



Royal Bank
of Scotland

Accountancy Report 2024



TOMORROW BEGINS TODAY

Contents

Foreword	➤
Section 1.1: Executive summary	➤
Section 1.2: Introduction	➤
Section 2: Fee income and productivity	➤
Section 3: Margins and core profitability	➤
Section 4: Profits and drivers for profit	➤
Section 5: Lock up and working capital	➤
Section 6: Finance and funding	➤
Section 7: Accounting and legal survey comparison	➤
Section 8: Comparison of results	➤
Section 9: 2024 and beyond	➤
Section 10: Important focus areas for accounting firms	➤
Section 11: Key issues to consider to promote success and growth	➤



Foreword

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

This year PKF Francis Clark have been commissioned to write the report. I am delighted to present our Royal Bank of Scotland Accountancy Report for 2024. I'd like to first say thank you to Andrew Allen from PKF Francis Clark, for his vital contribution to the production and development of this report. I'm also grateful to all the firms that have contributed and provided insights, which will help others within the sector as we continue to emerge from challenging times.

Our report focuses on firms that operate at the SME level across England, Scotland and Wales. By comparing the financial performance of firms from across the UK, we've found some surprising and extremely valuable insights. Firms can use these findings to help them target areas where they can improve, so they can enhance their profitability and the way they manage their working capital.

In this edition we have also looked at what management teams are telling us about the remainder of 2024 and beyond, as well as highlighting some important focus areas for accounting firms. We hope it will give you a useful framework in which to navigate challenges that lie ahead and take full advantage of new opportunities that will help you to innovate and grow your business.

It's encouraging that the accountancy 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 profitability despite ongoing challenges, most notably persistently high inflation.



David Weaver
Head of Professional
and Business Services

- [Foreword](#)
- [Section 1.1: Executive summary](#)
- [Section 1.2: Introduction](#)
- [Section 2: Fee income and productivity](#)
- [Section 3: Margins and core profitability](#)
- [Section 4: Profits and drivers for profit](#)
- [Section 5: Lock up and working capital](#)
- [Section 6: Finance and funding](#)
- [Section 7: Accounting and legal survey comparison](#)
- [Section 8: Comparison of results](#)
- [Section 9: 2024 and beyond](#)
- [Section 10: Important focus areas for accounting firms](#)
- [Section 11: Key issues to consider to promote success and growth](#)

Section 1.1: **Executive summary**



1:1 Executive summary

Reflecting on the survey it is pleasing to see that participant firms have reported successful financial results from their 2023 year with above inflation growth in profits and improvements in core profit margins.

91% of firms remained optimistic about the future, whilst noting the importance that recruitment and retention still has for their businesses.

A synopsis of the key findings from this year’s survey are as follows:

Key findings from the survey

a) Fees

Overall, the survey reported median year on year growth amongst respondents from 2022 to 2023 of 10%. Between March 2022 and March 2023 UK inflation was 9%, so we can see that total income growth and fees per fee earner growth were slightly ahead of inflation.

Median fees per fee earner rose to £95,000 in 2023 which reflected a growth of 8% compared with results of the 2021 results. Median fees per equity partner rose to £901,000 reflecting growth of 13% compared to the median of the 2021 results at £798,000. Considering cumulative inflation reported in the UK between 2021 and 2023 was in the region of 17%, both these measures are reporting a real decline.

Overall, this suggests, in isolation of other statistics, that underlying productivity in accounting firms has declined since our last survey which reported on 2021 results.

b) Profits

People costs as a percentage of earned income reported a median of 64% across our survey for the 2023 results, compared to 67% in 2022 for the same firms. This suggests an improvement in core profitability for those firms between 2022 and 2023.

At an overall survey level, even though the results for fees per fee earner (inflation adjusted) did not suggest an improvement between 2022 and 2023, the data from our participant firms suggest their productivity relative to their cost did improve year on year by 3%.

This is a considerable shift for a single year and appears, in part, to have been driven by the strong performance of audit and assurance work which has been able to command higher margins than were historically possible.

Median PEP for participant firms was £253,000 in 2023; a 21% increase for those same firms who reported a median PEP result of £209,000 in 2022.

Structurally the profit generating model (gearing) of firms remained static between 2022 and 2023 with the median number of fee earners per equity partner remaining at 10 for each year.

This all points towards the improvement in core profit margins (the amount of fees generated per £1 of people costs) being the key driver for the improved PEP.

Foreword >

Section 1.1: Executive summary >

Section 1.2: Introduction >

Section 2: Fee income and productivity >

Section 3: Margins and core profitability >

Section 4: Profits and drivers for profit >

Section 5: Lock up and working capital >

Section 6: Finance and funding >

Section 7: Accounting and legal survey comparison >

Section 8: Comparison of results >

Section 9: 2024 and beyond >

Section 10: Important focus areas for accounting firms >

Section 11: Key issues to consider to promote success and growth >

Executive summary

This really illustrates the power of small improvements in profitability in a firm with even an average structure. For example, a £5,000 increase in fees per fee earner in a firm with median PEP of £253,000 and median gearing of 10 would increase PEP by 20%.

In context for a typical fee earner £5,000 additional annual time captured and billed would mean £20 per working day! Small improvements in time recording, scoping, and billing can have a powerful impact on the PEP result, if they are achieved consistently across a firm.

c) Lock up and finance

Median lock up levels have improved in the accounting sector since 2019 based on our surveys. In 2019 the median level of lock up in the survey was 118 days. In the 2024 survey this has reduced to 105 days.

The relative mix of lock up is skewed towards debtors where the median was 66 days and for WIP the median was 34 days, a similar pattern to the results in the 2019 survey.

Firms reported that, at the median, 31p was borrowed for every £1 of owner investment in the business. The result was slightly higher for small firms at 36p compared with large firms at 30p.

Foreword >

Section 1.1: >
Executive summary

Section 1.2: >
Introduction

Section 2: >
Fee income and productivity

Section 3: >
Margins and core profitability

Section 4: >
Profits and drivers for profit

Section 5: >
Lock up and working capital

Section 6: >
Finance and funding

Section 7: >
Accounting and legal survey comparison

Section 8: >
Comparison of results

Section 9: >
2024 and beyond

Section 10: >
Important focus areas for accounting firms

Section 11: >
Key issues to consider to promote success and growth



Section 1.2: Introduction

1:2 Introduction

We have presented surveys of the accountancy sector over the last decade on a bi-annual basis.

The 2024 survey consists of a detailed review of the financial performance of 23 firms across England, Scotland and Wales and includes data from firms with a mixture of trading structures including limited companies which represented 61% of our data, whilst 39% were LLPs and unincorporated partnerships.

