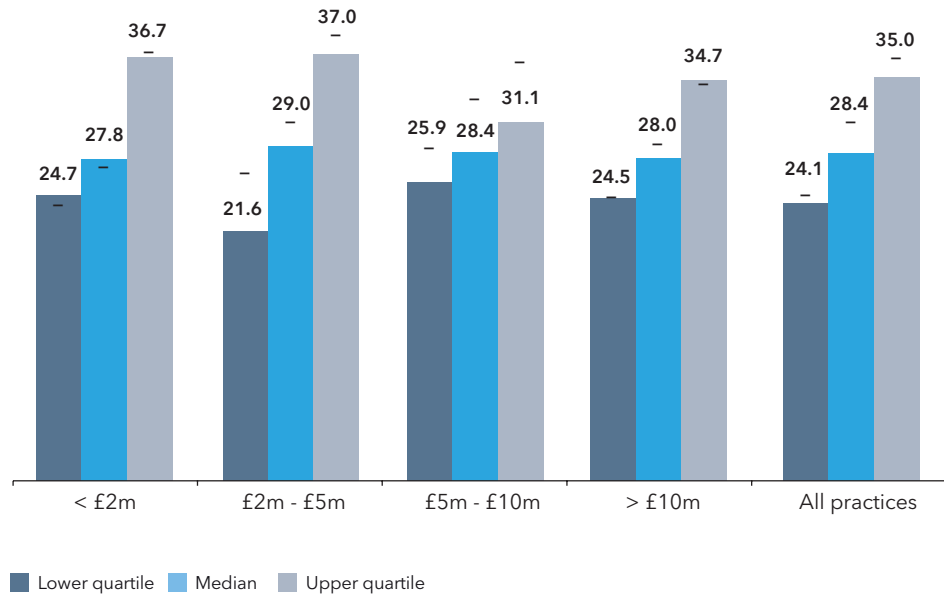


Figure 6.9: Non-salary overheads per fee earner (£'000)

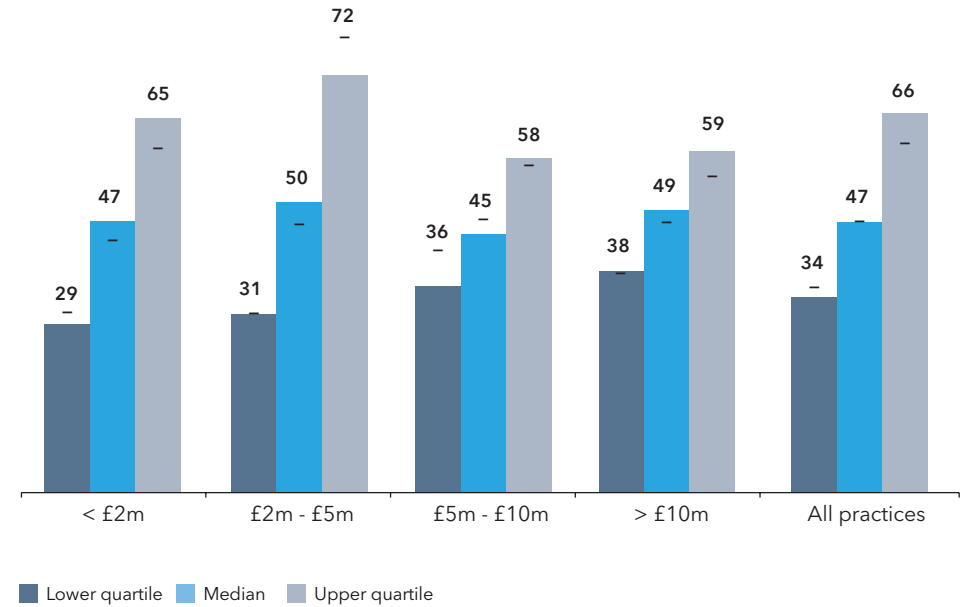


Figure 6.10: PI insurance premium expenditure as a percentage of fee income (%)

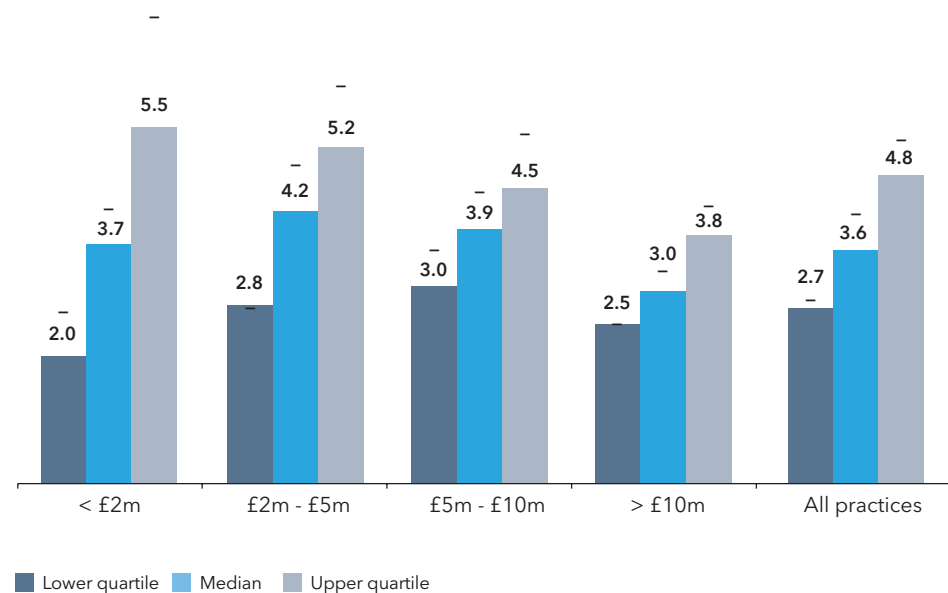
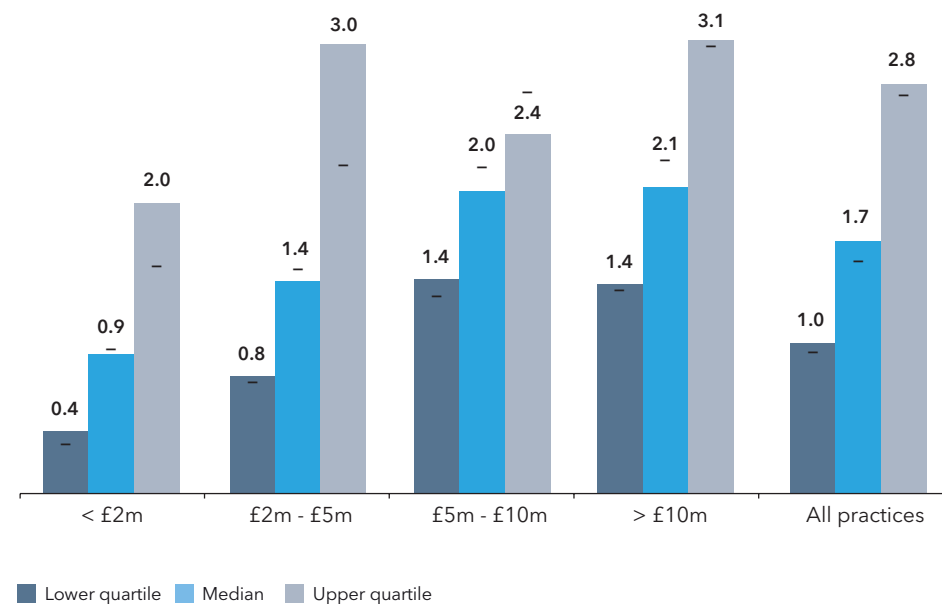


