The Law Society's Leadership and Management Section

Financial Benchmarking Survey 2025

The Law Society

In association with Hazlewoods LLP

Hazlewoods

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Table of contents

Foreword

Every year, the UK legal industry presents both new challenges and new opportunities. This year, volatility and uncertainty seem particularly high. Not necessarily through major seismic and dramatic events – although some of them have been unprecedented – but in profound ways that have affected smaller firms, slowly and inexorably, such as the increased impact of technology, uncertainty on how our regulators will proceed and a growing cohort of new entrants and alternative service providers. And yet, the law continues to be a resilient, optimistic and agile place to be. Law firm owners and their firms continue to find ways to make the environment work for them.

A well-run law firm has control over its costs, its fee earner gearing, productivity, pricing and realisation; it has sustainable and profitable revenue streams; technically excellent and responsive client service; and time for its senior leadership to scan the horizon for emerging challenges and novel opportunities. This survey, which continues to attract a robust and increasingly panoptic sample of data, provides an excellent starting point to compare performance with peers. The data provides both encouragement and salutary lessons.

When you look at the survey results, despite the market turbulence, revenues continue to grow, and wage and recruitment pressure seems to be reducing. But profit margins are vulnerable. Interest rates have helped profitability over the last couple of years, although should not be relied upon.

However, lock-up remains high, fee earner productivity – measured by recorded chargeable hours – remains low (albeit with a small uptick this year), and the time invested in developing people and the business is frequently not measured at all. Section three and four of this survey give some real food for thought in these areas.

One number that stands out for me (on page 33 of the report) is the percentage of revenue spent on external training. To borrow from Steven Covey's book *The 7 Habits Of Highly Effective People*, if we do not invest in the productive capability of our people (their knowledge and skills), how can we expect them to be ever more productive?

I would encourage you to share these findings with your team and use this as a basis for conversation and training.

On that note – the Leadership and Management Section of the Law Society welcomes new members – and, like me, you do not have to be a lawyer to feel the benefit. You can find out more about the wide range of Section member benefits here: **communities.lawsociety.org.uk/leadership-and-management**

Abby Winkworth
Chair, Law Society Leadership and Management Section

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:

- Managing for Success quarterly magazine
- A regular Leadership and Management Section e-newsletter containing exclusive content
- Dedicated member-only portal featuring relevant resources, including topical news, Member Talks, Lectures, bitesize recordings, and on-demand event recordings
- A range of free in-person and online events and networking opportunities
- Exclusive Law Society library benefits such as priority access to Law Society library services, first item free on Lawdocs, the Law Society library document delivery service*, and 50% off all chargeable Law Society library services**
- 20% discount on Law Society publications
- Discounts on a range of selected Law Society online and in-person events such as the Risk and Compliance Conference 2025 and the 'Sanctions and Source of Funds - The Essentials' online event in May 2025
- Opportunity to share your expertise and raise your profile within the community by contributing to the Section's programme of activities.

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:
https://communities.lawsociety.org.uk/leadership-and-management
email: MSadmin@lawsociety.org.uk
telephone: 0207 320 5804

Will Graves
Membership Engagement Manager, The Law Society

* Subject to standard page limits, terms and conditions and for current judicial proceedings or non-commercial purposes.
** Including additional research on top of the standard 30 minutes, the Lawdocs Service (first item free), and printing and photocopying services.
*** All benefits are valid between 1 November 2024 - 31 December 2025. Applies to all Law Society Section members, and members must state from initial contact that they are a current Section member when requesting any of these services.

About Hazlewoods LLP

The *Leadership and Management Section Financial Benchmarking Survey* is written and produced 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 16th 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 Bank Commercial Banking

The annual financial benchmarking survey is an important snapshot of the health of the legal sector which provides a wealth of actionable insights for firms, and Lloyds is proud to return as sponsor in 2025. The survey is informed by data supplied by practices across the country and it gets under the skin of the sector like no other, enabling firms to learn from each other's experiences and informing their strategic decision making.

This is my first year in my new role as our Head of Legal and Professional Services, and I'm relishing the opportunity to get out and meet with firms, our partners in the Law Society and my colleagues. Lloyds has around 40 specialist Relationship Managers who only work with law firms, so they understand your sector, understand your business and understand you. Every one of them is Lexcel-trained and accredited, with in-depth specialist knowledge provided by the Law Society of England and Wales. As such, they are equipped to support the profession with a range of tailored products and services from funding for professional indemnity insurance to card payment solutions, partner capital loans and a range of secure accounts.

Looking at this year's benchmarking data, it's clear that the sector has proved remarkably resilient through a period of enduring challenges. I take heart from the fact that firms have continued to grow fee income against a backdrop of increasing outgoings. That only serves to emphasise the importance of driving efficiency, especially given the upturn in staffing costs that is on the way.

Martyn Kendrick
UK Head of Legal and Professional Services, Lloyds
www.lloydsbank.com/solicitors

LLOYDS

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 one of the leading annual health check reports 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 2025 survey was carried out between July and December 2024 and the majority of participants have either a 31 March or 30 April accounting date.

From 5 April 2024, the way in which firms are taxed on their profits changed and all sole practitioners or partnerships (including LLPs) with a non-31 March to 5 April accounting year end need to apportion practice profits of a particular accounting period between those arising in one tax year and those arising in the next. For example, a firm with a 30 April year end will have eleven months of their accounting year in one tax year and one month in the next year.

Due to the accounting and administrative complexities of this change, a number of firms changed their year-end to 31 March 2024 and so reported results that were more or less than 12 months. Where this was the case, their results have been pro-rated to cover a 12 month period to ensure consistency and comparability.

145 law firms from across England and Wales have taken part with a combined turnover of over £1.1billion, and we anticipate that most of the participants' income relates to domestic work.

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 figures for each turnover band; the lower quartile, median and upper quartile. The results for 2024 are shown as columns and numbers, and the like-for-like results for 2023 are shown as a dash, i.e. - .

Participants are analysed in more detail in the following section.

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 at least 30 firms participate in the survey.

This year, we had more than 30 participants for each turnover band, and therefore the charts and statistics quoted throughout this report reflect the median figures across all sizes of firms.

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

145 law firms from across England and Wales took part in this year's survey, and fee income of all participants totals over £1.1billion - an average of £7.8million 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 practices	Number of participating firms	%
Up to £2million	7,892	37	0.5%
£2million to under £5million	755	33	4.4%
£5million to under £10million	306	33	10.8%
£10million to under £35million	225	39	17.3%
£35million+	152	3	2.0%
Total	**9,330**	**145**	**1.6%**

There was a good proportionate participation amongst firms with a turnover greater than £5million. There was a lower proportionate participation from firms with turnover below £2million, but this is due to the total number of smaller firms, with the majority of firms in England and Wales being in the smaller band.

The locations of the participants are as follows:

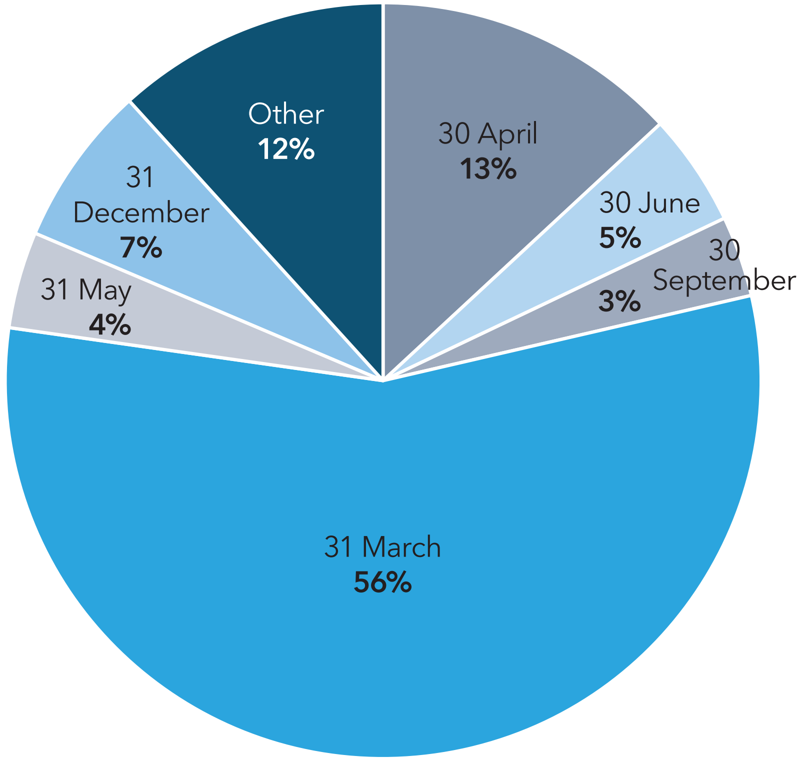
Region	Number of participating practices
Eastern	14
Greater London	22
Midlands	26
North East	6
North West	8
South East	26
South West	34
Wales	1
Yorkshire	8
Total	**145**

95% 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, 57% of law firms were operating as a limited company, and 16% were operating as an LLP at the end of December 2024. These statistics, and more, can be viewed here:
www.sra.org.uk/sra/research-report/regulated-community-statistics/

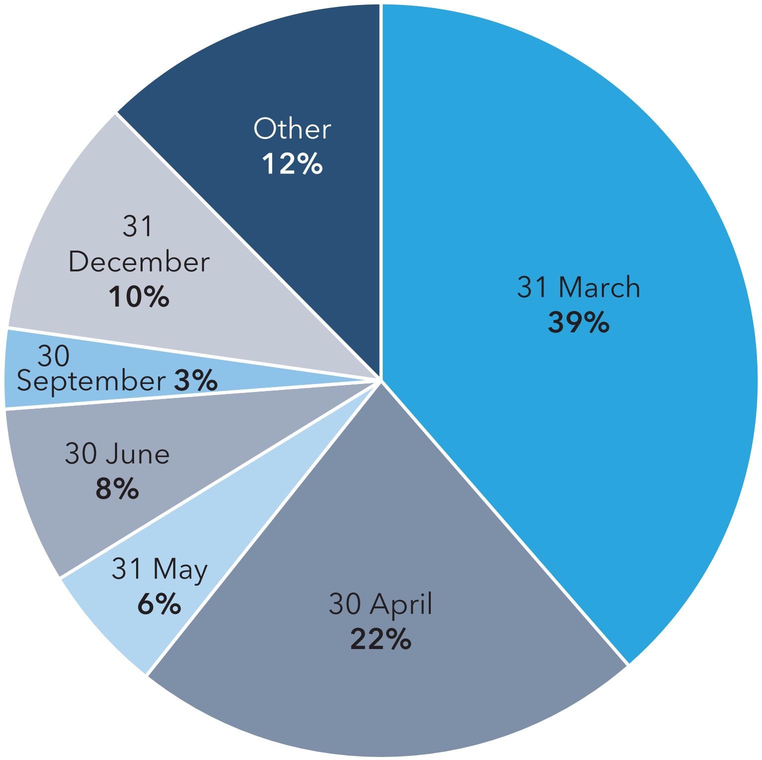
This difference between the survey participants and the sector reflects the fact that a large proportion of mid-sized firms have taken part again this year, as the majority of the Top 200 law firms are either an LLP or limited company.

The SRA's statistics also show that the number of limited companies has increased by 21 in the last two years, whilst the total number of firms of all types has fallen by 443 over the same period. The total number of unincorporated partnerships and sole practitioners fell by 419 over this period.

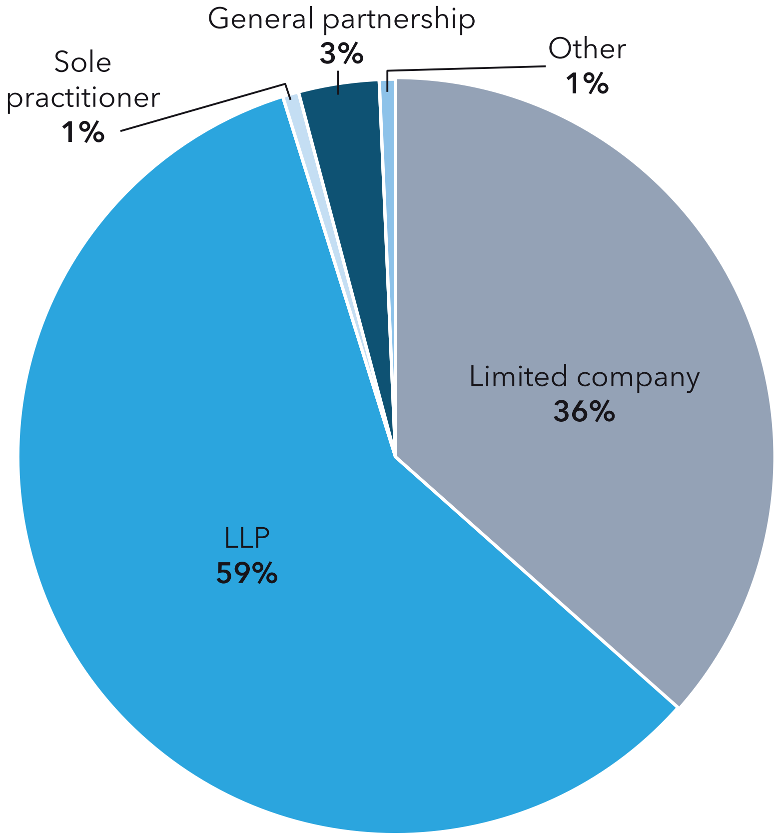
Financial year end of participating practices – this year



Financial year end of participating practices – last year



Structure of participating practices



Regulatory changes on the horizon

In October 2024 the public was able to read the findings of the independent review commissioned by the LSB into the SRA's handling of the Axiom Ince scandal. This report highlighted a number of recommended enhancements to the SRA's oversight procedures.

Following the release of the report, the SRA released the long anticipated consultation entitled 'Client Money in Legal Services – safeguarding consumers', which looked to address many of the issues raised in the report.

Whilst many firms will be unconcerned with the SRA's own internal reorganisations, there have been some fundamental and far reaching questions raised, the most notable of which are:

- Should firms be allowed to hold client money?
- Should firms be allowed to retain interest on that client money?

The impact of the first question could have a profound impact on how firms conduct legal business in the future, especially those that typically hold large volumes of client money, such as property specialists.

The impact of the second point may have a more immediate impact on firms which have, for the last year or two, enjoyed a significant profit benefit from client account interest and the prospect of this being withdrawn ranges from the benign to the severe.

There is the very real prospect of firms experiencing real financial stability problems without client interest and so it is important that they look to wean themselves off interest as far as possible. Client interest should not be viewed as a necessary part of trading income and, where it is retained, we recommend that it is not used to fund short term costs such as partner drawings or to pay operating overheads.

Firms that treat interest as a means to help fund longer term investment and growth strategies should be more resilient to changes in the future.

Change of tax basis period

As noted above, 5 April 2024 introduced a new way in which partnerships, LLPs and sole practitioners are taxed on their profits. For many firms, this resulted in an acceleration of tax payments and, primarily, a large balancing tax payment falling due on 31 January 2025.

This came as no surprise of course, and since this change was announced back in 2021, there has been a great deal of activity among firms making sure they were able to meet the increased liability.

This outlook forced many firms to look inwardly at whatever financial controls could be tightened to ensure cash flow and working capital management systems were running efficiently. For firms carrying large amounts of work in progress for example, a small improvement in the lockup cycle was sometimes enough to satisfy the increased tax cash outflow.

In the meantime, interest rates increased significantly, leading to the significant levels of additional profit noted previously. As we see elsewhere in this survey, we have not seen any notable improvement in WIP and debtor days, and this is consistent with what we saw last year. This therefore begs the question – has client interest made firms complacent?

Whatever the answer, it is worth bearing in mind that most firms have taken the default HMRC option of spreading the accelerated tax liability over five years in order to soften the cash outflow impact in 2025. Therefore, whilst most firms have overcome the first hurdle, they must be mindful that this issue has not yet gone away completely.

Costs are being brought back under control

The previous two years saw firms coming to grips with spiralling costs due to high inflation, record energy prices and increased borrowing costs.

For most, these increases are now under control. Wage inflation in the current year is expected to be back within normal ranges and cost control measures are holding steady for many firms.

The results of this survey still show an increase in average overhead costs, mainly because, for a large portion of the year being reported here, rising cost rises were still very much the norm. Furthermore, firms have now been getting to grips with rapid increases in IT costs across the board, and that is considered in more detail later.

Looking forward

As we have said before, key to meeting the ongoing challenges in the sector is getting the most from staff, providing the best possible client service efficiently, and charging for it accordingly. Making sure that the underlying business is running properly is key because, whilst client interest can be flattering to the bottom line, as well as to the cash balance, it should not be viewed as a measure of a successful, sustainable business.

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.

	2024 £	**2023** £
Median fee earner cost, including notional salaries for equity partners (Figure 5.4)	67,476	63,614
Median support staff cost per fee earner (Figure 5.9)	22,472	21,962
	89,948	85,576
Median non-salary overheads per fee earner (Figure 6.9)	45,796	42,844
Breakeven point per fee earner	**£135,744**	**£128,420**

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:

	2024 £	**2023** £
Cost per hour	£123.40	£116.74
Cost per day	£617.01	£583.72

In Figure 4.5 we see that the median fee income per fee earner in 2024 was £146,313, which equates to £133.01 per hour based on 1,100 chargeable hours per annum. This means that almost 93% 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 beginning of March for a fee earner to earn sufficient fees to cover his or her total costs for the year, and for the practice 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 a 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 due to increased overhead costs as inflationary pressures on both wages and other cost of living expenses have continued.

Despite this, profit per equity partner has risen notably in the year, and this is due to exceptionally high levels of interest income compared to last year. It is unlikely that interest earned will be a sustainable source of profitability for firms and section 4 (Fee income) is therefore the key section for firms looking to increase profitability.

