NatWest

Legal Report 2025

Tomorrow begins today

Contents

Foreword

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

I'm delighted to present our eleventh edition of the NatWest Bank Legal Report. This is the third 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 of the 110 firms from across the UK 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 (median turnover of £17m). 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 strongest performing firms within 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.

We've concluded this report by capturing some key successes from a selection of the survey participants. We also provide top 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 margin pressures.

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 2025 survey we are aiming to provide a reflective analysis of law firms' results from financial year ends during 2025 compared with 2024 and consider the current commercial and financial outlook affecting firms today.

This is the eleventh legal report prepared by NatWest Bank and we are delighted to report 110 participants in this year's survey with a good spread of firms both by size but also geographical location enabling us to give an insight into the legal sector in 2025.

The combined revenue of firms in the survey exceeded £1.8bn and the median revenue of a participant firm was £17m.

Optimism in the legal sector remains high. 84% (2024 90%) of firms are optimistic about the future with 30% (2024 36%) of our survey participants being very optimistic. Whilst a strong picture of the sector, it is a slightly dampened position compared with 2024.

During 2025 firms have been continuing to struggle to recoup margins following significant pay rises in the sector in 2023. Many firms have therefore been focusing on productivity in a variety of ways.

Reflecting on the last year, significant events in the legal sector have included:

- Margin pressure – balancing inflationary people cost and income growth
- Basis period reforms – managing the 31 January 2025 cash impact
- Interest income – rebalancing exposure to interest income
- Capital projects – extensive investment in IT and leasehold fit outs
- AI – keeping pace and evolving practices to best use AI
- Private equity investment – competition for people, delivering growth plans and succession

We naturally have recent financial information to consider in this report from firms, but we are aiming 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 110 law firms, and we are grateful for their time and efforts in working with us, including the various managing partners and finance partners who we have interviewed whilst collating this report.

The information has been broken down into two sizes of firm – large and small – and the firms taking part are from across the whole of the UK; we have also reported the results by region because the survey is of a sufficient size to provide statistically meaningful insight at this level.

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 NatWest Bank's 2025 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, and Board member in his firm, Andrew leads PKF Francis Clark's national legal sector team and works with over 150 firms across the UK ranging from top 50 firms to successful niche law firm businesses.

Having advised law firms for almost 30 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 (110 firms) who have taken part in the 2025 survey with those same firms' financial results in 2024; 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 2025 year-end results for firms with those from March/April 2024.

In some areas of the survey, we are also comparing what has been reported by the firms that participated in the 2025 survey with those views and results from the firms that took part in the 2024 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 2024 NatWest Bank survey" or similar.

Section 1: Introduction and key findings

1.4: Key findings from this survey

a. Fees

- Median fee income growth in 2025 was 12% (2024 NatWest Bank survey 10%).
- Half of the firms in the survey reported growth in fee income between 7% and 19%.
- Fees per equity partner reported a median growth of 10% with a result of just over £1.37m in 2025 compared with £1.2m for respondent firms in 2024 NatWest Bank survey.
- Fees per fee earner growth was 10%, with the 2025 survey reporting a median result of £158,000 (2024 £144,000). This is consistent with our experience in the legal market this year, where fees per fee earner typically fall between £130,000 and £160,000 for many firms outside the top 100.
- Private client and residential conveyancing are cited as the most buoyant teams by firms in the summer of 2025 whilst litigation and family are noted as being the least well-performing areas at that time.

b. People costs and related issues

- Employee costs as a percentage of fees reported a median of 48% (2024 50%) and this compared with our expected range based on typical sector levels of between 45% and 55%.
- People cost as a percentage of fees is a more important statistic, adjusting for notional salaries of self-employed owners. The median result was 64% (2024 65%) and this compares with our expected range based on typical sector levels of between 55% and 65%.
- In the last two NatWest Bank surveys we have been reporting a gradual decline in core profitability (increase in people costs relative to income), so 2025 is the first year we have seen some improvement since 2021.
- This improvement in margin seems to have arisen from firms focusing on productivity; looking to increase average chargeable hours and recovered time. Many firms have been investing in improvements in time capture, scoping and general matter management to achieve this. This issue remains pivotal to many firms as we move into 2026.
- In relation to planned headcount changes 21% of respondents (2024 9%) reported that they expect no change in the headcount by 2026; whilst 49% of respondents (2024 57%) reported that they expected headcount to grow by up to 5% by 2026.
- In relation to the Employer’s National Insurance increases, 57% of firms anticipate they will recoup this through increased fees/rates for clients whilst 29% anticipate it will simply reduce their profit margins.
- 52% of firms reported a decline or static position in their PII costs in 2025 and this follows a year of decline for many in 2024.

Section 1: Introduction and key findings

c. Profits

- Median profits per equity partner (PEP) increased by 23%. For small firms the median increase was 8% whilst for large firms the median increase was 23%.
- The median reported PEP in the survey for 2025 was £340,000 (2024 £274,000) broken down as £204,000 (£162,000) for small firms and £372,000 (2024 £284,000) for large firms.
- Half of firms in the survey reported PEP of between £213,000 and £447,000.
- 25% of respondent firms reported growth in PEP of 45% or more in 2025 compared with their 2024 results whilst 25% reported declines in PEP of 9% or more compared with their 2024 results.
- Many firms experienced improved PEP from 2024 levels because of the improvement in their core profit margins (reduction in people costs). In many cases the improvement was better than originally budgeted by firms and this arose from higher income levels than anticipated – presumably the result of effective strategies to improve productivity.
- Joining up some of the results in this report we can see across the sector that there has been healthy growth in top line income levels, the core margins (people costs) have improved in many firms and there is still a high level of interest income being earned. The factors combined with more stable overhead growth have driven strong performance at a PEP level for survey respondents in 2025.

d. Interest income

- Interest income remains an important part of the financial model for many law firms following the growth in base rates since 2022. In the 2025 survey respondents reported at the median that interest profits represented 5.6% of their earned income (upper quartile commencing at 9.5%).
- Converting those results to consider PEP, at the median firms in the survey reported that 21% of PEP arose from interest profits. The upper quartile starting at 35%.
- Half of the firms reported that between 9% and 35% of their PEP arose from interest profits. Reflecting to 2022 and earlier years this result would have been closer to 1% (or less) for most law firms.
- There is evidence in 2025 that exposure of law firms to interest income has reduced – in part from lower base rates, higher payments in lieu of interest to clients (i.e. better compliance by law firms with the SRA Accounts Rules requirements) and higher growth levels in fee income for firms.

Section 1: Introduction and key findings

e. Lock up and debt funding

There were modest improvements in lock up in 2025 compared with 2024 with median lock up days reported by respondent firms of 128 days in 2025 compared with 133 days in 2024 for the same firms.

