Royal Bank of Scotland

# Legal Report 2024

Tomorrow Begins Today

# Contents



# Foreword

The UK legal sector continues to be hugely important within Royal Bank of Scotland. We have a long and proud history of supporting legal firms throughout the UK, helping them develop successful and sustainable businesses.

I'm delighted to present our tenth edition of the Royal Bank of Scotland Legal Report. This is the second year PKF Francis Clark have been commissioned to write the report and I'd like to thank Andrew Allen for his vital contribution to the production and development of this report. I'm also grateful to all those firms (close to 100!), who have contributed and provided valuable insights.

Our report focuses on firms that operate at the commercial and mid-market level across England, Scotland and Wales, with turnover ranging from £1m to £200m (average turnover of £20m). By comparing the financial performance of firms from across the UK, we've found some surprising and extremely valuable insights. Firms could use these findings to help them target areas where they could improve, so they could enhance their profitability and the way they manage their working capital.

We find that the majority of trailblazers in the sector tend to focus on long-term vision, have a Future Fit mindset and prioritise some of the key areas that are commented upon within this report such as talent, technology and sustainability in its widest sense.

With this in mind, we've concluded this report with a top five tips for business success and growth, that we hope will give you a useful framework to help navigate challenges and leverage new opportunities to pivot, innovate and grow your business.

It's encouraging that the legal sector has exhibited such remarkable resilience with the vast majority of firms having a strong sense of optimism about the future. Many of the firms we surveyed demonstrated strong growth in both fee income and profitability despite recent challenges, most notably persistently high inflation.

I hope you enjoy this report.

**David Weaver**
Head of Professional and Business Services

# Section 1: Introduction

# 1: Introduction and key findings

## 1.1: Introduction

In our 2024 survey we aim to provide a reflective analysis of law firm's results from financial year ends during 2024 compared with 2023 and consider the current commercial and financial outlook affecting firms today.

This is the tenth legal report prepared by Royal Bank of Scotland and we are delighted to report nearly 100 participants in this year's survey, with a good spread of firms by size and geographical location enabling us to give a real insight into the legal sector in 2024.

Optimism in the legal sector remains high. 90% (2023 87%) of firms are optimistic about the future with 36% (2023 33%) of our survey participants being very optimistic. So, on balance more positivity than in 2023 which is always a good starting point!

Over the year since our last survey, the challenges of pressures on margins have become more acute for many firms. High salary rises in the summer 2023, after a period of high economic inflation, baked in a requirement for firms to achieve high levels of top line growth just to stand still.

Headline inflation tailed away quickly after the summer, leaving the ability to pass on rate rises to clients harder for firms to achieve.

Significant features of the last year in the legal sector include:

- Margin pressure – balancing inflationary people cost and income growth
- Basis period reforms – planning for the 31 January 2025 cash impact
- HMRC moving goal posts on self-employment status for fixed share partners
- Interest income – impact on performance, VAT and SRA (Solicitors' Regulation Authority) matters
- Capital projects – extensive investment in IT and leasehold fit outs
- AI – investment and practical implementation as part of service offerings
- Consolidator and private equity investment
- Culture and values development as a key offering in recruitment

We naturally have recent financial information to set context, but we want to explore both the financial and non-financial issues affecting the sector and put those into context for our readers.

We are also seeking to get the most up to date financial and strategic thoughts from law firm leaders, to give readers an overview of the state of the legal sector.

This report is based on the contributions from nearly 100 firms and we are grateful for their time and efforts in working with us, including the managing partners and finance partners we interviewed whilst collating this report.

The information has been broken down into two sizes of firm – large and small. The firms taking part are from across the whole of the UK. We have also reported the results by region this year, as the increase in the size of the survey respondents has enabled us to do this with more statistical reliability.

# Section 1: Introduction and key findings

## 1.2: Your author

In our survey Andrew draws on his own experience of the legal sector and provides supplementary analysis alongside the results from Royal Bank of Scotland's 2024 survey results.

Andrew is a chartered accountant and graduate in statistics with significant experience in the analysis of financial results for law firms.

As a partner, Andrew leads PKF Francis Clark's national legal sector team and personally advises over 100 law firms across the UK ranging from top 50 firms to successful niche law firm businesses.

Having advised law firms for over 25 years, Andrew has developed a national reputation for practical and specialist advice to law firms.

Andrew is a well-known advisor in the national UK legal sector and in particular his contributions to the sector have included:

- Current vice chair of the Law Society Leadership and Management Section
- Past Chair of the ICAEW Solicitors Special Interest group
- Co-author of the Law Society's Solicitors Accountants Rules Manual published in 2021

## 1.2 Your author

**Andrew Allen**
BSc (Hons) FCA

# Section 1: Introduction and key findings

## 1.3: Data comparisons in this survey

We have two levels of comparison in this survey. In many areas we are comparing financial results of the firms (circa 100 firms) who have taken part in the 2024 survey with those same firm's financial results in 2023; giving a year-on-year comparison from the same cohort of firms.

Keeping in mind of course that many firms in the legal sector operate with a 31 March or 30 April year end; this means that a good number of the financial comparisons in this survey are right up to date – comparing March/April 2024 year end results for firms with those from March / April 2023.

In some areas of the survey, we are also comparing what has been reported by the firms that participated in the 2024 survey with those views and results from the firms that took part in the 2023 survey. So, in those comparisons we are looking at a slightly different cohort of firms. When we are undertaking such comparisons in this survey this should be clear by our reference to "the 2023 Royal Bank of Scotland survey" or similar.

# Section 1: Introduction and key findings

## 1.4: Key findings from this survey

### 1. Fees

a. Median fee income growth in 2024 was 10% (2023 Royal Bank of Scotland survey 8%) which is consistent with our experience in the sector where typical results were in the region of 8%-12%.

b. Fees per equity partner reported a median growth of 10%, with a result of just over £1.2m in 2024 compared with £1.1m for respondent firms in 2023.

c. Fees per fee earner growth was 8%, with the 2024 survey reporting a median result of £161,000 (2023 £149,000). Again, this is consistent with our experience in the legal market this year where fees per fee earner typically falls between £130,000 and £160,000 for most firms outside the top 100.

d. Private client work is cited as the most buoyant sector by law firms in 2024, residential conveyancing is noted as the lowest performing area at a fee income level in 2024.

### 2. People costs and related issues

a. Employee costs as a percentage of fees reported a median of 46% (2023 46%) and this compared with an expected range based on typical sector levels of between 45% and 55%.

b. People costs, as a percentage of fees, is a more important statistic adjusting for notional salaries of self-employed owners. The median result was 63% (2023 62%) and this compares favourably with an expected range based on typical sector levels of between 55% and 65%.

c. Crucially, this shows a slight reduction in core profitability/margins in law firms in 2024 – by 1%. In context however, this is much better than many firms were budgeting for. Many had expected that it would not be possible to grow turnover in line with the people cost increases that accrued from high salary rises in the summer of 2023 and firms were often predicting people costs might rise by up to 3% of earned income.

d. 60% of respondent firms in 2024 reported hybrid working arrangements for fee earners involve working at home for two days per week.

e. By 2025, 28% of respondent firms anticipated growth in headcount of between 5% and 10% with 12% of firms expecting headcount growth over 10%.

f. 66% of firms reported a decline in their professional indemnity insurance (PII) costs in 2024 or growth in the premium of less than 5% (so lower than typical income growth levels in recent years).

# Section 1: Introduction and key findings

## 3. Profits

a. Median profits per equity partner (PEP) increased by 10% whilst the median growth in PEP was 14%. The median reported in the survey for 2024 was £274,000 (2023 £249,000). For small firms this was £136,000 (£117,000) up 16% and £309,000 (2023 £291,000) up 6% for large firms.

b. In many smaller firms it was evident that growth in PEP was driven by increases in interest income. Overall, it was often the case that in 2024 interest income represented a much larger proportion of PEP, compared with underlying trading profits.

c. 25% of respondent firms reported growth in PEP of 41% or more in 2024 compared with their 2023 results. 25% reported declines in PEP of 10% or more compared with their 2023 results.

d. Overall, consistent with comments on margins above, the growth in PEP levels in firms in 2024 were better than many firms were budgeting for. For some this arose from better absorption of people cost inflation and for others it was also assisted by increased interest income.

## 4. Lock up and debt funding

a. There were modest movements in lock up in 2024 compared with 2023. Median lock up days reported by respondent firms were 142 days in 2024 compared with 141 days in 2023.

b. Given the impact of basis period reforms, the issue of lock up management in firms for 2025 will be a crucial factor in the sector.

c. For every £1 of members' funds/net assets in the business, the median level of debt was 17p (upper quartile 38p) appearing to be comfortable in relation to debt availability to law firms.

d. 25% of firms in the survey are debt averse and borrow less than 6p for every £1 of members' funds.

## 5. People structure

a. Gearing (fee earners per equity owner) reported little change in the year with a median result of 7.5 (2023 7.7) and the upper quartile commencing at 11.6.

b. The median ratio of support staff per fee earner for the survey was 0.78 (2023 0.73) with the upper quartile commencing at 1.06 and the lower quartile ending at 0.56.

c. 60% of firms primarily focus on fees issued as a mechanism to monitor fee earner performance. 21% of firms focus on chargeable hours.

d. 48% of firms state that salary level is the most persuasive factor in recruiting fee earners, whilst 35% of respondent firms stated firm values and culture are the dominating factor.

# Section 1: Introduction and key findings

## 6. Other topical issues

a. Key challenges - 44% of respondent firms see the attraction and retention of talent as the key challenge they face in 2024. Margin pressure (17%) and improving productivity (15%) follow this as the next most significant challenges cited by respondent firms in 2024.

b. Key IT investments - 42% of firms cite their practice management systems (PMS) as the biggest IT investment priority with cyber security management falling second at 19%. 15% of firms point to AI as being their biggest IT priority in 2024 – a big increase from 2% of respondents in the Royal Bank of Scotland 2023 survey.

c. Mergers and acquisitions - 26% (2023 Royal Bank of Scotland survey 32%) of firms reported that it is possible they may seek merger/acquisition as a strategy in the short term and 38% (2023 Royal Bank of Scotland survey 22%) of firms reported they have been approached by consolidators in the last year.

d. Client money regulations - 96% of firms oppose the SRA proposal to prevent firms holding client funds in the future. 58% believe that doing so would reduce the quality of experience of legal services to client, while 16% believe it will increase the cost of legal services.

e. Basis period reforms/cash flow - Around two-thirds of respondents are affected by the basis period reforms and the majority of those affected (38%) are managing the position by a mixture of external debt, partner capital retention and lock up reduction. 29% of those firms anticipate managing the position from existing cash reserves in the business.

## 7. Environmental and social matters

a. 12% (2023 Royal Bank of Scotland survey 19%) of firms placed a high priority on diversity, equality and inclusion.

b. 55% (2023 Royal Bank of Scotland survey 62%) of firms reported that over 60% of their fee earners were female.

c. 13% (2023 Royal Bank of Scotland survey 24%) of firms reported that over 60% of their equity owners were female.

d. 7% (2023 Royal Bank of Scotland survey 10%) of firms reported that they place a high priority on ESG in their business and 33% of firms have made a net zero or emissions reduction commitment.

# Section 2: Geography and constitution

# 2: Geography and constitution

## 2.1 Firms by size

The survey has divided the firms into two sizes. Those with annual fees of less than £5m are described as ‘small’, while those with fees of more than £5m are classified as ‘large’.