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 growing, it is clear from our findings at section 4.8 that the ability for fee earners to convert their time into chargeable hours remains a challenge, though there have been signs of improvement this year following a decline last year. Ensuring fee earners can meet capacity targets before looking at increasing gearing is therefore important as this directly impacts fees earned and therefore profitability.

Referring back to an example that we have used in previous years, let's assume a firm with 20 fee earners, all with an hourly chargeout rate of £195. 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 £195 x 1,100 x 80% = £3.43million

If the fee earners are able to increase the recovery rate by just 1%, annual fee income and profitability will increase by £42,900.

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.

Time recording

It is unlikely that the much discussed 'death of the billable hour' will become a reality in the foreseeable future and so it is important that time recording happens in a consistent way across firms, even where hours booked do not necessarily equal the bill sent to the client.

It is important to distinguish the benefits of time recording from the benefits of pricing work correctly. A large proportion of client work performed by participants in this survey will be charged on a fixed fee basis. Valuing work properly is essential, but only with accurate and complete time recording will firms be able to assess whether the fees they have arrived at are reflective of the amount of work involved and, most importantly, are profitable.

In our experience, not all fee earners in many firms fully time record. This is often the case where the work is fixed fee, for example in residential conveyancing.

We sometimes see firms adopting a policy whereby fee earners are only required to record chargeable time and/or there is no minimum on the number of hours that must be recorded each day. This can result in a lack of accountability for non-chargeable time and can also have a negative impact on overall time recording.

Where fee earners do fully time record, it is common to see fee earners recording somewhere around four or five chargeable hours per day, and often lower than this.

This raises an important question: if you do not know how long it takes to do a job, because your fee earners do not record their time, how will you be able to tell if it is profitable and therefore worth doing at all or whether individual fee earners are working efficiently? If fee earners are making the decision to not record all the time taken on a matter, you also risk a further reduction being made at the point of billing, or "double discounting" and, while this will make an individual fee earner's recoverability statistics look good, it will damage underlying profitability.

Furthermore, without a full time recording policy that is monitored and enforced, it is difficult to properly establish what 'capacity' looks like, and so working towards an appropriate level for fee earner gearing becomes difficult too.

In these situations, firms need to consider why time is not being fully recorded. Is it because work is being pushed down too much and fee earners feel out of their depth, or is there a deeper cultural point that needs to be addressed, with staff members feeling under pressure to charge less time to a particular matter?

Capturing all time spent on a client matter, for all work types, is essential, as too is capturing non chargeable time. Fee earners should be provided with targets for both productivity and recoverability, which can then be monitored, and the process of recording time and billing should be made as simple as possible. Where fee earners are seen as 'rain makers', their use of business development time should also form part of the monitoring process.

Coming up with suitable productivity/ chargeable hours target for each grade of fee earner can be difficult. We would expect more senior people with non-fee earning responsibilities to have a reduced productivity target, whereas more junior people with no other responsibilities at all should be looking at an above average target of upwards of, say, 1,200 or 1,300 hours. In some cases, where matter volumes are high, and the nature of work is more routine, this could go even higher. This may sound like a lot, but even after allowing for holidays, sickness, and other absences, it amounts to fewer than six chargeable hours per day.

Once you arrive at a target level of productivity and recovery, this should allow you to calculate target fees per fee earner, as well as for the firm, and compare them to our findings in section 4. You should be aiming to be in the upper quartile for your turnover band, which will hopefully move you into the upper quartile in section 6 (Profitability).

3. Summary of findings

Key headlines in this year's survey (explanations for all of these will follow later):

6.1%
median practice fee income

median fee income per equity partner
£1,104,023

median cost of employed fee earner
£67,476
£63,614 2023

6.8:1
fee earners to partners

median chargeable hours
2024 **773** hours
2023 **765** hours

146
+3 day
year end lock up

median fee earner cost per hour **£123.40**

median fees per hour **£133.01**

median 'super profit'
2023 **£81,272**
2024 **£122,019**

turnover spent on non salary overheads
2024 **29.6%**
2023 **28.3%**

- Median practice fee income increased by 6.1% compared to a 6.8% increase in 2023. The rate of increase has been decelerating since 2022.
- Median fee income per equity partner of £1,104,023 (2023: £1,004,263).
- Median fee income per fee earner of £146,313 (2023: £144,738).
- The median cost of a fee earner, including fixed share partners and notional salaries for equity partners, was £67,476 per fee earner, compared to £63,614 in 2023, a rise of 6.1%.
- 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 63.5% compared to 62.4% in 2023.
- The ratio of fee earners to equity partners increased to 6.8: 1 from 6.5: 1 in 2023.
- The median number of chargeable hours recorded per fee earner was 773, up from 765 in 2023.
- The median hourly cost of a fee earner (based on 1,100 chargeable hours per year) was £123.40, compared to median hourly fees per fee earner of £133.01. Therefore, over 92% 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 £22,472 per fee earner, compared to £21,962 in 2023.
- The median spend on non-salary overheads per fee earner was £45,796 compared with £42,844 in 2023, and as a proportion of fee income, non-salary overheads increased to 29.6% from 28.3% in 2023.
- Total year end lock-up days (WIP and debtors combined) increased slightly from 143 days to 146 days.
- 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 from £308,697 to £350,672 per partner, probably as a result of the additional cash requirements arising on the change in the tax basis period rules in the year.
- Median net profit per equity partner (before deducting notional salaries for partners) increased from £206,230 in 2023 to £248,985 in 2024.
- When we adjust the net profit figure to include a notional salary cost for equity partners, and also notional interest on partner capital, the median 'super-profit' for the year was £122,019 compared to £81,272 in 2023.

4. Fee income

As in previous years, we start our detailed analysis 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 practice; 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 2024 are shown as columns and numbers, and the results for 2023 are shown as a dash, i.e. - . The dashes show the like-for-like 2023 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:

- 71% of the participants in the survey reported year-on-year fee growth in 2024, with 33% seeing growth of over 10%. Smaller practices in the survey saw a wider range of fee change than other turnover groups, as shown in Figure 4.1.
- This is the 15th consecutive year that we have reported a median fee increase, although it should be noted that the composition of the sample across those 15 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 have been able to weather the uncertain global economic outlook that has been prevalent over the past few years.
- Participants reported median fee income per equity partner of £1,104,023 compared to £1,004,263 in 2023 – an increase of 9.9%. This is comparable to the percentage year on year rise that we saw in 2023.
- Firms across all regions of England and Wales reported a median increase in fee income.
- Following a healthy increase in 2023, residential conveyancing work fared less well this year, with a median decrease of 3.6%. All other work types returned positive results, with private client work, such as probate and trust administration work, seeing the highest increase. Employment work again returned a double digit increase over the prior year

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

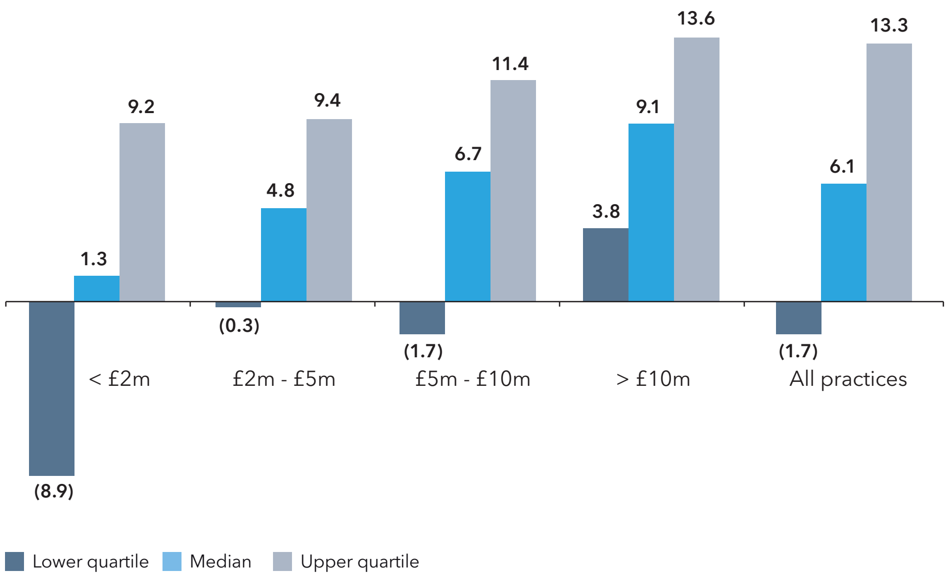


Figure 4.2: Median changes in fee income over the last 16 years (%)

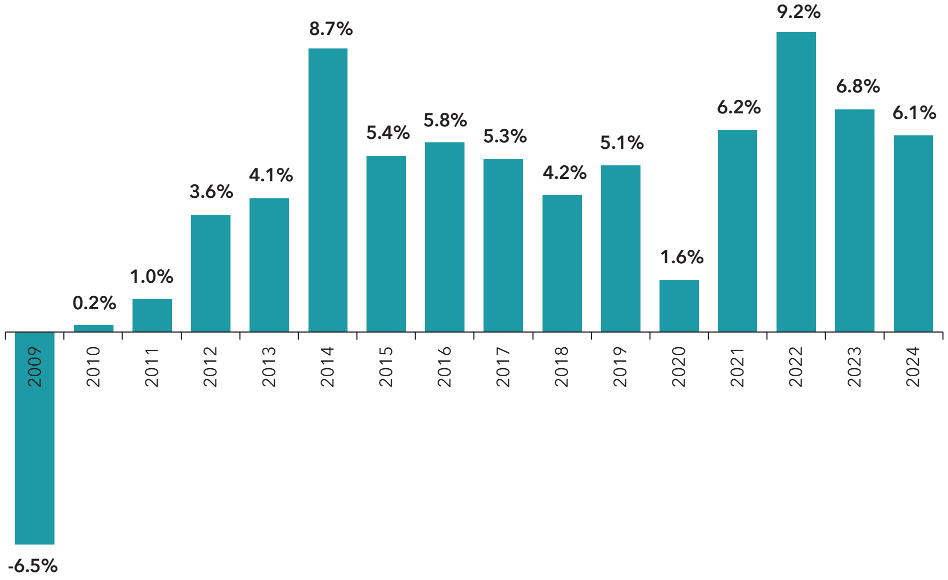
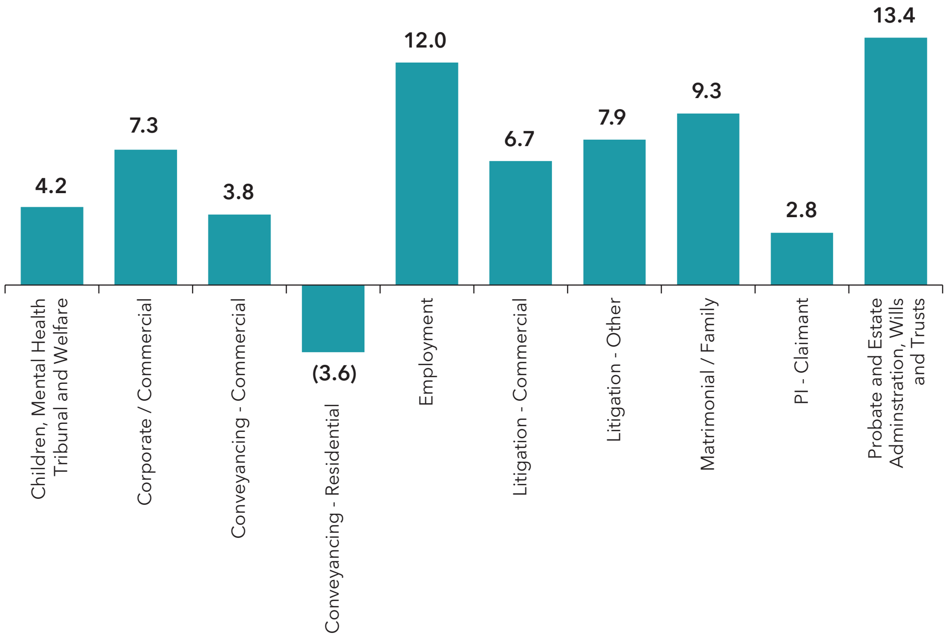


Figure 4.3: Change in fee income compared to previous year's fee income by specialism (%) (median figure only)

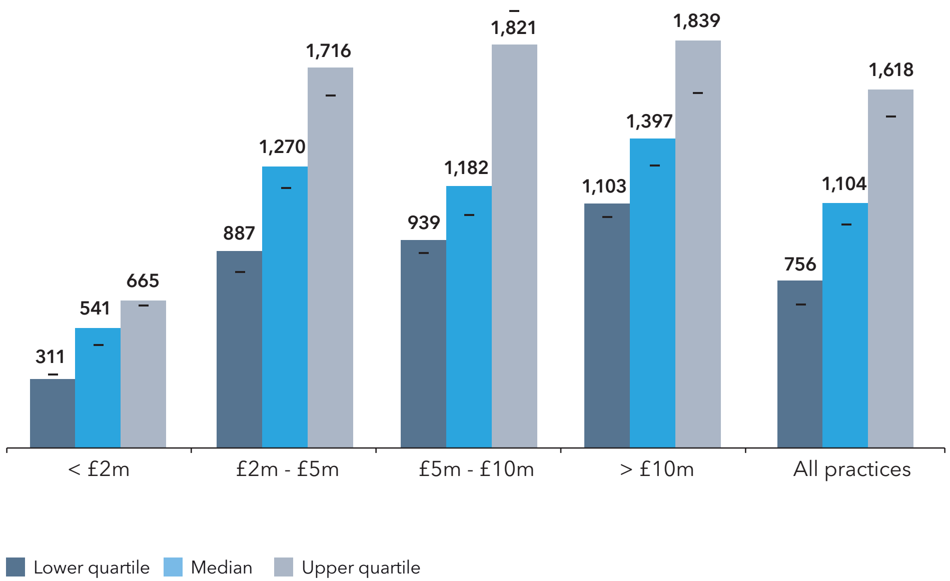


Equity partner performance

Similar to last year, the majority of participants in the survey reported minimal changes to the number of partners between 2023 and 2024.

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 saw a rise in fee income per equity partner, with a median growth of 9.9%.

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 7,344 compared to 7,100 in those same firms in 2023.
- Median fees per fee earner were £146,313, compared to £144,738 in 2023 – an increase of 1.1%. Firms across all turnover bands saw an increase this year, except for those in the £5 million - £10 million band.
- Fees per fee earner is a recurring issue for all firms to focus on, and alongside this there needs to be close monitoring of productivity and recovery rates as discussed previously. Our view is that if fee earners are not fully recording both chargeable and non-chargeable time, then it is very difficult to know whether work is being carried out efficiently and profitably, or what real fee earning capacity looks like.
- Participants in this year's survey reported a median of 773 chargeable hours recorded per fee earner in 2024, compared to 765 in 2023. It is vital that firms grasp the issues of productivity and recoverability of fee earner time as, although this year shows a slight positive movement upwards, this falls well below the generally accepted target of more than 1,100 hours. Employed fee earners and partners alike need to recognise the importance of everybody accurately recording, and ultimately charging, their time properly.

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

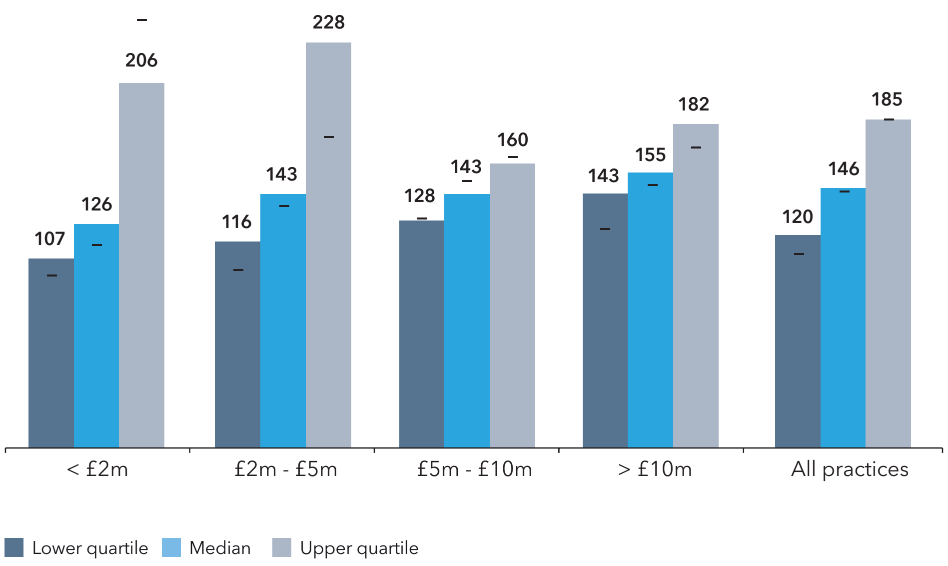
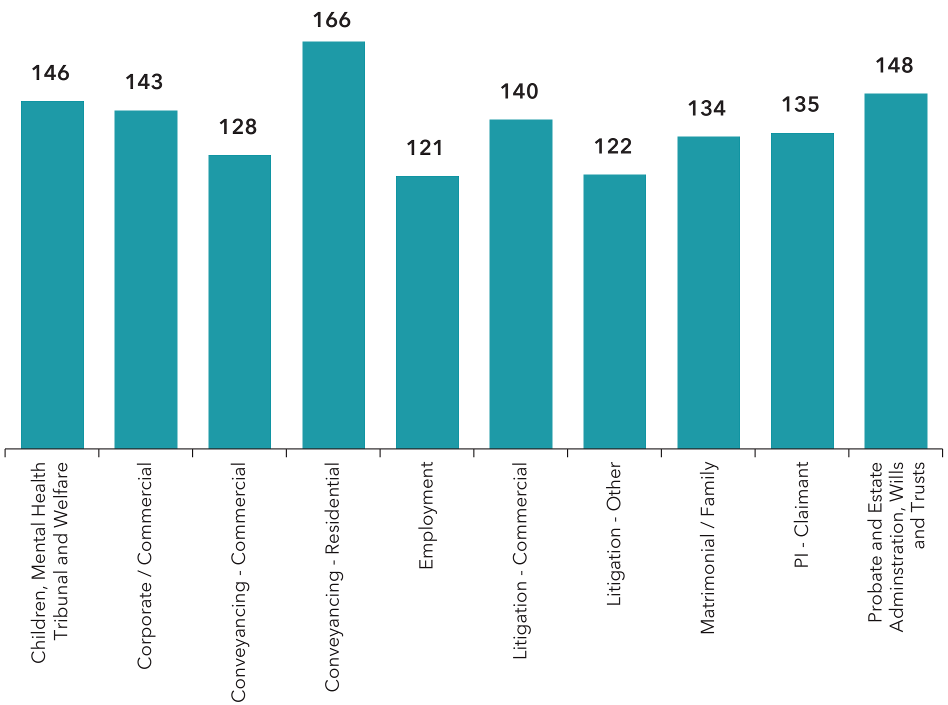


Figure 4.6: Fee income per fee earner by specialism (£'000) (median figure only)



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.