Figure 6.11: Marketing expenditure (including staff costs) as a percentage of fee income (%)



6. Profitability

Figure 6.12: IT expenditure (including IT support, IT consultants and cloud-based storage) as a percentage of fee income (%)

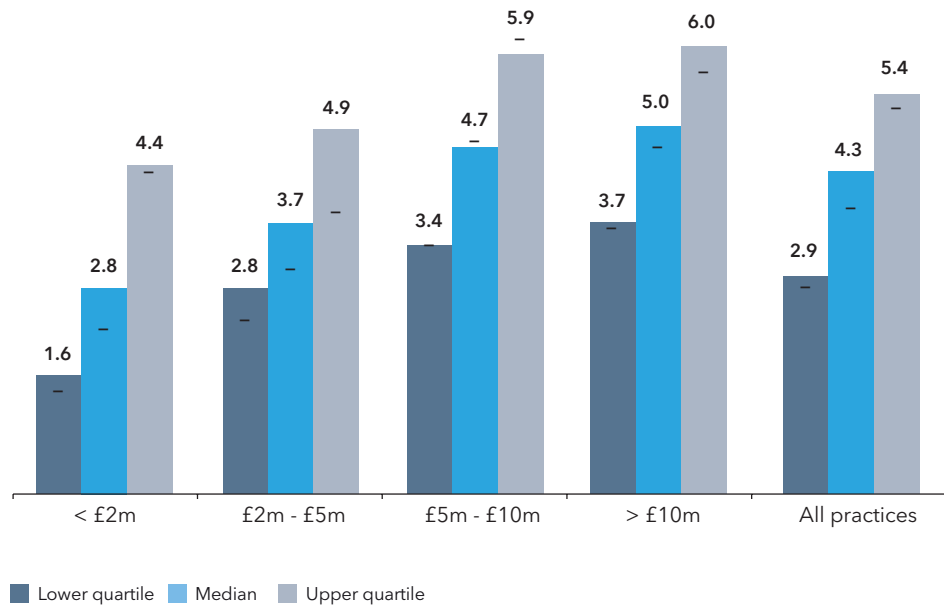


Figure 6.13: Staff recruitment costs (external or in-house) as a percentage of fee income (%)

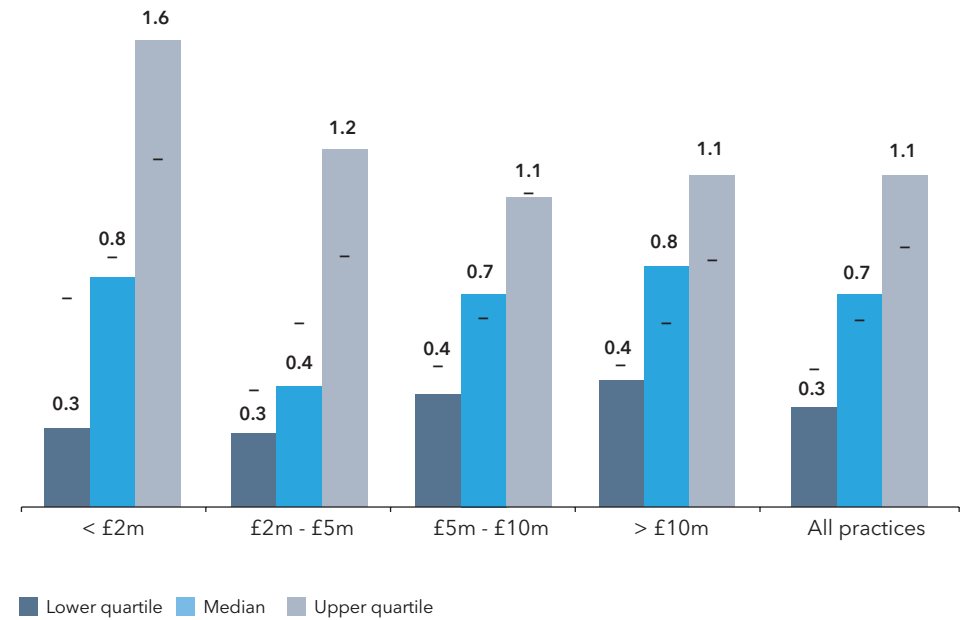
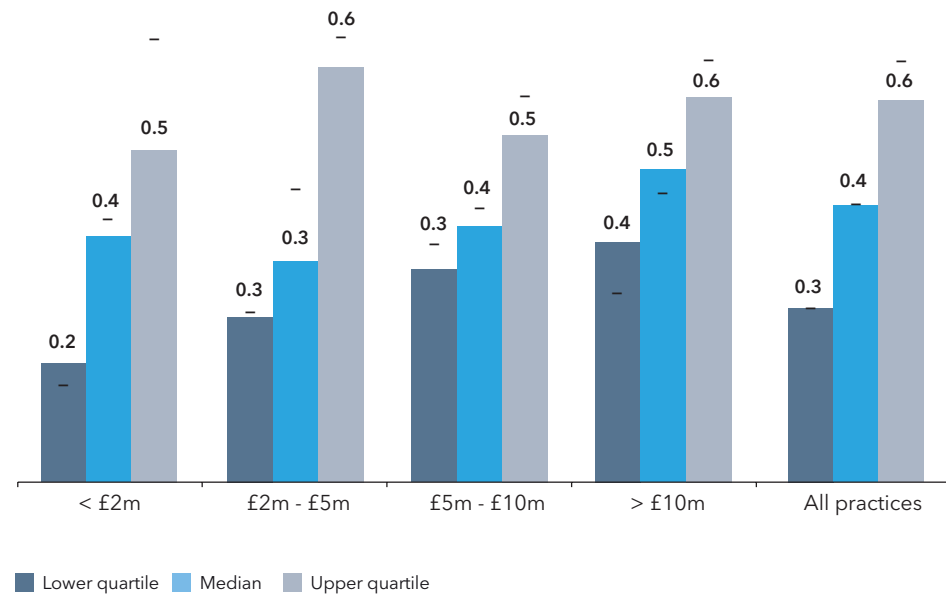


Figure 6.14: External training costs as a percentage of fee income (%)



6. Profitability

Accommodation costs

After staff-related costs, accommodation costs are usually the next largest expense for any law firm. Accommodation costs typically consist of rent, rates, office insurances and office running costs such as day to day utilities.

The results here show a median spend on accommodation costs of 5.3% of fee income, down slightly from 5.6% in 2024.

After a small increase last year, rent costs have fallen a little this year to 3.1% of fee income, compared to 3.2% last year. This is a trend that we have seen over recent years and one which we do not expect to see reversing significantly as rental space, especially in larger cities, is readily available.

Other premises costs, such as repairs and utilities, have not changed significantly and have actually fallen as a proportion of income, to 2.2% from 2.4% last year. Clearly the cost of living rises that were seen in previous years are now starting to ease, or at least are not rising at quite the same rate as they were before.