Drilling down on lock up we note median debtor days were 36 (2024 38 days) and work in progress (WIP) days were 92 (2024 97 days).

Given the impact of basis period reforms, the issue of lock up management in firms was paramount during the last year. It appears that firms have in part been able to manage the impact of this tax acceleration from reduced lock up without evidence of additional debt.

For every £1 of Members' Funds/Net assets in the business the median level of debt was 14p (upper quartile 31p), appearing to be comfortable in relation to debt availability to law firms. This compares to the results in the 2024 NatWest Bank survey where the median was 17p and the upper quartile was 38p. The reduction here appears to be a combination of strong profits, improved lock up and perhaps because the full effects of basis period reform have not been fully addressed by firms at this point.

This suggests that, despite the pressures of basis period reform in the sector, firms have managed the additional tax payments (and managed to reduce debt) through profits and lock up improvements.

There is however some evidence that firms may have not fully addressed the funding gap from basis period reform, and it may not be until later in 2025 (when profits from 2025 are sought to be distributed) that this gap may come to a head for firms.

Nearly 25% of firms in the survey are debt averse and borrow less than 2p for every £1 of Member funds. Half of firms rely on external debt of between 2p and 31p for every £1 of Members' funds in the business.

f. People structure

Gearing (fee earners per equity owner) reported little change in the year with a median result of 8.2 (2024 8.3) and the upper quartile commencing at 13.0 (2024 11.5).

There is a notable difference between small and large firms at a gearing level. Small firms reported a median of 5.3 whilst large firms reported a median of 8.7. This is a typical differential to see in the legal sector – as firms get larger generally their gearing increases.

The median ratio of support staff per fee earner for the survey was 1.00 (2024 0.89) with the upper quartile commencing at 1.62 and the lower quartile ending at 0.57.

Section 1: Introduction and key findings

g. Other topical issues

- **Interest income and regulatory matters**
  The survey reports that for 25% of survey respondents profits from client account interest amounts to at least 35% of their PEP in the year; with a median result of 21% of PEP being interest income. Survey respondent views of the SRA proposals to prevent firms holding client money and any client interest have been received negatively. The backdrop of the regulatory environment and the appropriateness of an "outcomes-focused approach" by the regulator has also been questioned by some respondents.
- **Investment in AI**
  Half of survey participants are actively engaged in using AI in their business, although most firms are using this for administrative activity and general matter management rather than delivering legal advice. In the NatWest Bank 2023 survey only 2% of firms reported using AI in their business.
- **External investment in law firms**
  In 2024 we asked survey respondents about their appetite for the receipt of external investment and 71% of respondents reported that it was unlikely their firms would seek such a transaction.

  At the same time 26% of respondents suggested it was possible that such a transaction may take place in their firms and 38% of firms reported that they had been approached by potential investors.

  Looking at the activity in the market in 2025 we have seen a rising number of transactions. Respondents' views on the impact to these transactions to their own businesses is varied.
- **Diversity, equity and inclusion**
  - 14% (2024 NatWest Bank survey 12%) of firms placed a high priority on diversity, equity and inclusion.
  - 66% (2024 NatWest Bank survey 55%) of firms reported that over 60% of their fee earners were female.
  - 21% (2024 NatWest Bank survey 13%) of firms reported that over 60% of their equity owners were female.
- **Environmental and social matters**
  - 6% (2024 NatWest Bank Survey 7%) of firms reported that they place a high priority on ESG in their business.
  - 66% of firms have (or are considering) investing in green energy solutions in their business.

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 turnover of less than £5m described as "small", while those with turnover exceeding £5m "large".

Our sample in 2025 extends to 110 firms. Considering the composition of the survey group:

- Total income of survey participants £1.8bn
- The median turnover was £17m
- 9% reported turnover exceeding £50m
- 22% reported turnover exceeding £20m (upper quartile)
- 24% reported turnover below £5m (lower quartile)
- For defined small firms their average turnover was £3.2m
- For defined large firms their average was £20.8m

Geographically our participants are diverse with the following distribution:

- 26% London & South-East
- 22% Midlands & East
- 22% North & Scotland
- 30% South-West & Wales

2.2 Firms by constitution

The split of firms taking part in the survey by constitution is as follows:

	2025	2024	2023
Limited liability partnerships (LLPs)	78%	74%	65%
Limited companies	16%	18%	25%
Unincorporated businesses (partnerships and sole practitioners)	6%	8%	10%

Section 2: Geography and constitution

2.3 Popularity of constitution

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

We explained in recent surveys that limited companies had become the favoured vehicle for sole practitioners (often for tax planning reasons) and 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 resulted in a continued decline in the company as a core trading vehicle for law firms.

Consultancy models continue to be an exception to this, of course, where individual consultants must often operate through a limited company. Employee Ownership Trusts also continue to secure headlines in the legal sector as an alternative option for law firm structures.

Section 3: Fee income

3: Fee income

3.1 Overview

- Median fee growth in 2025 was 12% compared with 10% in the 2024 NatWest Bank survey.
- 67% of firms expect 2026 fee income to grow less than 10% (2024 NatWest Bank survey 70%).
- 25% of firms expect 2025 fee income to grow less than 5% (2024 NatWest Bank survey 30%).
- 10% of firms are anticipating a decline in fee income in 2026.
- In the first quarter of the 2026 financial year the best performing areas in firms include private client/probate along with residential property.
- In the first quarter of the 2026 financial year the worst performing areas in firms include litigation and family.

3.2 Fee growth - 2025

Our experience is that the level of fee growth in law firms in 2025 has often exceeded budgeted levels. We most frequently saw results of between 12% and 15%, compared to a typical range of 8% to 12% in 2024.

In many cases we have evidence to suggest that this favourable variance over budgeted income has been the result of concerted efforts by firms to improve productivity with aspects such as time capture, chargeable hours and scope management being at the centre of management focus during this period.

We can see in the table on the right that the results from the NatWest Bank survey in 2025 present a similar picture, with the median fee growth reported by participants being 12% and with the upper quartile (25% of respondents) reporting growth in fee income exceeding 19%.

2025 fees as a percentage of last year

	Lower quartile	Median	Upper quartile
London & South-East	110%	112%	121%
Midlands & East	105%	111%	115%
North & Scotland	106%	116%	122%
South West & Wales	108%	113%	119%
Small	109%	114%	122%
Large	107%	112%	119%
All firms	107%	112%	119%

We can see from the above that there is also some variance between our large and small firms with the smaller firms reporting even higher growth with a median of 14% and an upper quartile commencing at 22%.