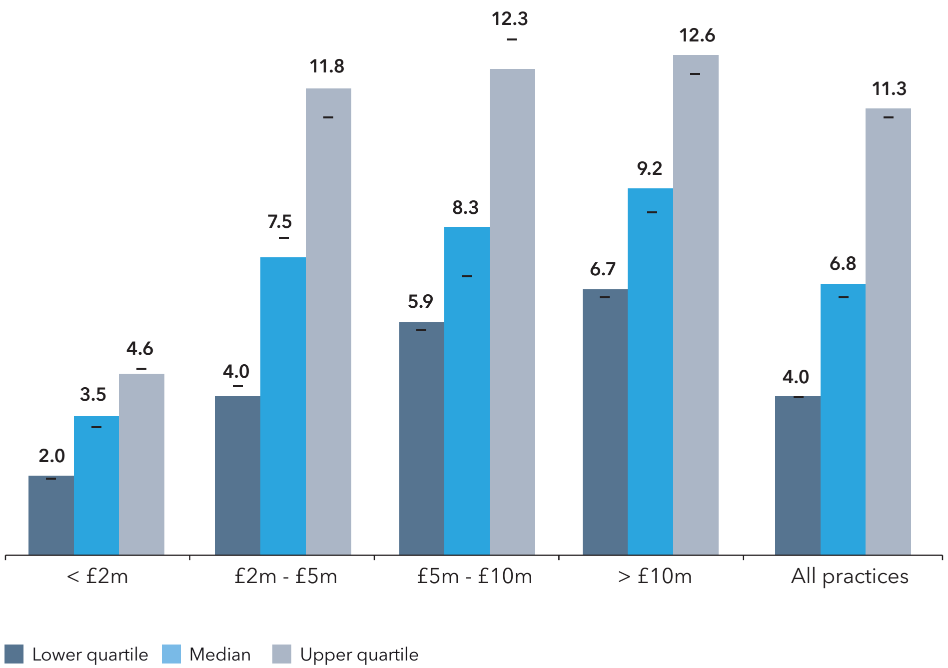
In our calculations we have included equity partners in the number of fee earners unless they are non-lawyer managers. For example, if a firm comprises two equity partners and three other fee earners then the ratio is 2.5:1 (i.e. five divided by two).

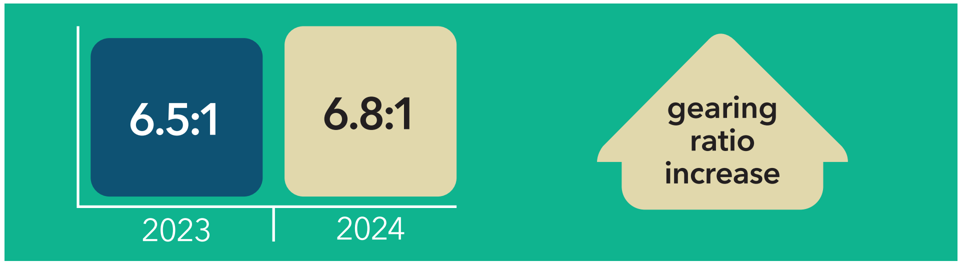
In improving economic conditions, the ratio of fee earners to equity partners tends to increase as firms grow, with the opposite happening in times of recession.

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 2024 results show a median of 6.8:1 and this has risen from 6.5:1 in 2023.

Recruiting and retaining high quality members of staff have been key challenges for law firms for a number of years now and this rise indicates that the situation may be easing across participants. Some firms have also converted support staff into fee earners by encouraging them to capture chargeable elements of their work.

Figure 4.7: Number of fee earners per equity partner





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.

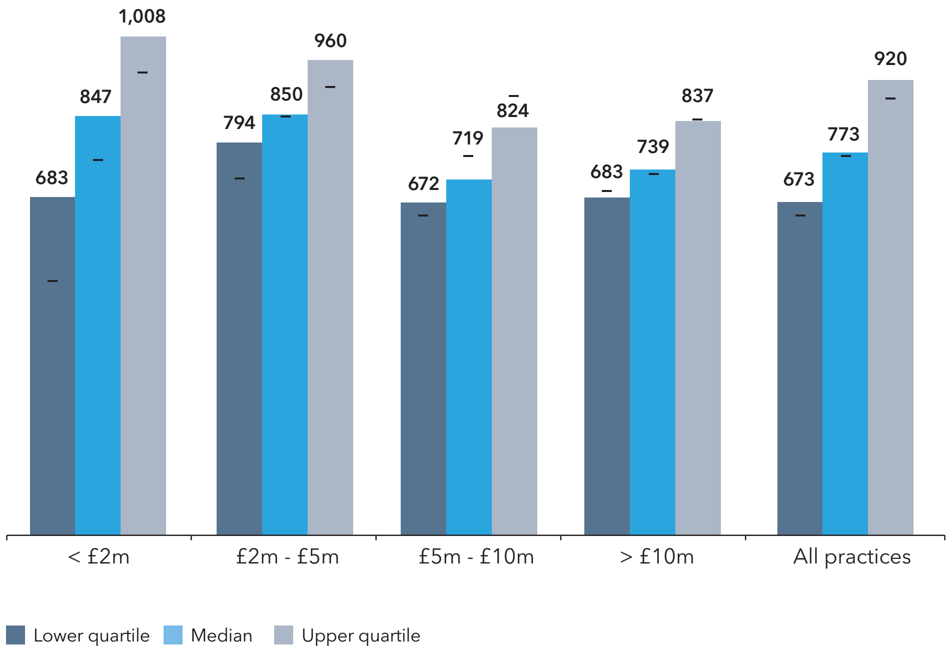
For many years now, the general rule of thumb used by many firms is that fee earners should be charging between 1,000 and 1,100 chargeable hours per year.

This year, we have seen an increase in the median number of chargeable hours, from 765 in 2023 to 773 in 2024. Whilst this shortfall compared to target is concerning, it reverses the trend seen over the last two years from when we asked firms for this information for the first time.

However, 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 is notable in how far it sits below normal expectations.

Furthermore, while the range of 1,000 to 1,100 target chargeable hours is seen across the sector generally, we would expect to see individuals with no other responsibilities other than fee earning to be looking at upwards of 1,200 or 1,300 hours, depending on work type and experience.

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 of 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 is set to rise from 5 April 2025 and so we will expect to see a natural uplift in these proportions in future years.

The median 2024 total is 63.5%, compared to 62.4% in 2023, giving a median gross margin/contribution of 36.5% (2023: 37.6%). This drop in margin indicates that fee earner costs have risen at a faster rate than growth in fee income.

This rise was expected given that, for many participants, the high costs of living increases from 2022 and 2023 will have taken full effect in the year. As noted last year, most law firms that we speak to carry out pay reviews that tie in with their year ends, and so it is likely that many firms in our survey had already fixed salaries for the 2023 year end early in 2022 before many of the cost of living increases had really taken hold. We were therefore expecting to see the delayed impact of salary rises in this year's results.

This increase in salary costs should also be looked at in conjunction with the levels of chargeable hours per fee earner, which was discussed in the previous section. Although both elements are rising, unless firms can properly, and permanently, address the below expectation level of chargeable hours, then a continued rise on salary costs will erode profitability.

The rise in employers' NIC rates in 2025 will not help this of course, though we understand from firms that we speak with that salary expectations appear to be under control and further high percentage pay rises may not be a recurring feature across firms.

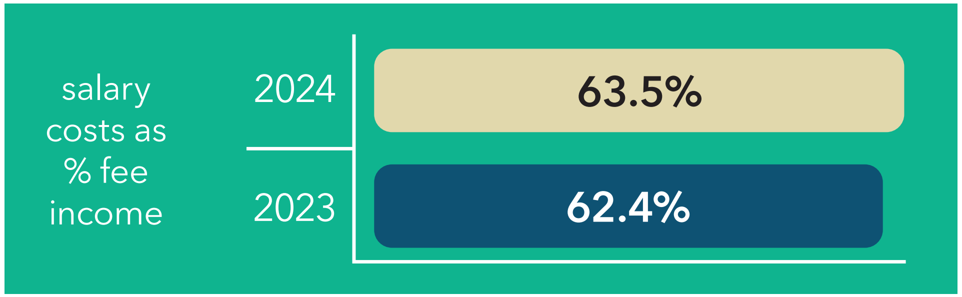
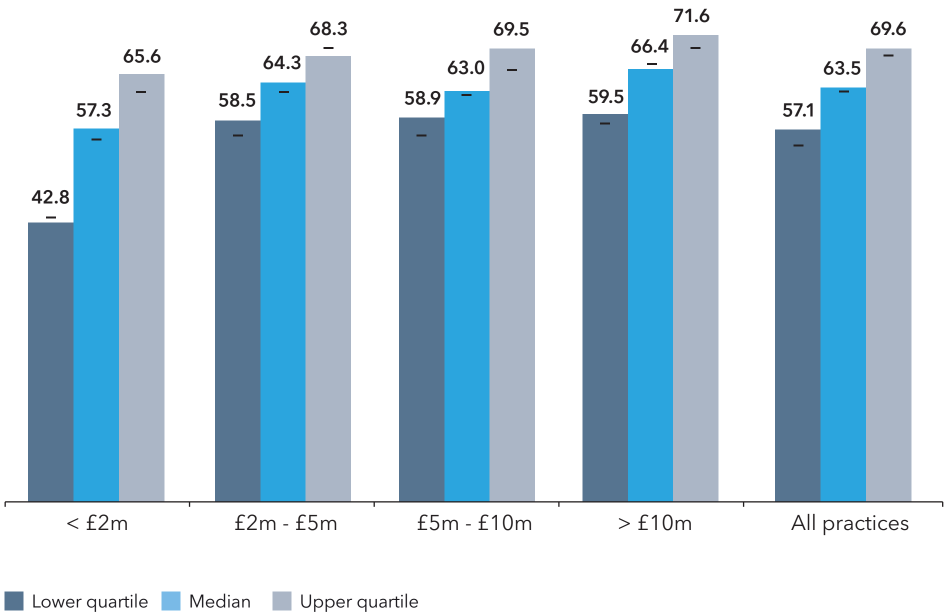


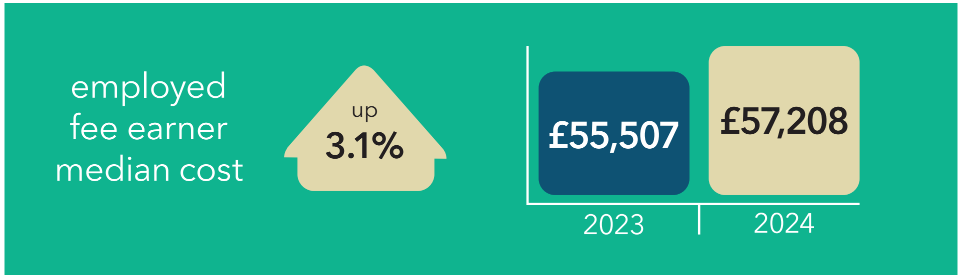
Figure 5.1: Total salary costs, including notional salaries, as a percentage of fee income (%)



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 people employed in a fee earning capacity across all participants in our survey was 7,344 compared to 7,100 in those same firms in 2023. – an increase of 244 people (3.4%).



Key findings are:

- Expenditure on fee earners as a percentage of fee income is highest for firms with turnover of between £2m and £5m.
- The median cost of an employed fee earner rose by 3.1%, from £55,507 in 2023 to £57,208.
- The average fee earner cost is not consistent across all turnover bands, and firms with the highest fee income are generally employing more expensive staff.
- Firms in the £2m - £5m bracket saw the highest proportional increase in cost per employed fee earner, from £49,458 to £64,395 – an increase of more than 30%.

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

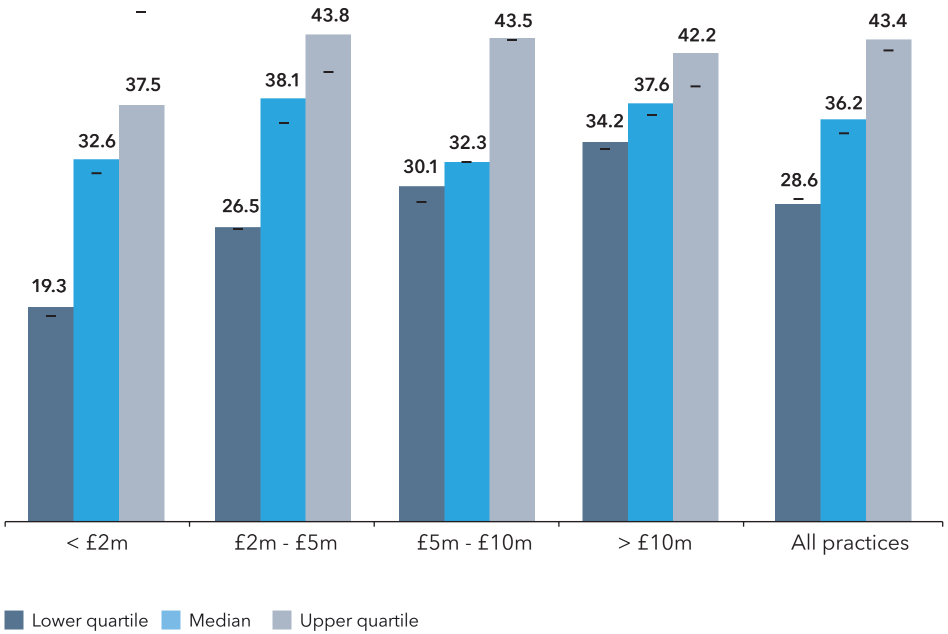
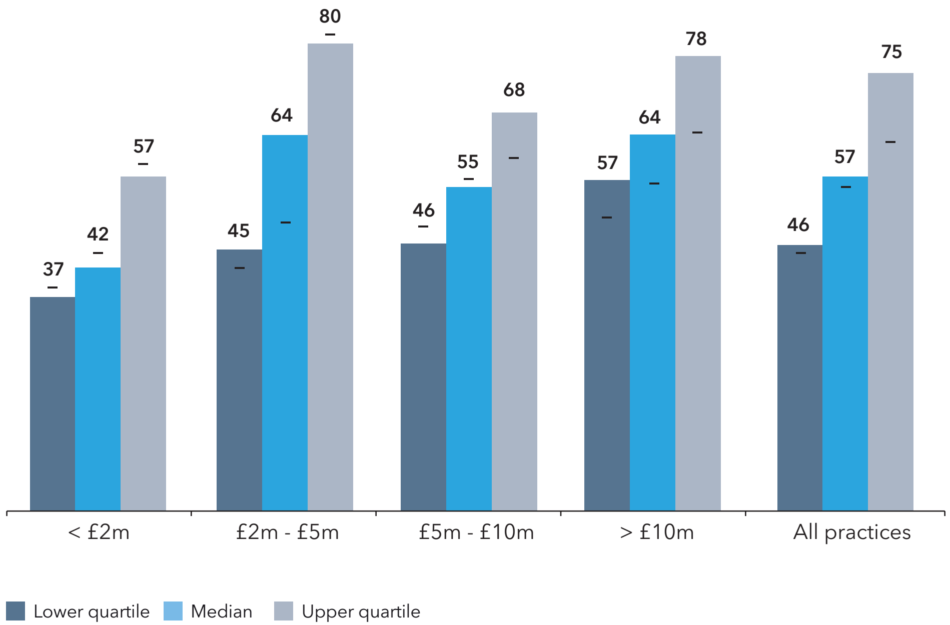


Figure 5.3: Cost per employed fee earner (excluding notional salaries for equity partners) (£'000)



Employment costs – all fee earners, including equity partners

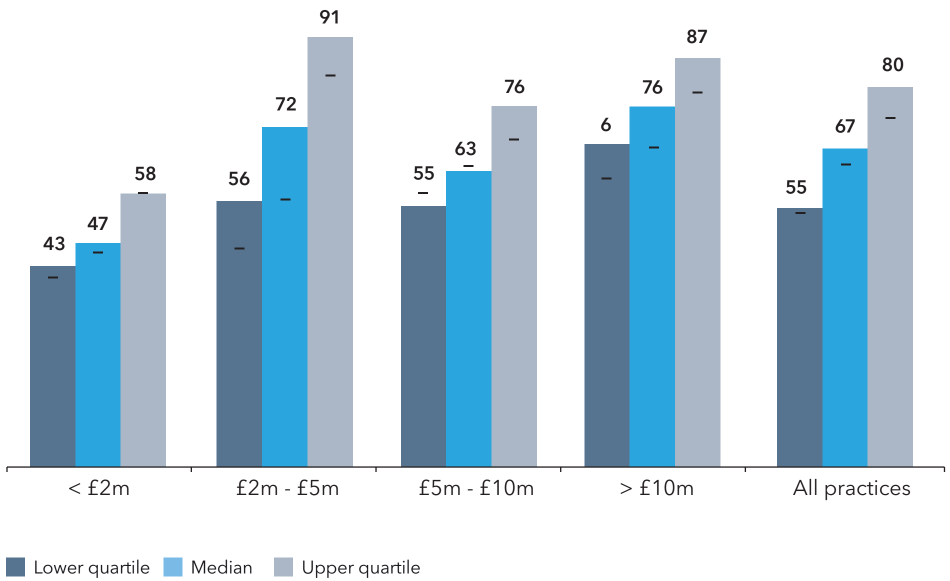
Building on the results in Figure 5.3, we now show the cost per fee earner, including a notional salary cost for equity partners. This graph shows the "true" cost of a fee earner, combining employee salaries, fixed share partners' profit shares, consultants, temporary staff and normal payroll and pension costs, and a notional cost for the 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 increases to £67,476, up 6.1% from £63,614 in 2023.