Our sample in 2024 extends to almost 100 firms. Considering the composition of the survey group:

- 25% reported turnover exceeding £20m (upper quartile)
- 25% reported turnover below £4.5m (lower quartile)
- The median turnover was £9m

Geographically our participants are diversely placed with approximately 25% of the survey respondents being from each of the four regions:

- London & South-East
- Midlands & East
- North & Scotland
- South-West & Wales

## 2.2 Firms by constitution

We asked firms to confirm their current primary trading structure. The results below show the split of firms taking part in the survey by constitution is as follows:

| | 2024 | 2023 |
|---|---|---|
| Limited liability partnerships (LLPs) | 74% | 65% |
| Limited companies | 18% | 25% |
| Unincorporated businesses (partnerships and sole practitioners) | 8% | 10% |

# Section 2: Geography and constitution

## 2.3 Popularity of constitution

We asked survey participants for their views on what they felt was the most appropriate constitution for law firms and overwhelmingly at 74% their view was the LLP remains the most appropriate vehicle (an increase on the 2023 Royal Bank of Scotland survey result of 63%) with a limited company structure following at 20% (2023 30%).

Trading structures are frequently discussed in relation to law firms, whether the focus is on commercial or taxation issues, there are often many aspects to consider when making decisions in this area.

We explained in last year's survey that limited companies had become the favoured vehicle for sole practitioners (often for tax planning reasons). The advent of the consultancy model created more company law firms because those models often require incoming members to operate through a legally regulated limited company, to join the consultancy network.

We can, however, see that the impact of corporation tax rises and the previous removal of incorporation benefits through the creation of goodwill, have started to signal a continued decline in the company as a core trading vehicle for many law firms.

Employee ownership trusts continue to secure some headlines in the legal sector as an alternative option for law firm structures. However, some commentators point to this as being as often much about distressed succession planning as it is about employee involvement.

# Section 3:
# Fee income

# 3: Fee income

## 3.1 Overview

- Median fee growth in 2024 was 10% compared with 8% in the 2023 Royal Bank of Scotland survey.
- 70% of firms expect 2025 fee income to grow less than 10% (2023 Royal Bank of Scotland survey 71%).
- 34% of firms expect 2025 fee income to grow less than 5% (2023 Royal Bank of Scotland survey 29%).
- In the first quarter of the 2025 financial year, the best performing areas in firms include private client, commercial transaction and litigation teams.
- Conversely property and family teams have been reported as performing below expectations in this same period.

## 3.2 Fee growth - 2024

In our experience, the level of fee growth in 2024 was slightly stronger than many firms budgeted for. We most frequently saw results of between 8% and 12%, which for many firms was very close to the level of the increase in their people costs during that same financial year.

We can see in the table on the right that the results from the Royal Bank of Scotland survey in 2024 present a similar picture with the median fee growth reported by participants being a 10% with both large and small firms reporting a median of 10%.

### Fees as a percentage of last year's

| | Lower quartile | Median (2024) | Upper quartile |
|---|---|---|---|
| London & South-East | 103% | 109% | 113% |
| Midlands & East | 102% | 107% | 112% |
| North & Scotland | 105% | 113% | 118% |
| South-West & Wales | 106% | 110% | 114% |
| Small | 102% | 110% | 116% |
| Large | 105% | 110% | 114% |
| All firms | 104% | 110% | 114% |

We also note that the median growth in the 2024 survey of 10% compared with the median growth reported in the 2023 Royal Bank of Scotland survey of 8%.

# Section 3: Fee income

## 3.3 Fee growth - 2025 forecast

Having considered the performance and growth for the financial year ended in 2024, it seems logical to look forward and consider firms expectations for 2025.

The data below shows that 88% (2023 Royal Bank of Scotland survey 90%) of firms expect fee income to increase.

The most common projected level (36% of participants) is growth in fees of between 5% to 10% in 2025. In the 2023 Royal Bank of Scotland survey 40% of firms projected that level of growth for their 2024 financial year.

When we include those in the projected 0% to 5% fee income growth category, we find that in total 67% of the survey responses predict growth in income of up to 10% in 2025 financial accounts.

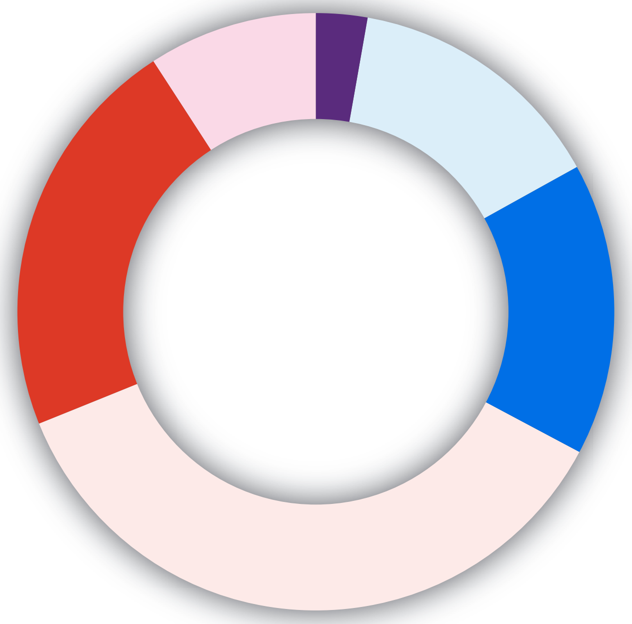
Firms also reported that where they operate recurring fee arrangements with clients, 65% expect those fees to rise in 2025 by up to 5%, whilst 22% expect such fees to increase between 5% and 10%.

**How much do you expect fee income/turnover to change in the next 12 months?**

9% - No change

22% - >0-5% increase

36% - >5-10% increase



3% - >0-5% decrease

14% - >15% increase

16% - >10-15% increase

# Section 3: Fee income

## 3.4 Fee performance by team

Looking at growth in income for law firms provides an overview of the sector but of course growth levels are affected in a firm by the mix of work they undertake.

We asked participants for their views on the best and worst performing teams in the current environment in quarter one of 2025 financial year end.

With a clear result private client (28%) was reported as the most buoyant area in 2024; the same result as the 2023 Royal Bank of Scotland survey.

Conversely, in second place in the 2023 Royal Bank of Scotland survey at 21%, was residential conveyancing which slips to joint fifth place at 8% of respondents citing this as their most buoyant area by 2024.

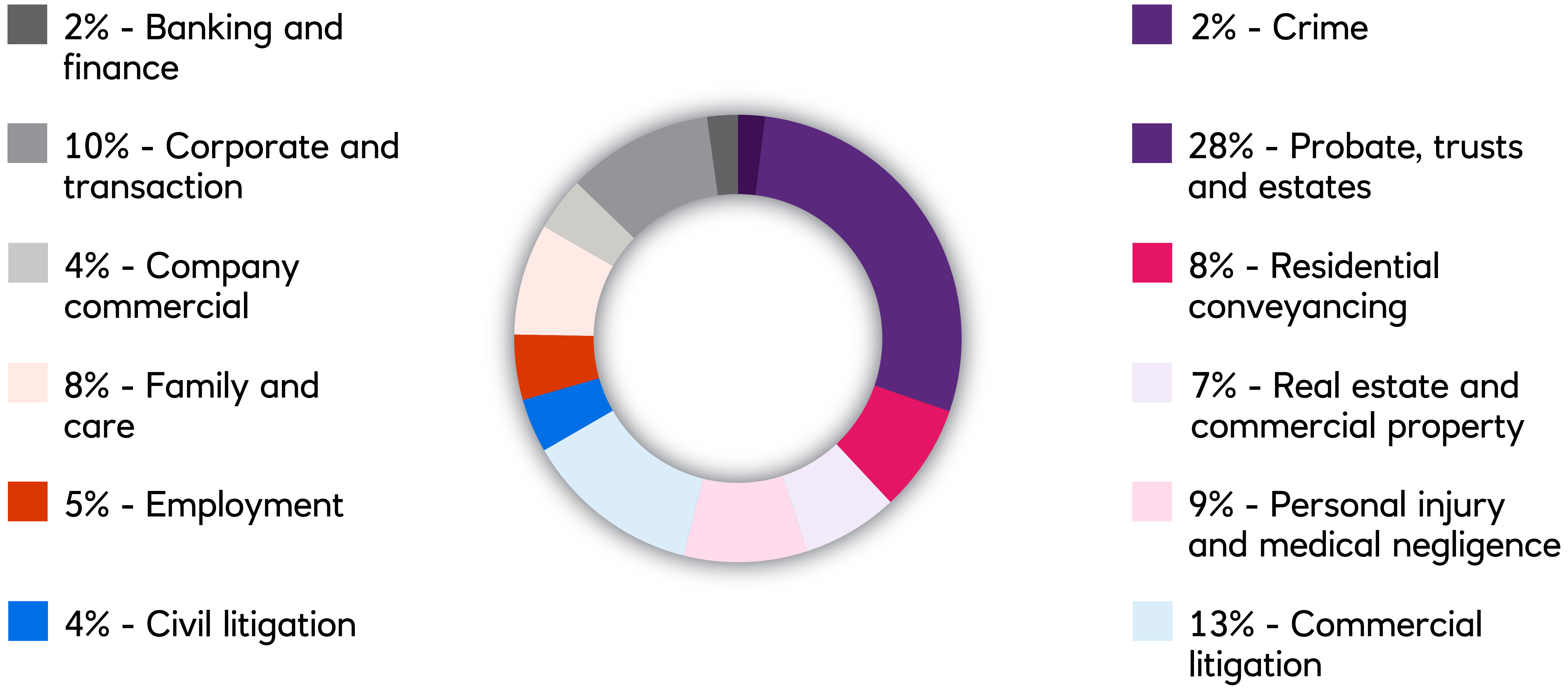
This largely reflects our experience over the last year, where there has been much more volatility in results of firms undertaking property work (both residential and commercial/real estate work more widely).

Firms were also asked which areas of their business are currently underperforming. Given the above comments, the result was not entirely surprising here with 18% of firms citing residential property as their worst performing area, closely followed by real estate at 16%.

Other areas of challenge appear to be family and civil litigation work reported by 15% and 13% of firms respectively, as being under-performing in the first quarter of the 2025 financial year.

In contrast, in the 2023 Royal Bank of Scotland survey, the primary areas of challenge in law firms were reported in employment (22%) and commercial property (13%).

**What practice area is performing best at the moment?**




Our experience shows a similar pattern of overall growth to the 2024 survey here.

Strongest performers were often private client and commercial litigation teams. Property certainly seemed more volatile that in recent years. While many residential teams reported small declines or low growth, we did see some real estate/commercial property teams still performing well. Employment teams did surprisingly well, following a lull in the post covid years.

# Section 3: Fee income

Neil Lloyd, Managing Partner at FBC Manby Bowdler commented: “Private client work has been exceedingly busy and we have seen some of the firms’ highest billers in this team in 2024 – some nearly achieving £400,000. We have seen a large level of growth in our Wills, LPA, estate, court of protection and trust work in the last year. The growth comes from our assessment of an ageing population and the fact that smaller law firms are unable to advise where significant assets are involved.

Our commercial property team remains strong and reflects about 20% of our income. We do however, for strategic and PII reasons, restrict our exposure to residential property to 5% of our turnover and this has served us well”.

Alison Lobb, Managing Partner at Morecrofts Solicitors commented:“Wills, trusts and probate related work has grown tremendously well during 2024 and despite what we have seen in other firms our property team has seen little drop off. Our property work is mainly residential conveyancing and commercial property for small businesses.

PI and clinical negligence work has also been growing, as we have seen the benefits of small law firms exiting this area of work and some of the small PI firms closing down.

Family and care work has also been busy on the public law front, but the challenge for us in this area remains the legal aid rates which remain at their 1996 levels and there is a medium-term query over viability of this work. Private divorce work has been holding up”.