The survey has been divided into two sizes of firms. Those with annual fees of less than £5m are described as “small”, while those with fees of more than £5m are classified as large. The annual fee income of participants ranges from £2m to £25m.

The data for participant firms in this survey primarily relates to their financial results reported in their financial year which ended during 2023 (often 31 March 2023 or 30 April 2023).

Along with the financial review we have asked searching questions in the survey to gain an insight into the challenges and plans of accounting firms as they look forward to the 2024/25 financial year.

The general outlook of our respondent firms was upbeat. When asked about their level of optimism for the future, 91% of firms reported being optimistic or very optimistic about the future.

The primary area of concern participant firms reported for the future was attracting and retaining talent with the vast majority (78%) of firms citing this issue. The next most common concern was the economic outlook which was only identified by 9% of participants.



1.2 Your author

Andrew Allen
BSc (Hons) FCA

In our survey, Andrew draws on his own experiences of the professional services sector and provides supplementary analysis alongside the results from Royal Bank of Scotland’s 2024 survey.

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

As a partner, Andrew leads PKF Francis Clark’s national legal sector team and personally advises over 120 professional service firm across the UK. Andrew has advised professional practices for over 25 years.

In addition to his primary client facing role Andrew is a member of the PKF Francis Clark board and is the current vice-chair of the Law Society Leadership and Management Section.

Foreword >

Section 1.1: >
Executive summary

Section 1.2: >
Introduction

Section 2: >
Fee income and productivity

Section 3: >
Margins and core profitability

Section 4: >
Profits and drivers for profit

Section 5: >
Lock up and working capital

Section 6: >
Finance and funding

Section 7: >
Accounting and legal survey comparison

Section 8: >
Comparison of results

Section 9: >
2024 and beyond

Section 10: >
Important focus areas for accounting firms

Section 11: >
Key issues to consider to promote success and growth



Section 2:
Fee income
and productivity

Section 2: Fee Income and productivity

With inflation persisting in 2022/23 for much of the financial year; for accounting firms growth in their income levels has been essential for them to simply keep up with rising people costs and overhead growth.

A common way for firms to measure fee income is to describe it as fees per equity partner (or equity owner for a limited company). Comparing this statistic with other firms is a sensible starting point to consider whether the size of the business is likely to be sufficient to provide a reasonable level of profit relative to the number of business owners.

Fees per equity partners (£'000)

	Lower quartile	Median	Upper quartile
Small firms	574	658	972
Large firms	1,041	1,335	2,076
All firms	605	901	1,484

The median fees per equity partner across the survey was £901,000; significantly increased from the result we saw in our 2022 survey which reported a median of £798,000, a growth of 13%. In context of course, cumulative inflation over that period was in the region of 15%, so despite the absolute growth this was simply keeping track with general prices.

The lower quartile across the survey was £605,000 (2022 survey £604,000) reflecting a real decline once inflation is considered. In contrast, the upper quartile started at £1,484,000 (2022 £1,138,000); reflecting growth of 30% over the two-year period since the last survey.

Fees per fee earner is a more powerful financial result to consider for accounting firms because it considers the productivity per head and gives a better indication of underlying productivity in firms.

The median figure in our survey was £95,000 (an 8% increase on the survey result in 2022 which reported a median of £88,000); so again, falling short of the inflationary growth across that period of around 15%.

Fees per earner (£'000)

	Lower quartile	Median	Upper quartile
Small firms	71	92	116
Large firms	83	100	116
All firms	79	95	116

What is noticeable here is that the growth in median fees per fee earner (at 8%) is lower than the growth in median fees per equity partner (13%) since our 2022 survey. This points towards the suggestion that growth in fees per partner may have been achieved from changes in the structure (gearing) of firms since 2022 rather than growth in productivity.

Finally, we have considered the growth in total fee income for firms year on year for our 2024 survey participant firms (so growth from the same firms between 2022 and 2023) as set out in the table on the next page.

- Foreword >
- Section 1.1: Executive summary >
- Section 1.2: Introduction >
- Section 2: Fee income and productivity >
- Section 3: Margins and core profitability >
- Section 4: Profits and drivers for profit >
- Section 5: Lock up and working capital >
- Section 6: Finance and funding >
- Section 7: Accounting and legal survey comparison >
- Section 8: Comparison of results >
- Section 9: 2024 and beyond >
- Section 10: Important focus areas for accounting firms >
- Section 11: Key issues to consider to promote success and growth >

Section 2: Fee income

Fees as a % of last years

	Lower quartile	Median	Upper quartile
Small firms	106%	109%	112%
Large firms	108%	111%	117%
All firms	107%	110%	114%

Median year on year growth was 10% on top line income, which slightly exceeded UK inflation in that year of around 9%.

In our 2022 survey in contrast, we reported a median year on year growth of only 4%, but of course in that year there was lower inflation at around 6% and firms were reporting against a very strong financial year in 2021 (the covid financial year).

The results also show that over the last year the income growth levels have been broadly similar across the dataset, irrespective of the size of the firm, with the median growth in large firms being 11% compared with the small firms median of 9%.

We asked firms about their best and worst performing practice areas and the results provide some interesting reflections. By a considerable margin audit and assurance work was noted as the highest performing area with 43% of respondents identifying this area (following by accounts work at 30%).

What practice area is performing best at the moment?



[Foreword](#)

[Section 1.1: Executive summary](#)

[Section 1.2: Introduction](#)

[Section 2: Fee income and productivity](#)

[Section 3: Margins and core profitability](#)

[Section 4: Profits and drivers for profit](#)

[Section 5: Lock up and working capital](#)

[Section 6: Finance and funding](#)

[Section 7: Accounting and legal survey comparison](#)

[Section 8: Comparison of results](#)

[Section 9: 2024 and beyond](#)

[Section 10: Important focus areas for accounting firms](#)

[Section 11: Key issues to consider to promote success and growth](#)

Section 2: Fee income

Conversely 29% of firms reported that tax and structuring was their worst performing area followed by payroll and international work both identified by 14% of survey participants.

The results here are not entirely without logical explanation. The audit and assurance market has been volatile in the last few years because of regulatory changes and high-profile audit issues in the headlines. This has resulted in more audit work needing to be performed to complete audit assignments and inevitably this has resulted in fee increases across the market.

The lower incidence of tax and restructuring work being cited as the best performing area, can be linked to the general increased focus by government on anti-avoidance measures around tax planning, as well as a lower level of activity in corporate transactions in many firms.

Questions to consider

- Do accounting firms have an opportunity to grow their earned income by becoming better at scoping the nature of work they undertake?
- Is there an opportunity to improve time capture and narrative by your fee earners to grow revenue?
- Do you have a time recording policy as a firm – is it communicated to your people?