Notional salary rates are shown on Figure 6.4. The median notional salary across all turnover bands is £105,000 although, as with other staff costs, notional salaries vary depending on the size of the firm.

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



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 5,514 in 2024, compared to 5,571 in 2023 – a decrease of 57 people (1.0%).

secretaries per fee earner **0.51:1**

other support staff per fee earner **0.35:1**

median cost per support staff **Increased**

Increased median support staff cost per fee earner

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

- The number of secretaries per fee earner increased very slightly, from 0.50:1 to 0.51:1.
- The number of other support staff per fee earner (accounts, administration, marketing, receptionists, IT, etc.) was consistent at 0.35:1.
- As a result of the small overall increases in support staff gearing, the total expenditure on support staff as a percentage of fee income has increased slightly, from 16.6% to 16.7%.
- The median cost per member of support staff (including secretaries) rose to £29,602 in 2024 compared to £26,609 in 2023 and the median support staff cost per fee earner, including secretarial support, also rose to £22,472 in 2024, compared to £21,962 in 2023.
- 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.
- Some firms have converted support staff into partial fee earners by capturing chargeable elements of their work.

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

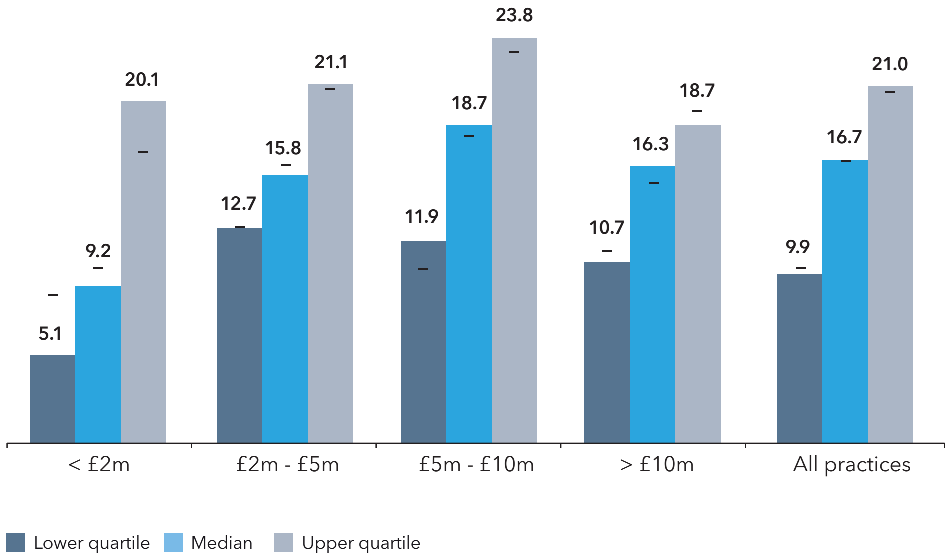


Figure 5.6: Cost per support staff member (£'000)

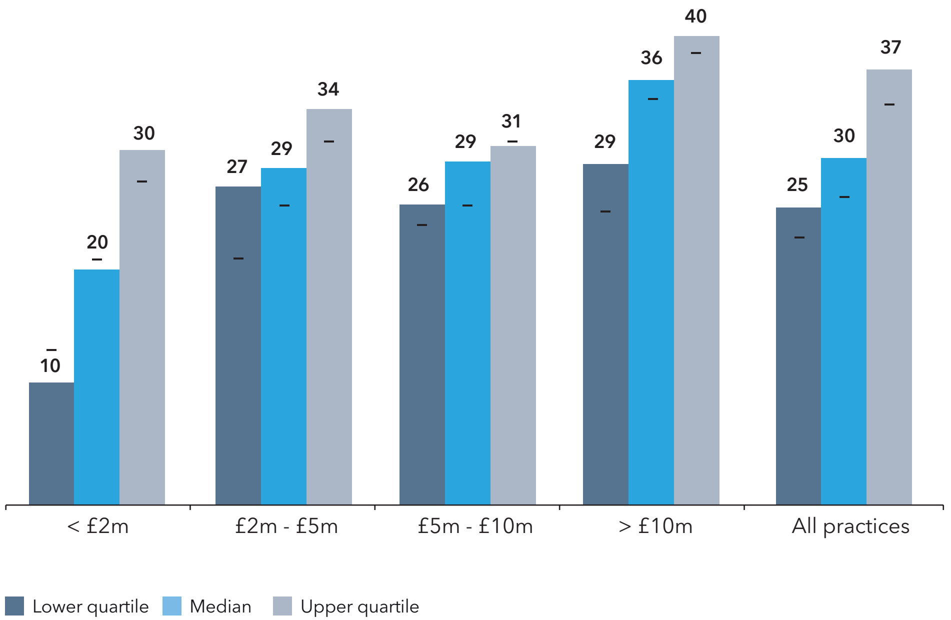


Figure 5.7: Number of secretaries per fee earner

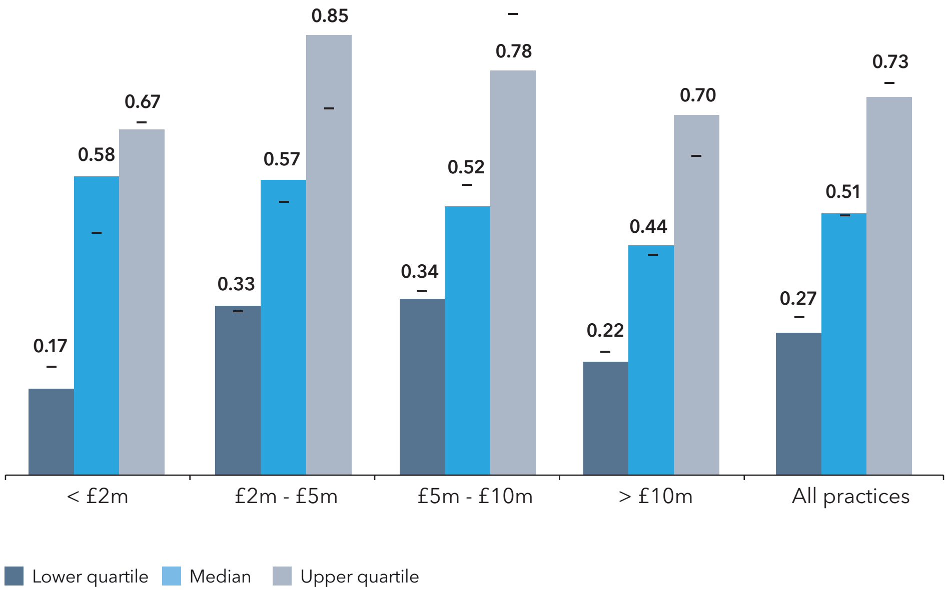


Figure 5.8: Number of other support staff per fee earner

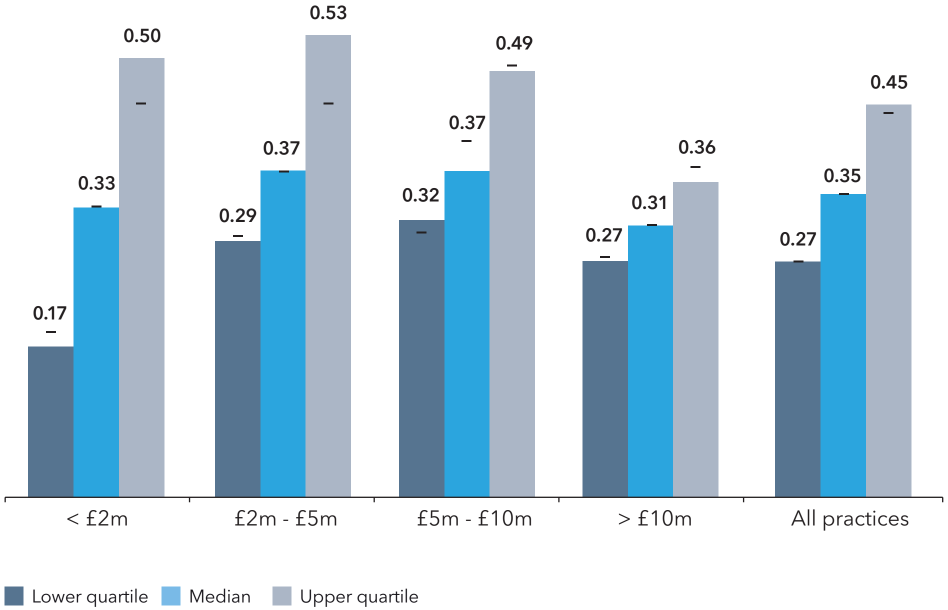


Figure 5.9: Cost of support staff per fee earner (£'000)

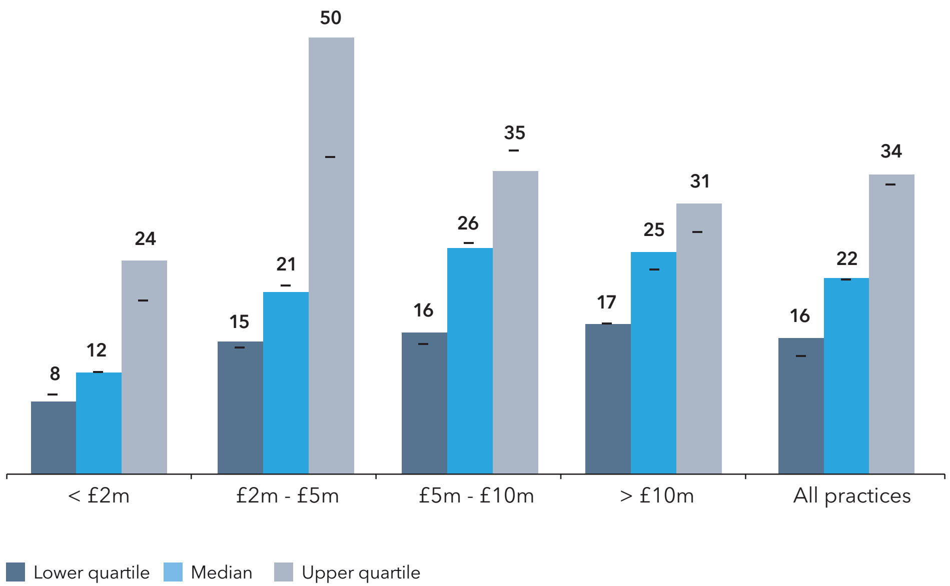
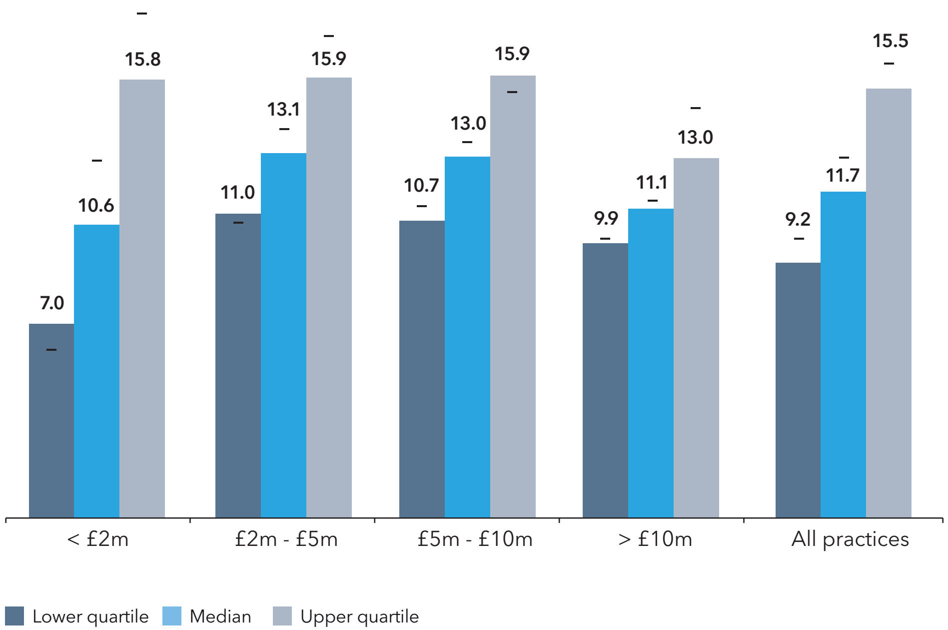


Figure 5.10: Total FTE headcount per £1million of fee income



6. Profitability

Last year, we reported that, despite a sharp increase in the rates of client interest being retained by firms, the levels of profit per equity partner (PEP) had fallen slightly, albeit by only 0.7%.

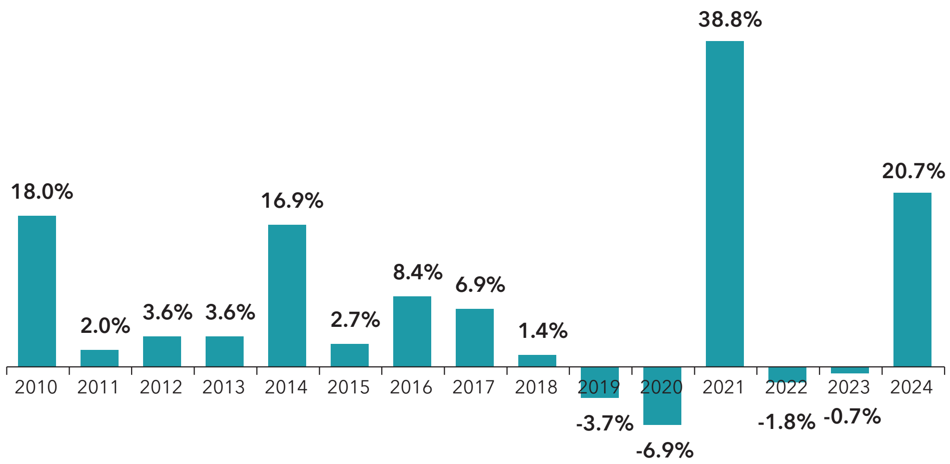
Interest income had started to paint a more flattering picture for law firms than the actual underlying trading performance and we noted last year that the impact of removing interest from the underlying profitability revealed a fall of 7.8%

In 2024, PEP appears to have bounced back very positively, but again client interest is clouding the picture. Removing client interest reveals that underlying performance has more or less flatlined in 2024, with a small rise of just 1.2%.

Whilst this shows early signs of encouragement for firms after a couple of years of slipping profits, it is important that firms look to wean themselves off client interest and do not view it as part of a sustainable growth strategy.

The chart following summarises median changes in profit per equity partner as reported in our last 15 surveys (including this one), and includes client interest. Whilst the composition of the sample will have varied each year, it provides a useful reminder of how firms have fared in that time.

Median changes in PEP (%)



Despite a rise in interest income and growth in absolute profitability, median net profit margins fell slightly from 22.6% in 2023 to 22.4% in 2024.

Over a quarter of fee income was spent on non-salary overheads, with a median cost per fee earner of £45,796, compared to £42,844 in 2023. These overheads made up 29.6% of fee income in 2024 compared to 28.3% in 2023.

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 pie chart.