Mike Leeman, Managing Partner at Bell Lamb and Joynson reflected: “We have seen substantial growth in 2024 and in recent years; averaging 20% year on year growth for each of the last 5 years. In 2024, despite the market, our conveyancing income grew 17% and crime work 35%.

Our growth has come from increasing market share. We don’t rely on panel work but focus on estate agent relationships and securing online instructions which has been greatly successful.

Part of our success has been linked with the volume of 5-star online reviews we have secured from our work for clients”.

**“Private client work has been exceedingly busy and we have seen some of the firms’ highest billers in this team in 2024”.**

# Section 3: Fee income

## 3.5 Fees per equity partner

The results from the 2024 survey are reflected in the table on the right. Overall firms reported a median of just over £1.2m of fees per equity partner although there was a significant difference reported between the small and large firms. Small firms reported a median closer to £960,000 compared with a median of £1.4m for larger firms.

At the median, year on year growth in fees per equity partner was 10%; with 20% growth being achieved in the small firms' median and 12% growth being achieved by large firms in the survey.

The results here are consistent with our experience of the legal sector in 2024, where in volume terms many firms reported fees per equity partner in the region of £750,000 to £1m. Once we consider the top 100 firms, this rises to results in the region of £1.3m to £1.8m.

Whilst acknowledging the dataset is a different cohort, we note that the median of the 2024 survey of £1.2m compares with the median of our 2023 Royal Bank of Scotland survey of £1m. Small firms in the 2023 Royal Bank of Scotland survey reported a median of £678,000 compared with this year's result of £961,000 and large firms in that survey reported a median of £1.1m compared with the 2024 survey of £1.4m.

### Fees per equity partners (£'000)

| | Lower quartile | Median (2024) | Upper quartile | Median (2023) |
|---|---|---|---|---|
| London & South-East | 1,019 | 1,244 | 1,404 | 1,134 |
| Midlands & East | 826 | 1,000 | 1,334 | 913 |
| North & Scotland | 1,022 | 1,458 | 2,115 | 1,132 |
| South-West & Wales | 1,112 | 1,511 | 2,277 | 1,390 |
| Small | 496 | 961 | 1,220 | 800 |
| Large | 1,014 | 1,401 | 2,124 | 1,253 |
| All firms | 957 | 1,232 | 1,869 | 1,122 |

# Section 3: Fee income

## 3.6 Fees per fee earner

This performance indicator provides one of the most reliable methods of comparing productivity between law firms because it focuses on the productivity on average of all fee earners in the business, irrespective of whether they are self-employed partners or employed fee earners.

The median here for all survey firm participants was £161,000 (2023 £149,000) reflecting a 8% year on year growth level. With large firms reporting growth of 8% and small firms reporting growth of 16%.

Unsurprisingly, there is a considerable difference between the small and large firm results which are £127,000 (2023 £109,000) and £172,000 (2023 £160,000) respectively. The upper quartiles for small and larger firms are also considerably different and commence at £166,000 and £211,000, respectively.

Our experience is many law firms report results here between £130,000 and £160,000, which broadly falls in line with the data in this survey.

Top 100 firms would often be reporting results of over £200,000, so the upper quartile of the large firm's category will include some of those firms and some small boutique firms that typically have a less common ownership and fee earner structure compared with typical law firms.

Whilst acknowledging it is a different cohort of data, we note that the median of the 2024 survey of £161,000 compares with the median of our 2023 survey of £141,000. Small firms in 2023 Royal Bank of Scotland survey reported a median of £118,000 compared with this year's result of £127,000 and large firms reported a median of £153,000 compared with the 2024 survey of £172,000.

### Fees per fee earner (£'000)

| | Lower quartile | Median (2024) | Upper quartile | Median (2023) |
|---|---|---|---|---|
| London & South-East | 161 | 182 | 243 | 179 |
| Midlands & East | 120 | 136 | 165 | 128 |
| North & Scotland | 108 | 173 | 216 | 148 |
| South-West & Wales | 136 | 154 | 179 | 142 |
| Small | 107 | 127 | 166 | 109 |
| Large | 144 | 172 | 211 | 160 |
| All firms | 131 | 161 | 192 | 149 |

# Section 4: People costs and expenses

# 4: People costs and expenses

## 4.1 Overview

- The median result for employee costs as a percentage of fees was 46% (2023 46%) and the median year on year growth in employee costs was 9% (2023 Royal Bank of Scotland survey 7%).
- The median result for people costs, as a percentage of fees, was 63% (2023 62%).
- 60% of firms reported that employees work two days per week at home (2023 54%).
- 48% of firms reported either a decline or no change in their PII policy, despite income growth in the region of up to 10% for many firms in each of the last two years.

## 4.2 Employee costs

Staff costs as a percentage of fees are a helpful indicator of the core profitability (profit margins) of a law firm.

We can see from the table on the right that the median result for the survey was 46% and the upper quartile commenced at 53%.

In the legal sector more widely we most frequently see law firms report a result of 45% to 55%. The results for this survey therefore compare favourably with these expectations.

It is also interesting to consider how the cost structure here has changed in 2024 compared with 2023 for participants. The table below explains that over 50% of firms saw an increase in employee costs of 9% or more in 2024 (2023 7%) and 25% of participants saw growth of 16% (2023 19%) or more in employee costs.

**Staff costs as percentage of fees (%)**

| | Lower quartile | Median (2024) | Upper quartile | Median (2023) |
|---|---|---|---|---|
| London & South-East | 38 | 42 | 52 | 42 |
| Midlands & East | 44 | 52 | 57 | 49 |
| North & Scotland | 35 | 45 | 52 | 43 |
| South-West & Wales | 40 | 46 | 51 | 46 |
| Small | 40 | 49 | 57 | 48 |
| Large | 39 | 45 | 52 | 45 |
| All firms | 39 | 46 | 53 | 46 |

At this point it is worth reflecting that earlier in this report we saw that firms reported a median increase in fee income of 10% in comparison with the median increase of 9% in employee costs.

Whilst acknowledging the different data cohorts involved, we note that the median staff costs as a percentage of fees in the 2024 survey above of 46% compares with the median of our 2023 Royal Bank of Scotland survey of 42%.

In our experience many law firms have seen their employee costs rise by slightly more than income growth in 2024 – often by 1% and often rising by less than was originally budgeted by firms for that year.

# Section 4: People costs and expenses

### Staff costs as percentage of last years (%)

| | Lower quartile | Median (2024) | Upper quartile |
|---|---|---|---|
| London & South-East | 107 | 110 | 116 |
| Midlands & East | 102 | 109 | 111 |
| North & Scotland | 103 | 110 | 118 |
| South-West & Wales | 106 | 108 | 116 |
| Small | 99 | 107 | 110 |
| Large | 106 | 110 | 116 |
| All firms | 104 | 109 | 116 |

Inflationary pay increases in law firms were significant in the spring and summer of 2023. This had followed a period of high economic inflation reports and a tight supply market for fee earners in the legal sector.

The year-on-year staff costs from the 2024 survey reflect this expectation with median growth of 9%, broken down as 7% growth in small firms and 10% growth in larger firms.

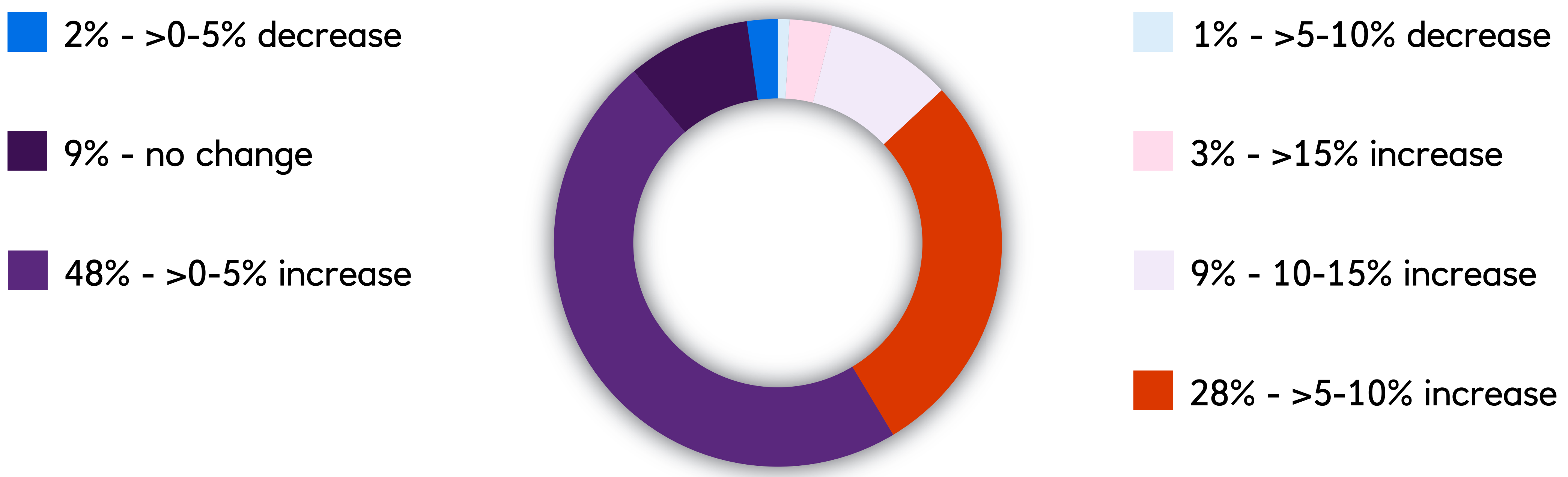
When we consider the 2023 Royal Bank of Scotland survey results, we recall lower year on year growth in staff costs of 7% at the median (9% for small firms and 7% for large firms).

There has therefore been two consecutive years of notable staff cost growth in firms and it has become increasingly difficult for firms to pass on those costs in terms of fee income growth, more so in 2024 than in 2023.

Based on our discussions with law firms across the summer of 2024 we have seen many firms budget for growth in staff costs in the region of 7% to 9% in 2025. This is based on inflationary rises, promotions and related employee costs awarded across the summer months.

If we look at the recruitment market outlook it is interesting to consider survey participants plans for headcount over the next 12 months which is reflected in the chart below:

### How do you expect headcount to change in 2024?




Of participants 88% are expecting headcount growth, higher than in the 2023 Royal Bank of Scotland survey where 73% of respondents were expecting growth.

However, what is noticeable is that in 2024 28% of firms expect headcount growth of 5% to 10% compared with only 16% expecting such growth in 2023.

So, the number of firms expecting growth in headcount and the extent of future headcount growth anticipated is higher in 2024 than reported by respondents in 2023.

# Section 4: People costs and expenses

Whilst we have observed some easing across several areas of recruitment in the legal sector in the last year this anticipated headcount growth by law firms suggests there is unlikely to be any imminent further easing of the position. This all suggests the war for talent will continue to rage and that the outlook for salary inflation remains high.

Given this appetite for growth in the sector, we asked participants how they anticipated their ability to attract and retain staff might change in 2024 relative to 2023.

Of the responses received 62% (2023 57%) anticipated no significant change to the already difficult circumstances whilst 17% (2023 27%) anticipated it would become even more difficult.

It will be interesting to see how the employee market for the legal sector evolves into 2025. Our experience in the last year has shown continued difficulties in recruitment in private client and commercial litigation whilst other areas such as property (residual, real estate and commercial) have all reflected a good degree of easing compared with recent years.

## 4.3 People costs

Employee costs in isolation can provide a misleading picture, because they do not consider the costs of self-employed individuals in the business who also add to the productive capacity of a firm. So, a firm that is more predisposed to appointing self-employed partners is more likely to report a more favourable (lower) employee cost result.