[Foreword](#)

[Section 1.1:](#)
Executive summary

[Section 1.2:](#)
Introduction

[Section 2:](#)
Fee income and productivity

[Section 3:](#)
Margins and core profitability

[Section 4:](#)
Profits and drivers for profit

[Section 5:](#)
Lock up and working capital

[Section 6:](#)
Finance and funding

[Section 7:](#)
Accounting and legal survey comparison

[Section 8:](#)
Comparison of results

[Section 9:](#)
2024 and beyond

[Section 10:](#)
Important focus areas for accounting firms

[Section 11:](#)
Key issues to consider to promote success and growth



Section 3: Margins and core **profitability**

Section 3: Margins and core profitability

Net profit margins are not a particularly reliable measure of profitability for accounting firms because they are naturally distorted by the relative mix of owners and employees in any firm, which of course is subjective and affected by decisions of the owners.

A more helpful way to compare core profit margins in accounting firms is to consider how much is spent on the people in the business as a percentage of earned income. To do this we combine the total direct employment costs in the profit and loss account of the firm and build in notional salaries for the owners of the business to arrive at a total for people costs.

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

	Lower quartile	Median	Upper quartile
Small firms	54%	58%	71%
Large firms	64%	66%	72%
All firms	56%	64%	72%

The above table reflects the results for our participants where a notional salary of £100,000 has been used for equity partners in small firms and £150,000 for those in large firms.

Our results show that from 2023 financial results the median result for a firm was 64% - so 64p per £1 of earned income was spent on people, with an upper quartile result starting at 72% and the lower quartile result being 56%.

The results from 2022 for the same firms reported a median of 67%; implying a 3% improvement in the core profit margin that was achieved in those firms between 2022 and 2023.

For small firms there was an improvement from 60% to 58% and for large firms the improvement was from 71% to 66%.

If we only considered employee costs, the median level of employee costs as a percentage of earned income in 2023 was 47% across all firms (40% for small firms and 50% for larger firms).

We asked firms about their plans for salary rises during 2024/25 as well as their expectation of what they might seek to apply as an inflationary increase to their recurring fees with clients.

Anticipated growth (%)

Anticipated growth (%)	0%	0%-10%	Over 10%
Expected recurring fee increase	4%	74%	22%
Expected employment cost increases		100%	

The conclusion being that many firms expect that their earned income will keep pace with or exceed growth in salary levels during 2024/25.

Turning to the issue of payroll inflation; we asked firms about their plans in relation to background pay rises during 2024. 65% of respondents reported the expectation that they will be increasing background salary levels by between 4% and 6% in 2024, with 8% of firms reporting that they expect to see pay rise levels exceeding 6% in 2024.

Foreword >

Section 1.1: Executive summary >

Section 1.2: Introduction >

Section 2: Fee income and productivity >

Section 3: Margins and core profitability >

Section 4: Profits and drivers for profit >

Section 5: Lock up and working capital >

Section 6: Finance and funding >

Section 7: Accounting and legal survey comparison >

Section 8: Comparison of results >

Section 9: 2024 and beyond >

Section 10: Important focus areas for accounting firms >

Section 11: Key issues to consider to promote success and growth >

Section 3: Margins and core profitability

Questions to consider

- What actions could your firm take to increase average fees per fee earner by £5,000 - £20 per working day?
- Do individual fee earners / grades of staff have chargeable hours targets which are communicated, monitored, and regularly discussed with them?

[Foreword](#)

[Section 1.1:](#)
Executive summary

[Section 1.2:](#)
Introduction

[Section 2:](#)
Fee income and productivity

[Section 3:](#)
Margins and core profitability

[Section 4:](#)
Profits and drivers for profit

[Section 5:](#)
Lock up and working capital

[Section 6:](#)
Finance and funding

[Section 7:](#)
Accounting and legal survey comparison

[Section 8:](#)
Comparison of results

[Section 9:](#)
2024 and beyond

[Section 10:](#)
Important focus areas for accounting firms

[Section 11:](#)
Key issues to consider to promote success and growth



Section 4:
Profits and
drivers for profit

Section 4: Profits and drivers for profit

There are two key factors driving profits in accounting firms – the margin being achieved and the ownership structure. The margin being achieved combined with the absolute size of the business determines the amount of profit available to the business (let’s call it the ‘size of the cake’). The ownership structure (number of equity partners) also affects the PEP (let’s call this the ‘number of slices’).

Management of both margins (the size of the cake) and ownership (the number of slices) fundamentally sets out the business model that needs to be managed. An accounting firm can be very profitable with low margin work, providing it has high volumes and a low number of owners (partners) to share in profits (and vice versa of course).

a) Structure (gearing)

Gearing (total fee earners/equity partners)

	Lower quartile	Median	Upper quartile
Small firms	5	8	10
Large firms	11	13	22
All firms	6	10	17

Gearing is a measure of effective structure in an accounting firm. It is a measure of the number of fee generative people per equity owner in the business. The higher the level of gearing the better is the theoretical structure of the firm for earning profits.

We can see across the survey that the median gearing level is 10 and unsurprisingly the median for large firms at 13 exceeds the median result of 8; generally supporting the assumption that as firms grow, they should have the opportunity to improve (increase) their gearing.

Looking at the same firm results for their prior year, we see a reported median of 10 (small firms 7 and large firms 14). As a synopsis, across the last two years the gearing levels in the survey participants were broadly consistent.

This suggests any year-on-year change in profitability is not necessarily related to the mix of owners and employees (the number of slices) but is more likely to be the result of margin change (the improvement in people costs %) and the size of the business.

It is interesting to note that in our 2022 survey (2021 data) the median gearing reported was 8.9 which suggests an improvement in the overall structure of firms across the sector in the last couple of years.

[Foreword](#)

[Section 1.1: Executive summary](#)

[Section 1.2: Introduction](#)

[Section 2: Fee income and productivity](#)

[Section 3: Margins and core profitability](#)

[Section 4: Profits and drivers for profit](#)

[Section 5: Lock up and working capital](#)

[Section 6: Finance and funding](#)

[Section 7: Accounting and legal survey comparison](#)

[Section 8: Comparison of results](#)

[Section 9: 2024 and beyond](#)

[Section 10: Important focus areas for accounting firms](#)

[Section 11: Key issues to consider to promote success and growth](#)

Section 4: Profits and drivers for profit

b) Support staff levels

Support staff per fee earner

	Lower quartile	Median	Upper quartile
Small firms	0.10	0.25	0.52
Large firms	0.17	0.20	0.21
All firms	0.14	0.21	0.39

Support staff levels are one statistic where it is hard to conclude on what the “right” answer is. For example, some firms may have a high level of support staff which appears an expensive structure, yet the way the support staff are utilised is highly efficient and enables fee earners to generate more chargeable time – so overall this may be a good structure for a firm. Equally the same position with poor utilisation of support staff could produce a costly overhead structure to absorb.