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

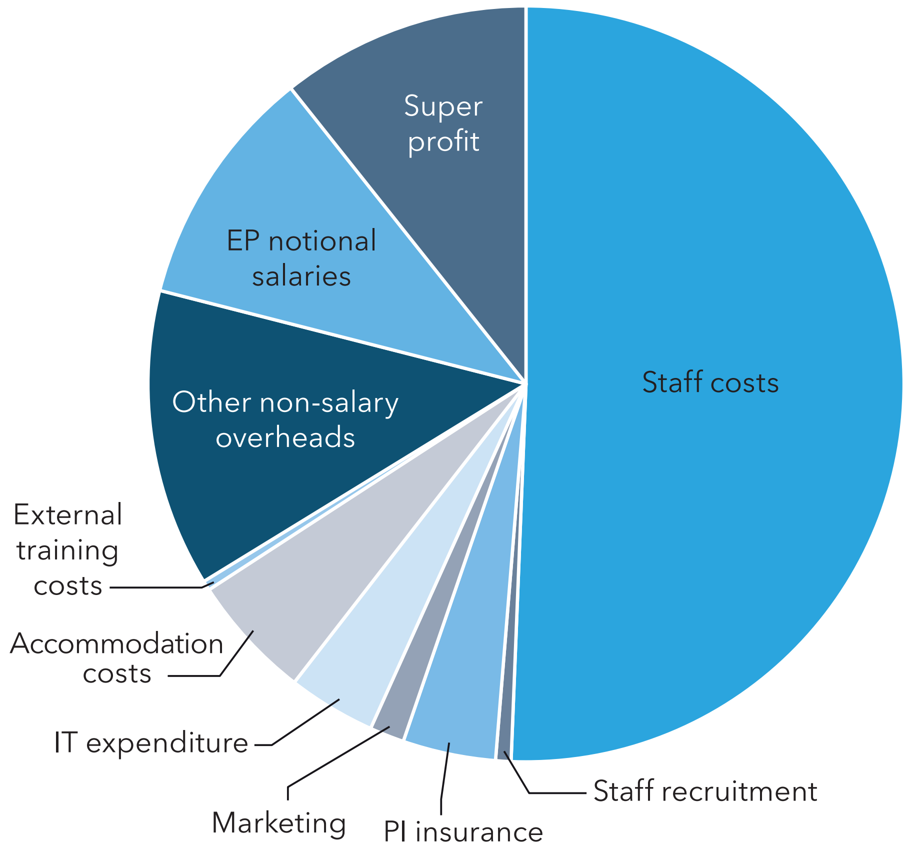


Figure 6.1: Profit per equity partner (£'000)

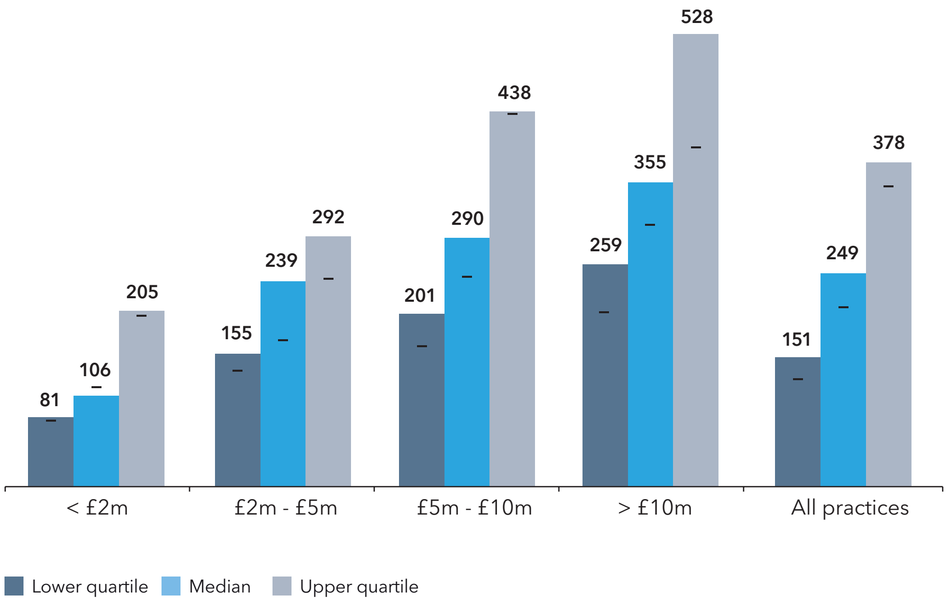


Figure 6.2: Profit per fee earner (£'000)

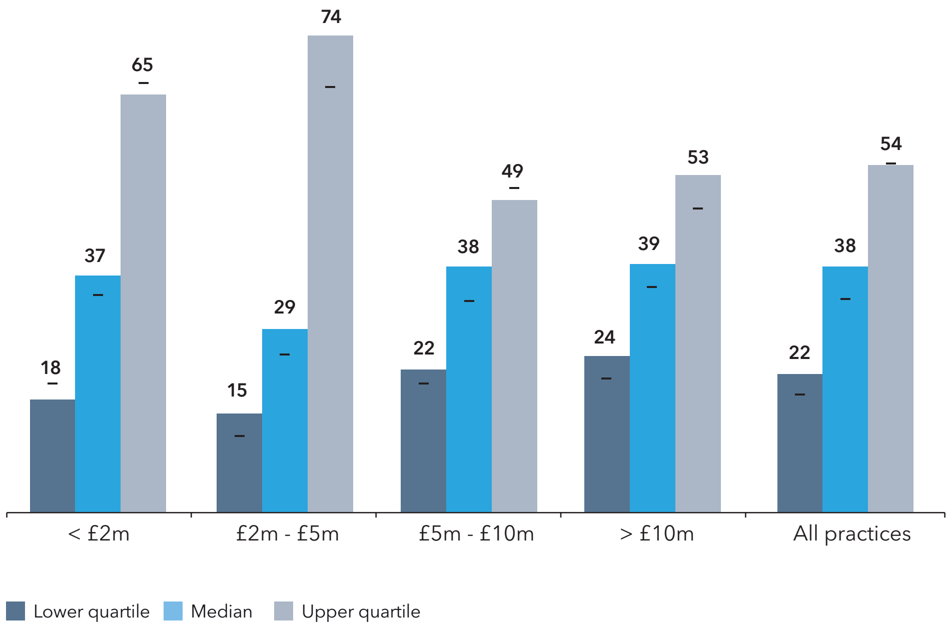
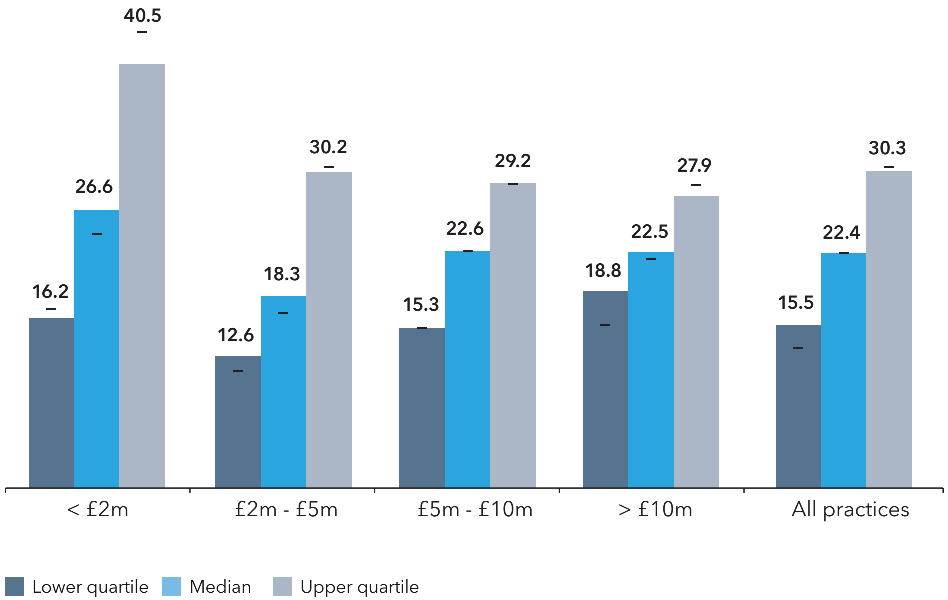


Figure 6.3: Profit as a percentage of total income (%)



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 practice 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.

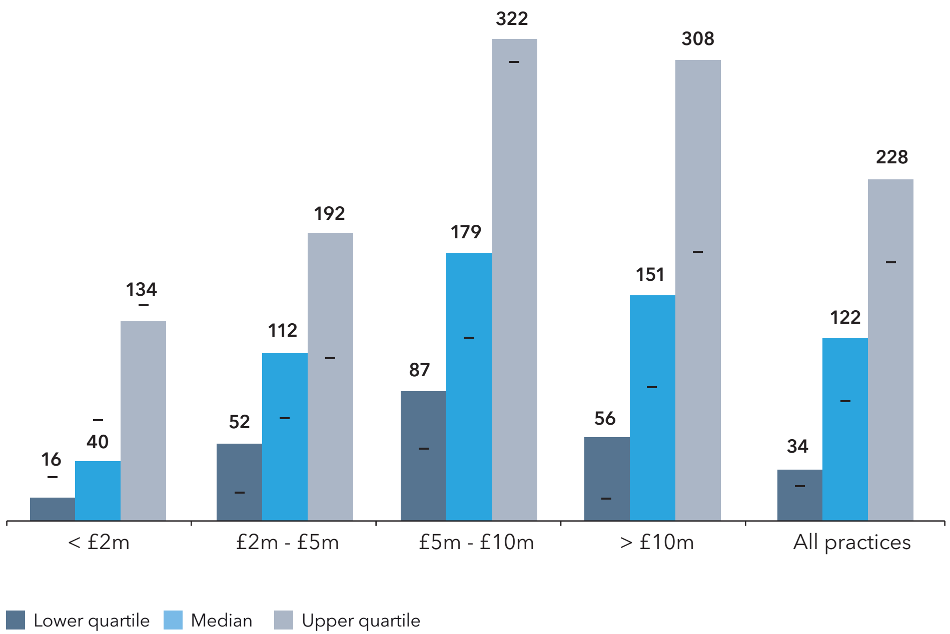
Notional interest has been set at 5% of partner capital/company reserves for both 2024 and 2023. Throughout 2023, the average bank base rate was 5.25% and this fell to an average of 5.00% across 2024.

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 2024, the median 'super-profit' was £122,019, compared to £81,272 in 2023, an increase of 50.1%. This increase is high, but makes sense in the context of the increase in PEP that we saw in Figure 6.1 and the fact that there has been relatively little movement in the median notional salary cost as seen in Figure 6.4.

We also noted that super-profits per fee earner rose, from a median of £14,327 in 2023 to £18,711 in 2024, a rise of 30.6%.

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



Notional salaries (£'000)

2024	60	99	110	184	105
2023	52	93	111	178	102

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

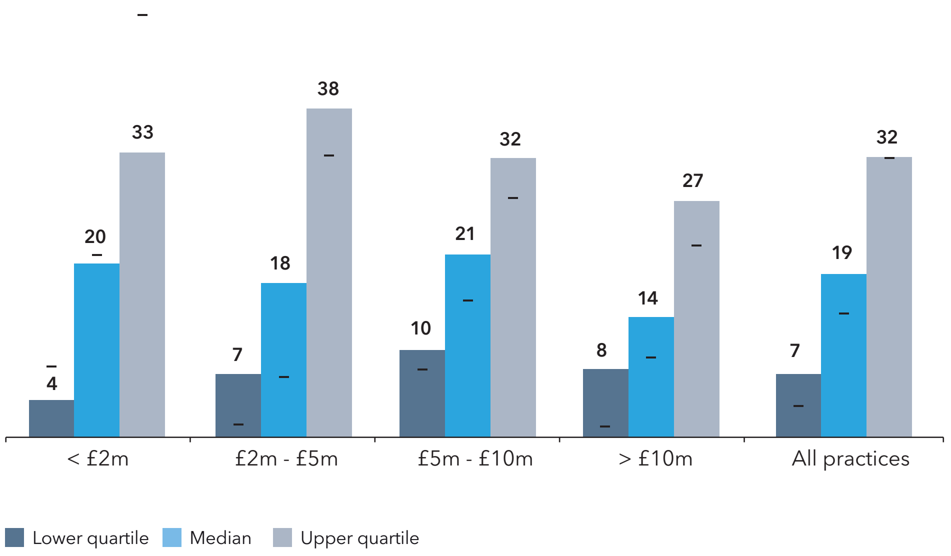
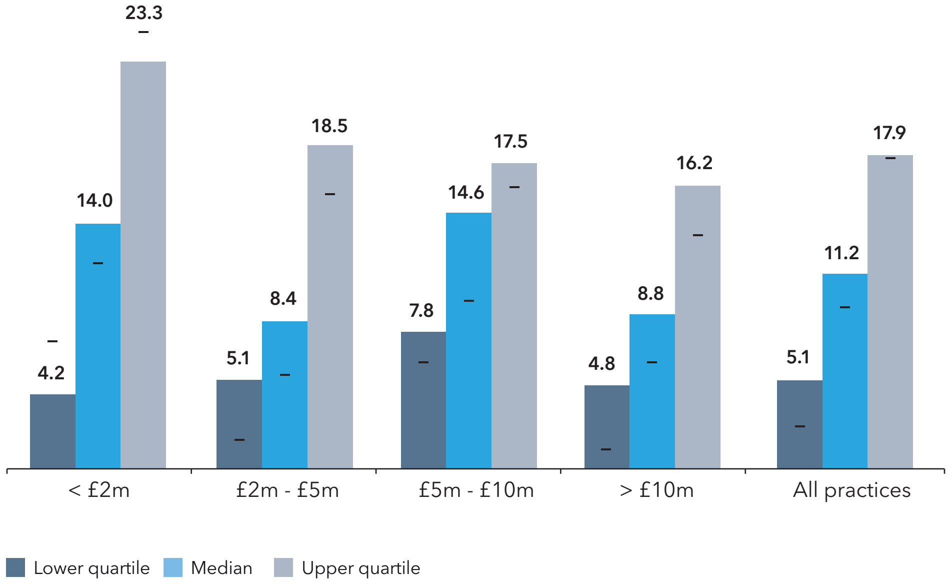


Figure 6.6: Super-profit as a percentage of total income (%)



Return on capital employed (ROCE)

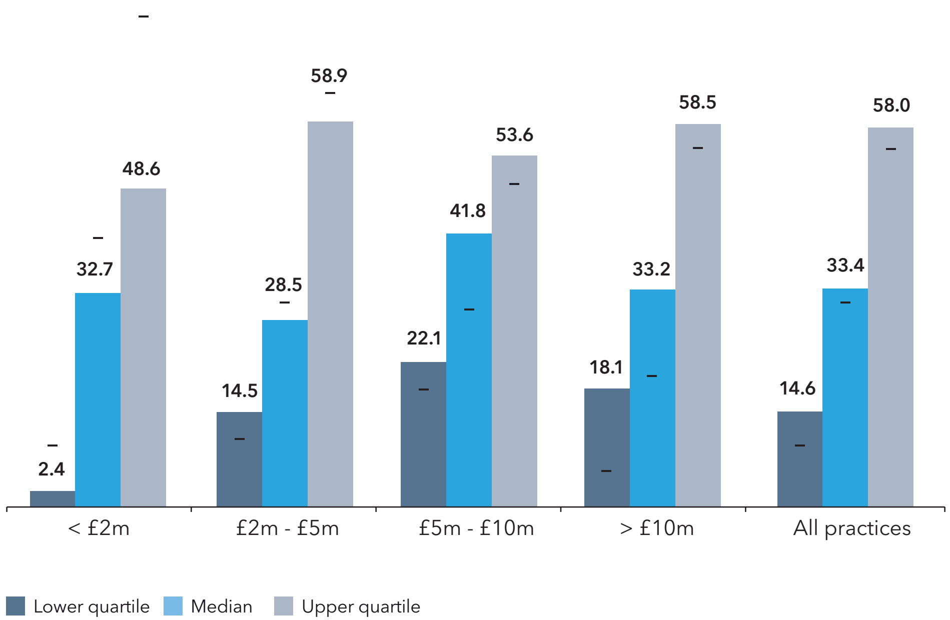
ROCE is a measure of the returns made by a firm on the resources available to it. For a law firm, ROCE is measured in terms of super-profits as a percentage of partner capital in a partnership or LLP or retained profits and share capital in a limited company.

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 33.4% for 2024, compared to 31.6% in 2023. 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 much 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 has remained relatively static over the last 3 years at just over 4%, and while this has historically been the primary non salary overhead alongside property costs, it is the IT costs that are notable for the steady increase over time. This may be due to the backlog of shelved IT projects during lockdown being restarted, but there has also been a general increase in costs of practice management and accounting IT systems over the past 1-2 years, driven by consolidation of providers. Firms that previously paid low rates for maintaining well established software systems have found themselves facing much higher licence and support charges.

Interestingly, recruitment costs, although a small proportion of overall spending, have fallen compared to last year, which may be reflective of a softening in the labour market as firms have found it easier to recruit talent.