Considering the exposure that smaller firms have developed to interest income in 2023 and 2024 this is perhaps to be expected because those firms have seen an even higher drive to increase fee income and diversify risk away from interest income.

We also note the median growth in the 2024 survey of 10%, with the upper quartile commencing at 14%. This indicates that for 50% of the firms in 2025, growth levels were at least 2% to 5% higher than in 2024.

Section 3: Fee income

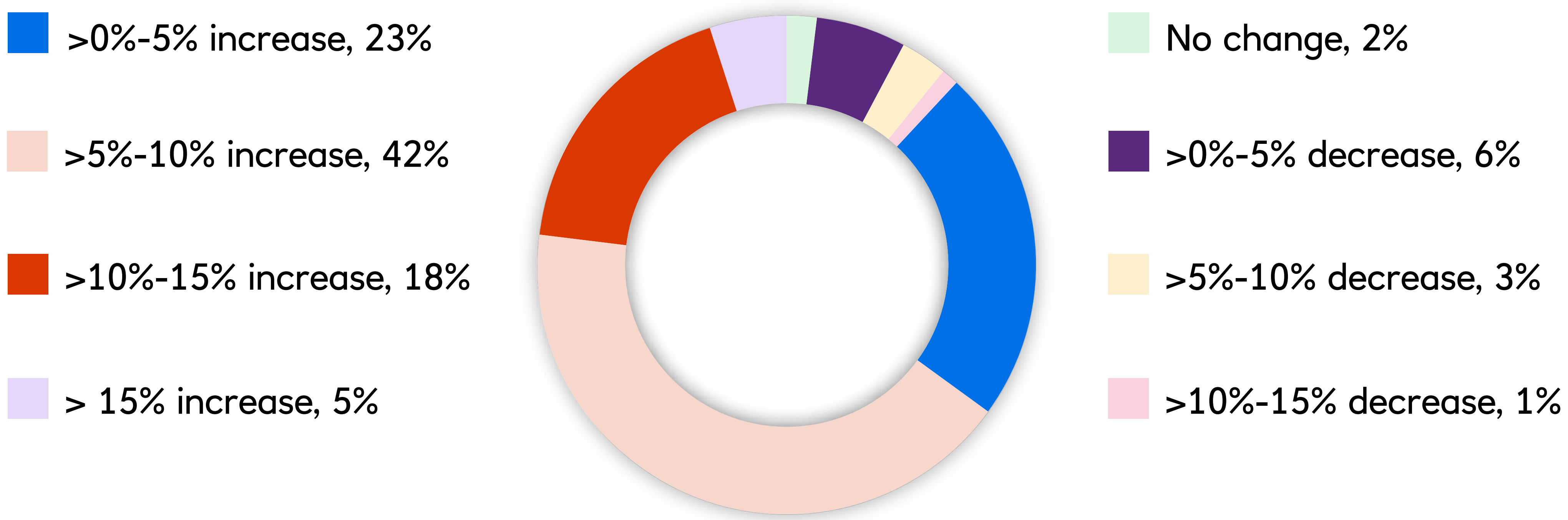
3.3 Fee growth - 2026 forecast

Having considered the outturn and growth for the financial year ended in 2025, it seems logical to look forward and consider firms' expectations for 2026.

The data below shows that 88% (2024 NatWest Bank survey 88%) of firms expect fee income to increase.

The most common projected level (42% of participants) is growth in fees of between 5% and 10% in 2025; in the 2024 NatWest Bank survey 36% of firms projected that level of growth for their 2024 financial year.

Expected 2026 turnover growth



We can however see that some firms are budgeting for some substantial growth levels in 2026. Nearly a quarter (23%) expect growth exceeding 10% with 5% of firms expecting growth of over 15%.

Firms also reported that they are changing their rates/recurring fee arrangements with clients in 2026 as set out in the table below:

Expected movement in rates	%
No change	8%
0% to 5% increase	51%
5% to 10% increase	34%
Over 10% increase	7%
Total	100%