Therefore, for this statistic it is simply a comparison to see if a firm is like others; the median result across the survey was 0.21 support staff for every fee earner in the firm and there was only a modest difference between small and large firms in their reported results.

Support staff in this context includes all central support function staff as well as those working more closely with fee earners on client facing activities.

c) Profits per equity partner

The most reported measure of profitability in accounting firms is PEP. Our survey reported a median PEP figure of £253,000 (£167,000 for small firms and £395,000 for large firms).

Profit per equity partner (£'000)

	Lower quartile	Median	Upper quartile
Small firms	122	167	283
Large firms	232	395	597
All firms	137	253	312

Looking at year on year growth for firms in the 2024 survey we can see that the median growth in PEP was 21% (so growth between their 2022 and 2023 financial year end results); far outstripping inflationary growth during that same period of around 9%.

Profit per equity partner as a % of last year

	Lower quartile	Median	Upper quartile
Small firms	90%	114%	132%
Large firms	109%	128%	144%
All firms	91%	121%	133%

[Foreword](#)

[Section 1.1:](#)
Executive summary

[Section 1.2:](#)
Introduction

[Section 2:](#)
Fee income and productivity

[Section 3:](#)
Margins and core profitability

[Section 4:](#)
Profits and drivers for profit

[Section 5:](#)
Lock up and working capital

[Section 6:](#)
Finance and funding

[Section 7:](#)
Accounting and legal survey comparison

[Section 8:](#)
Comparison of results

[Section 9:](#)
2024 and beyond

[Section 10:](#)
Important focus areas for accounting firms

[Section 11:](#)
Key issues to consider to promote success and growth

Section 4: Profits and drivers for profit

We can also see that PEP growth amongst large firms was higher at 28%, than small firms reporting a median growth rate of 14%. It seems probable that for those larger firms this has been driven in part by the strong growth in audit and assurance work and margins during that period.

Looking back to our 2022 accounting survey the median PEP reported was £193,000. The 2024 survey median of £253,000 reflects 31% growth on that result, again significantly above cumulative inflation in that period of 14%.

[Foreword](#)

[Section 1.1:](#)
Executive summary

[Section 1.2:](#)
Introduction

[Section 2:](#)
Fee income and productivity

[Section 3:](#)
Margins and core profitability

[Section 4:](#)
Profits and drivers for profit

[Section 5:](#)
Lock up and working capital

[Section 6:](#)
Finance and funding

[Section 7:](#)
Accounting and legal survey comparison

[Section 8:](#)
Comparison of results

[Section 9:](#)
2024 and beyond

[Section 10:](#)
Important focus areas for accounting firms

[Section 11:](#)
Key issues to consider to promote success and growth



Section 5:
Lock up
and working capital

Section 5: Lock up and working capital

Although the long-term goal is to increase profits, the short-term goal for most accounting firms is to have sufficient cash to pay staff, partner drawings and operational running costs.

A long-term problem for all firms is that it can take a great deal of time to turn chargeable time into cash. Time that’s been spent, but which hasn’t been billed yet, is called work in progress (WIP) and time that’s been billed that is still unpaid is ‘debtors’.

Instead of just looking at the amount of money for WIP and debtors, it is common practice to describe these figures as WIP days and debtor days. That’s because this is a measure of efficiency that firms can use to compare larger and smaller firms. In the past, firms referenced how it could often take 120 days to turn time recorded into cash, so it’s obvious that unless firms have enough money in reserve to fund this working capital, they could run out of cash.

a) WIP

WIP days

	Lower quartile	Median	Upper quartile
Small firms	15	26	58
Large firms	29	41	61
All firms	21	34	59

Median WIP days in the latest survey was 34 days at the end of their 2023 financial year end and for the same participants their 2022 median was 33 days.

Across that time frame the large firms reported a deterioration from a median of 33 days to 41 days whilst small firms became more effective and keeping WIP levels down and reduced their WIP days from 32 days in 2023 to 26 days in 2024.

b) Debtors

Debtor days

	Lower quartile	Median	Upper quartile
Small firms	40	66	86
Large firms	55	65	75
All firms	44	66	85

Median debtor days in the latest survey was 66 days. For the same participants their 2022 median was 59 days. Year on year the median for small firms increased from 55 days to 66 days whilst the median for large firms reduced from 71 days to 65 days.

- Foreword
- Section 1.1: Executive summary
- Section 1.2: Introduction
- Section 2: Fee income and productivity
- Section 3: Margins and core profitability
- Section 4: Profits and drivers for profit
- Section 5: Lock up and working capital
- Section 6: Finance and funding
- Section 7: Accounting and legal survey comparison
- Section 8: Comparison of results
- Section 9: 2024 and beyond
- Section 10: Important focus areas for accounting firms
- Section 11: Key issues to consider to promote success and growth

Section 5: Lock up and working capital

c) Lock up

Total lock up days

	Lower quartile	Median	Upper quartile
Small firms	79	105	126
Large firms	89	104	129
All firms	80	105	126

The median total lock-up days (time taken to turn fee earner time recorded into cash) in our latest survey is 105 days (our 2022 reported survey 114 days and the 2019 survey median figure for this was 118 days) which shows there's been some improvement over this period. Although we should of course note that the cohort of firms taking part would have been different across those three surveys.

If we consider the lock up position of the 2024 survey participants their reported lock up in their prior financial year of 92 days, we can see this has worsened quite considerably by 13 days to 105 days in 2024. This seems to be different to the overall trend of reduction in lock up in the sector when we compare the results of our 2024 survey with those from our 2022 and 2019 surveys which imply a downward profile.

Firms should think hard about the commercial terms they agree with clients and their working practices that could improve their control of lock-up. If firms could cut down their working capital requirements, they would need less capital from partners and less external finance.

Questions to consider

- Are lock up credit limits set for your clients with an effective warning system in place?
- If billing substantially takes place in the last few days of the month, have you considered having a firmwide billing day in the middle of the month to try to accelerate the point at which you invoice gets into your client's purchase ledger for settlement?
- Is there any form of performance league table available internally to celebrate strong management of lock up where it arises?

Foreword >

Section 1.1: Executive summary >

Section 1.2: Introduction >

Section 2: Fee income and productivity >

Section 3: Margins and core profitability >

Section 4: Profits and drivers for profit >

Section 5: Lock up and working capital >

Section 6: Finance and funding >

Section 7: Accounting and legal survey comparison >

Section 8: Comparison of results >

Section 9: 2024 and beyond >

Section 10: Important focus areas for accounting firms >

Section 11: Key issues to consider to promote success and growth >



Section 6:
Finance
and funding

Section 6: Finance and funding

Looking at the level of debt in accounting firms we can see that amongst the participants the median result reported that debt represented 31% of net assets. In other words for every £1 of members funds in an LLP (and broadly every £1 in the profit and loss reserve in a company) the firms borrowed 31p.