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

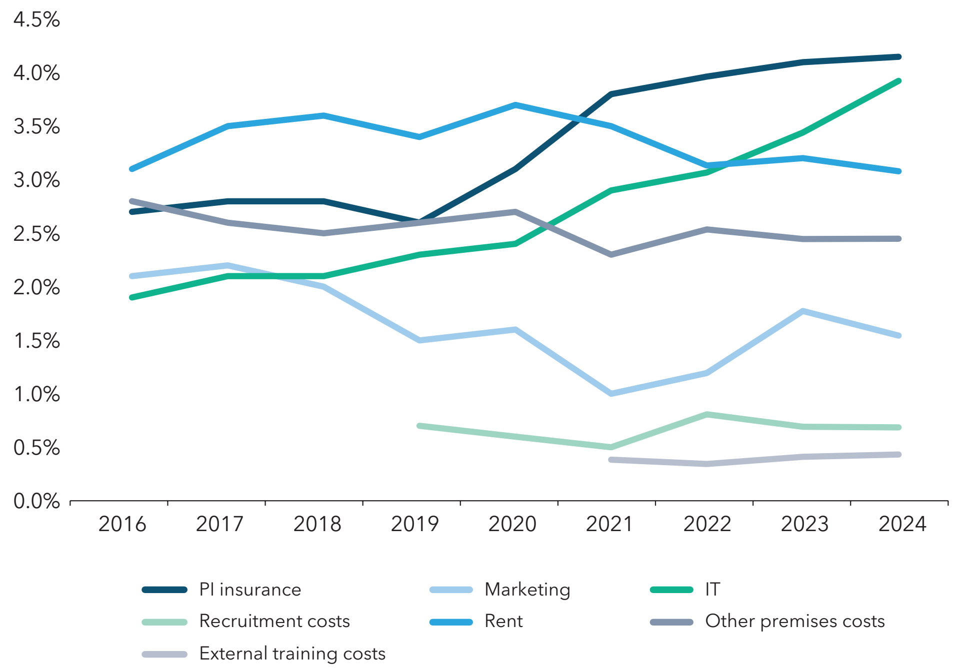


Figure 6.8: Non-salary overheads as a percentage of fee income (%)

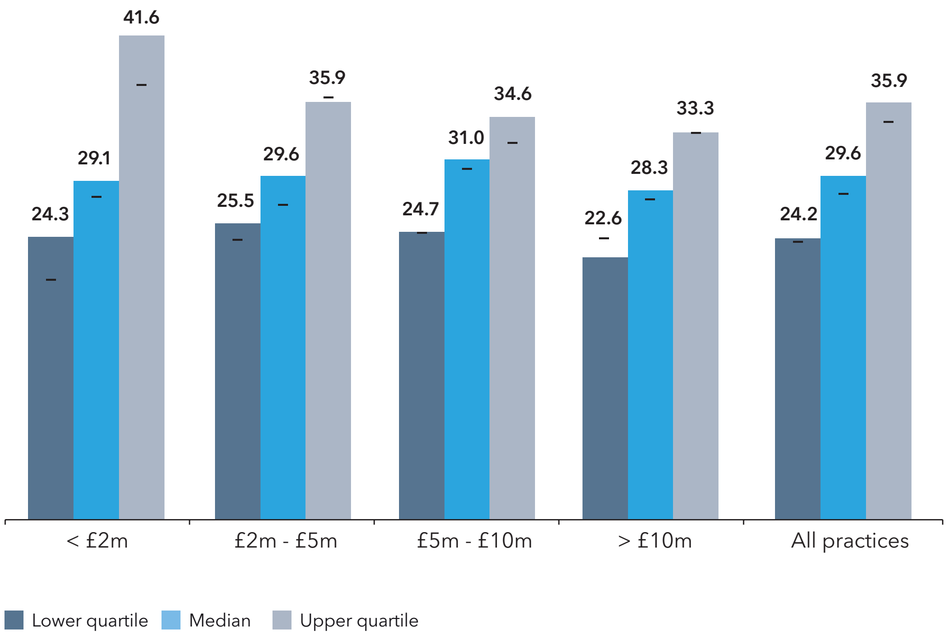


Figure 6.9: Non-salary overheads per fee earner (£'000)

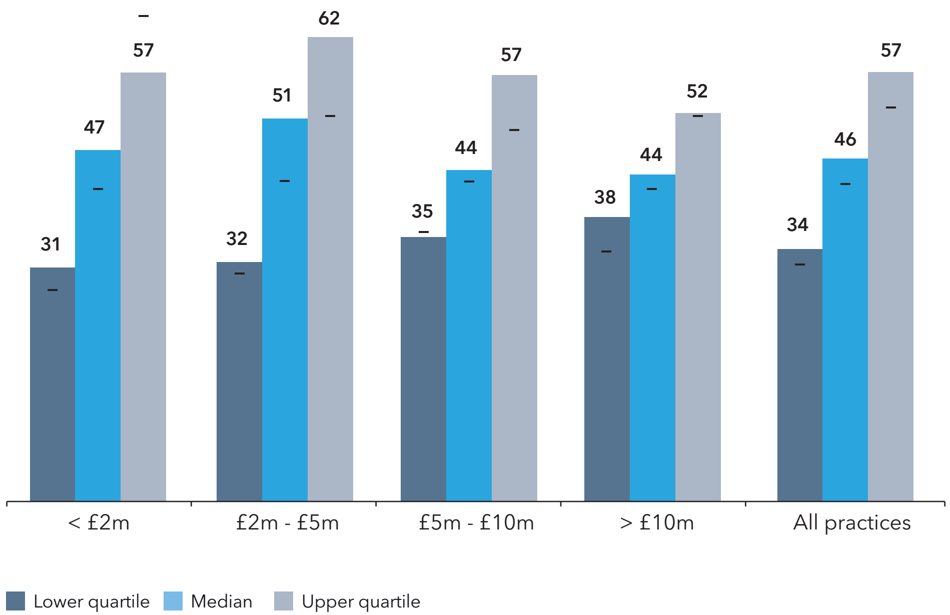


Figure 6.10: PI insurance premium expenditure as a percentage of fee income (%)

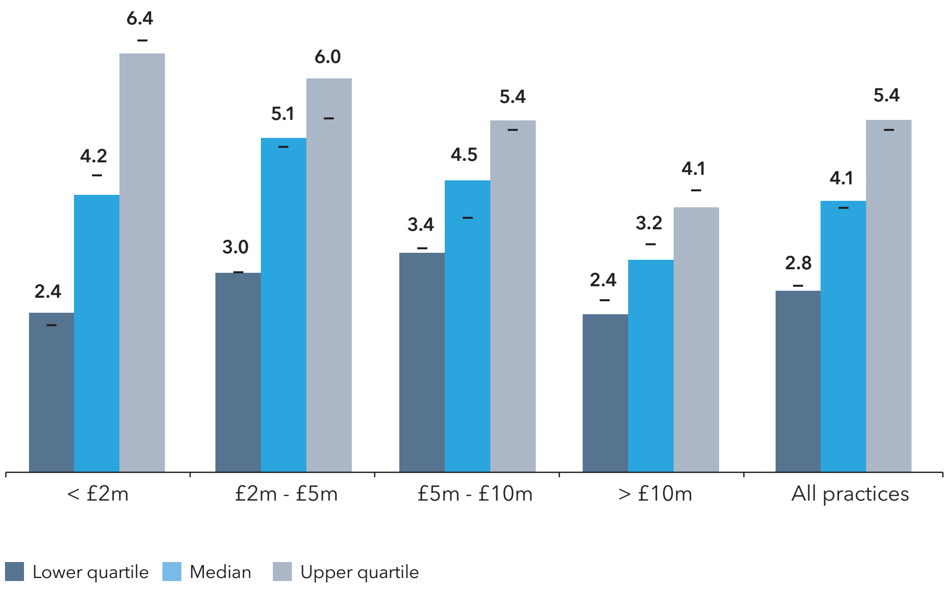


Figure 6.11: Marketing expenditure (including staff costs) as a percentage of fee income (%)

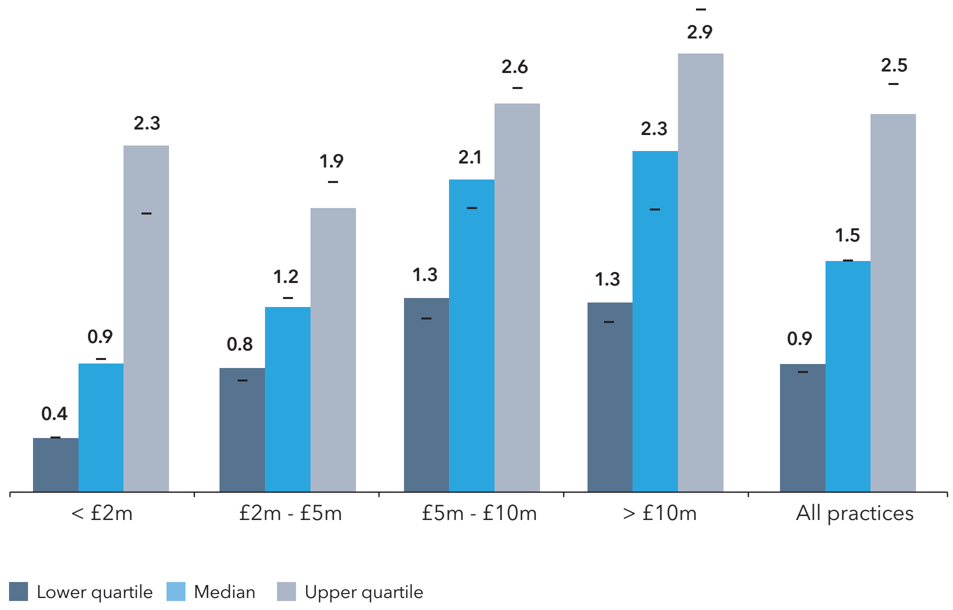


Figure 6.12: IT expenditure (including IT support, IT consultants and cloud-based storage) as a percentage of fee income (%)

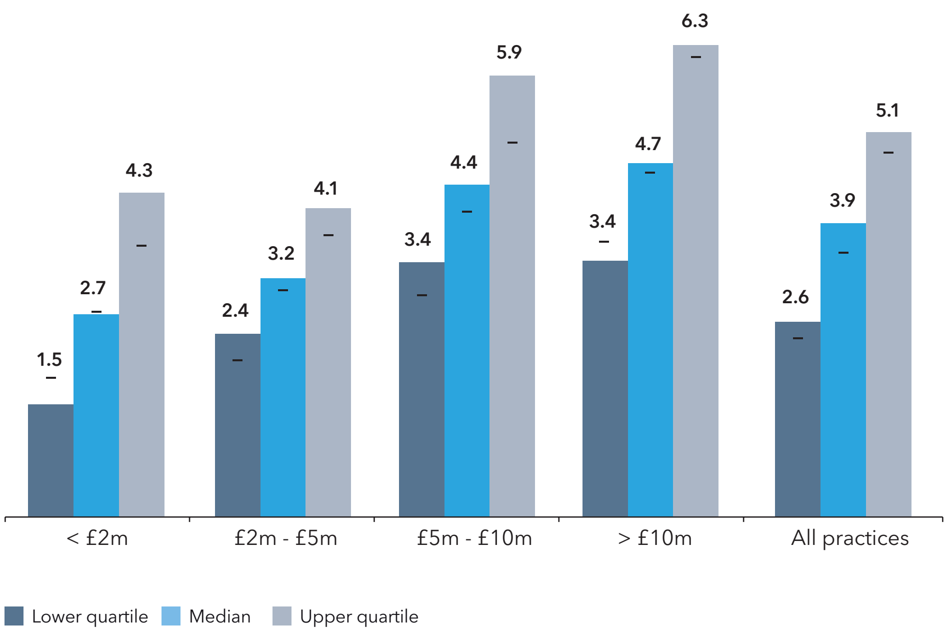
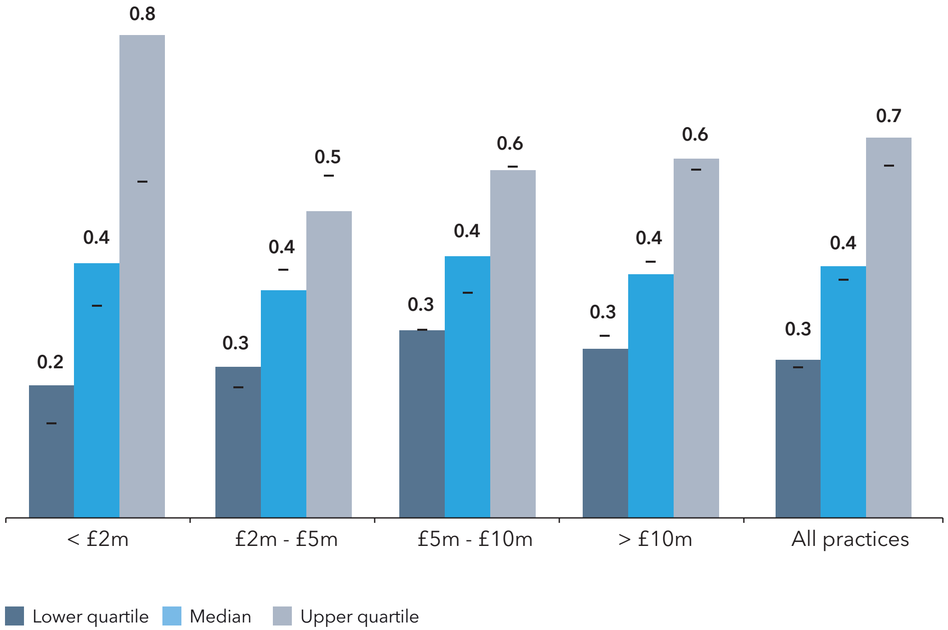


Figure 6.13: Staff recruitment costs (external or in-house) as a percentage of fee income (%)

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



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 5.6% of fee income, up slightly from 5.5% in 2023.

After a small increase last year, rent costs have fallen a little last year, though we expect to see this statistic fluctuating over time as long-term leases come to an end.

Once again, it has been a little surprising to see that other premises costs had not increased more than reported here, at 2.5% of fee income in 2024 compared to 2.4% in 2023. One of the major components of these costs are energy related and we have been predicting that these costs would increase significantly following the sharp increases in wholesale prices over the course of 2022. Of course, this needs to be looked at in the context of rising fee income and so there will be a combination here of firms being able to control their costs well, or being able to pass on many general cost of living rises to clients. It is likely to be a combination of both.

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

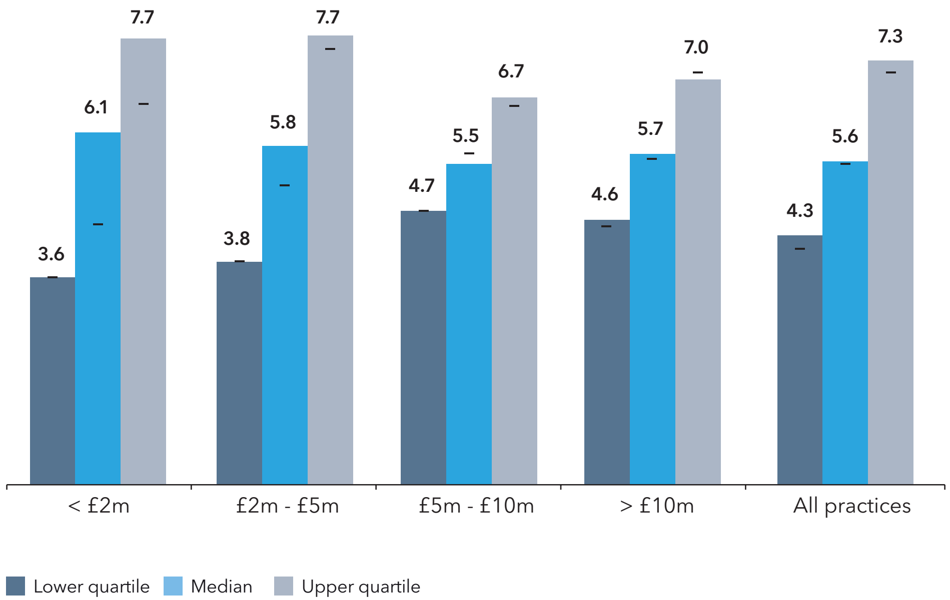


Figure 6.16: Premises rental payments as a percentage of fee income (%)

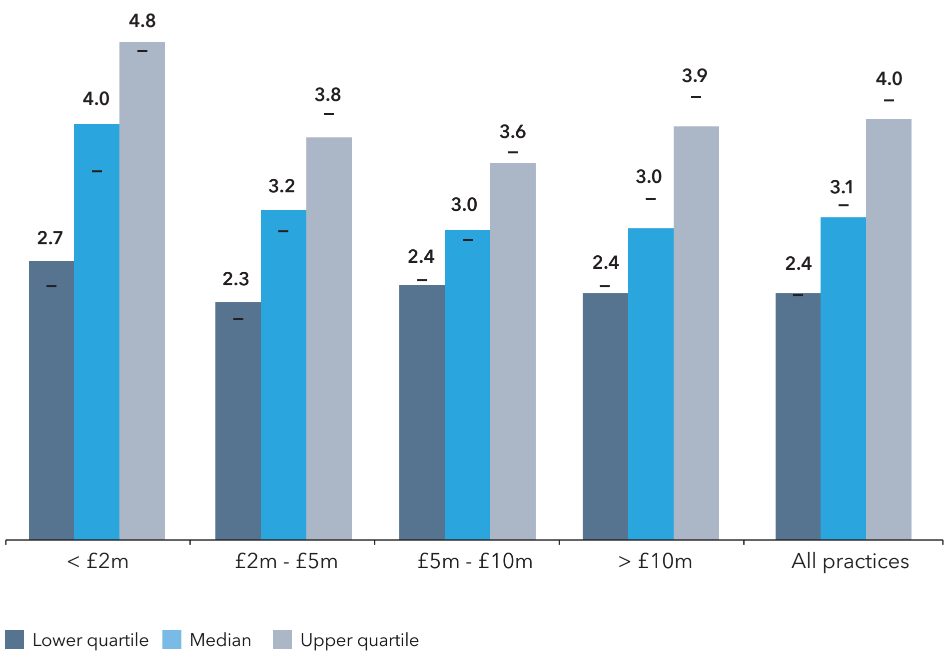
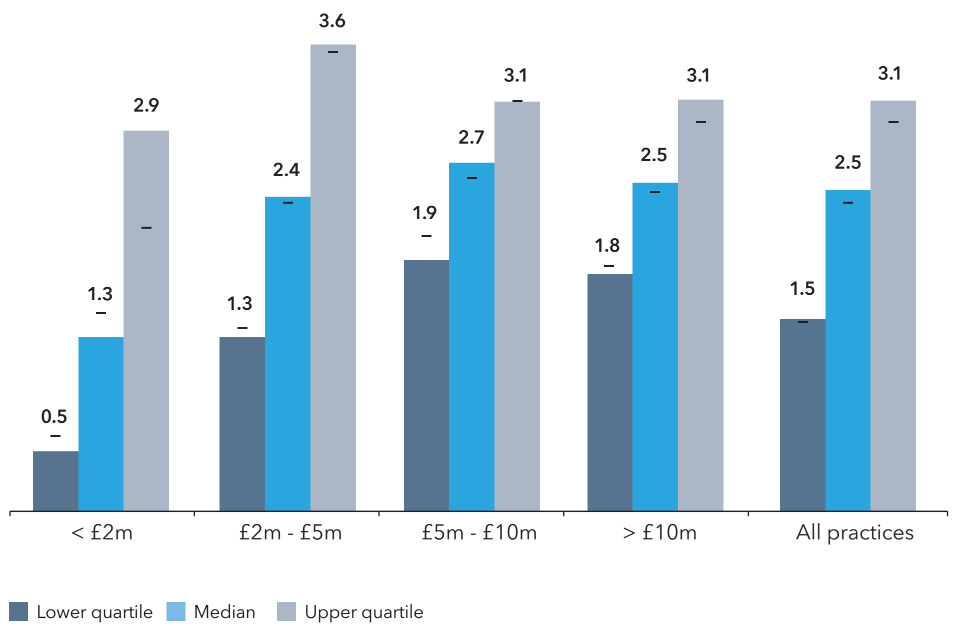