There will be a combination here of firms being able to control their costs well, whilst also being able to pass on many general cost of living rises to clients. It is likely to be a combination of both, though firms we have spoken with over the last year are feeling more confident that they have been able to increase their charge rates to capture many of the rising costs.

Figure 6.15: Accommodation costs as a percentage of fee income (%)

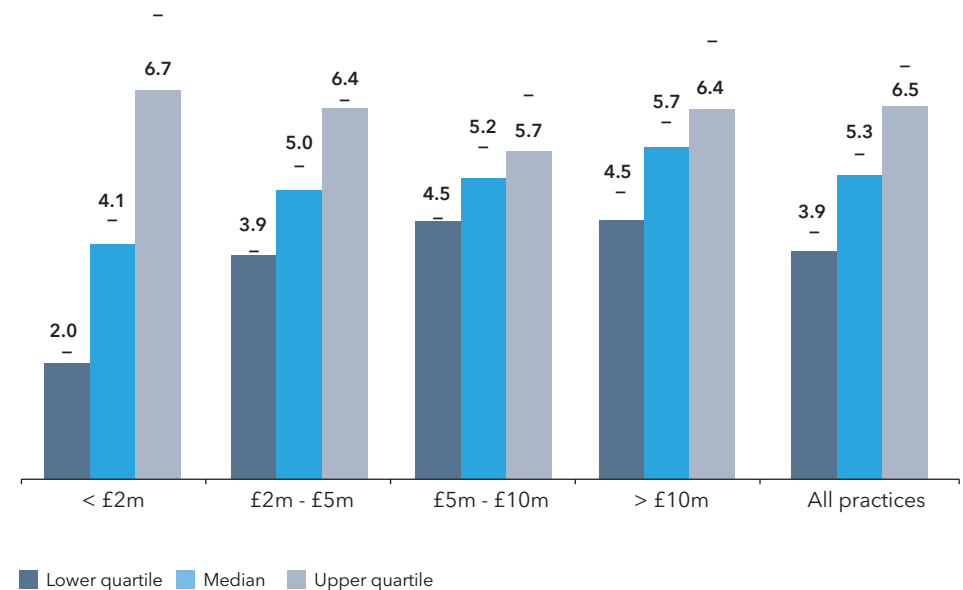


Figure 6.16: Premises rental payments as a percentage of fee income (%)

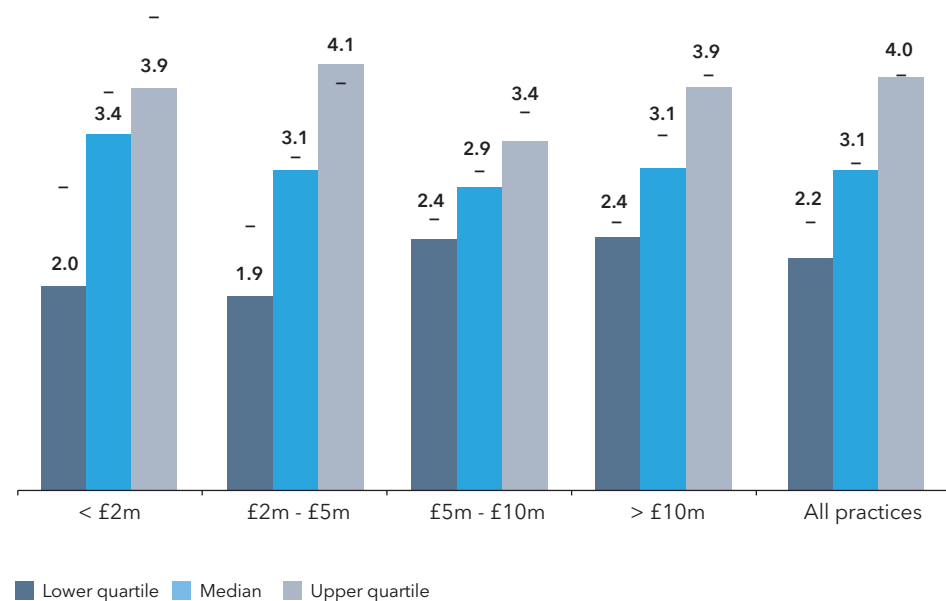
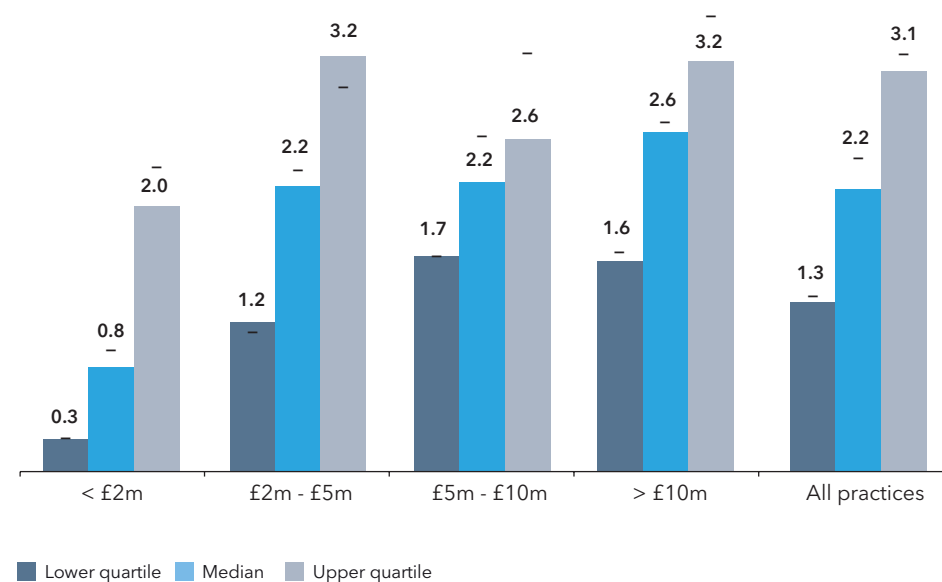


Figure 6.17: Other premises costs (rates, light and heat and maintenance) as a percentage of fee income (%)



Characteristics of profitable firms

In this section we examine the characteristics of the firms that achieved above-average levels of profitability in this year's survey and compare them against the same characteristics of the firms that achieved lower than average levels of profitability. We have focused on six key areas:

- Fee earner gearing;
- Fee income per equity partner;
- Fee income per fee earner;
- Total salary costs, including notional salaries for equity partners;
- Non-salary overheads;
- Total lock up days.

The figures shown in the following charts have been calculated by separating all participants into two groups: those with net profit per partner above the median shown in Figure 6.1, and those with net profit per partner below the median in each turnover band. We then reanalysed these two groups, to calculate new median figures, so that we can more easily represent what a well performing firm looks like relative to a firm that is underperforming.

The seven charts in this section show two bars for each turnover band. The bars on the left are the figures for the firms with above-average levels of profitability, and the bars on the right are for the firms with lower-than-average levels of profitability.