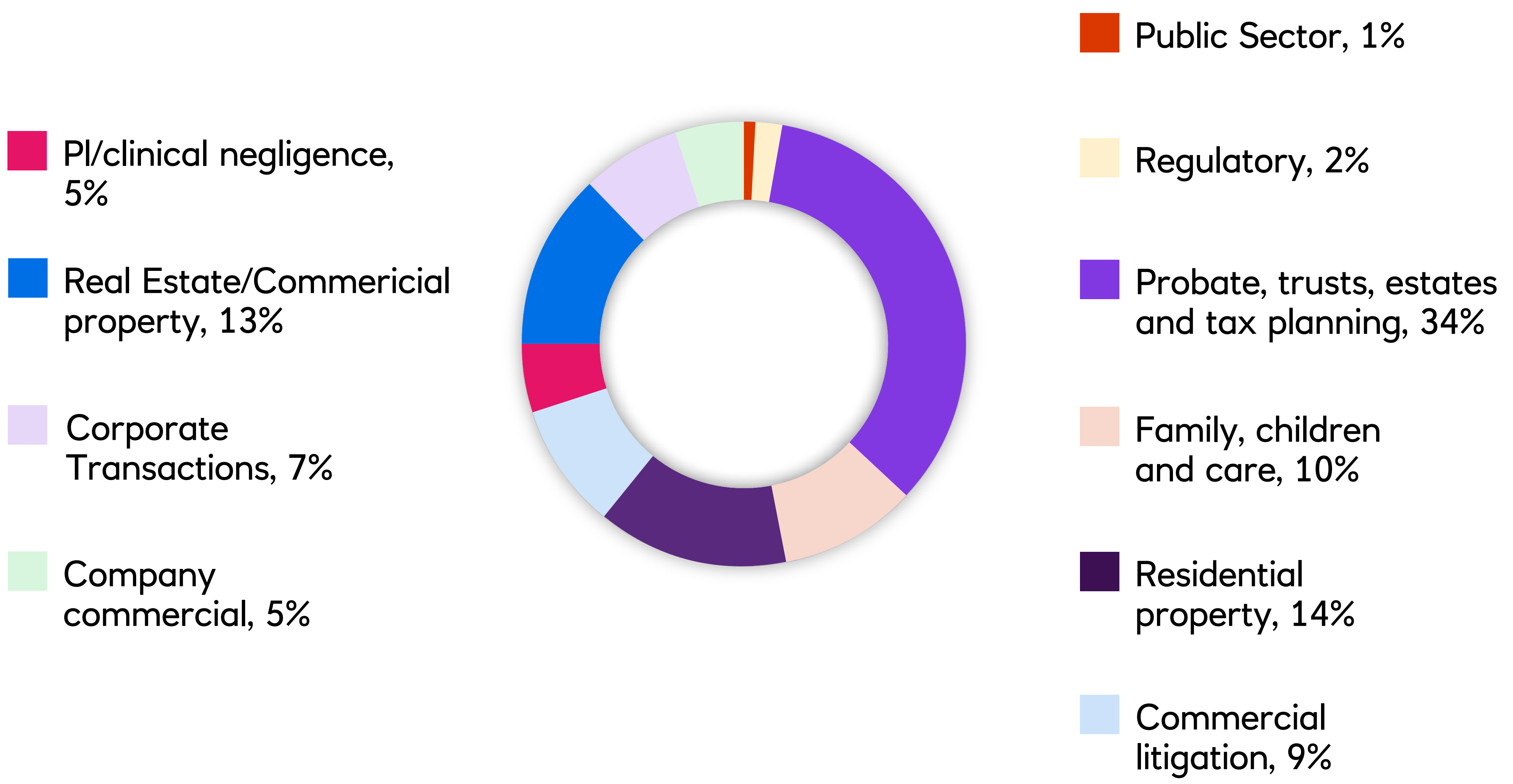
Section 3: Fee income

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 during quarter one of the 2026 financial year.

Current best performing team in 2025



Survey responses reported private client (34%) was deemed the most buoyant area at this time in 2025; the same team as the 2024 NatWest Bank survey.

Reflecting back to 2024 however, firms at that time reported strong performance in commercial, transaction and litigation and less so in relation to property.

This position has reversed in 2025. We can see residential property (14%) and real estate (13%) are cited by respondents as the next best performing teams whilst litigation and commercial work has slipped down the ranks.

Firms were also asked which areas of their business are currently underperforming. Given the above comments, the result was not entirely surprising here with 23% reporting litigation work, 22% reporting family and 21% reporting commercial/transaction work as being the worst performing teams in the first quarter of the 2026 financial year.

Section 3: Fee income

Mike Leeman from Bell Lamb & Joynson (BLJ) Solicitors comments:

"Perhaps unlike the majority of firms, crime is our best performing area at present. We have a specialist team in this area, and it represents 25% of our income stream, attracting both public and private work through reputation. We have benefited from other firms leaving the market for this work in recent years and have a strong level of duty solicitor slots which is helping our growth in this area."

"We have benefited from other firms leaving the market for this work in recent years."

Daniel Steptoe from Hedges Law reflects on their best performing area:

"Family is perhaps our strongest activity area at present. It reflects 30% of our income and we have a high reputation in our geography and in particular for advising high net worth clients."

Both comments to some extent illustrate that firms who focus on specialist areas have the ability to outperform general trends and perhaps this gives a signal to the future direction of firms in terms of their ability to compete in the changing legal landscape.

"Family is perhaps our strongest activity area at present."

Section 3: Fee income

3.5 Fees per equity partner

The results from the 2025 survey are reflected in the table below. Overall firms reported a median of £1.37m (2024 £1.27m) for fees per equity partner although there was a significant difference reported between the small and large firms where small firms reported a median closer to £727,000 (2024 £756,000) compared with a median of £1.49m (2024 £1.33m) for larger firms.

Fees per equity partners (£'000)

	Lower quartile	Median	Upper quartile	Median 2024
London & South-East	846	1,246	1,608	1,194
Midlands & East	863	1,054	1,913	1,154
North & Scotland	777	1,299	2,667	1,128
South West & Wales	1,125	1,497	2,199	1,469
Small	544	727	1,227	756
Large	1,062	1,497	2,199	1,327
All firms 2025	951	1,375	2,114	1,272
All firms 2024	964	1,272	1,690	

The results here are consistent with our experience of the legal sector in 2025 where in volume terms the 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.

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.

Fees per fee earner (£'000)

	Lower quartile	Median	Upper quartile	Median 2024
London & South-East	163	179	227	178
Midlands & East	127	147	168	123
North & Scotland	121	138	180	129
South West & Wales	140	155	184	144
Small	105	145	166	115
Large	138	167	200	156
All firms 2025	132	158	185	144
All firms 2024	123	144	180	

The median here for all survey firm participants was £158,000 (2024 £144,000) reflecting a 10% year-on-year growth level.

Large firms reported a median in 2025 of £167,000 (2024 £156,000); a 7% increase, whilst small firms reported a median in 2025 of £145,000 (2024 £115,000); a 26% increase.

In our experience 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 firms category will include some of those firms along with small boutique firms that typically have a less common ownership and fee earner structure compared with typical law firms.

If we consider the results for growth in 2025 reflected above, this is a further illustration that firms have been focusing on fee earner productivity – even more so in smaller firms where there is often more exposure to interest income in recent years.

Section 4: People costs and expenses

4: People costs and expenses

4.1 Overview

The median result for employee costs in 2025 as a percentage of fees was 48% and the median year on year growth in employee costs was 12%.

The median result for people costs in 2025 as a percentage of fees was 64% (2024 65%).

77% of firms expect their headcount to increase in 2026. In the 2024 NatWest Bank survey 88% of firms expected their headcount to increase in 2025.

38% of firms reported a reduction in their PII costs during 2025.

4.2 Employee costs

Employee 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 48% and the upper quartile commenced at 56%.

In the legal sector more widely, law firms typically report a result of 45% to 55%. The results of this survey therefore compare favourably with these expectations.

Employee costs as a percentage of fees

	Lower quartile	Median	Upper quartile
London & South-East	43%	49%	56%
Midlands & East	45%	50%	56%
North & Scotland	37%	48%	55%
South West & Wales	43%	47%	56%
Small	42%	47%	57%
Large	42%	48%	55%
All firms	42%	48%	56%

At the median respondents reported a year-on-year increase in staff costs of 12% (with the upper quartile starting at 20%. Large firms reported median growth of 12% whilst small firms reported a higher median growth in staff costs of 15%).

We also note from the 2025 Survey that this cohort reported median staff costs in 2024 of 50% (small firms 52% and large firms 49%); all of these results implying a year-on-year improvement in productivity when we consider the 2025 results.