Figure 6.17: Other premises costs (rates, light and heat and maintenance) as a percentage of fee income (%)



7. 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)

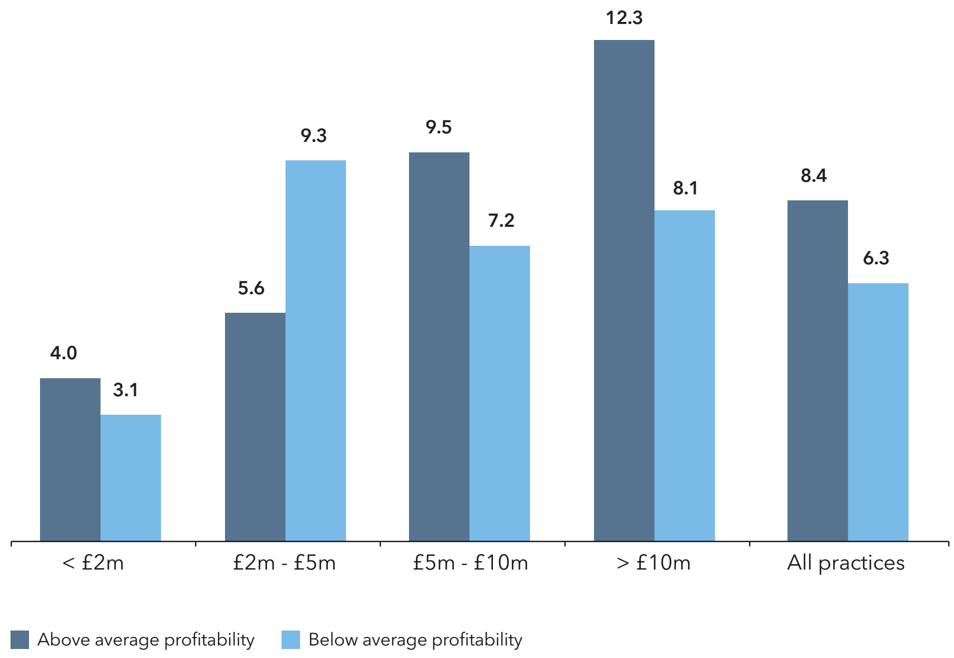


Figure 7.2: Fee income per equity partner (£'000) (median figure only)

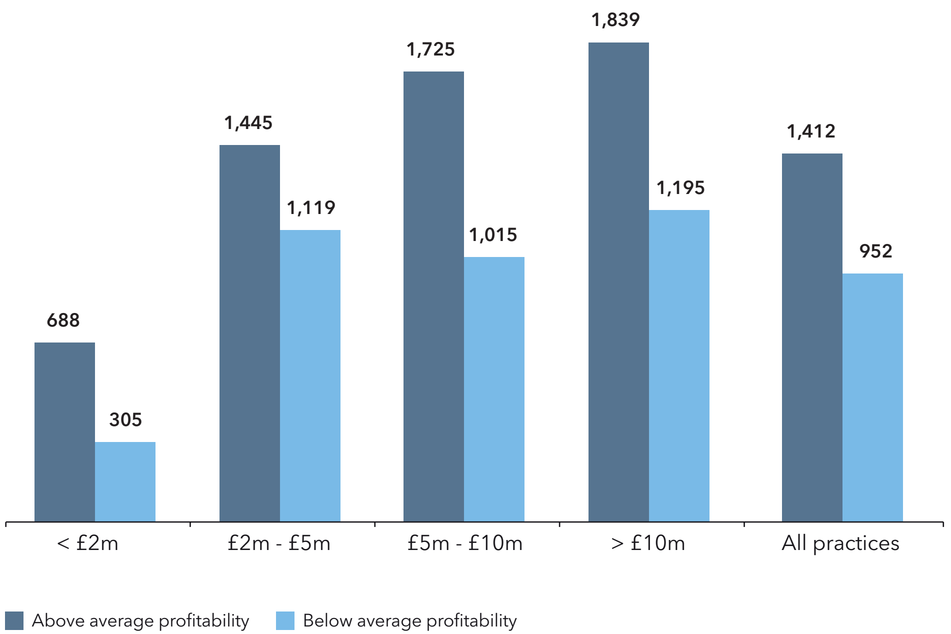


Figure 7.3: Fee income per fee earner (£'000) (median figure only)

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

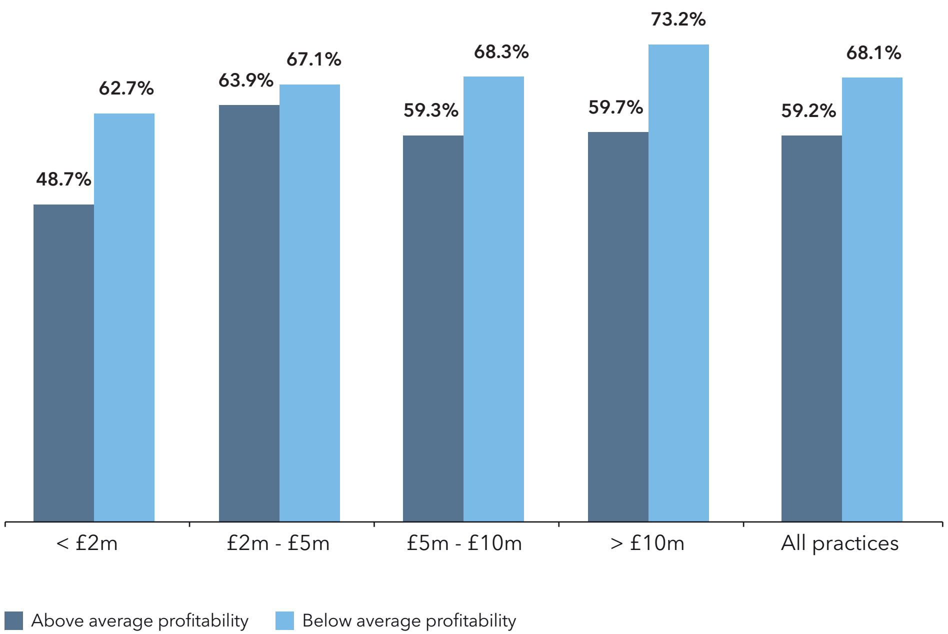


Figure 7.5: Non-salary overheads as a percentage of fee income (median figure only)

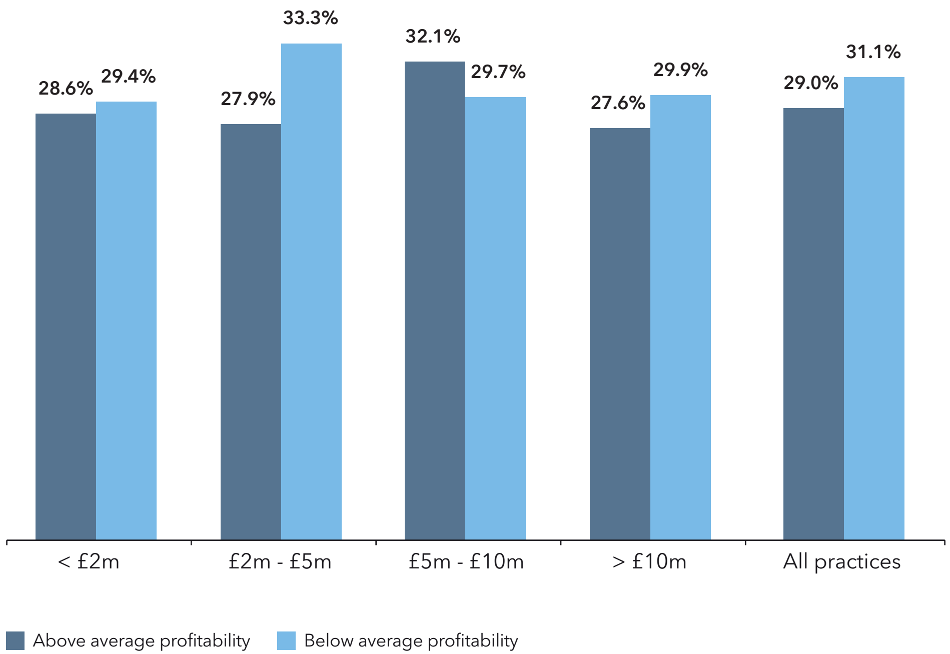


Figure 7.6: WIP days (median figure only)

Figure 7.7: Debtor days (median figure only)

8. Working Capital

It is always challenging to conclude on trends on working capital management in a survey of law firms, as lock up (work in progress and debtors combined) can vary dramatically across differing areas of law.

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 increased to 146 days in 2024 from 143 days in 2023. In simple terms, this means that it takes, on average, almost five months from being appointed to getting paid for doing the work.

Looking at the individual WIP and debtor days results at figures 8.2 and 8.3, median WIP days remained the same and median debtor days fell from 38 days to 36 days in 2024.

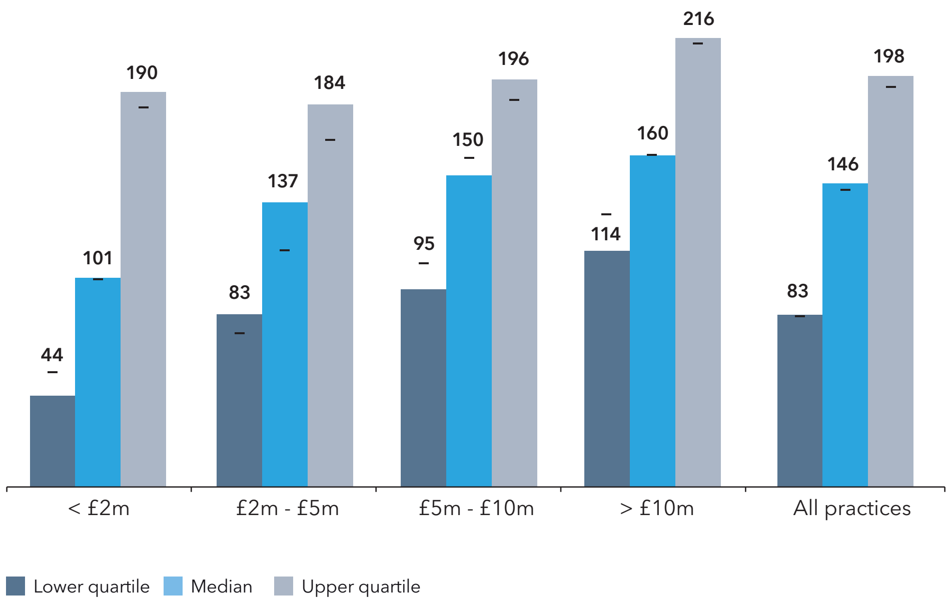
It is worth remembering that any improvements in overall lockup, however incremental, will have a positive impact on cash flow.

To put this in context, a firm with turnover of £10m would free up almost £30k of cash for every day's reduction in lockup.

Although it might seem challenging to implement a permanent improvement to lockup, imagine a scenario where most fee earners in a firm raise their bills around the end of the month or just before the financial systems are closed for month end. If those same fee earners were to raise their bills consistently throughout the month, they could, in theory, reduce their lockup by a couple of weeks and the £30k of freed up cash noted above might then become £300k of free cash. For many firms, that can make a huge difference to their overdraft or other borrowing requirements.

Firms therefore need to ensure that they continue to focus on reducing lock up where at all possible, as high lock up can not only lead to adverse cash flow issues but often also leads to increased bad debt exposure too.

Figure 8.1: Total lock up (days)



WIP days

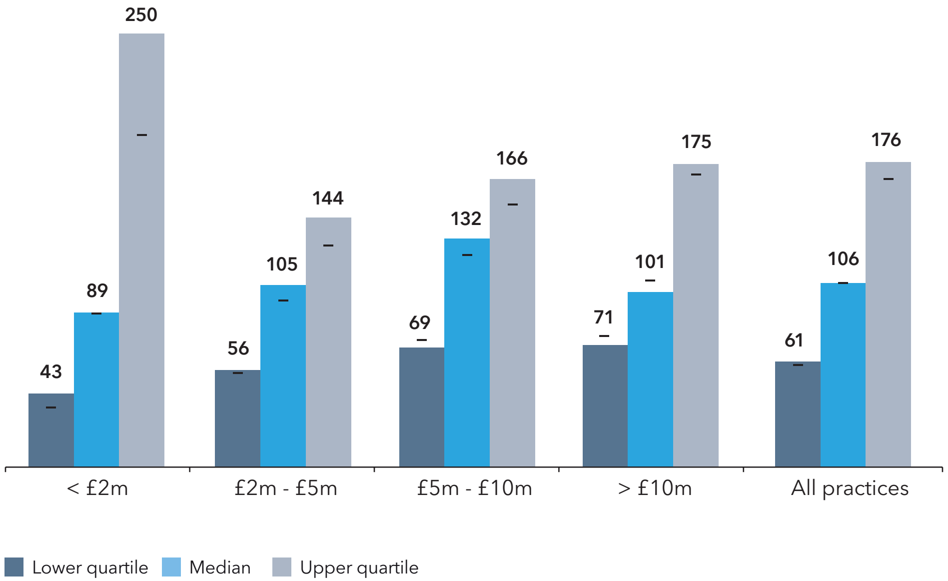
Work in progress (WIP) days have been calculated based on total WIP per participants' time records, as opposed to the figure included in their year-end accounts, as, for many firms, the figure in these accounts does not include large amounts of contingent WIP.

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, good financial hygiene starts at an earlier stage than chasing debts, and the best performing firms have robust polices that ensure that all time is captured properly, in a timely manner, and that time is billed as soon as the work is complete (and the client is still happy), rather than waiting until the month or quarter end. As noted previously, small improvements to billing practices can have a very positive impact on cash flow.

WIP days remained consistent at 106 days in both 2024 and 2023.

Figure 8.2: WIP days



Debtor days

Debtor days fell from 38 days in 2023 to 36 days in 2024 which is of course positive, but 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.
- Small changes to standard practice, such as raising bills as soon as the work is complete, or raising more frequent interim bills where the work type allows, can make a big difference to how soon you get paid. Moving away from billing at month-end to billing across the month can also result in clients paying a full month earlier. 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.
- It can often be helpful to remove fee earners from the credit control function entirely. Fee earners generally do not like having difficult conversations with clients, and appointing a dedicated credit controller can allow balances to be chased sooner and more effectively, as well as taking a lot of the emotion out of the process and will allow fee earners to focus on fee earning. However, any policy should allow some degree of flexibility, and in some cases, it is the fee earner who is better positioned to negotiate a favourable outcome.

Figure 8.3: Debtor days

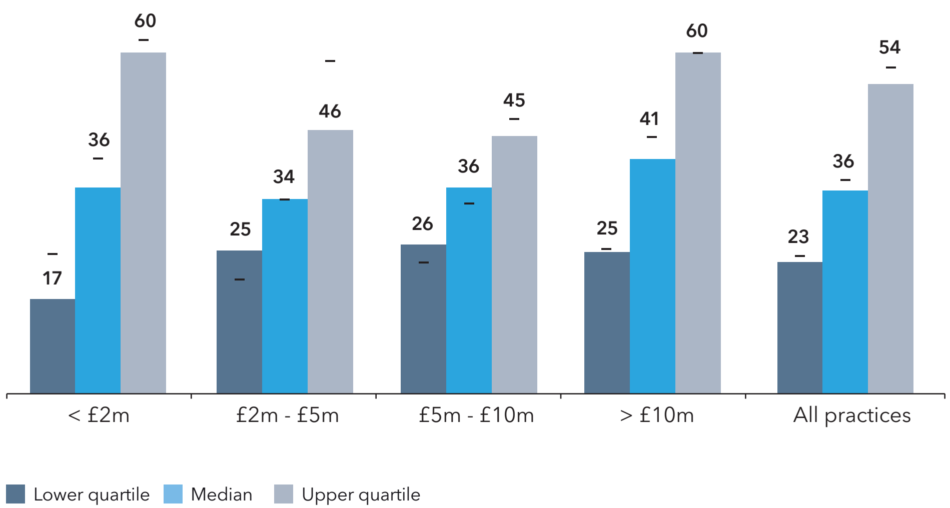
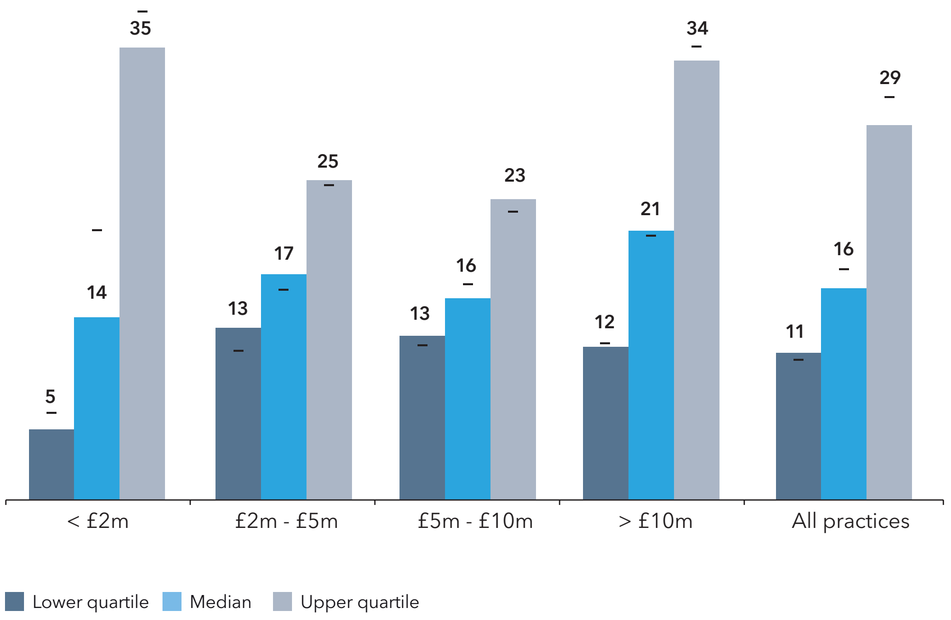


Figure 8.4: Debtors per fee earner (£'000)



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.