To adjust for this, we include notional salaries for equity partners and we also include the fixed profit shares allocated for fixed share partners, to arrive at total people costs (calculated as a percentage of fees as set out in the table on the right).

In calculating this result, we have used actual fixed shares provided by participants. For equity partners in small firms, we have used a notional salary of £100,000 and in large firms £150,000(*).

**People costs, small £100k, large £150k (%)**

| | Lower quartile | Median (2024) | Upper quartile | Median (2023) |
|---|---|---|---|---|
| London & South-East | 53 | 63 | 70 | 60 |
| Midlands & East | 61 | 65 | 71 | 68 |
| North & Scotland | 52 | 58 | 69 | 58 |
| South-West & Wales | 60 | 64 | 66 | 64 |
| Small | 52 | 63 | 69 | 61 |
| Large | 57 | 63 | 68 | 62 |
| All firms | 55 | 63 | 69 | 62 |

(* - Note: There is some subjectivity in selecting this notional salary and whilst this has been aligned to an extent with other legal sector national surveys this is more complicated with our dataset for the large firm group due to the range of firms taking part. However, in context for every £25,000 movement in the notional salary for large firms the impact is a 2% movement in the people costs % result reported which provides an indication of the sensitivity impact of selecting the notional salary)

# Section 4: People costs and expenses

The survey reports that the median result for people costs as a percentage of fees was 63% (2023 62%). Both large and small firms reported the same median of 63% in 2024 and in fact the 2023 results were also very similar at 62% and 61% respectively.

In the legal sector more widely, we most frequently see law firms report a result here of 55% to 65%. In fact, the vast majority of all well-run law firms of all shapes and sizes report results of 59% to 62%. The results for this survey therefore compare favourably with these expectations.

The results for law firms in this area have fluctuated in recent years. During 2021 (the pandemic year) productivity in law firms improved significantly and many firms reported a reduction in people costs by up to 4% in a single year, results of 56% to 59% were commonly reported.

This position was eroded for most firms during 2022 and 2023 during which time most firms returned to their pre-pandemic people costs levels of around 62% by the end of their financial year ends in 2023.

In 2024 the pressure of high pay rises from the summer of 2023 and the struggle to pass on those inflationary increases to clients through increased fees has resulted in firms losing typically 1% to 2% in their core profit margin in 2024.

This experience of course is also reflected in the results of this survey.

## 4.4 Professional indemnity insurance

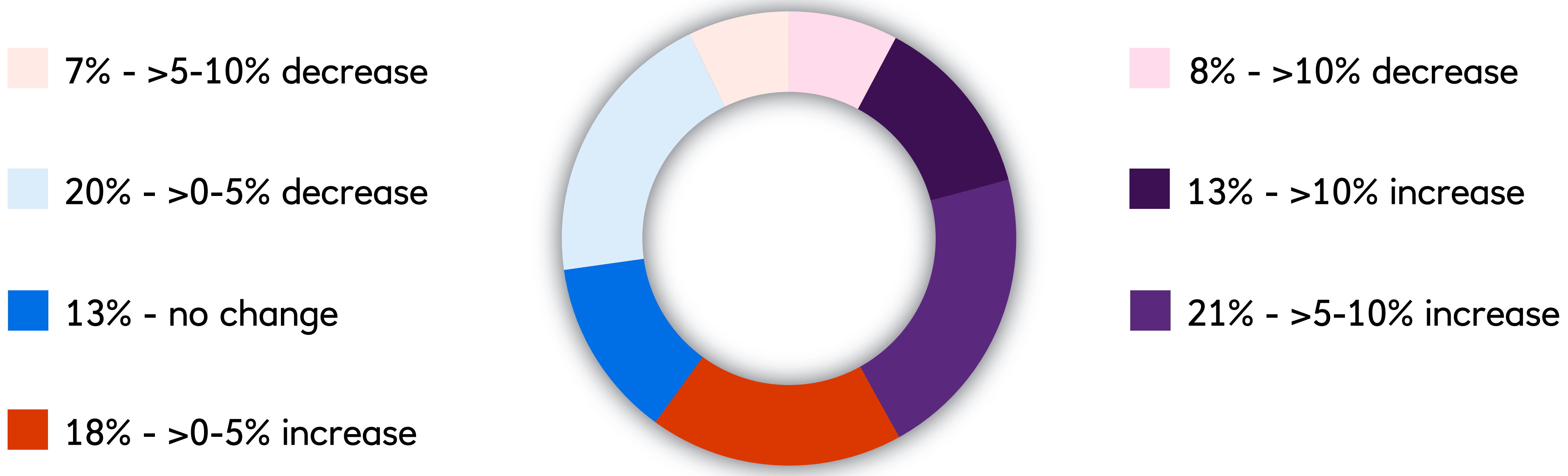
The PII market over the last year has softened compared to recent years and nearly half of the firms (48% of respondents) reported their PII premium either reduced or showed no change during the 2024 financial year.

In this context of course we saw earlier in this report that many firms reported 10% growth of income in 2024 and 8% growth in 2023. So, despite two consecutive years of strong top line growth the PII cost for many firms is reducing.

Where firms reported growth in their PII costs, we note that 39% of the survey reported their PII costs grew by less than 10%. So, even where there was growth in PII costs, this was generally below the level of fee income growth those same firms achieved.

Only 13% of firms reported growth in their PII premium exceeding 10%. This compares with the 2023 Royal Bank of Scotland survey where 40% of firms responding reported growth in their PII premium exceeding 10% (with 13% of firms in that year reporting growth of between 20% and 30%).

### What was the change to your PII premium this year?




The outcome from the 2024 renewal from brokers appears similarly optimistic with new insurers entering the market and more general signs that, for the legal sector at least, PII rate pressures may be continuing to ease.

In many cases the early renewals observed by us in 2024 reported static or even declining premiums and more instances of 18-month renewal arrangements being put in place.

At long last some reprieve for law firms after a number of years of significant cost increases in the PII market.

# Section 4: People costs and expenses

## 4.5 Property

Following employee costs, property costs are one of the highest areas of expenditure in the profit and loss account of most law firms. We often find firms spend between 6% and 10% of their fee income in this area.

For many law firms the entire landscape of planning office facilities has totally changed in recent years, but with many firms locked into leasehold arrangements it has been challenging for firms to evolve to meet client and employee needs.

Our participants reported that the most common working arrangement for their employees was now a pattern of working two days each week from home which was reported by 60% of survey respondents (an increase on the result from the 2023 Royal Bank of Scotland survey of 54%). 18% of firms reported that their employees worked more than two days at home each week (2023 Royal Bank of Scotland survey 17%).

| No. of days working at home per week | 0 | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| 2024 % of participants | 7 | 15 | 60 | 17 | 1 | 0 |
| 2023 % of participants | 13 | 16 | 54 | 15 | 1 | 1 |

It will be interesting to see how this profile of work patterns evolves in the coming years; particularly with what appears to be a drive from a range of sectors for increasing work placed arrangements in the future, often supported by the benefits of personal and colleague development.

Mike Leeman, Managing Partner at Bell Lamb and Joynson reflects “We operate several offices, and we report on a team basis rather than location. We actively encourage all staff to work across the offices as most appropriate for their work. We allow senior staff to work up to two days per week at home and we encourage all other staff to only work a day per week at home. We find that office presence is important both for staff development personally and for them to assist in developing others”.

We also asked participants what their plans were in respect of office footprint and capacity over the next five years.

Of respondents 23% (2023 Royal Bank of Scotland survey 12%) reported a planned decrease. No anticipated change in footprint was reported by 50% (2023 Royal Bank of Scotland survey 57%) of respondents whilst 27% (2023 Royal Bank of Scotland survey 31%) anticipated increasing their footprint during this time.

When discussing these matters with firms, what becomes clear is that many firms continue to look at re-configuring the space, moving towards meeting rather than working spaces and accepting they will be working with more spare capacity than they have in the past.

Property fit outs and building enhancement projects, as anticipated in last year’s survey, have started to gain more traction in many more firms during 2024. These are substantial projects for firms to manage, absorbing both significant management resource and funding capacity for firms.

**“We find that office presence is important both for staff development personally and for them to assist in developing others”.**

# Section 5: Profitability and people structure

# 5: Profitability and people structure

## 5.1 Overview

- Median PEP (profits per equity partner) reported in the survey for 2024 was £274,000 broken down as £136,000 for small firms and £309,000 for large firms.
- The median growth in PEP in 2024 results, compared with 2023, was 14% with large firms reporting a median PEP increase of 9% and small firms reporting a 33% increase.
- The median net profit margin in the survey was 29%; with half of the results broadly falling between 20% and 40%.
- Gearing (fee earners per equity owner) was reported as a median result of 7.5 with the upper quartile commencing at 11.6.
- The median ratio of support staff per fee earner for the survey was 0.78 with the upper quartile commencing at 1.06 and the lower quartile ending at 0.56.

## 5.2 Profits per equity partner

A common measure for law firm profitability is profits per equity partner (PEP). The table below reports the results for participant firms from their 2024 and 2023 financial accounts.

**Profit per equity partner (£'000)**

| | Lower quartile | Median (2024) | Upper quartile | Median (2023) |
|---|---|---|---|---|
| London & South-East | 88 | 260 | 368 | 211 |
| Midlands & East | 107 | 227 | 283 | 198 |
| North & Scotland | 155 | 266 | 497 | 264 |
| South-West & Wales | 274 | 379 | 473 | 303 |
| Small | 84 | 136 | 219 | 117 |
| Large | 230 | 309 | 475 | 291 |
| All firms | 171 | 274 | 439 | 249 |

Median PEP reported in the survey for 2024 was £274,000, £136,000 for small firms and £309,000 for large firms.

25% of firms reports PEP below £171,000 and 25% of firms reported PEP exceeding £439,000.

# Section 5: Profitability and people structure

Whilst acknowledging it involves a different cohort of data, in the 2023 Royal Bank of Scotland survey the median PEP reported was £246,000 broken down as £148,000 for small firms and £302,000 for large firms.

The table below reports the growth in PEP between 2023 and 2024 for the firms participating in the 2024 survey and this is perhaps a more useful comparison than considering absolute PEP values.

**Profit per equity partner as a percentage of last year (%)**

| | Lower quartile | Median (2024) | Upper quartile |
|---|---|---|---|
| London & South-East | 73 | 116 | 147 |
| Midlands & East | 95 | 104 | 121 |
| North & Scotland | 85 | 103 | 140 |
| South-West & Wales | 107 | 123 | 139 |
| Small | 70 | 133 | 179 |
| Large | 91 | 109 | 138 |
| All firms | 90 | 114 | 141 |

The median growth in PEP year on year amongst all the 2024 participant firms was 14%; although it is notable that growth in small firms was considerably higher at 33% compared with growth of 9% in large firms within the survey.

Reflecting on the overall results in the table, we can see quite a diverse range of performance in 2024 amongst firms:

- 25% of the firms reported a decline in PEP of 10% of more.
- 25% of the firms reported growth in PEP of 41% or more.
- 50% of the firms reported results in the range of minus 10% to plus 40%.

A combination of a squeeze on core profit margins and high inflation in overheads is an easy explanation for those reporting declines or below inflation growth.

It's probable that part of the reason for the stronger performance in the smaller firms related to the growth in interest income that many firms experienced between 2023 and 2024.

There have however clearly been some strong performance results amongst some firms and from our experience these have simply been firms that have been able to achieve stronger than average top line growth.

# Section 5: Profitability and people structure

## 5.3 Net profit margins (profit as a percentage of fees)

Law firms often monitor net profit margins as a measure of profitability. While it can be a useful benchmark, it should always be kept in mind that a firm with a less common ratio of equity partners to employees is likely to produce a more unusual result. This may not then accurately reflect the firm's comparative profitability with the sector.