Figure 7.1: Fee earner gearing (median figure only)

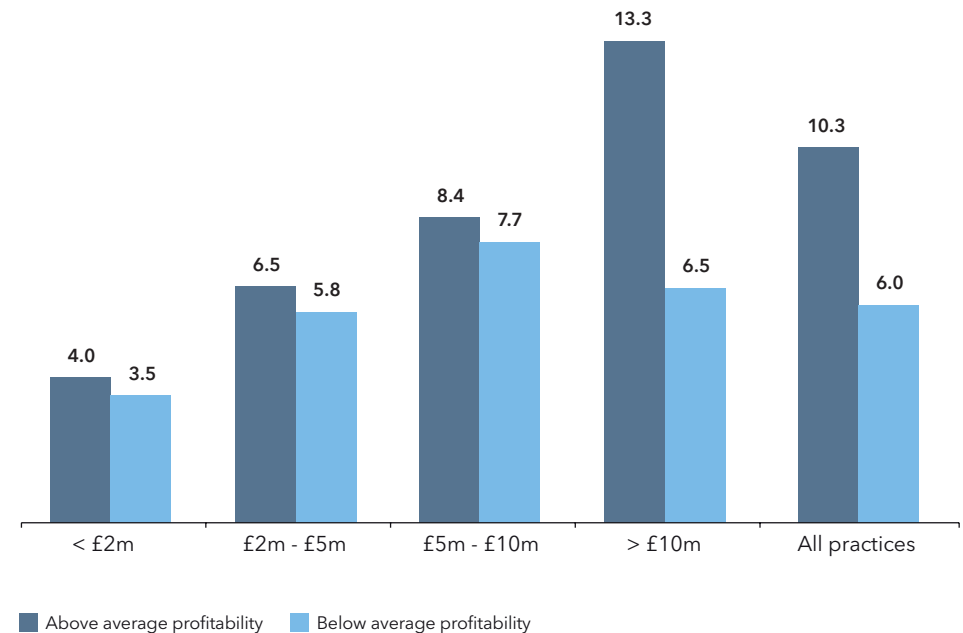


Figure 7.2: Fee income per equity partner (£'000) (median figure only)

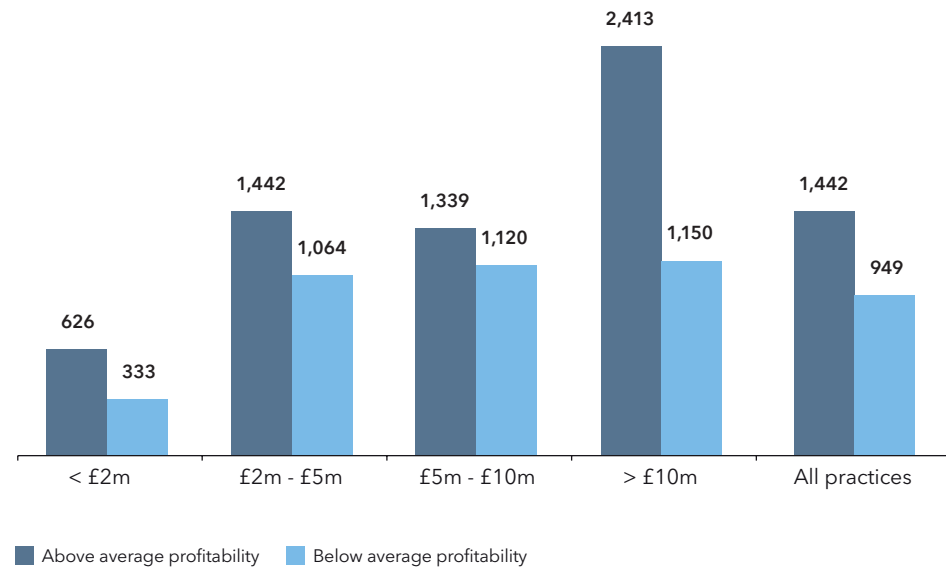
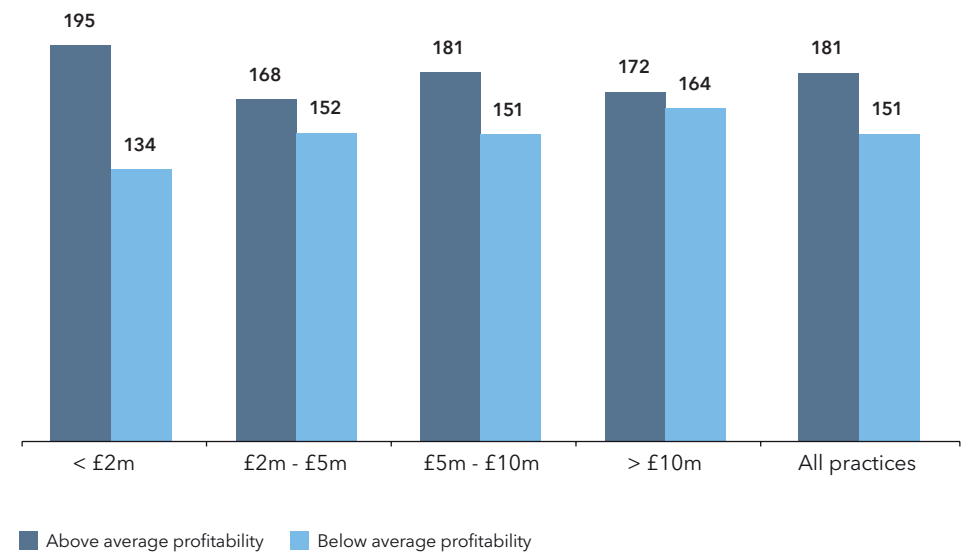


Figure 7.3: Fee income per fee earner (£'000) (median figure only)



7. Characteristics of profitable firms

Figure 7.4: Total salary costs, including notional salaries, as a percentage of fee income (median figure only)



Figure 7.5: Non-salary overheads as a percentage of fee income (median figure only)

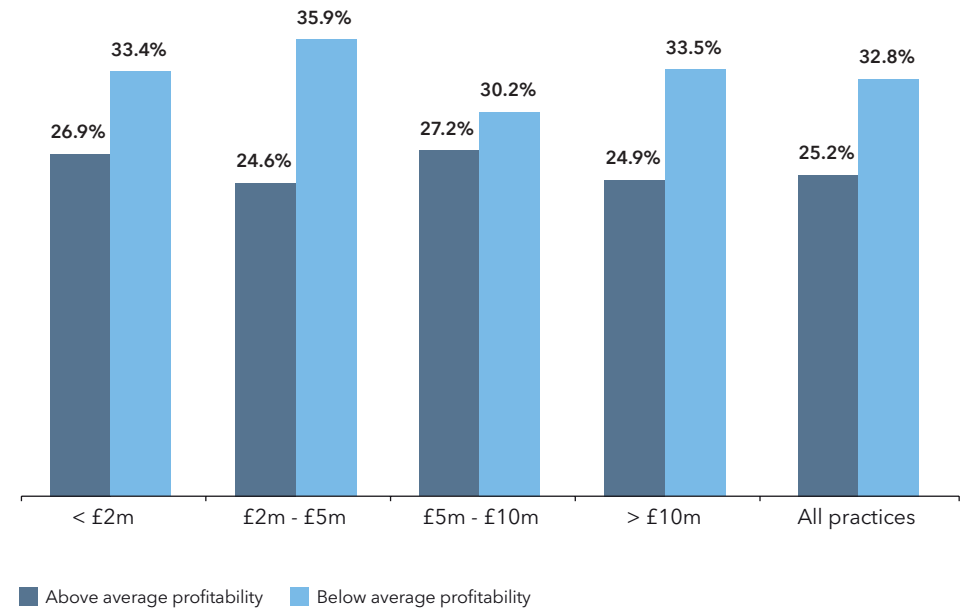


Figure 7.6: WIP days (median figure only)



Figure 7.7: Debtor days (median figure only)



8.