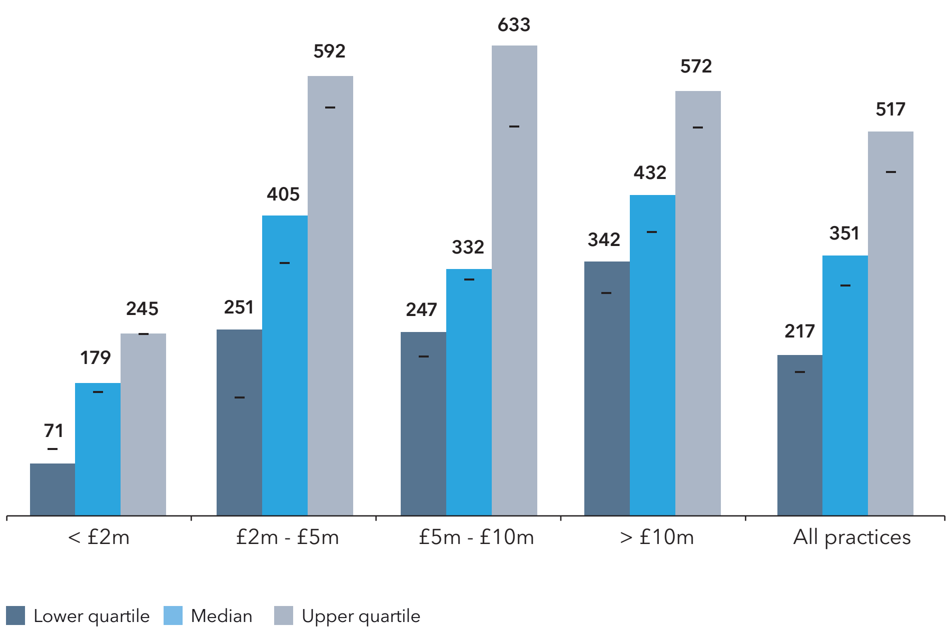
The participants in this year's survey reported a significant median increase from £308,697 total partner capital in 2023 to a median total of £350,672 in 2024.

This increase is not entirely surprising. From the 2023/24 tax year, all self-employed individuals and partners are now taxed on a tax year basis, rather than an accounting year basis, i.e., individuals will pay tax on profits arising in each tax year, regardless of the firm's accounting date. Limited companies are unaffected.

For firms which have not up until now had a 31 March year end, this change has resulted in a significant acceleration of tax payments, with large balancing tax payments falling due on 31 January 2025. Whilst firms have generally opted to spread the accelerated tax over five years as allowed by HMRC, firms have found that they have had to call on partners to increase capital in the business. This has largely been either through reduced drawings, cash injections from partners, increased borrowings or a combination of the three. Furthermore, because of the tax acceleration, firms will no longer be able to rely on partners' tax reserves to help fund their working capital in the same way that they have before.

Measuring and forecasting the ongoing working capital requirements of the firm is a key step in assessing the optimum level of partner funding.

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



Bank and other borrowings

81% of participants reported a positive office account balance at their most recent accounting date compared to 85% last year.

The median office account balance across all participants was £300,136, significantly lower than £361,628 in 2023, with all turnover bands reporting a positive median balance.

For those firms that had bank borrowings and/or a bank overdraft, the median balance per equity partner was £60,575 compared to £69,151 in 2023.

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

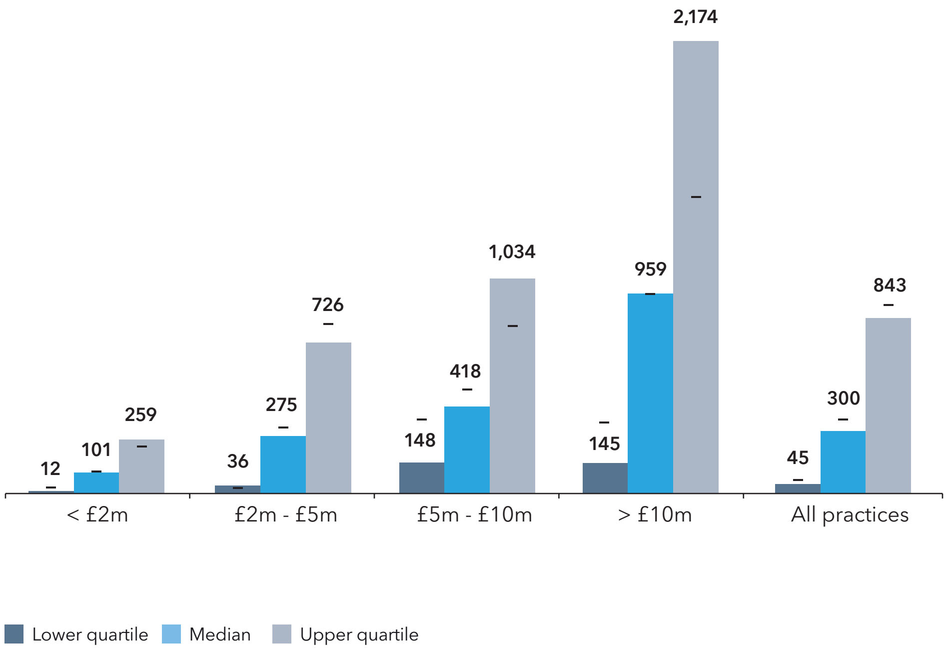


Figure 8.7: Bank borrowings per equity partner (£'000)

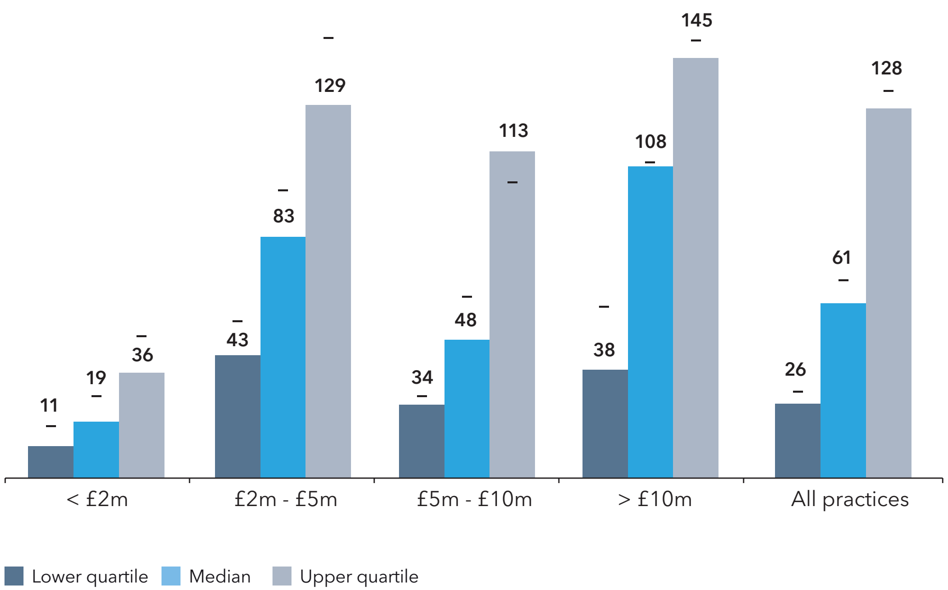
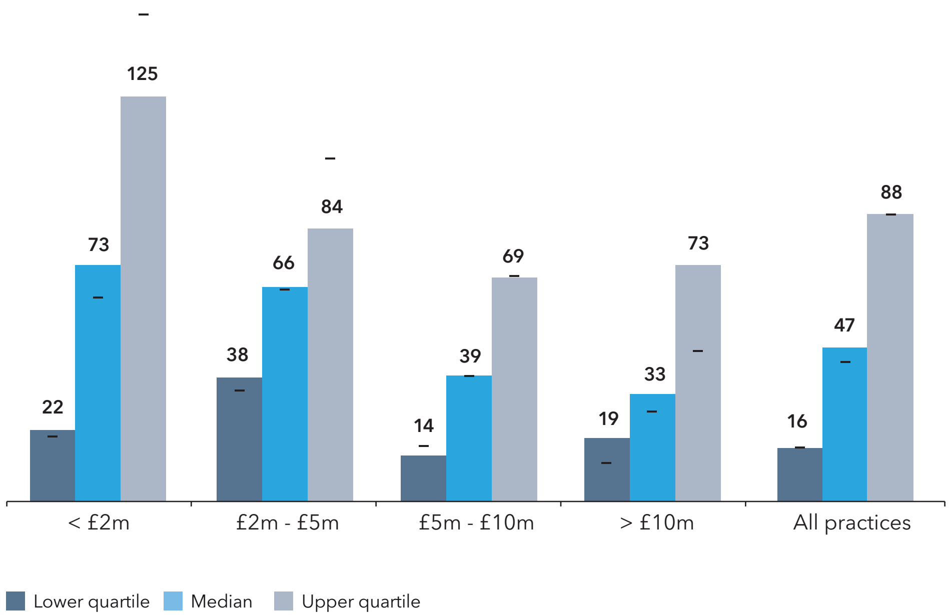


Figure 8.8: Other borrowings per equity partner (£'000)



Banks' attitude to lending

Banks have continued to lend to law firms but there is a general preference to lend to firms where conversion of WIP and debtors into cash is quite rapid. Banks are more willing to lend where performance covenants can be linked to a multiple of debtors.

There remains a reluctance to lend where very high levels of WIP, especially contingent WIP, and disbursements often result in a corresponding high level of external working capital funding requirement over a protracted period.

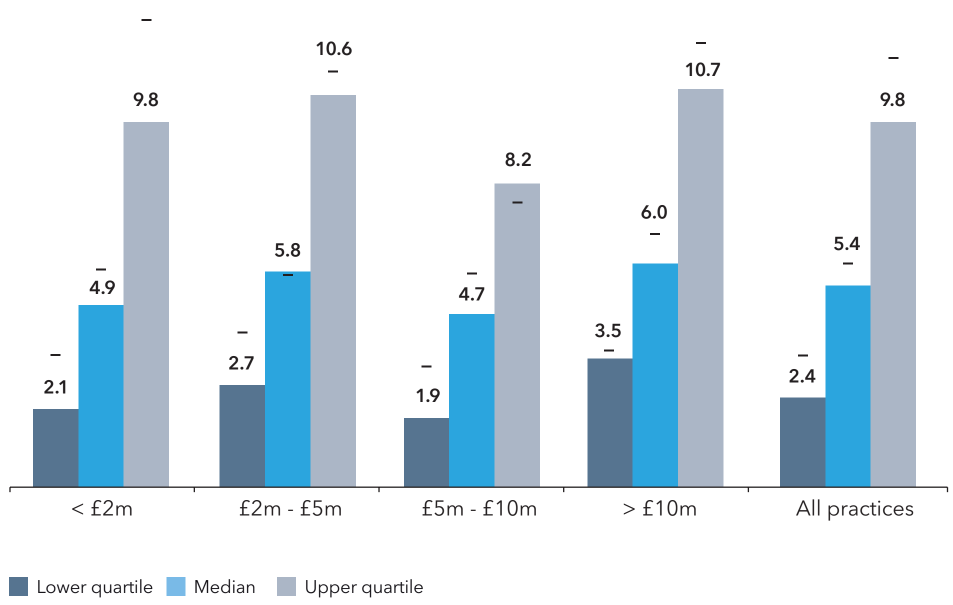
The recent release of the LSB commissioned report on the SRA's handling of the Axiom scandal has put the topic firmly back in the headlines and this will affect confidence in the market, though many of the key facts surrounding this have been known for some time.

Of course, the SRA's recent consultation and speculation around both the future of client money and the ability for firms to profit from client interest will likely dampen enthusiasm further.

Most banks have lending options for incoming partners in a partnership or LLP. For individuals buying into limited companies, there are options available, but they tend to be more limited. Complications around valuation of shares being purchased, for example, mean that the finance process tends to be more complicated and therefore less freely available than with more traditional structures. Options for people wishing to buy into a limited company are more limited, though we have seen some more products being offered over the last year or so.

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 5.4% compared to 6.0% in 2023.

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



9. Financial stability

The last couple of years has seen the collapse of a number of high profile firms and, while not all of these have been as a direct result of 'normal' financial pressures, we anticipate that the SRA will be focusing even more closely on financial stability in the future.

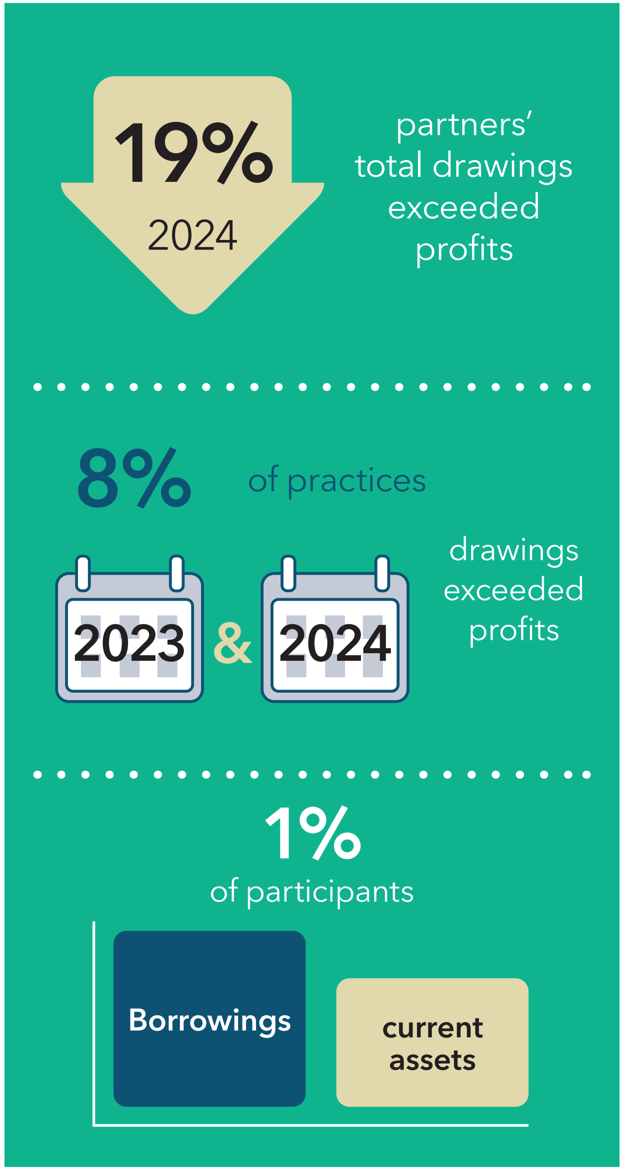
The SRAs recent consultation considered the impact of client account interest on firms' future financial viability and asked questions around the impact of removing the availability of this income. We therefore consider it likely that the SRA will seek to understand, and monitor, firms' underlying trading profitability and to what extent this profitability can withstand financial volatility.

In 2015, 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.

Of course, non-standard trading factors such as client account interest might still flatter these metrics, but basic financial risk measures such as this will continue to be important indicators when assessing financial stability.

For the past 10 years, we have analysed the information provided by participants to see how they fared against the SRA's original warning indicators. This year's findings are as follows:

- This year, 19% of participants had taken drawings in excess of profits compared to 23% in 2023. 8% of firms reported that they had taken drawings in excess of profits in both 2024 and 2023. As we have noted in previous years, sometimes this is no more than a timing difference driven by when partners decide to withdraw profits and is more pronounced in firms that carry a large amount of contingent WIP. Also, as noted above, some firms have deliberately held back profit distributions to help fund partners' accelerated tax bills.
- Borrowings exceeded current assets (WIP and debtors combined) for just 1% of participants.
- We saw partner capital increased in 42% of firms.



The short term future – fee predictions

Survey participants were asked for their projected fee income for the current 2025 financial year. Confidence was fairly high across firms in most turnover bands, with a median growth prediction of 4.9%. Interestingly, last year's respondents (who were not necessarily the same group of respondents as this year) predicted a median 3.7% increase in fee income, but we saw an overall greater increase among participants this year.

Whether this tendency towards pessimism will be the case this year remains to be seen.

The upper quartile is predicting growth of 11.1%, whereas the lower quartile is predicting a 1.4% increase. Previously, we have seen a lower quartile prediction of a reduction in fees, so this year's findings are a little more encouraging.

The smaller firms with turnover below £2m are the least optimistic, forecasting a median reduction of 0.5%, with the upper quartile projecting an increase of 9.8% and the lower quartile predicting a fall of 6.7%, demonstrating that there is predicted greater volatility in the small firms.

Figure 10.1: Predicted fee growth for the 2023/24 financial year (%)