This is simply because of the impact of employee costs being in the profit and loss account compared with equity partners who have no salary in most LLPs, or a director-shareholder in a company where the level of any remuneration might be affected by tax planning activity.

**Profit as a percentage of fees (%)**

| | Lower quartile | Median (2024) | Upper quartile |
|---|---|---|---|
| London & South-East | 15 | 27 | 39 |
| Midlands & East | 16 | 28 | 33 |
| North & Scotland | 18 | 31 | 40 |
| South-West & Wales | 26 | 31 | 39 |
| | | | |
| Small | 11 | 20 | 32 |
| Large | 23 | 31 | 39 |
| | | | |
| All firms | 19 | 29 | 39 |

The median for all firms in the survey was 29%, the same as the 2023 Royal Bank of Scotland survey and when looking at small firms the median falls to 20% (2023 Royal Bank of Scotland survey 22%) compared with 31% for large firms (2023 Royal Bank of Scotland survey 30%).

From our experience of the legal market in 2024, we have often seen net profit margins falling by between 1% and 3%. This is often resulting from a combination of a loss in core profit margin of 1% (so people costs rising relative to income earned) and an increase in overhead levels in excess of income growth levels.

# Section 5: Profitability and people structure

## 5.4 Gearing

Gearing considers the number of equity owners (equity partners in an LLP or shareholders in a limited company) in the business, compared with the number of employed fee earners. The rationale being that the higher the number of fee earners in total per equity owner, then the better the theoretical structure is in the business for generating profits for the equity owners.

The table below reports the gearing for the survey participants and this reports a median of 7.5 fee earners per equity partner, with large firms reporting a median of 8.0 and small firms reporting a median of 6.7.

**Gearing (total fee earners/equity partners)**

| | Lower quartile | Median (2024) | Upper quartile | Median (2023) |
|---|---|---|---|---|
| London & South-East | 4.8 | 6.0 | 7.4 | 6.1 |
| Midlands & East | 6.2 | 8.1 | 13.5 | 8.3 |
| North & Scotland | 6.1 | 9.0 | 12.7 | 9.4 |
| South-West & Wales | 6.4 | 9.6 | 14.1 | 8.6 |
| | | | | |
| Small | 4.4 | 6.7 | 10.0 | 7.4 |
| Large | 6.1 | 8.0 | 11.6 | 7.8 |
| | | | | |
| All firms | 5.9 | 7.5 | 11.6 | 7.7 |

The differentials reported here between the small and large firms is what we would expect to see, arguably less pronounced here than in the general legal marketplace.

The results show that there was minimal change in the structure / gearing of the respondent firms in the 2024 survey across their last two financial years.

Whilst a different cohort of data, the median fee earners per equity partner (gearing ratio) in the 2023 Royal Bank of Scotland survey was 7.7 compared with 7.5 in 2024.

We often find in the legal sector that the difference (financially) between a small firm and a large firm is not in their core profitability - people costs percentage or net profit margin, but in their gearing.

Specifically, as law firms grow their core profitability may improve a little, but the main thing that helps them increase their PEP is the fact that their growth in equity partners is usually slower than the growth in fee income and net profits.

# Section 5: Profitability and people structure

## 5.5 Support staff

The table below considers the mix of fee earning staff in law firms, compared with support staff. For these purposes, support staff are deemed to be anyone on the payroll who are not fee earners and do not have a fee earning target.

Support staff therefore include central support functions e.g. finance and HR, as well as people working in teams alongside fee earners e.g. personal assistants and secretaries.

**Support staff per fee earner**

| | Lower quartile | Median (2024) | Upper quartile | Median (2023) |
|---|---|---|---|---|
| London & South-East | 0.58 | 0.86 | 1.16 | 0.83 |
| Midlands & East | 0.59 | 0.93 | 1.07 | 1.03 |
| North & Scotland | 0.59 | 0.78 | 0.98 | 0.8 |
| South-West & Wales | 0.57 | 0.68 | 0.92 | 0.69 |
| Small | 0.56 | 0.80 | 1.06 | 0.84 |
| Large | 0.58 | 0.71 | 1.06 | 0.71 |
| All firms | 0.56 | 0.78 | 1.06 | 0.73 |

The survey reports a median result of 0.78 support staff per fee earner, with small firms reporting a median of 0.8 and large firms reporting a median of 0.71.

The results show that for the firms participating in the 2024 survey, there was very little change in their support staff to fee earner mix between 2023 and 2024.

These results are consistent with what we experience in the legal sector with common results reported in the range of 0.8 to 0.9. There is a general correlation that the larger the law firm, the lower the number of support staff per fee earner.

Whilst a different cohort of data, the median support staff per fee earner ratio in the 2023 Royal Bank of Scotland survey was 0.8 compared with 0.78 in 2024.

There is no correct answer to this statistic. One law firm may, for example, have a high number of support staff that are well utilised and free up fee earner time to undertake profitable work. Another firm may have the same ratio but may not have the same effective use of those support staff. The structure therefore becomes detrimental to profits in that firm.

# Section 6: Lock up

# 6: Lock up

## 6.1 Overview

- Median work in progress (WIP) days in the survey was 92 days compared with 98 days for the same respondent firms in the prior year.
- Median debtor days in the survey was 42 days compared with 38 days for the same respondent firms in the prior year.
- Median lock up days in the survey was 142 days compared with 141 days for the same respondent firms in the prior year.
- The survey presents a more positive pattern than general results we have seen in 2024, where it has been common to see 3-5 days increased lock up levels i.e. a deterioration in lock up and cash collection.
- Even with the one day increase amongst the 2024 survey data, this is a continuing trend over the last few years.
- The impact of the basis period reform combined with large capital projects for many firms and partner retirements means that cash collection needs to be a primary focus for firms in 2025.

## 6.2 About lock up

Whilst the medium-term financial objective for firms might be to improve margins and profitability, the short-term financial objective for most firms is generating cash to keep the business running.

A key factor for law firms is therefore the ability to convert chargeable time into cash received. Time that has been recorded by fee earners but not billed to clients is known as work in progress or WIP. Time which has been billed but the fee remains uncollected is known as a debtor.

WIP and debtors combined are known as 'lock-up' and represents the total amount of investment a law firm has in work undertaken, waiting to be converted to cash.

Firms usually report levels of WIP and debtors by describing them as the number of days of fee income/turnover that they represent for the firm. For example, a firm with £12m of fee income in a year with WIP and debtors combined of £4m at the year-end is said to have 120 days of lock up.

# Section 6: Lock up

## 6.3 WIP days

Survey firms reported a median of 92 days of turnover (fees) invested in WIP, reflecting a decrease from 98 days for the same firms in the prior year.

The median result for small firms of 100 days compares with 98 for those firms in the prior year. For large firms the shift is a little more significant with a decrease from 94 days in the prior year to 89 days in the 2024 survey.

| | Lower quartile | Median (2024) | Upper quartile | Median (2023) |
|---|---|---|---|---|
| London & South-East | 49 | 103 | 126 | 109 |
| Midlands & East | 85 | 111 | 145 | 113 |
| North & Scotland | 46 | 75 | 109 | 78 |
| South-West & Wales | 52 | 77 | 107 | 74 |
| Small | 62 | 100 | 139 | 98 |
| Large | 52 | 89 | 126 | 94 |
| All firms | 54 | 92 | 137 | 98 |

## 6.4 Debtor days

In relation to debtors, survey firms reported a median of 42 days of turnover (fees) invested, reflecting a minor increase from 38 days for the same firms in the prior year.

The median result for small firms of 28 days compares with 30 for those firms in the prior year. However, for large firms there was an increase to 50 in the 2024 survey compared with 44 in 2023.

| | Lower quartile | Median (2024) | Upper quartile | Median (2023) |
|---|---|---|---|---|
| London & South-East | 36 | 52 | 74 | 55 |
| Midlands & East | 19 | 30 | 35 | 28 |
| North & Scotland | 21 | 39 | 58 | 37 |
| South-West & Wales | 38 | 57 | 70 | 56 |
| Small | 16 | 28 | 50 | 30 |
| Large | 32 | 50 | 65 | 44 |
| All firms | 26 | 42 | 64 | 38 |

# Section 6: Lock up

## 6.5 Lock up days

Firms reported a median of 142 days of turnover (fees) invested in lock up, reflecting a small increase from 141 days for the same firms in the prior year.

The median result for small firms of 141 days compares with 148 for those firms in the prior year, for large firms the position worsened slightly to 142 days (2023 139 days).

Finally, while acknowledging the difference in the data cohort, median lock up days in the 2023 Royal Bank of Scotland survey were 136 compared with 142 in 2024.

| | Lower quartile | Median (2024) | Upper quartile | Median (2023) |
|---|---|---|---|---|
| London & South-East | 101 | 149 | 193 | 150 |
| Midlands & East | 116 | 138 | 177 | 157 |
| North & Scotland | 77 | 142 | 168 | 136 |
| South-West & Wales | 107 | 135 | 158 | 134 |
| | | | | |
| Small | 76 | 141 | 200 | 148 |
| Large | 111 | 142 | 179 | 139 |
| | | | | |
| All firms | 105 | 142 | 180 | 141 |

# Section 7: Finance, IT and management

# 7: Finance, IT and management

## 7.1 Productivity

With people and overhead costs continuing to rise in law firms, along with the challenges of recovering this inflation through client rate rises; many law firms continue to focus on the efficiency of the services they deliver.

For most firms, this will involve focusing on areas such as time capture, pricing and matter management. However, in this process firms need some mechanisms to assess fee earner performance.

We asked participant firms what primary mechanism they use to assess fee earner performance.

Most firms, 60% (2023 Royal Bank of Scotland Survey 61%) noted that fees issued was the favoured mechanism. In 2024 the focus in this group of respondents then shifted towards chargeable hours with 21% reporting this at their primary way of assessing fee earner performance (2023 Royal Bank of Scotland Survey 13%).

A challenge with firms focusing on fees issued is that it has the risk of encouraging the poor behaviours. For example, it can encourage fee earners to retain matters even if they are not the most appropriate person to deliver the service to the client. It also inhibits cross matter working. Fee earners will focus on getting their fees completed and not assisting others where their skills may be better used.

Similar comments could apply for chargeable hours, where there is less incentive for fee earners to focus on appropriate delegation or recovery of time recorded.

In our experience, firms often find that a blend of fees, realisation and chargeable hours can provide the most effective and balanced way of monitoring fee earner productivity.

**What is your primary way to assess fee earner performance?**

# 7: Finance, IT and management

## 7.2 IT management

Over the last 25 years of maintaining data, we have noted a rising proportion of law firm's income is often invested in IT. More importantly we have noticed a positive correlation between those firms investing above average levels in IT and those experiencing higher growth in PEP over the medium term.

After people and property costs, IT costs in their widest sense are now often the next largest area of expenditure for law firms. The proportion of total income earned invested in this area by law firms has been growing.

In 2024 this trend continued and in fact in many cases, IT costs showed the highest level of growth amongst all overheads in law firms.