Working Capital

Lock up (work in progress and debtors combined) tends to vary significantly across differing areas of law and so the figures in this section are intended to give an overall illustration only. It is worth noting however that better performing firms, as illustrated in the previous section, do tend to see lower overall lock up.

Please note that, because our figures are based on median figures rather than a simple average, the total combined median debtor days and WIP days do not usually equal the total median lockup figure, which is the case here.

This year, the median number of combined lock up days has decreased to 134 days in 2025 from 146 days in 2024. In simple terms, this means that, whilst it takes over four months between being appointed and getting paid for doing the work, this has fallen by almost two weeks compared to where firms stood last year.

Looking at the individual WIP and debtor days results at figures 8.2 and 8.3, the fall in lock up has been due to almost matching decreases in both WIP and debtor days. This is encouraging as improvements in overall lockup have a positive impact on cash flow.

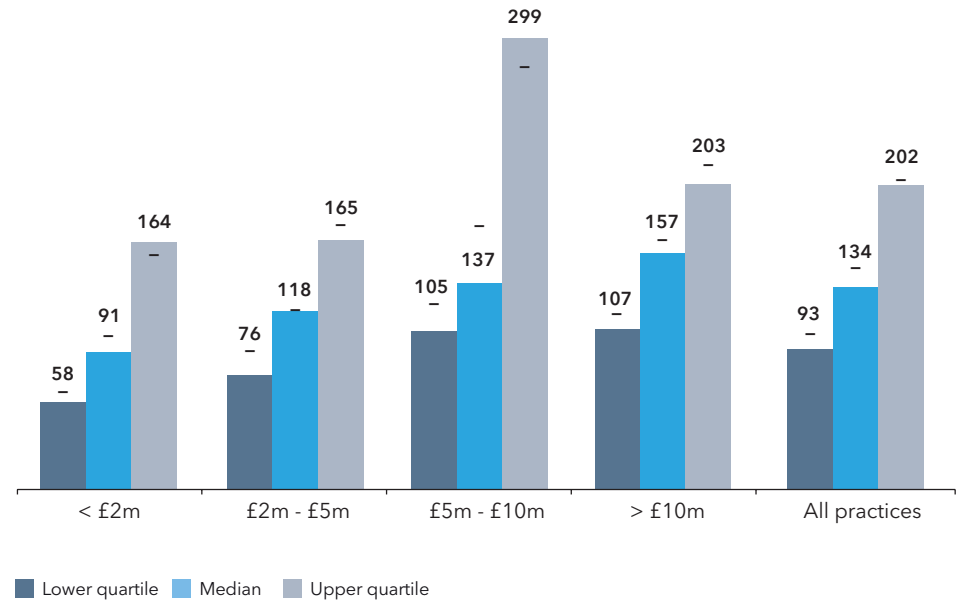
As we have reported previously, a firm with turnover of £10m would free up almost £30k of cash for every day's reduction in lockup and this impressive reduction in 2025 could, in theory, mean the difference between operating close to an overdraft limit and requiring no overdraft at all.

It is therefore important that firms focus on making the reduction this year a permanent trend. In some cases, this might not require significant changes to processes.

Imagine, for example, a scenario where fee earners in a firm raise their bills consistently throughout the month but those bills are not sent immediately. Or, they wait until the last day of the month to raise their bills. If those same fee earners were to raise their bills as soon as they can and then send them the same day, they could, in theory, reduce their lockup by days, if not weeks.

Firms therefore need to look for 'easy wins' to help keep lock up under control.

Figure 8.1: Total lock up (days)



134 -12 days year end lock up

WIP days

Work in progress (WIP) days have been calculated based on total WIP per participants' time records, as opposed to the figure included in their year-end accounts, as, for many firms, the figure in these accounts does not include large amounts of contingent WIP.

We typically see firms that operate conditional fee agreements carrying large amounts of contingent WIP that is not reflected in their year-end accounts, and it is just as important for those firms to be able to monitor that WIP as it is for firms that raise interim bills as matters progress.

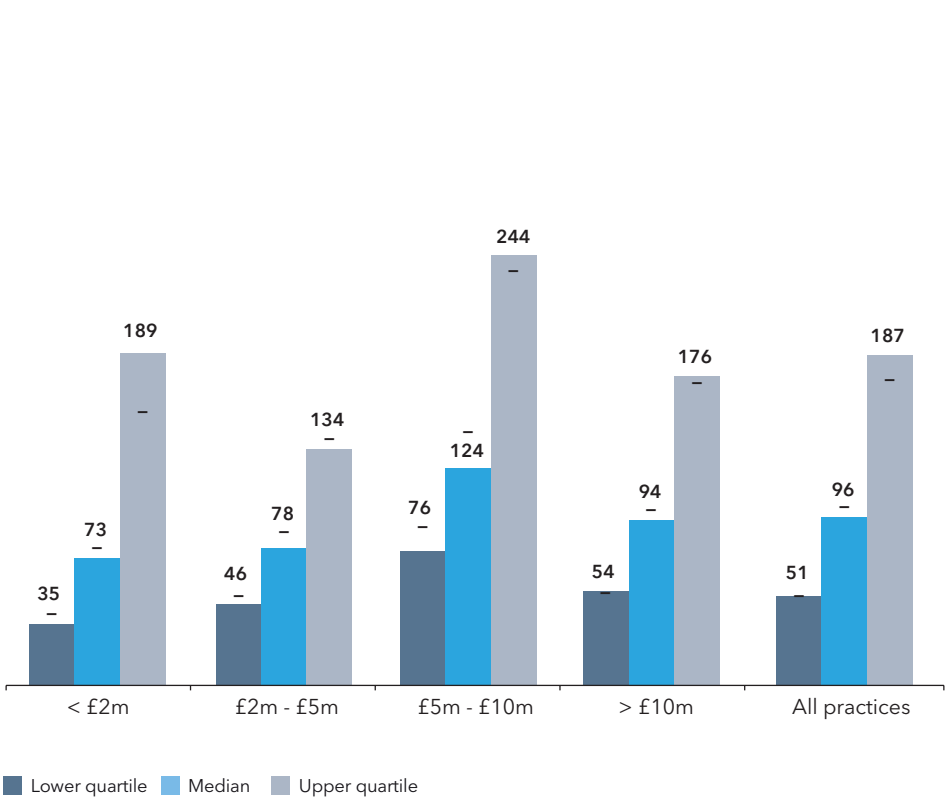
While firms tend to focus on credit control as the primary tool to manage lock up, we have seen consistent improvements across both WIP and debtor days this year.

Implementing good financial hygiene at the billing stage is vitally important, and arguably more so than at the debt collection stage, as it can help avoid problems further along the working capital journey.

As we saw at figure 7.6, there is a large gap between WIP days at the most and least profitable firms and we tend to see that the best performing firms have robust policies that ensure that all time is captured properly and that time is being billed as early as possible.

WIP days decreased from 101 days to 96 in 2025.