Given that many lenders will provide funding facilities which in principle enable accounting firms to borrow up to £1 for every £1 of member funds, we can see that there is considerable theoretical headroom in terms of borrowing for most accounting firms in the survey.

Borrowing as % of net assets

	Lower quartile	Median	Upper quartile
Small firms	11%	36%	60%
Large firms	7%	30%	110%
All firms	10%	31%	73%

We discussed the issue of the tax basis period reform with our survey respondents. Given that 61% of the participants were companies it was not surprising that 68% of respondents reported the issue was not relevant to them.

However, for the remaining 32% of firms 11% (so roughly one third) reported that they expected to manage the cash flow challenge through reduced lock up whilst 21% (two thirds) of firms expected to use a mixture of measures (i.e. additional debt, reduced lock-up and partner capital).

Questions to consider

- What level of precision is involved in establishing capital funding in your firm? Is there transparency for partners to understand how this figure is arrived at?
- What plan does your firm have in place to help incoming partners fund their capital accounts in the business to make this transition seamless for them?
- Does the firm forward plan to consider when capital account levels for partners may change (e.g. due to retirements or significant capital investments)?

- Foreword >
- Section 1.1: Executive summary >
- Section 1.2: Introduction >
- Section 2: Fee income and productivity >
- Section 3: Margins and core profitability >
- Section 4: Profits and drivers for profit >
- Section 5: Lock up and working capital >
- Section 6: Finance and funding >**
- Section 7: Accounting and legal survey comparison >
- Section 8: Comparison of results >
- Section 9: 2024 and beyond >
- Section 10: Important focus areas for accounting firms >
- Section 11: Key issues to consider to promote success and growth >



Section 7: **Accounting** and legal survey comparison

Section 7: Accounting and legal survey comparison

Royal Bank of Scotland prepares an annual legal sector survey, the most recent available being from 2023. The table below compares a range of financial measures across the two sectors and seeks to explain some of the similarities and variances.

Key performance indicator	Accounting survey 2024	Legal survey 2023	Commentary sector v sector
Fees per equity partner	£901,000	£1,004,000	In broad terms this suggests that at an owner level income levels per head across the two sectors are similar.
Fees per fee earner	£95,000	£141,000	Accounting firms have higher levels of junior staff undertaking lower value (compliance) elements of work than in law firms.
People costs %	64	61	Core profit margins are more favourable in law firms. With accounting firms undertaking substantial elements of compliance work this is expected.
PEP	£253,000	£246,000	Despite the lower core profit margins in accounting firms PEP is similar; likely to be the result of gearing which is identified further below.
Debtor days	66	34	Money often held on a client account in law firms, so this is expected.
WIP days	34	90	Law firms have more long-term cases than accounting firms. Litigation work drives this in law firms and for many this can be a substantial part of their income. In accounting firms long term matters are often restricted to areas such as insolvency and corporate finance.
Lock up days	105	136	Overall, this suggests a lower funding requirement for accounting firms compared to law firms which would imply lower structured debt levels and lower capital accounts are required in accounting firms.

Key performance indicator	Accounting survey 2024	Legal survey 2023	Commentary sector v sector
Fee earners: equity partners	10	7	The better mix of owners and employees in accounting firms (gearing) helps them achieve similar PEP to law firms despite core profit margins in accounting firms being lower than law firms.
Support staff: fee earners	0.2	0.8	Partly reflects the less administrative nature of activities in accounting firms which arise from the legal system and legal process in law firms.
Debt as % of net assets	31%	24%	Debt appetite in law firms is comparable to accounting firms and the mix of equity to third party debt is similar. In our experience appetite from primary lenders to the legal and accounting sector is also similar.

- [Foreword](#)
- [Section 1.1: Executive summary](#)
- [Section 1.2: Introduction](#)
- [Section 2: Fee income and productivity](#)
- [Section 3: Margins and core profitability](#)
- [Section 4: Profits and drivers for profit](#)
- [Section 5: Lock up and working capital](#)
- [Section 6: Finance and funding](#)
- [Section 7: Accounting and legal survey comparison](#)
- [Section 8: Comparison of results](#)
- [Section 9: 2024 and beyond](#)
- [Section 10: Important focus areas for accounting firms](#)
- [Section 11: Key issues to consider to promote success and growth](#)

A blurred office scene showing several people working at desks. In the foreground, a person's hand is holding a white document. In the background, another person is pointing towards a screen. A metal mesh pen holder with several pens is visible on a desk in the lower center. The overall atmosphere is professional and busy.

Section 8: **Comparison** of results

Section 8: Comparison of results

A key factor that has not impacted our previous surveys is inflation. Taking the view that most accounting firms operate a March or April financial year end, the UK year on year inflation figures have been as follows for March to March:

2020	2021	2022	2023
1%	1%	6%	9%

So cumulative inflation since 2022 has been 15%; it is interesting to see how this compares with growth in some of our statistics in the 2024 survey:

Key performance indicator	% increase	Accounting survey 2024	Accounting survey 2022
Fees per equity partner	13%	£901,000	£798,000
Fees per fee earner	8%	£95,000	£88,000
PEP	2%	£253,000	£193,000
Debtor days		66	65
WIP days		34	42
Lock up days		105	114
Fees earners: equity partners		10	8.9

We need to be careful here in interpretation because of course the firms that took part in the 2022 survey will be a different cohort to those in the 2024 survey. However, as a snapshot of the survey it draws a few observations.

Over the period 2022 to 2024 we can see that income levels per owner and fee earner have not kept pace with inflation, yet at the same time PEP growth has exceeded inflation.

Reflecting on previous results, in the 2024 survey it seems probable that over this period the sector may have struggled to maintain top line growth in line with inflation, but a combination of improved margins (lower people costs relative to income) and improved structure (gearing) has enabled PEP to grow despite inflationary issues in salary and overhead costs in firms.

- [Foreword](#)
- [Section 1.1: Executive summary](#)
- [Section 1.2: Introduction](#)
- [Section 2: Fee income and productivity](#)
- [Section 3: Margins and core profitability](#)
- [Section 4: Profits and drivers for profit](#)
- [Section 5: Lock up and working capital](#)
- [Section 6: Finance and funding](#)
- [Section 7: Accounting and legal survey comparison](#)
- [Section 8: Comparison of results](#)
- [Section 9: 2024 and beyond](#)
- [Section 10: Important focus areas for accounting firms](#)
- [Section 11: Key issues to consider to promote success and growth](#)



Section 9:
2024
and beyond

Section 9: 2024 and beyond

We asked firms for their opinions on a range of subjects and future outlooks.

a) Merger and consolidator activity

In terms of future planning our participant firms reported healthy levels of activity with 94% of firms planning up to two years in advance and 55% looking at planning up to three years in advance.