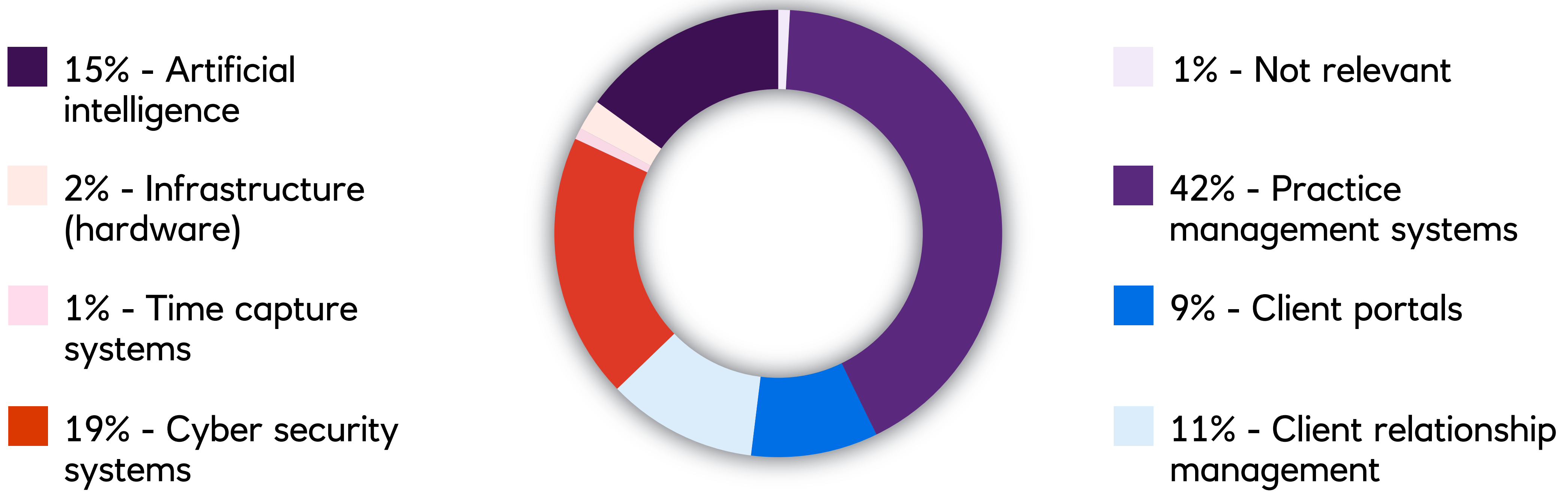
Many firms experienced exceptional increases in licence fees from practice management system (PMS) providers, but this has often sat alongside significant infrastructure, AI and systems projects in firms.

We asked firms to comment on their biggest priority in terms of IT investment. The most significant area reported by the 2024 respondents was PMS at 42% (like the 2023 Royal Bank of Scotland survey respondents of whom 41% cited this as well).

It is interesting to note that in 2024 15% of firms responding noted AI was the biggest priority, compared with only 2% of respondents in the 2023 Royal Bank of Scotland survey.

It is also noticeable that 97% of the respondents identify aspects of IT which impact on client experience, service delivery or work management. All of these are areas where added value can be created by IT. Notably only 2% of respondents identified infrastructure as their primary focus.

**What is your biggest priority for legal technology investment in your firm?**



# 7: Finance, IT and management

Probing the issue of investment in AI further, we asked firms about where they expected AI to have the most significant impact on their businesses in the next five years:

| Impact of AI | Cited by respondents (%) |
|---|---|
| Increase cost in investment needed for firm | 46 |
| Reduction in legal costs for clients | 16 |
| Increased competition from new entrants | 15 |
| Improved employee engagement | 13 |
| Reduction in fee earner headcount | 10 |

We asked several managing partners for their views of AI in the legal sector.

Neil Lloyd, Managing Partner at FBC Manby Bowdler comments: “AI has been a key area for us over the last couple of years. Our firm is part of an AI group called TIPS (technology in professional services) based in the West Midlands. We have been using three products as a firm to automate our services to clients. One is called Orbital Witness, and this reads and interprets leasehold contracts, another is Solomonic which is litigation AI based. It reads high court cases and predicts the success rate for the judge and the court. We also run and insolvency chatbot.

We see the use of these and similar products evolving. We are not looking to reduce prices but improve our margin. However, in the meantime we can see a pricing structure which varies depending on the extent of human involvement a client wants e.g. a price for AI alone, for AI and human and AI with human oversight”.

Alison Lobb, Managing Partner at Morecrofts Solicitors commented: “We see a lot of ideas and innovations being trialled by larger firms but at this stage we are still deciding which way to go with AI. AI has already been subtly introduced into what we do and it is saving us time in various ways. However, the use so far has been on non-client facing activities such as marketing, legal templates and internal processes. For now, we feel there is a long way to go before it impacts on the legal advice we provide.

If AI is going to be used, we need to be able to justify the cost and value and consideration will be needed as to how the additional costs are treated as the cost of progressing a case and ultimately recovered from the client rather than becoming additional overheads”.

Mike Leeman, Managing Partner at Bell Lamb and Joynson reflects: “We are actively using some AI in our work through our case management system which used AI to help draft some documents as well as undertaking and verifying research. Our objective in the short term is to simply use AI better and to encourage our teams to use AI more as a tool as part of changing their working / advice habits”.

In terms of daily management of IT infrastructure, we also asked firms about the frequency of cyber-attack challenges that they have faced in the last 12 months.

| No. of attacks in the last 12 months | 0-1 | 2 | 3 | 4 | 5+ |
|---|---|---|---|---|---|
| 2024 % of firms responding | 72% | 12% | 0% | 0% | 16% |
| 2023 % of firms responding | 54% | 16% | 7% | 2% | 21% |

We can see that the general profile of attacks is reducing. Specifically, we noted that 51% of firms responded reporting no attacks and 21% reported only receiving one attack during the last year.

# 7: Finance, IT and management

## 7.3 Debt and equity

We have commented on the investment plans that some law firms have both in property and IT already in this report. We have also discussed recent performance of law firms in respect of lock up management. These issues combined summarise the majority of balance sheet funding that law firms need and therefore drive the funding they need to seek from either working capital credit, their partners or third-party debt.

The amount of funding a law firm requires is driven by lock up and fixed asset investment in their balance sheets. The extent to which this is funded by partners (equity) or third parties (debt) is the combination of choice and availability of finance.

For participating firms, the table on the right expresses actual debt taken as a percentage of net assets.

If we think about an LLP for example, net assets represent the same figure as members' funds (so partner capital accounts, current accounts, and tax reserves). In a company, net assets reflect the profit and loss reserve (which is akin to members' funds in an LLP).

In effect the table therefore tells us how much external debt firms are taking on per £1 of Members' Funds.

**Borrowing as a percentage of net assets (%)**

| | Lower quartile | Median (2024) | Upper quartile |
|---|---|---|---|
| London & South-East | 11 | 22 | 39 |
| Midlands & East | 4 | 16 | 31 |
| North & Scotland | 7 | 18 | 37 |
| South-West & Wales | 5 | 16 | 49 |
| Small | 10 | 23 | 54 |
| Large | 4 | 16 | 36 |
| All firms | 6 | 17 | 38 |

# 7: Finance, IT and management

The median result for all firms is that they borrow 17p (2023 Royal Bank of Scotland survey 24p) for every £1 of members' funds although we note that borrowing levels in smaller firms at 23p (2023 Royal Bank of Scotland 32p) is slightly higher than in large firms at 16p (2023 22p).

In broad terms, we can also see that most firms in the survey (75%) borrow less than 38p per £1 of members' funds and we can also see that some firms are debt averse with around 25% of firms having less than 6p per £1 of members' funds.

These results are very much in line with our experience of debt in the sector. Around 20% of the firms we see hold no debt and those that do tend to borrow between 20p and 50p for every £1 of members' funds. In practice we often find that debt levels available to firms are much higher than they seek. For example, many law firms could (in facility terms) secure funding of up to £1 for every £1 of members' funds.

Our experience is that the 'right' debt level for a firm is very personal to that firm. It is affected by many factors including the personal views and financial positions of owners. Additionally, it is also influenced by the nature of the work the firm undertakes, future succession planning and partner and fee earner behaviour in the business.

An important issue for firms to consider when establishing and reviewing debt appetite is the personal position of the members which change over time.

An overall closing observation in 2024 however, is that reliance on debt for firms has reduced compared with the 2023 position and the survey data supports this.

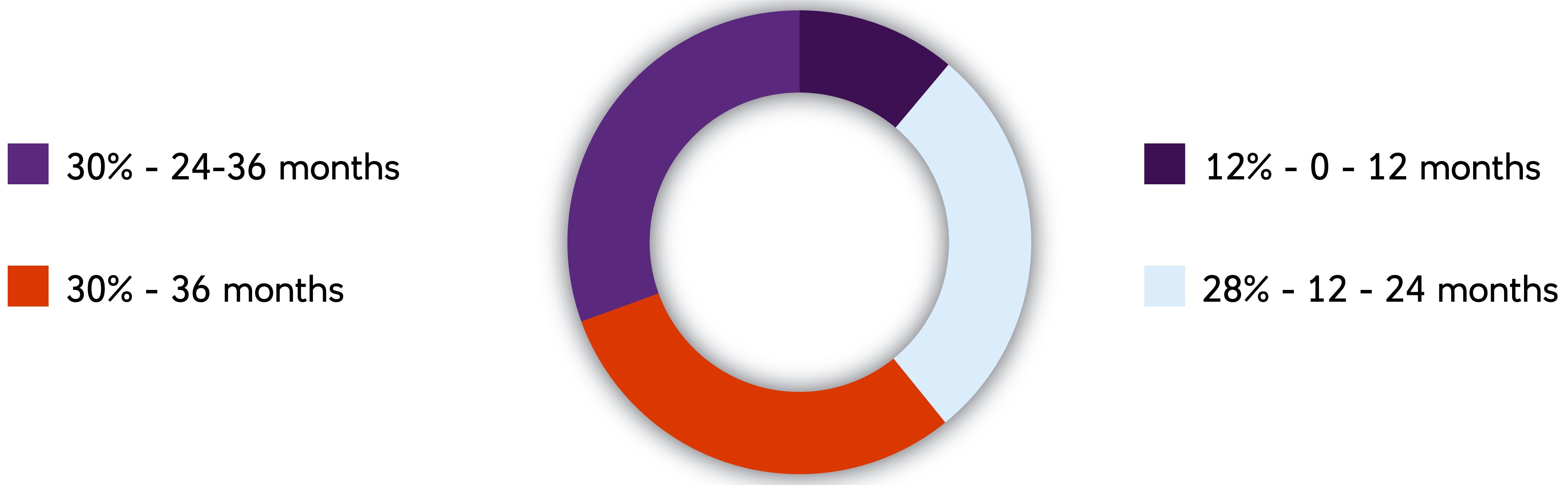
It will be interesting to see how this changes by 2025 with the impact of the basis period reforms hitting and as significant capital projects progress within many firms.

# 7: Finance, IT and management

## 7.4 Business planning

We asked participant firms to comment on how far ahead they plan for their business (whether financially or strategically).

Encouragingly we report that most firms 88% (2023 Royal Bank of Scotland survey 57%) are looking over 12 months ahead from a planning perspective and significantly 30% of firms are looking three years ahead in their planning processes.



# Section 8: Sector outlook and topical issues

# 8: Sector outlook and topical issues

## 8.1 Our challenges

When looking to the future an interesting place to start with law firms is often to identify what they perceive as their greatest challenges.