Figure 8.2: WIP days



8. Working capital

Debtor days

Debtor days fell from 39 days in 2024 to 35 days in 2025, though interestingly, as seen at figure 7.7, lower debtor days were not a characteristic of more profitable firms. It should however still be an important area of focus for firms and there are some important points to remember:

- Fee earner training on managing lock-up can make a huge difference. In our experience, many fee earners do not fully understand the correlation between what they do within their day job and how it impacts on firms' finances.
- Moving away from billing at month-end to billing across the month can result in clients paying a full month earlier, especially for business clients that may be on fixed payment cycles.
- A client who is happy with the outcome of a case may well pay more quickly if they receive the bill promptly. For those clients that are not as happy, prompt billing gives everybody the opportunity to resolve the matter while knowledge is still fresh.
- Many firms continue to carry large amounts of unbilled disbursements and often do not ask for money on account of them, even in areas where it should be straightforward for them to do so (e.g. property work). Too many firms continue to extend unnecessary free credit to clients by funding disbursements from the office account rather than using the client's own money. Again, this is something that fee earners often do not appreciate.
- Whilst it can be helpful to remove fee earners from the credit control function and employ a dedicated credit manager, any policy should allow some degree of flexibility. In some cases, it is the fee earner who is better positioned to negotiate a favourable outcome.

Figure 8.3: Debtor days

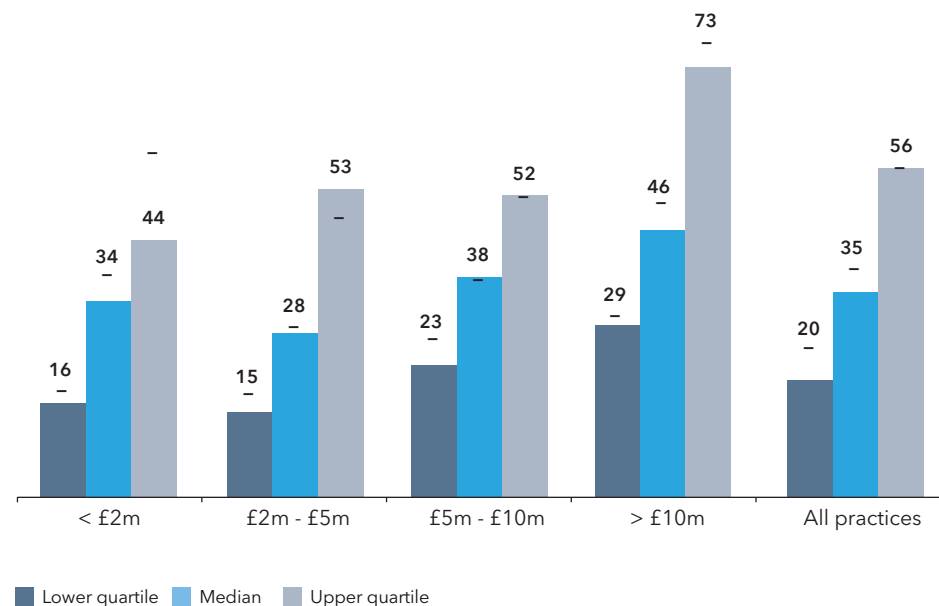
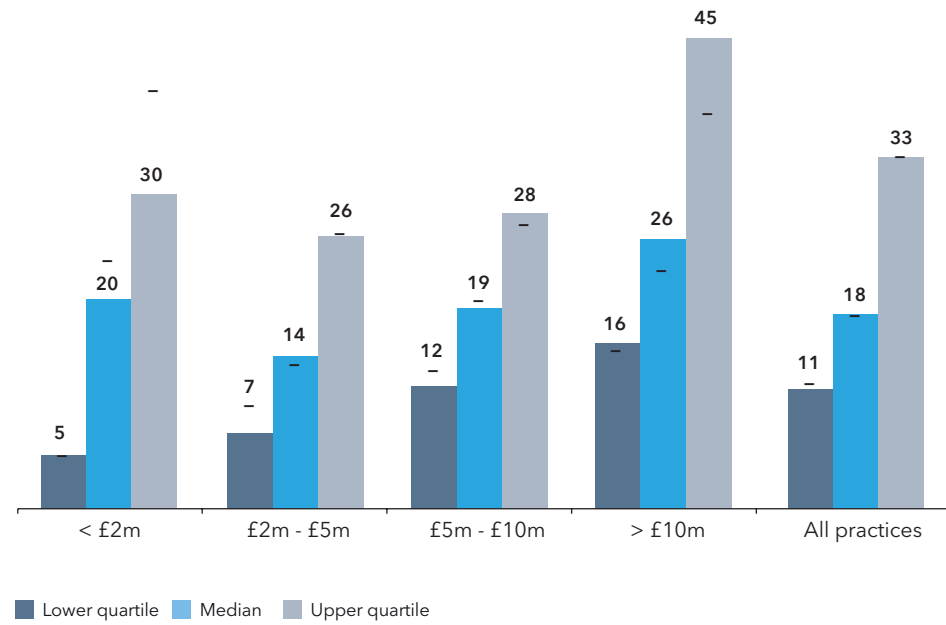


Figure 8.4: Debtors per fee earner (£'000)



8. Working capital

Working capital – equity partner funding

Equity partner capital in a partnership or LLP is the total combination of capital account, current account, and tax reserves. In a limited company, capital comprises share capital, retained profits and directors' loan accounts.

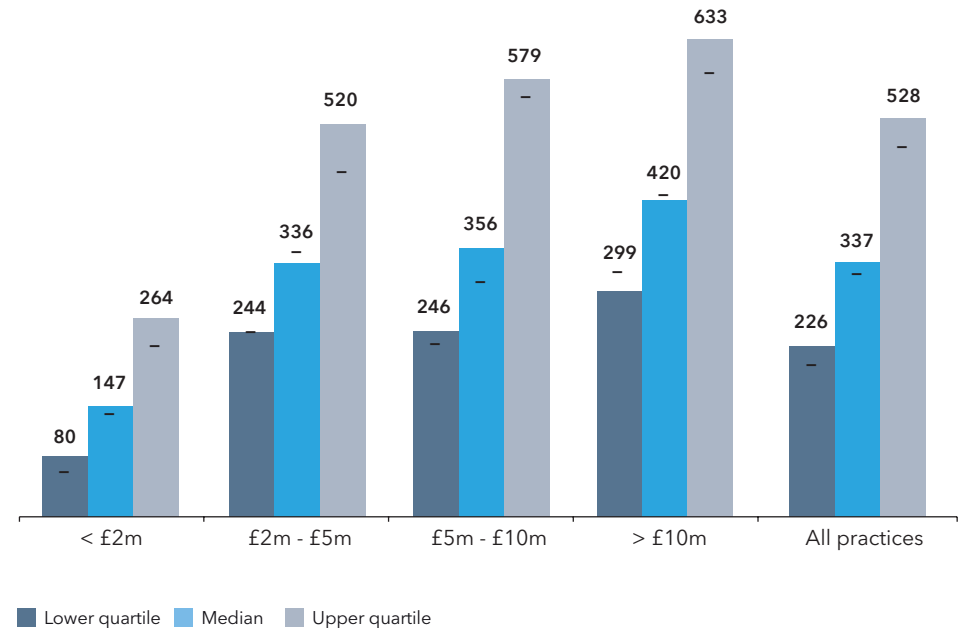
The participants in this year's survey reported a median increase from £321,652 total partner capital in 2024 to a median total of £336,500 in 2025. This moderate increase of 4.6% follows a more significant rise reported last year (i.e. between 2023 and 2024) of around 14%.