Section 4: People costs and expenses

Staff costs as percentage of last year

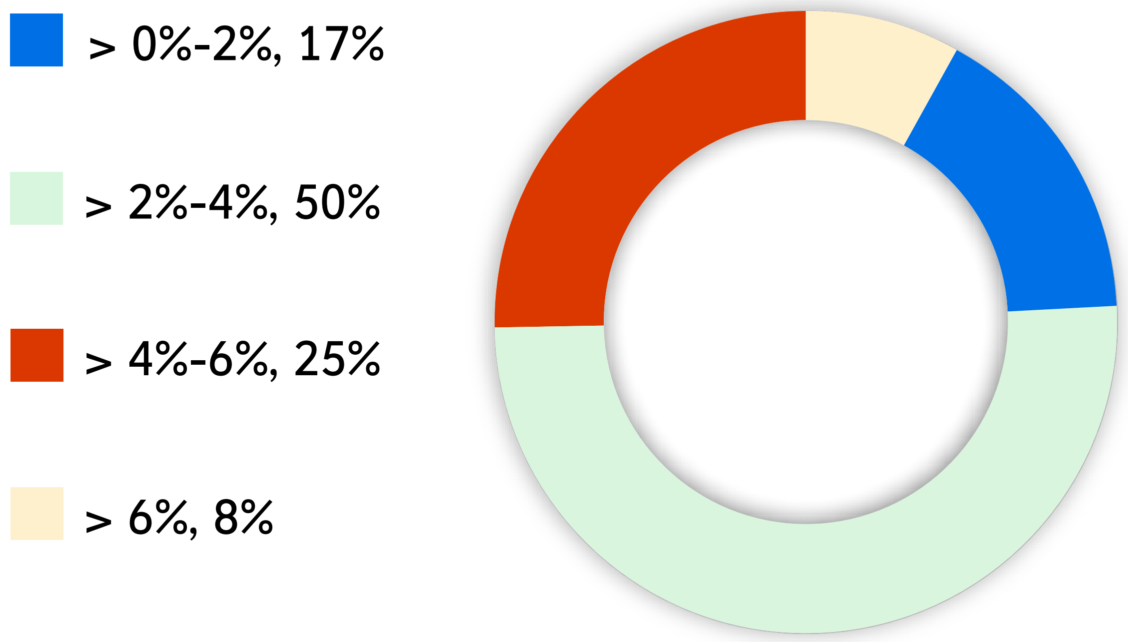
	Lower quartile	Median (2025)	Upper quartile
London & South-East	110%	116%	119%
Midlands & East	101%	110%	114%
North & Scotland	108%	111%	119%
South West & Wales	109%%	112%	123%
Small	108%	115%	127%
Large	107%	112%	118%
All firms	108%	112%	120%

Many law firms adjust their salaries in May to July each year and in recent years (particularly 2023) there have been some significant adjustments to salaries to enable firms to attract and retain talent.

Whilst firms see adjustments in salaries for changes in roles and market pressures, many firms have applied an underlying increase to base salaries. Firms have many different names for these adjustments but in this report, we will simply refer to them as background salary increases.

Our respondents reported that 50% of firms expected background salary increases of over 2% but less than 4%, with 25% expecting the growth to be between 4% and 6%.

Expected pay inflation during 2025



Only 8% expected growth in background salaries to exceed 6% whilst a sizeable 17% expected their growth in background salaries would be less than 2%.

Our experience has been in line with these responses. In spring and summer 2025, we found background pay rises were most often 3% or 4%, with a static position also being observed in some firms fairly common. Rises above 5% were rare.

With the changes to Employers' National Insurance taking effect in 2025 we also asked firms how they planned to manage this increase in costs for their firm in the future.

Section 4: People costs and expenses

Almost 60% of firms expected to recoup the increased tax burden by simply increasing their own rates and fees charged to clients.

	%
Increase fees/rates	57%
Suffer reduced margins	29%
Limit salary increases	10%
Reduced junior recruitment	2%
Outsourcing roles	1%
Redundancies	1%
	100%

Of the remaining firms nearly 30% expected to simply suffer the additional tax as a reduction to their profits/margins whilst 10% expected to recoup the tax burden through restrictions to salary increases.

This approach to managing the additional tax burden by respondents is supported by other responses in this survey e.g. the number of firms reporting salary rises of less than 2% (below economic inflation measures) and predictions for future turnover growth (in part at least driven by rate rises to recoup Employers' National Insurance rises).

If we consider firms' plans for headcount in the coming year, we see a slightly different picture, with many still looking to increase their teams, presumably to support further growth. There is evidence however that those aspirations for growth are lower than at this point in 2024.

Expected headcount change	2025	2024
5% to 10% Decrease	0%	1%
0% to 5% Decrease	2%	2%
No change	21%	9%
> 0% to 5% Increase	49%	47%
5% to 10% Increase	24%	28%
10% to 15% Increase	3%	9%
Over 15% Increase	1%	4%
	100%	100%

The change in plans from 2024 when firms responded to the same question is interesting. We can see in the 2025 data that significantly more firms (21%) anticipate no change to headcount numbers over the next year and for those that do expect an increase those expectations appear somewhat dampened compared to their responses in 2024.

Naturally it's difficult to draw a direct correlation here with the increased Employers' National Insurance but it is probable that this is a contributory factor for some firms.

Section 4: People costs and expenses

With evidence of a slightly more cautious approach to headcount growth in the coming year we asked respondents for their views of the recruitment and retention environment over the same period.

Recruitment challenge	2025	2024	2023
No change	64%	62%	57%
More difficult	22%	17%	22%
Easier	14%	21%	21%
	100%	100%	100%

The results suggest that over the three-year period there has been limited change in the pressures around recruitment and retention in firms.

There are aspects here which give a slight hope that recruitment and retention may become less turbulent than recent years since 2020. The evidence of slightly lower headcount growth plans, firms focusing on productivity to drive growth and the sentiments of law firm leaders expressed, all perhaps lead to this conclusion.

Our findings show that firms have reported lower levels of headcount growth in their 2025 results than originally planned. This could be due to several reasons. Shortage of supply of fee earners in the market, improved productivity resulting in reduced need, as well as nervousness about the economy and the impact from tax rises all appear to be playing their part.

For an average law firm where is it "business as usual" the indicators are that the next year is likely to mean limited changes to headcount, modest salary rises and a continued drive to improve productivity in an effort to reverse some of the reduced margins in recent years and to manage increased employer tax burdens.

With the Employers' National Insurance increases representing a substantial increase in tax costs for firms, we discussed with participants their plans to manage this issue.

Alison Lobb from Morecrofts Solicitors explains:

"The annual cost to us from the combined increase in Employers' National Insurance along with minimum wage increases and knock on implications is roughly 2% of our turnover. With over a third of our income coming from fixed rate public funded work we have limited ability to pass on this cost so in the main we will suffer reduced margins in our business.

"Ultimately this means a block on business growth – it restricts our ability to invest in our business for the future and also to invest in people. We will have to be far more conscious of everything we spend money on."

Section 4: People costs and expenses

Daniel Steptoe from Hedges Law adds: “Without an increase in rates we would simply suffer a reduction in margins which is not practical for our business. Our primary approach has therefore been a rate increase of 10% where possible.”