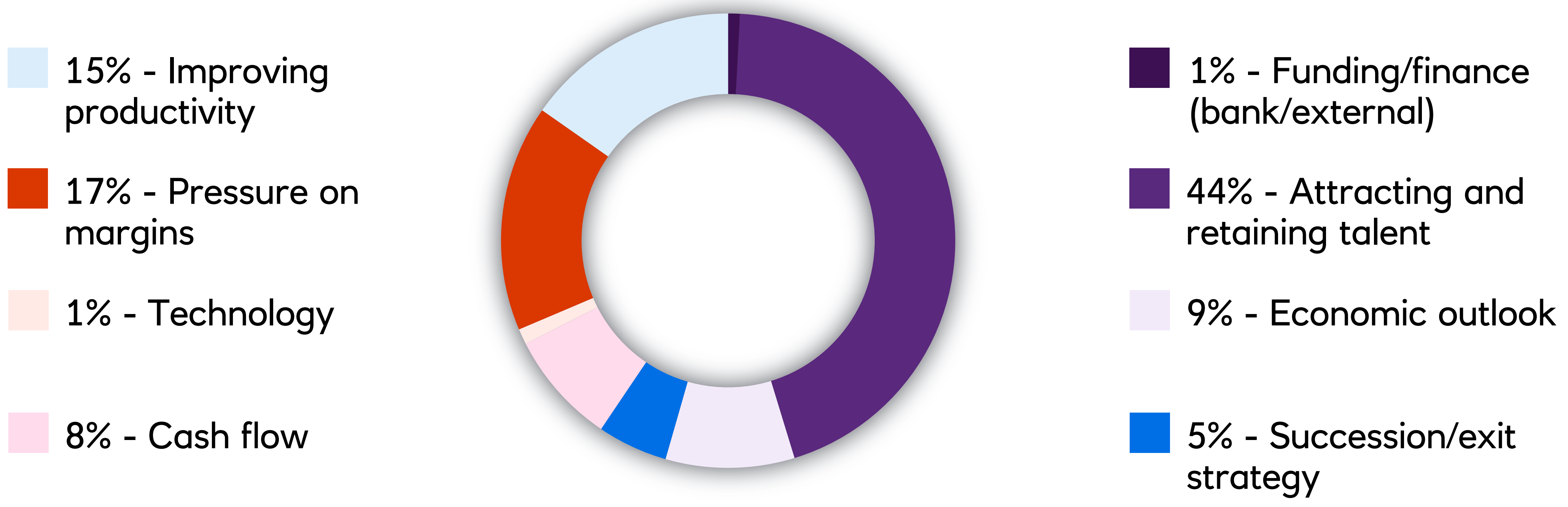
Respondents reported on a range of issues here and we can see from the charts that with a result of 44% (2023 Royal Bank of Scotland survey 46%) of responding firms, the issue of attracting and retaining talent is going to be the biggest challenge in the future.

Some considerable distance behind this is pressure on margins 17% and improving productivity at 15% (2023 Royal Bank of Scotland survey 6%); both of which have increased in importance in the last year to firms.

In the 2023 Royal Bank of Scotland survey economic outlook was cited by 21% as the most concerning feature of the future however, concerns in this area reduced to 9% of respondents in 2024.

The labour market in the legal sector remains a crucially concerning issue for many firms. This report has already commented on further significant planned headcount growth for many firms. While there have been some signs of recruitment easing, it is hard to see the market for talent becoming easier for firms.

**What do you think will be the most significant challenge for your firm in 2024?**



# Section 8: Sector outlook and topical issues

Considering the relative challenges, we asked firms about their level of optimism for the future and reassuringly, despite the range of issues the legal sector faces, 90% (2023 87%) of the survey participants were either optimistic or very optimistic about the future.

Neil Lloyd, Managing Partner at FBC Manby Bowdler comments: “Recruitment and retention remain our key concern. Whilst our staff retention rate is very high this relies on continually maintaining the right package for people including salary, holiday and work environment.

We are seeing very high demand for our services and potential growth across the board and the only way we can fuel this is through increased people capacity, so recruitment is the key to that.

Private client and litigation work are strong growth areas and some of the hardest areas to recruit into. We have however, been successful at attracting people to the firm and often from larger firms. People can see the opportunity they have when they join us”.

Alison Lobb, Managing Partner at Morecrofts Solicitors commented: “Recruitment at a senior level remains a significant challenge for us as a firm. Alongside this is the challenge of IT – knowing what to invest in (and what not to invest in) is an ongoing battle.

From a profit perspective our challenge is the squeeze on margins. We have found top line growth tricky to maintain for a range of reasons and we are seeing hangover issues from lockdown such as mental health and family related issues in our workforce, which is impacting on productivity levels. Increasing prices to manage pay inflation is difficult and there is a lot of competition in the market, more so in our private workstreams than public funded ones”.

Mike Leeman, Managing Partner at Bell Lamb and Joynson reflects: “Our number one challenge is rising people costs. Around 35% to 40% of our income is from legal aid work and in all practical terms rates have not changed since the 1990s.

With people and overhead inflationary rises in recent years there is simply a lot of pressure on making public funded work viable”.

**“We are seeing very high demand for our services and potential growth across the board”.**

# Section 8: Sector outlook and topical issues

## 8.2 Recruitment and retention

With 2024 being the second year that respondents having identified recruitment and retention as their largest challenge we asked further questions about recruitment issues.

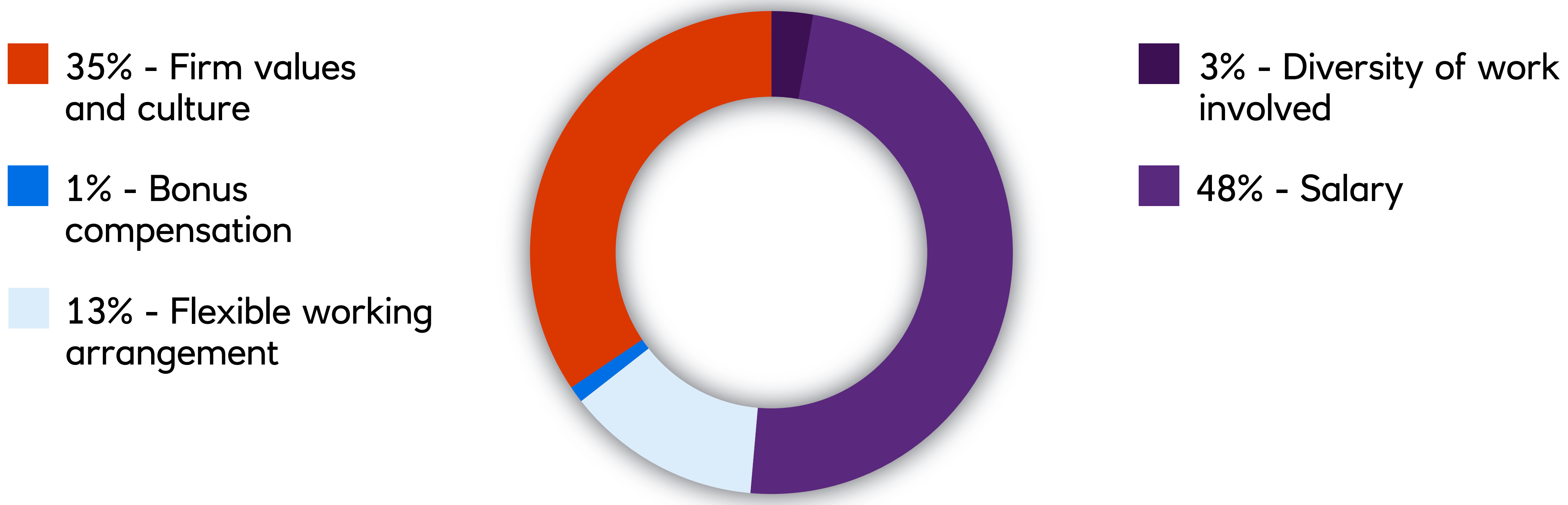
We asked firms when recruiting what they interpreted to be the most important factor to potential candidates.

Perhaps unsurprisingly the chart below shows that 48% of respondents reported that a healthy salary was the primary driver for candidates.

However, the results also indicate how important a firm's culture and values have become important in recruitment. 35% of firms identify this as a key differentiating factor in the minds of the potential recruits they interview.

Whilst flexible working arrangements register at 13%, other aspects such as bonus arrangements and work diversity feature relatively infrequently amongst respondents perceived values.

**Recruiting - most important factor for candidates?**




Following on from the above we asked firms, in their opinion, to what extent they felt they manage to clearly articulate the firm's values and specifically whether those values are communicated both internally and externally. Overwhelmingly 94% of the respondents felt their firms achieved both these objectives.

Alison Lobb, Managing Partner at Morecrofts Solicitors commented: "Our experience is that younger people are very much salary focused and other generations are more concerned with comfort and happiness. So, as people mature in their roles it becomes more about progression and development although of course salary ultimately is also a key requirement.

Benefits and flexibility in working arrangements is something we have always been very flexible about; we have long held the approach that one day per week in the office is the minimum requirement but, in our experience, most come in more than this.

Most recruits want hybrid as an option and this is what we offer".

Neil Lloyd, Managing Partner at FBC Manby Bowdler comments: "Salary is the driver in our experience. We benchmark our salaries and then pay just above the average. For the 2024/2025 year our pay rises were 5%".

# Section 8: Sector outlook and topical issues

## 8.3 Interest income and client funds

We wanted to know firms' opinions about the SRA proposals to prevent firms holding client money in the future.

We first asked whether they supported this proposal. In response 96% of firms disagreed with the proposal.

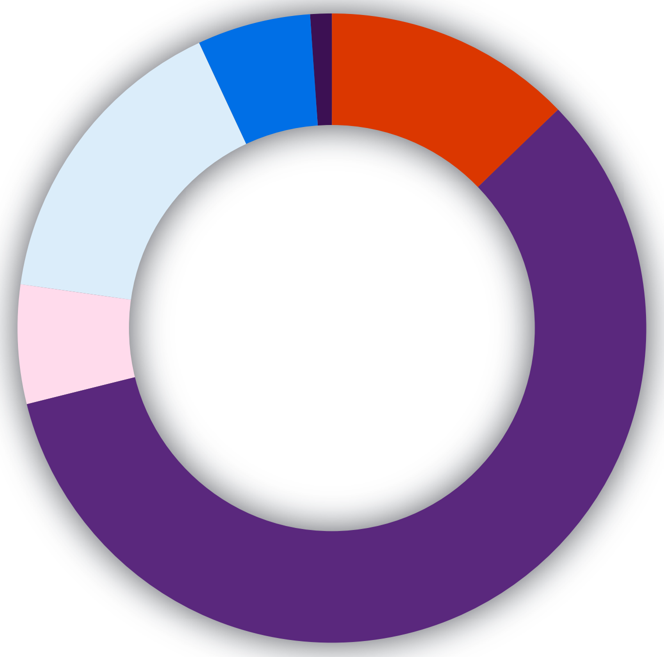
We then wanted them to explain what they felt the most significant negative impacts would be if the SRA were successful in their proposal to prevent firms holding client money in the future.

As the chart below reflects, most firms (58% of respondents) expected the move to reduce the quality of client experience in receiving legal services in the UK.

There were several other concerns cited, including an increase in the cost of legal services and an underlying point that it would be ineffective in providing the client with better protection.

**Sector impact if law firms are not allowed to hold client funds**

- 6% - Loss of reputation for legal sector
- 16% - Increase in the cost of legal services for consumers
- 6% - Financial failure for law firms arising from lost interest income



- 1% - No negative impact arising
- 13% - Limited improvement in ultimate protection for client funds
- 58% - Reduce quality of client experience of legal services

We finally asked respondents about their opinions on the effectiveness of the use of third-party managed accounts (TPMAs) as an alternative arrangement to law firms holding client funds; 88% of respondents did not see TPMAs as a viable alternative.

Alison Lobb, Managing Partner at Morecrofts Solicitors commented: "This is a case of sledgehammer to crack a nut. Solicitors have successfully managed to hold and safeguard client money for generations. It's a headline to mask the underlying issue of regulatory efficiency and will not make client money safer.

It will make practical management of legal matters more difficult, will lead to increase claims from clients and will bring in other costs and risks into the process.