We asked firms to comment on their interest in activities such as mergers or team / firm acquisitions over the coming year. Most firms (52%) said it was unlikely that they would be engaging in such projects and only 17% said it was very likely that this would be on their strategic plans for the next year.

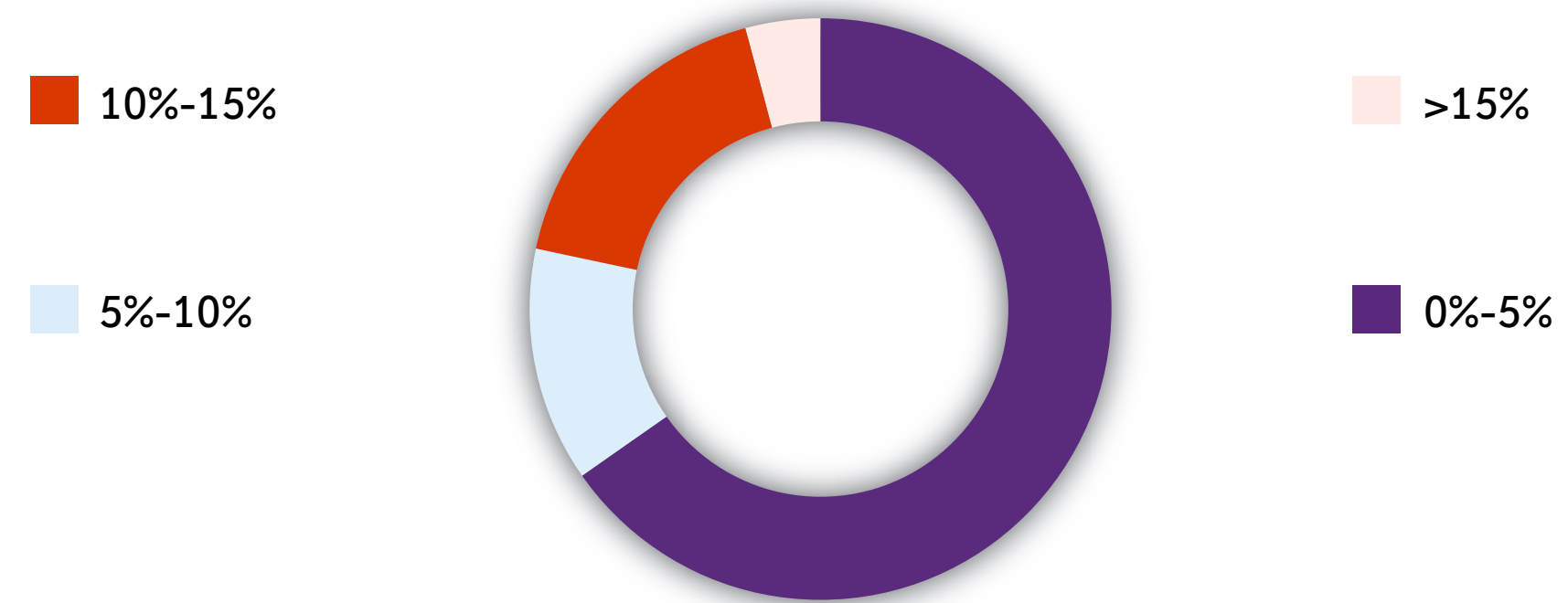
However, of our survey participants, 83% had been approached by consolidators during the last year. This continues to indicate the strong degree of discussion that is taking place with private investors and accounting groups in the sector.

b) Growth and development

74% of accounting firms anticipated growth in their income levels in 2024/25 of up to 10% and 22% of firms anticipated growth of between 10% and 20%.

We also asked firms about their planned changes in headcount over the coming year and 65% of respondents reported planned growth of up to 5% while 21% of firms expect headcount to grow by more than 10% in the coming year.

How do you expect headcount to change in your firm in 2024?



Headcount increase	0%-5%	5%-10%	10%	>15%
% of firms responding	65%	13%	17%	4%

It is also worth commenting that these planned headcount rises are set in the context that 78% of firms also noted that attracting and retaining client was their most significant challenge at present.

We asked whether the recruitment climate was likely to change during 2024/25 and 43% of firms expected the recruitment position to remain just as difficult while 26% of firms expected conditions for recruitment to worsen during the coming year. This all suggests a great deal of challenge for firms to achieve their income and headcount growth aspirations.

[Foreword](#) >

[Section 1.1: Executive summary](#) >

[Section 1.2: Introduction](#) >

[Section 2: Fee income and productivity](#) >

[Section 3: Margins and core profitability](#) >

[Section 4: Profits and drivers for profit](#) >

[Section 5: Lock up and working capital](#) >

[Section 6: Finance and funding](#) >

[Section 7: Accounting and legal survey comparison](#) >

[Section 8: Comparison of results](#) >

[Section 9: 2024 and beyond](#) >

[Section 10: Important focus areas for accounting firms](#) >

[Section 11: Key issues to consider to promote success and growth](#) >

Section 9: 2024 and beyond

c) Measuring performance and engagement

Assessing fee earner performance remains a critical process for accounting firms and our respondent firms reported a range of measures to achieve this.

We asked our firms what they considered was their primary mechanism for fee earner assessment and surprisingly, rather than a numerical measure, employee behaviours were cited by 30% of firms as the most crucial performance measure.

The following top three measures were then perhaps more predictable with recovery (realisation) rate being mentioned by 26% of firms, fees managed 22% and chargeable hours by 17% of firms as being their primary measures of fee earner assessment.

d) Growth and development

The longer lasting impact of Covid on working arrangements remains of interest to accounting firms and impacts the daily operation of accounting businesses.

In relation to office capacity, 59% of survey participants were not anticipating any change in their office footprint or capacity over the next 5 years, 32% expected it to increase over that period whilst only 9% expected it to decline.

Turning to the hybrid/home working arrangements, 30% of survey firms reported that employees most commonly attend the office every day; 13% reported employees most commonly have one home working day and 57% reported two home working days was the most common employee pattern.

The results here paint a pattern which is unexpected given the common levels of discussion around hybrid working and the demise of the office environment. Instead, these results suggest that employee engagement in the physical workplace is high and that firms expect office investment to remain prevalent in their business in the future.

Questions to consider

- Given the importance of attracting and retaining talent, what plans can you put in place to improve your position in the marketplace in the future to be more attractive to potential candidates?
- Are your fee earner performance measures effective – are they implemented and reviewed regularly; what actions can be taken to ensure fee earners react to their performance levels?
- Do your support staff time record so you can monitor their effectiveness and the cost of the projects they undertake?