Mike Leeman from BLJ Solicitors comments: “We are increasing our rates, so consumer inflation is the main outcome here although where possible we are trying to use AI techniques to keep costs of delivery down.”

In a slightly different approach Joanna Kingston-Davies from Making A Positive Difference Group (MAPD Group) explains: “You have to anticipate challenges like this when running a business. The important thing is to focus on what you can control and for us, that has meant focusing on driving improvements to our productivity and ensuring all our services are optimally priced.”

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 and include these to arrive at total people costs (calculated as a percentage of fees as set out in the table to the right).

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

People costs as a percentage of fees

	Lower quartile	Median	Upper quartile	Median 2024
London & South-East	59%	64%	67%	63%
Midlands & East	59%	65%	67%	66%
North & Scotland	58%	63%	70%	66%
South West & Wales	58%	63%	67%	64%
Small	60%	64%	72%	66%
Large	57%	63%	68%	65%
All firms 2025	58%	64%	68%	65%
All firms 2024	59%	65%	70%	

(* - 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 64% (2024 65%). Large firms reported a median of 63% (2024 65%) and small firms reported a median of 64% (2024 66%).

So, all measures here report a year-on-year reduction (improvement) in people costs as a percentage of earned income – so earned income growth exceeded increases in people costs (productive cost) between the two years.

This again reflects the efforts and focus of many law firms over the last year around driving productivity improvements and diversifying away from exposure to interest income.

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.

We have also seen the improvement in core margins (reduction in people costs) in 2025 which is reported in the 2025 NatWest Bank survey.

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 and results of 56% to 59% were commonly reported.

This position was eroded for most firms during 2022 and 2023 during which most firms returned to their pre-pandemic people cost 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 resulted in firms losing typically 1% to 2% in their core profit margin in 2024. We can of course see that some of this erosion of core profitability has been reversed in 2025 and for many law firms continued focus on this area remains a key area in 2026.

Section 4: People costs and expenses

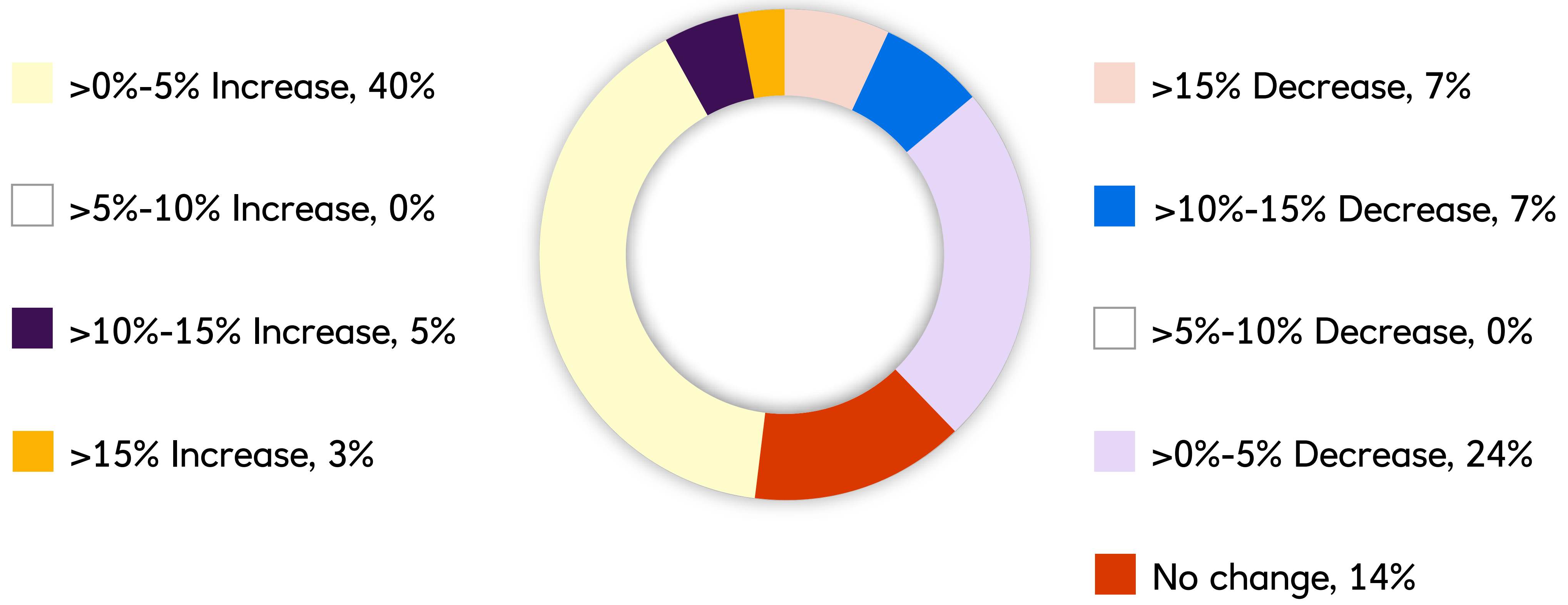
4.4 Professional indemnity insurance

The Professional Indemnity Insurance (PII) market has benefited from a second successive soft renewal season. Despite most firms reporting growth in fee income over this period 52% of firms reported that their PII premiums had either remained static or decreased compared to 2024 levels.

Of those which experienced increases in 2025 we can see that 40% reported growth of up to 5% whilst only 8% of respondents reported PII growth exceeding 10%.

It is important of course to benchmark these statistics with median income growth in firms in recent years which we considered earlier in this report as being a median growth level of 12% in 2025 (10% in 2024). In this context we can see that there has been a reduction in the PII burden for many firms in 2025.

PII premium increase %



The outlook for the 2025 renewal from brokers appears similarly optimistic with a healthy number of insurers in the market.

In 2025 we have continued to see increasing instances of premium reductions and instances of 18-month renewal arrangements put in place.

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 2025 was £340,000 broken down as £204,000 for small firms and £372,000 for large firms.
- The median increase in PEP in 2025 results compared with 2024 was 23% with large firms reporting a median PEP increase of 23% and small firms reporting an 8% increase.
- The median net profit margin in the survey was 27%; with half of the results falling between 20% and 37%.
- Gearing (fee earners per equity owner) was reported as a median result of 8.2; 5.3 for small firms and 8.7 for large firms.
- The median ratio of support staff per fee earner for the survey was 1.0 with the upper quartile commencing at 1.62 and the lower quartile ending at 0.57.

5.2 Profits per equity partner

A common measure for law firm profitability is profits per equity partner (PEP). The table to the right reports the results for participant firms from their 2025 financial accounts.