It would require many firms to completely remodel their business financially and undoubtedly lead to a price rise in legal services for the consumer".

Neil Lloyd, Partner at FBC Manby Bowdler comments: "If this happens the price of legal services will simply rise. It might actually be simpler for law firms running their business, but it will wipe out profits and viability for many law firms in the short term before prices rise".

Mike Leeman, Managing Partner at Bell Lamb and Joynson reflects: "It's a concerning issue and seems to be an answer to avoid the fundamental issues the regulator has in delivering their role.

It would be inevitable that the cost of legal services to consumers would rise particularly in aspects such as residential conveyancing and private client services.

In relation to TPMAs the technology exists but its almost certain that client experience and the speed of transactions would suffer. Its not really a practical solution".

# Section 8: Sector outlook and topical issues

## 8.4 January 2025 income tax payments

All LLPs and unincorporated partnership firms that were not previously operating on a 31 March financial year-end will have significant income tax payments falling due in January 2025 because of the basis period reforms which impacted the 5 April 2024 tax year.

For many firms the extent of those liabilities is higher than they may have originally estimated because more of their profits are arising from interest income than at the time the original estimates were prepared.

Interest income, unlike trading profits, is not eligible for spreading under the HMRC rules. So, while the total financial impact of the basis period reform may not have increased for firms the timing of its impact has been accelerated to January 2025.

We asked firms how they have been managing the anticipated cash-flow impact on their business from this change. Around one third of the survey reported that they are not affected by basis period reforms. This suggests circa two thirds of the legal sector on average might be affected by basis period reform (based on this sample).

Of those firms affected by the changes the mix of solutions those respondents are deploying are summarised below:

| Method | Percentage of respondents (%) |
|---|---|
| External debt | 10 |
| Partner capital | 13 |
| Lock up reduction | 13 |
| Mixture of above measures | 37 |
| Cash reserves | 27 |

Mike Leeman, Managing Partner at Bell Lamb and Joynson reflects: “With a June financial year end we are affected by the basis period reform and continue to assess the impact for our firm having had a high tax payment in 2024 already. Like all firms it is bound to place stress on cash reserves”.

# Section 8: Sector outlook and topical issues

## 8.5 Transaction in law firms

The structure of the legal sector in the UK remains fluid and the volume of start up law firms as well as mergers and team move remains high.

We asked respondents whether their firms anticipate a merger or a team acquisition over the next year.

71% (2023 Royal Bank of Scotland survey 68%) of respondents reported that such activity as unlikely whilst 26% (2023 Royal Bank of Scotland survey 22%) reported it was possible that such a transaction would take place in their firms within the next year.

Consolidators have played a significant part in the evolution of the legal sector over the past few years. Despite a few headline failures, they still play an active part in many of the law firm transactions we see reported.

Our survey participants reported that 38% (2023 Royal Bank of Scotland survey 22%) of respondent firms had been approached by consolidators in the last year. This suggests that activity and discussions in these areas are increasing rather than decreasing over time.

## 8.6 Diversity, equity and inclusion

Reflecting on the importance of attracting and retaining employees, the issue of diversity, equity and inclusion is a strong focus for many law firms.

Many firms have statutory reporting requirements in this area and of course it can have a significant impact on factors attracting and retaining clients and employees, but also overall firm brand and image in the legal sector.

We wanted to find out from firms their views on the relative importance that they placed on diversity and inclusion. The table below shows that most firms 54% (2023 Royal Bank of Scotland survey 52%) reported that it was of ‘medium’ importance to them (giving a score of 3 out of 5) whilst only 13% of firms citied this as a high priority (giving a score of 1 out of 5). This shows a decline on the 2023 Royal Bank of Scotland survey result of 19%.

| Priority ranking | 1 (high) | 2 | 3 | 4 | 5 (low) |
|---|---|---|---|---|---|
| 2024 | 13% | 27% | 54% | 6% | 0% |
| 2023 | 19% | 18% | 52% | 8% | 3% |

Turning to gender mix, we asked participating firms about the percentage of females undertaking the roles of fee earners and equity partners in their firms.

| Percentage of female fee earners | <30% | 30-40% | 40 - 50% | 50 - 60% | Over 60% |
|---|---|---|---|---|---|
| 2024 | 2% | 6% | 9% | 28% | 55% |
| 2023 | 0% | 5% | 7% | 26% | 62% |

# Section 8: Sector outlook and topical issues

| Percentage of female equity partners | 0 - 10% | 10 - 20% | 20 - 30% | 30 - 40% | 40 - 50% | 50 - 60% | Over 60% |
|---|---|---|---|---|---|---|---|
| 2024 | 11% | 18% | 16% | 22% | 16% | 5% | 12% |
| 2023 | 15% | 22% | - | 20% | 13% | 6% | 24% |

At a fee earner level 83% (2023 Royal Bank of Scotland survey 88%) of respondent firms reported that females account for over 50% of their fee earners, with 55% (2023 Royal Bank of Scotland survey 62%) of firms reported females account for over 60% of their fee earners.

The position at equity partner level remains different and here only 17% (2023 Royal Bank of Scotland survey 30%) of respondent firms reported that females account for over 50% of their equity partners with 12% (2023 Royal Bank of Scotland survey 24%) of firms reporting that females account for over 60% of their equity partners.

## 8.7 Environmental, social and governance (ESG)

### Focus on ESG

ESG is also a prominent issue which has affected many of the core decisions law firms make. We asked our participant firms their opinion on relative importance that they placed on ESG.

The table on the right shows most firms (48%) reported that it was of 'medium' importance to them (giving a score of 3 out of 5) whilst only 7% of firms citied this as a high priority (giving a score of 1 out of 5).

| Priority ranking | 1 (high) | 2 | 3 | 4 | 5 (low) |
|---|---|---|---|---|---|
| 2024 | 7% | 27% | 48% | 15% | 3% |
| 2023 | 10% | 19% | 51% | 11% | 9% |

We wondered whether firms have a net zero commitment or any emissions reduction target. Only 33% of respondents responded positively to this, leaving 67% firms with no emissions reduction focus.

Neil Lloyd, Managing Partner at FBC Manby Bowdler comments: "We offset our carbon emissions through an offset pledge planting trees. We have a range of initiatives we are involved in ranging from EV schemes, car share, recycling to using energy efficient products where we can.

Overall, why do we do it? Fundamentally because we think it's the right thing for a business with 200 plus employees to do".

However, we haven't yet seen ESG to be a primary focus for firms when appointing us - although we do find it is more important when recruiting trainees.

Mike Leeman, Managing Partner at Bell Lamb and Joynson reflects: "ESG matters remain on our radar and we certainly see the next generation as engaged in the issue. We have a range of efficiency policies in place and will look to expand this in the future. We see relatively little interest from our clients in the subject".

Alison Lobb, Managing Partner at Morecrofts Solicitors commented: "We have an internal green team which focuses on our environmental efficiencies and makes recommendation for future improvements which we can implement. We generally find the work and the initiatives are driven by younger people in the firm".

# Section 8: Sector outlook and topical issues

## Energy cost management

We wanted to know to what extent firms have considered green energy solutions.

We found that only 14% of respondents had invested in renewable energy solutions to safeguard against rising costs or for environmental reasons. This compared with 11% of firms who cited this reason in the 2023 Royal Bank of Scotland survey.

In 2024, 29% of respondents have explained that they are primarily focused on environmental reasons for investing in green energy. In comparison 26% of firms cited this reason in the 2023 Royal Bank of Scotland survey.

Of the remaining respondents, they were broadly evenly split between those who were considering renewable energy and those who were not considering it at this time.

**Have you or are you considering, investing in green energy solutions?**

# Section 9: Celebrating success

# 9: Celebrating success

We asked our managing partners who provided commentary, to tell us about some of their proudest achievements over the last year in their own firms.

Neil Lloyd, Managing Partner at FBC Manby Bowdler commented: “Staff engagement for us has been the most rewarding event during the last year. We measure this through regular staff surveys and our engagement results have been very high. We have a solid workforce in our business that engage with the business and our clients every day.

In addition to this we encouragingly see people joining us on a regular basis from larger firms which is a further demonstration of our offering to our team and the ability to provide high quality legal advice to our clients.

We have also secured the number one position on the Review Solicitors website for every area of work we deliver in the West Midlands which is a terrific accolade for our people and our firm”.

Alison Lobb, Managing Partner at Morecrofts Solicitors commented: “We have been delighted to bring in additional talented people to the firm in the last year and our retention record is very high which has been a great reward for us. We have worked hard on helping to develop our people which is great to see from an employer perspective.

We won the legal aid contract for our new Prescott office, and we have successfully retendered and retained all our other legal aid contracts.

Finally, we have had a successful financial year in 2024 which always a pleasing to see. It rewards our people and provides resources for future investment for us in the business.

It feels like we are in a very good place at the moment”.

Mike Leeman, Managing Partner at Bell Lamb and Joynson reflects: “We have made huge strides forward with our brand awareness during the year. We are a small regional firm but have developed a national reputation.

Industry recognition has been achieved with a range of awards the firm has secured including LawNet law firm of the year (firms under £6m turnover)”.

**“Staff engagement for us has been the most rewarding event during the last year”.**

# Section 10: Top five tips for business success and growth

# 10: Top five tips for business success and growth

### 1. Create an environment that attracts talent

The 2024 survey, just like 2023, cites attracting talent is a key challenge for firms. People are the life blood of any firm. It not only affects profitability today but has a long-term impact on the success of the business and the ability of the existing owners to leave at some point!

Create an attractive environment that sells itself to incoming people. A competitive salary is a given but focus on issues such as:

- Communicating and living and breathing a set of firm values
- Demonstrating the personal and professional development people can achieve
- Exploring the range of work they can undertake
- Giving real examples of positive things your firm does for its people, the environment and the economy
- Being flexible – not everyone wants a partner progression route!
- Being authentic

### 2. Re-evaluate your relationship with artificial intelligence

AI is here to stay. Firms are already getting left behind. The practical use of AI is creeping into PMS systems and bespoke products. The use of this technology is already both client and internally focused in many firms.

It is probable that within five years AI will have a real impact on how legal services are delivered and the pricing of those services.

Firms of all sizes are actively engaging in this area. It's important your firm is not left behind.

### 3. Educate on the value of accurate time capture

Time recording is not about billing – really, it's not.

Time recording is about costing. It's about understanding what resources are required to undertake a task. It's a way of measuring personal performance and it's a way to evaluate what works in your business and what doesn't. Time recording is a completely different subject to billing and value pricing.

- Do you have a time capture policy?
- Do you train everyone on time capture?
- Do you use the results of time capture to evaluate profitability, performance and use that information in future pricing processes?

Chargeable hours in the sector are falling; funnily enough so are margins! There is a correlation.

# 10: Top five tips for business success and growth

### 4. Get better at scoping

Firms who are better at the initial scoping of work make more profit. Being precise about what your firm is going to do (and what it is not going to do) on a matter has a material impact on its financial performance.

- Spend time on scoping
- Be diligent about managing and charging for out-of-scope work
- Focus on timeframes for delivery by all parties
- Be clear on the client and third-party responsibilities and timescale
- Aim to spend at least 5% of the time needed for the job on the scoping and revisit this throughout

### 5. Manage the cash

Basis period reform, property and IT projects, retirements and worsening lock up – all factors many firms are having to manage. All require cash.

Firms need to focus on how they can generate cash:

- Don't become reliant on interest income/cash-flow from it
- Re-focus on lock up – why is it worsening? In covid it miraculously improved within three months when partners were told drawings may stop or capital injections by them may be needed.
- What initiatives can be introduced to reduce lock up?
- Reconsider the debt/equity mix in the firm
- Do you have a funding policy at partner capital level?

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