Last year's change was primarily due to the acceleration of tax payments for many firms following the change to the tax basis period rules in the 2023/24 tax year, which resulted in more firms reducing drawings or calling on partners to inject additional capital to meet the additional cash burden. Furthermore, most of those firms affected took the option to spread the accelerated tax over five years, and so this is by no means a one-year issue only as firms are no longer able to use partners' tax reserves to help fund their working capital in the same way that they were prior to the changes.

By looking at past cashflow and lock up trends, firms should be able to estimate their historic working capital requirements and use this, in conjunction with robust forecasting, to assess their optimum level of partner funding.

As firms continue to reduce their reliance on client account interest, this should be built into their financial models, and these models should be deliberately challenging. Unless firms can replace interest with underlying trading growth, there will likely be calls to increase partner capital even further in the future.

Figure 8.5: Partners' account balances per equity partner (£'000)



Bank and other borrowings

Following on from the previous section, the median year end office bank balance across firms increased significantly this year, rising from £300,000 in 2024 to £484,407 in 2025; an increase of 61%. This reverses a fall of 17% last year.

82% of participants reported a positive office account balance at their most recent accounting date compared to 79% last year, which reverses a comparatively similar fall last year.

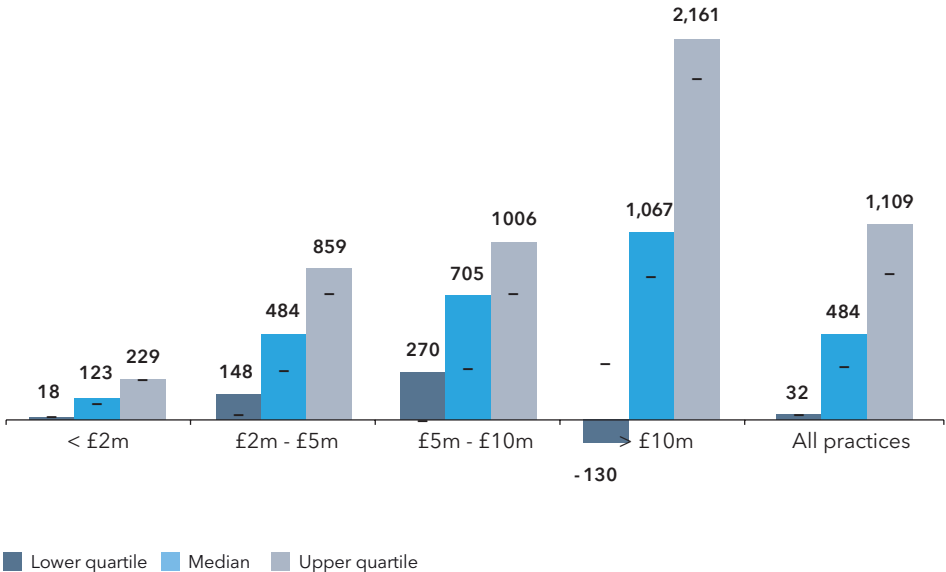
All turnover bands reported a positive median balance, and all bands reported a median increase compared to last year, with those in the £5m - £10m turnover band seeing the most pronounced increase.

For those firms that had bank borrowings and/or a bank overdraft, the median overdrawn balance per equity partner was £50,672 compared to £70,317 in 2024.

Banks remain ‘open for business’ to law firms and have established lending options for incoming partners in a partnership or LLP. For individuals buying into limited companies, there are generally fewer options available due to greater complication around, for example share valuations and purchase arrangements, though these options are increasing.

It is important to remember that many banks pay close attention to the ratio of borrowings to fee income when assessing a firm’s ability to make repayments, and so it is encouraging to see a reduction across the firms in the survey, with a median of 5.0% compared to 6.1% in 2024. Banks also look closely at firms’ handling of WIP and debtors when assessing lending risk and so the lock up results at figure 8.1 are similarly encouraging.

Figure 8.6: Year-end office account bank balance (£'000)



8. Working capital

Figure 8.7: Bank borrowings per equity partner (£'000)

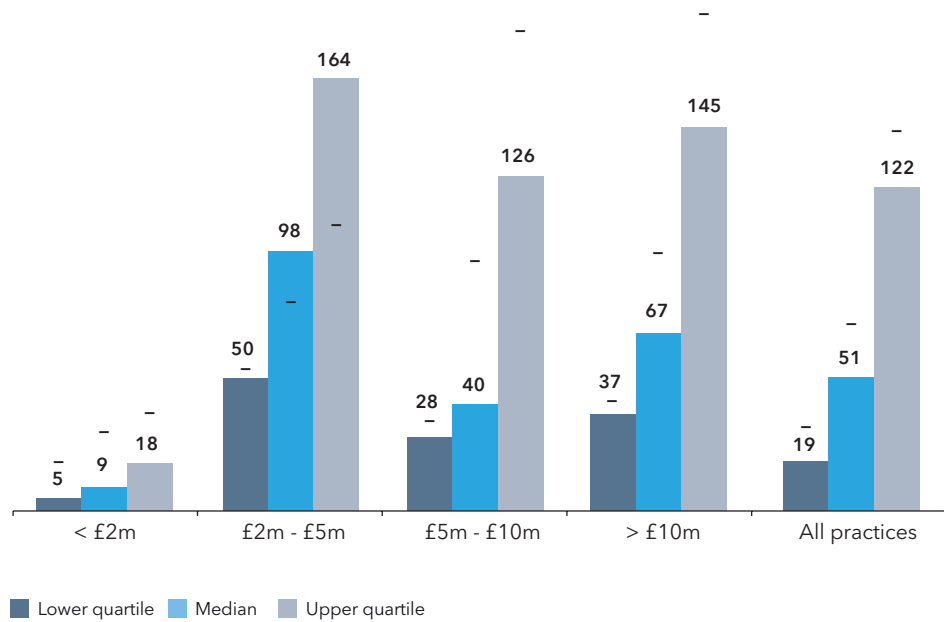


Figure 8.8: Other borrowings per equity partner (£'000)