Profit per equity partner (£'000)

	Lower quartile	Median	Upper quartile	Median 2024
London & South-East	234	297	417	284
Midlands & East	179	255	413	261
North & Scotland	163	283	394	206
South West & Wales	318	407	476	321
Small	90	204	239	162
Large	277	372	467	284
All firms 2025	213	340	447	274
All firms 2024	186	274	348	

Median PEP reported in the survey for 2025 was £340,000; reflecting significant growth of 23% compared with the 2024 median of £274,000.

Small firms reported a median of £204,000; being growth of 26% on their 2024 median of £162,000 and large firms reported a median of £372,000 reflecting growth of 31% on the 2024 median of £284,000.

Overall, 25% of respondents report PEP below £213,000 and 25% of firms reported PEP exceeding £447,000.

Section 5: Profitability and people structure

PEP as a percentage of last year

Whilst the table above considers median PEP for the respondent firms in both 2025 and 2024, simply comparing how much the median result has risen in percentage terms is not a reliable measure of how much PEP in firms has been rising.

Instead, in the table below we consider, for each firm that responded, their PEP in 2025 as a percentage of their PEP in 2024.

	Lower quartile	Median	Upper quartile
London & South-East	89%	118%	147%
Midlands & East	91%	123%	136%
North & Scotland	68%	95%	142%
South West & Wales	107%	129%	149%
Small	53%	108%	169%
Large	101%	123%	141%
All firms	91%	123%	145%

We can see from this that across all survey members the median level of growth in PEP in 2025 was 23%.

Growth was the strongest in large firms where half of the firms reported growth of 23% or more. Conversely in small firms half of them reported growth of over 8%.

However, it is noticeable that there was much more volatility in the results for small firms. 25% of such firms report growth in PEP of 69% or more. At the same time 25% of small firms reported a decline in PEP of at least 47%.

Reflecting on the overall results above we can see quite a diverse range of performance in 2025 amongst firms:

- 25% of the firms reported growth in PEP of 45% or more
- 25% of the firms reported a decline in PEP of 9% of more
- 50% of the firms reported results in the range of (9)% to 45%

There have however clearly been some strong performance results amongst firms, particularly those that have been able to achieve stronger than average top line growth.

Joining up some of the results in this report we can see across the sector that there has been healthy growth in top line income levels, the core margins (people costs) have improved in many firms and there is still a high level of interest income being earned. The factors combined with more stable overhead growth have driven strong performance at a PEP level for survey respondents in 2025.

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. Whilst 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 which 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	Upper quartile
London & South-East	22%	30%	36%
Midlands & East	20%	27%	33%
North & Scotland	14%	24%	36%
South West & Wales	25%	30%	38%
Small	16%	26%	36%
Large	21%	27%	37%
All firms	20%	27%	37%

The median for all firms in the survey was 27% with very little difference being seen between the median for small and large firms.

There are more notable differences at the boundaries for the lower quartile where 25% of small firms reported net margins below 16% whereas for large firms 25% of those firms had margins below 21%.

With a general sense that law firms have seen improved PEP in 2025 because of productivity improvements we asked some firms about their experience of productivity issues in recent years:

Joanna Kingston-Davies at MAPD Group explains: "We have strong productivity frameworks which monitor chargeable time, but we deliver this in a way to encourage people for doing well and help those who are struggling in a supportive way.

"We set a minimum number of chargeable hours per day, or minimum number of transactions in a period, where more relevant. Charging is largely linked to billable hours, fixed fees, and statutory or court-set rates. We are seeing some move toward value-based pricing but there are challenges with applying that approach."

"We are seeing some move toward value-based pricing but there are challenges with applying that approach."

Section 5: Profitability and people structure

Mike Leeman from BLJ Solicitors considers:

"We have not seen any significant shift in productivity in the last few years and during this time we have been focusing on implementing AI-based solutions to help improve productivity.

"Nearly 40% of our income is public-funded work, the remaining is largely conveyancing work with some private clients. Most of our fees are therefore fixed, albeit in the property market we focus on higher value work.

"For us, therefore, costing is crucial, and we have a strong financial support team who help us assess our breakeven points on activity levels and this in turn helps us make decisions in the business."

Daniel Steptoe at Hedges Law adds:

"We are looking for 5 hours per day of productive time from people. We do see significant variations on outputs on a monthly basis and by team. We regularly measure capacity usage, and we set chargeable hours targets. We use the capacity information as a method for making investment decisions in new people – effectively a business case argument for needed the resources.

"In terms of billing clients, much of the time we are operating from a billable hour basis although naturally we offer some work on a fixed fee or semi fixed (range given) basis."

"We have a strong financial support team who help us assess our breakeven points on activity levels and this in turn helps us make decisions in the business."

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 then 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 8.2 fee earners per equity partner with large firms reporting a median of 8.7 and small firms reporting a median of 5.3.

Gearing (total fee earners/equity partners)

	Lower quartile	Median	Upper quartile	Median 2024
London & South-East	4.5	6.5	8.0	6.0
Midlands & East	5.5	6.9	14.0	8.5
North & Scotland	5.8	8.8	17.0	9.5
South West & Wales	6.7	11.0	13.7	9.6
Small	4.3	5.3	11.1	6.3
Large	6.4	8.7	13.4	8.6
All firms 2025	5.1	8.2	13.0	8.3
All firms 2024	5.9	8.3	11.5	

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

If we consider the small firms, we can see that there was a more notable decline in the year where the median reduced from 6.3 to 5.3. Conversely, in large firms the position was broadly static at 8.7 compared with 8.6 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 (so not in the people costs percentage or net profit margin) but in the gearing.

Specifically, as law firms grow, their gross profit margins 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 at a slower pace 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 by default include central support functions but also support people working in teams alongside fee earners e.g., secretaries.

Support staff per fee earner

	Lower quartile	Median	Upper quartile	Median 2024
London & South-East	0.60	1.28	1.94	1.05
Midlands & East	0.62	1.25	1.65	0.99
North & Scotland	0.57	1.00	1.46	0.97
South West & Wales	0.58	0.70	1.12	0.74
Small	0.45	1.00	1.69	0.83
Large	0.59	0.95	1.59	0.93
All firms 2025	0.57	1.00	1.62	0.89
All firms 2024	0.63	0.89	1.26	

The survey reports a median result of 1.0 support staff per fee earner, with small firms reporting a median of 1.0 and large firms reporting a median of 0.95. The results show that for the firms participating in the 2025 survey there was little change in their support staff/fee earner mix between 2024 and 2025.

These results are a little higher than we would expect, with common results reported in the range of 0.7 to 0.8 and 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, we note that the median support staff per fee earner ratio in the 2024 NatWest Bank survey was 0.8 compared with 1.0 in 2025.