Foreword >

Section 1.1: Executive summary >

Section 1.2: Introduction >

Section 2: Fee income and productivity >

Section 3: Margins and core profitability >

Section 4: Profits and drivers for profit >

Section 5: Lock up and working capital >

Section 6: Finance and funding >

Section 7: Accounting and legal survey comparison >

Section 8: Comparison of results >

Section 9: 2024 and beyond >

Section 10: Important focus areas for accounting firms >

Section 11: Key issues to consider to promote success and growth >



Section 10:
Important focus areas
for accounting firms

Section 10: Important focus areas for accounting firms

We asked accounting firms for a range of opinions on their own priority areas and investment plans.

a) Investment focus areas

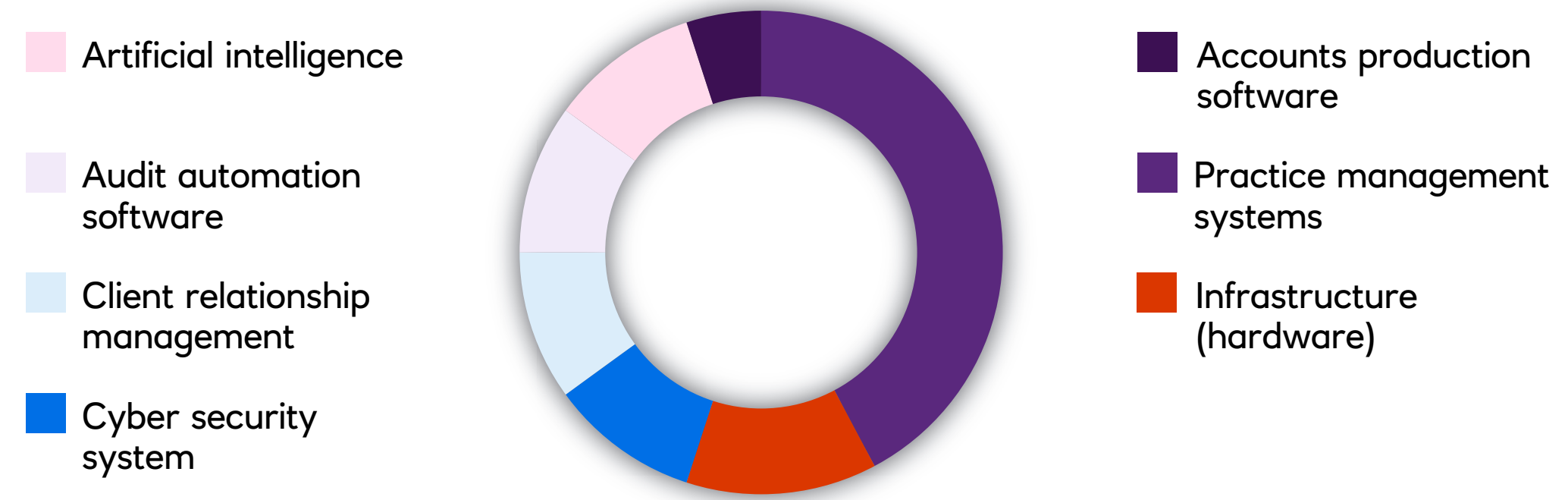
IT investment remains a crucial area for most professional service firms. We were interested to know from firms which specific area in IT was most important to them and was likely to receive most investment over the coming year.

The results below show that 43% of respondents explained that their core practice management system was their primary area of focus and broadly all the other areas mentioned received an equal share of the remaining responses.

Interestingly artificial intelligence (AI) is mentioned in the responses, but only 10% of firms saw this as the biggest priority despite significant sector commentary on the potential degree of impact this may have on key services provided by accounting firms.

Similarly, 10% cited cyber security as their key investment priority. In this context, in terms of instances of cyber attempts or fraud attempts in the last 12 months, 23% of survey participants reported that they had suffered more than four such attempts in that period and overall, 59% of firms had experienced at least one such event in the last 12 months.

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



Biggest priority						
Accounts production software	Artificial intelligence	Audit automation software	Client relationship management	Cyber security system	Infrastructure (hardware)	Practice management system
% of firms responding						
5%	10%	10%	10%	10%	13%	42%

[Foreword](#) >

[Section 1.1: Executive summary](#) >

[Section 1.2: Introduction](#) >

[Section 2: Fee income and productivity](#) >

[Section 3: Margins and core profitability](#) >

[Section 4: Profits and drivers for profit](#) >

[Section 5: Lock up and working capital](#) >

[Section 6: Finance and funding](#) >

[Section 7: Accounting and legal survey comparison](#) >

[Section 8: Comparison of results](#) >

[Section 9: 2024 and beyond](#) >

[Section 10: Important focus areas for accounting firms](#) >

[Section 11: Key issues to consider to promote success and growth](#) >

Section 10: Important focus areas for accounting firms

b) Diversity, equity and inclusion

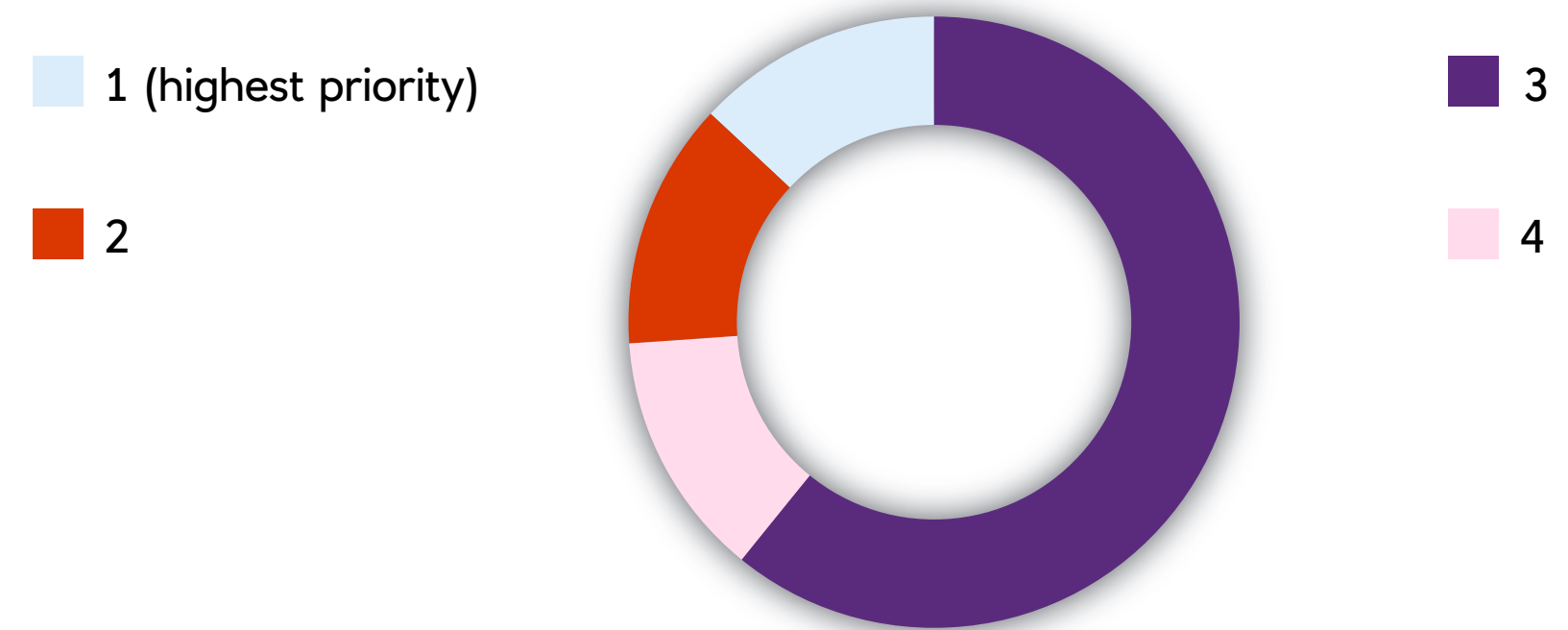
We asked our survey firms about the level of priority they place on diversity, equity and inclusion in their business. Based on a scale of 1 to 5 with 1 being the highest priority, 61% of firms reported a result of 3 (so a moderate priority) while 26% reported a result of 1 or 2 citing it as one of their stronger priorities.