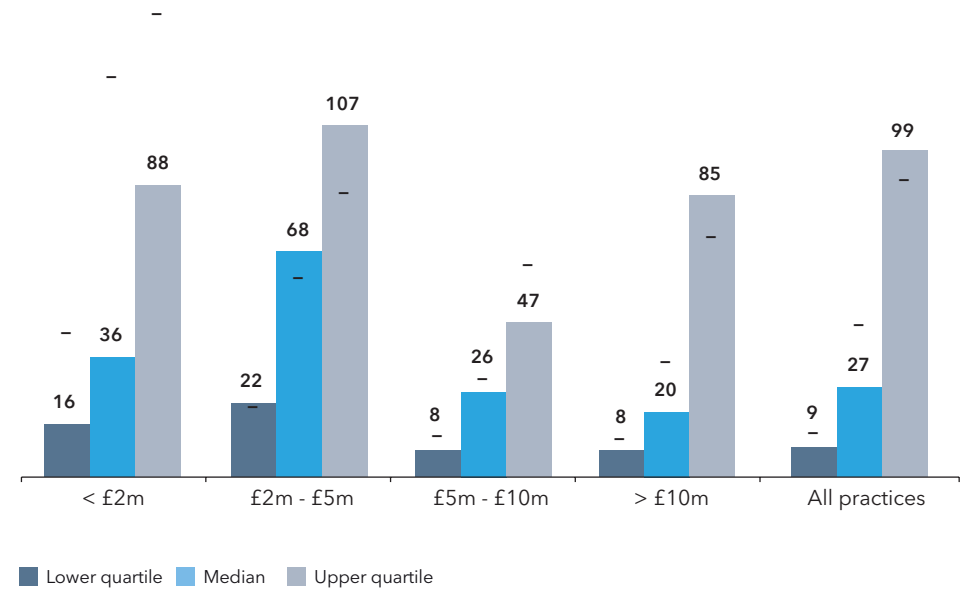
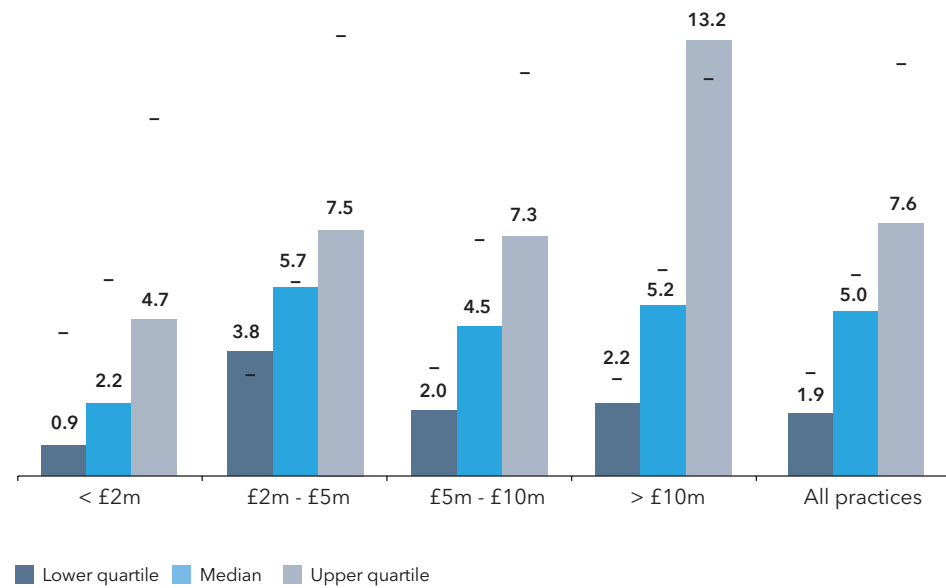


Figure 8.9: Bank borrowings as a percentage of fee income (%)



Financial stability and the regulatory horizon

Over recent years we have seen the collapse of a number of firms and the SRA has come under increased scrutiny following some particularly high profile cases.

In May 2025, and as a direct result of the client money loss at Axiom Ince, the Legal Services Board (LSB) ordered the SRA to take a number of urgent actions to address identified weaknesses in its risk assessment procedures.

Since then, the SRA has released a proposed implementation plan on which it intends to report quarterly, and this plan includes direct references to the need to conduct closer reviews of the potential harms to consumers arising from financial stability issues at law firms.

Whilst this is not necessarily a new area of increased focus, and the SRA's own Consumer Protection Review from 2024 covered the topic to some extent, the LSB has been more direct in its wording and expects the SRA to obtain and review firms' financial and accounting information. Although the ultimate aim is to safeguard client money, the risks to client money clearly increase where firms are struggling financially, and so all areas of financial performance are potentially up for assessment.

It is a point that has been stressed a few times already in this report, but a proper understanding of core profitability and the ability to monitor this will be more important

than ever for law firms. The SRA will want to know that firms are able to prepare good quality and timely management reporting information.

This increased level of scrutiny will be familiar to those who recall the measures taken by the SRA back in 2015, when the SRA began risk-assessing law firms based on a number of financial warning indicators such as drawings in excess of profits and borrowings in excess of net assets.

Since 2015, we have analysed the information provided by participants to see how they fared against the SRA's original warning indicators using the following metrics:

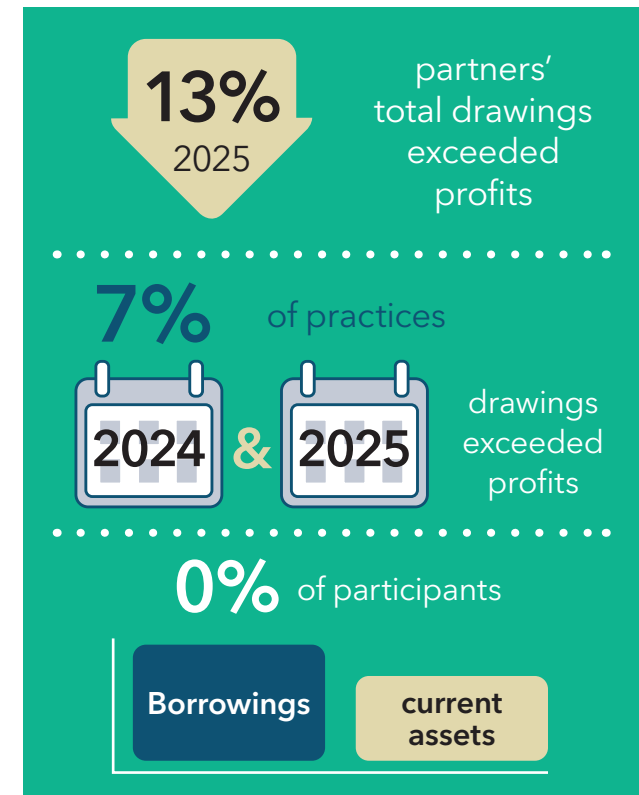
- Partner drawings as a proportion of profits
- Borrowings as a proportion of current assets (WIP and debtors)
- Borrowings as a proportion of partner capital

This year's findings are as follows:

- 13% of participants had taken drawings in excess of profits compared to 19% in 2024. This continues a positive trend that we saw last year when the total fell from 23% to 19%.
- 7% of firms reported that they had taken drawings in excess of profits in both 2025 and 2024. Although this proportion of firms is quite small, this should be a specific point of attention for firms that find themselves in this position, as it is less likely to be due to timing

differences arising from lock up management or changes to tax basis periods.

- Borrowings did not exceed current assets (WIP and debtors combined) for any participants.
- Borrowings exceeded partner capital in 12% of firms.
- We saw partner capital increased in 45% of firms.



Looking ahead

Survey participants were asked for their projected fee income for their current financial year.

Previously, we have seen firms being cautious, rather than overtly optimistic with their predictions, and last year’s median predicted increase was 4.9% compared to 11.2% noted previously in this report (albeit not necessarily from the same group of respondents). This has been a theme seen in previous years too.

This year’s predictions are similar to last year, with a median predicted increase across all firms of 4.8%, but it is interesting to see that the larger firms are being more cautious this year at 5.9% compared to 6.3% last year, while firms in the £5m - £10m turnover band were most optimistic, predicting a rise of 9.5% compared to 5.5% last year.

As before, smaller firms with turnover below £2m are the least optimistic, but more volatile generally, forecasting a median reduction of 5.2%, with the upper quartile projecting an increase of 6.2% and the lower quartile a fall of 36.7%.

Figure 10.1: Predicted fee growth for the 2025/26 financial year (%)