Overall, 87% of firms saw this as a moderate or important issue to them in running and planning their businesses. No firms reported this as their lowest priority area in their business.

With this relative importance to firms in mind we turned our questions towards the gender mix in firms at a fee earning and ownership level. 43% of survey firms reported that more than 50% of their qualified fee earners were female and 4% of firms reported that up to 70% of their qualified fee earners were female.

However, when turning to ownership of firms, no firms reported having more than 50% of their equity owners being female. The highest reported percentage of female equity owners in firms was between 40% and 50% and this was only reported by 17% of responding firms. 30% of firms reported that less than 10% of their equity owners were female.

What priority is your firm placing on diversity, equity and inclusion?



Priority level	1	2	3	4
% of firms responding	13%	13%	61%	13%

Foreword >

Section 1.1: Executive summary >

Section 1.2: Introduction >

Section 2: Fee income and productivity >

Section 3: Margins and core profitability >

Section 4: Profits and drivers for profit >

Section 5: Lock up and working capital >

Section 6: Finance and funding >

Section 7: Accounting and legal survey comparison >

Section 8: Comparison of results >

Section 9: 2024 and beyond >

Section 10: Important focus areas for accounting firms >

Section 11: Key issues to consider to promote success and growth >

Section 10: Important focus areas for accounting firms

c) Environments, social and governance (ESG)

We asked our survey firms about the level of priority they place on ESG in their business. Based on a scale of 1 to 5 with 1 being the highest priority, 41% of firms reported a result of 3 (so an important but not compelling priority) while 36% reported that it was one of their stronger priorities (a result of 1 or 2).

We also enquired about the extent to which they are (or plan to) invest in green energy solutions. 36% of firms said they had no plans in this area. 32% said they have invested either for cost saving or environmental reasons and 32% said they were still considering their options.

Questions to consider

- Is the future of your firm to remain independent or will you need to consider external investment to be able to fund the investment needed to replace partners or invest in areas such as artificial intelligence?

[Foreword](#)

[Section 1.1:](#)
Executive summary

[Section 1.2:](#)
Introduction

[Section 2:](#)
Fee income and productivity

[Section 3:](#)
Margins and core profitability

[Section 4:](#)
Profits and drivers for profit

[Section 5:](#)
Lock up and working capital

[Section 6:](#)
Finance and funding

[Section 7:](#)
Accounting and legal survey comparison

[Section 8:](#)
Comparison of results

[Section 9:](#)
2024 and beyond

[Section 10:](#)
Important focus areas for accounting firms

[Section 11:](#)
Key issues to consider to promote success and growth



Section 11:
Key issues to consider to
promote success and growth

Section 11: Key issues to consider to promote success and growth

1) Attracting and retaining talent

Resoundingly this is the most significant issue and concern to firms. Competition for talent remains high and demand for services from accounting firms is also strong. Ensuring that the employee proposition is compelling is a key business requirement for firms.

Being clear on, and prepared to talk about, firm values is important to younger recruits as is the career experience and range of work they will undertake.

Retaining or attracting more experienced hires may require a different approach – working arrangements and overall benefit arrangements along with employer flexibility can sometimes takes precedence.

2) Development with hybrid working

The pattern of home working has settled down in most accounting firms and whilst the most common level of home working days seems modest, many firms still face challenges of ensuring there are sufficient people working alongside each other day to day to enable development of more junior people in their organisations.

Developing a strategy to make the workplace an appealing place to visit is important for attracting and retaining staff as well as ensuring the longer-term development of people for the success of the business.

3) Investment in IT

Whether this is AI or cybersecurity, some of the most demanding issues in accounting firms are IT based. The cost of investment in this area is significant for firms and inflationary pressures have seen many core areas of annual cost spiral.

Firms will need to plan financially (profit and capital funding) for their future activities putting control systems in place to ensure good spending decisions are made and value for money is obtained will become more important.

Will IT costs exceed premises and location costs in the future?

4) ESG / diversity and equality

Evidence suggests that these issues are becoming more crucial to both new recruits and clients in accounting firms. Firms need to have a clear strategy, values, and evidenced actions in these areas to satisfy some of the stakeholders of their firms.

Foreword

Section 1.1: Executive summary

Section 1.2: Introduction

Section 2: Fee income and productivity

Section 3: Margins and core profitability

Section 4: Profits and drivers for profit

Section 5: Lock up and working capital

Section 6: Finance and funding

Section 7: Accounting and legal survey comparison

Section 8: Comparison of results

Section 9: 2024 and beyond

Section 10: Important focus areas for accounting firms

Section 11: Key issues to consider to promote success and growth

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Foreword

Section 1.1:
Executive summary

Section 1.2:
Introduction

Section 2:
Fee income and productivity

Section 3:
Margins and core profitability

Section 4:
Profits and drivers for profit

Section 5:
Lock up and working capital

Section 6:
Finance and funding

Section 7:
Accounting and legal survey comparison

Section 8:
Comparison of results

Section 9:
2024 and beyond

Section 10:
Important focus areas for accounting firms

Section 11:
Key issues to consider to promote success and growth

Further information

Search Royal Bank of Scotland Business Insights



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of Scotland

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