There is no “correct” answer to this statistic. One law firm may, for example, have a high number of support staff which 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 and 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 97 days for the same respondent firms in the prior year.
- Median debtor days in the survey was 36 days compared with 38 days for the same respondent firms in the prior year.
- Median lock up days in the survey was 128 days compared with 133 days for the same respondent firms in the prior year.

6.2 About lock up

Whilst for most law firms the medium-term financial objective 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 this represents the total amount of investment a law firm has in work undertaken and 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

	Lower quartile	Median	Upper quartile	Median 2024
London & South-East	43	70	108	83
Midlands & East	51	92	140	108
North & Scotland	49	90	119	100
South West & Wales	68	96	144	81
Small	41	91	118	114
Large	54	93	138	86
All firms 2025	52	92	128	97
All firms 2024	56	97	144	

Survey firms reported a median of 92 days of turnover (fees) invested in WIP reflecting a five-day reduction for the same firms in 2024 where the median was 97 days.

The median result for small firms of 91 days reflects a material reduction from 114 days for this group in the prior year, but for large firms the shift is adverse with an increase from 86 days in the prior year to 93 days in the 2025 survey.

6.4 Debtor days

	Lower quartile	Median	Upper quartile	Median 2024
London & South-East	26	38	65	50
Midlands & East	23	36	48	29
North & Scotland	18	25	46	30
South West & Wales	29	42	65	48
Small	15	32	48	33
Large	25	38	58	40
All firms 2025	24	36	55	38
All firms 2024	25	38	57	

In relation to debtors, survey firms reported a median of 36 days of turnover (fees) invested reflecting a decrease from 38 days for the same firms in the prior year.

The median result for small firms of 32 days compares with 33 for that group in the prior year; for large firms there was also a decrease to 38 days in the 2025 survey compared with 40 in the 2024 survey.

Section 6: Lock up

6.5 Lock up days

	Lower quartile	Median	Upper quartile	Median 2024
London & South-East	92	110	145	120
Midlands & East	91	129	169	143
North & Scotland	79	119	165	141
South West & Wales	113	137	188	136
Small	89	118	135	147
Large	103	130	176	133
All firms 2025	96	128	170	133
All firms 2024	101	133	178	

Firms reported a median of 128 days of turnover (fees) invested in lock up reflecting a notable decrease from 133 days for the same firms in the prior year.

The median result for small firms reflects the most notable change reducing 29 days to 118 days compared with 147 days for those firms in the prior year.

The position is less marked for larger firms however there was still a reduction from 133 days to 130 days at the median for those firms.

Firms have seen significant cash flow pressures in 2025 from basis period reforms which have accelerated income tax payments in many cases. The above data, and our experience of law firms, suggests that firms have needed to focus on lock up as a way to help fund the cash flow implication of this.

Section 7: Finance, IT and management

7: Finance, IT and management

7.1 IT management

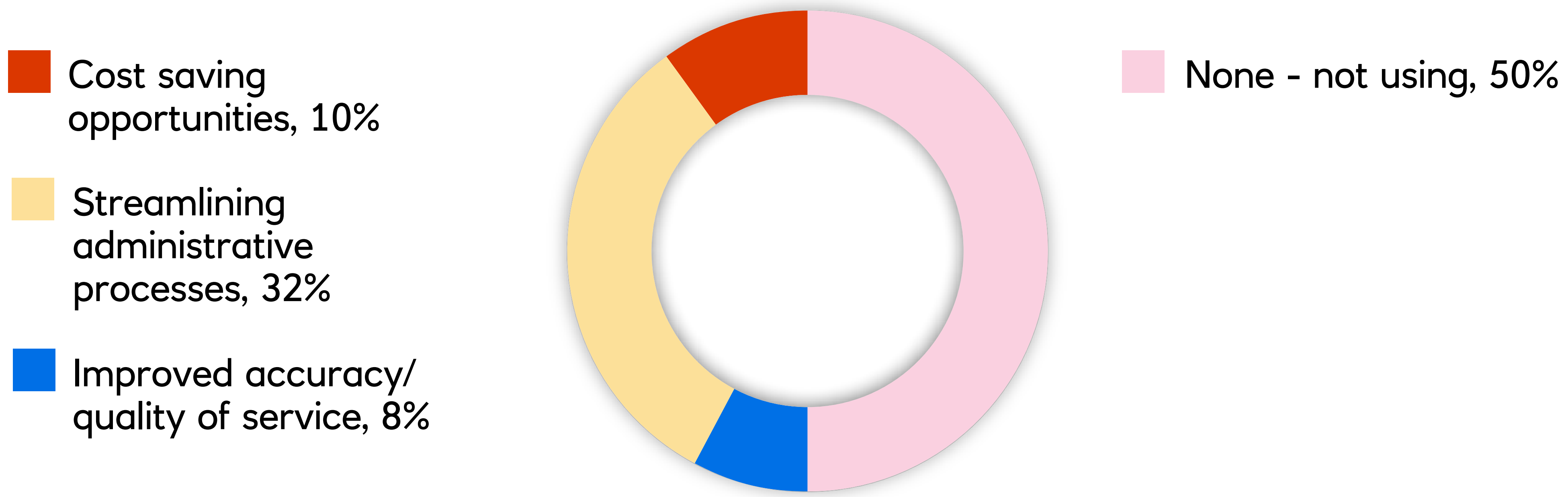
Over the last 25 years of maintaining data, we have noted a rising proportion of law firms' income is often invested in IT, and more importantly we have noticed a positive correlation between those firms investing above average levels in IT and those experiencing higher growth in PEP over the medium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

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

Apart from the usual investments law firms make in areas such as their Practice Management Systems and cyber security, we have focused this year on asking firms about their investment in AI.

In the 2024 survey 15% of firms reported AI as the biggest investment priority for them in terms of IT. We asked respondents in 2025 where their investment in AI was making the biggest impact in their business.

Where is your investment in AI having the most impact?



Of firms responding, 50% still reported that they were not using AI in any form in their firms. For those using AI, the majority (32% of the total respondents), were seeing the biggest impact on administration processes.

Section 7: Finance, IT and management

At this point it is also perhaps worth reflecting on the NatWest Bank 2024 findings where we asked firms to report on 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%

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 or 1	2	3	4	5+
2025 % of firms responding	75%	4%	1%	1%	19%
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 66% (2024 51%) of firms responded reporting no attacks and 9% (2024 17%) reported only receiving one attack during the last year. Firms have been investing increasing amounts in cyber security in recent years and perhaps these results reflect the return on this investment.

Section 7: Finance, IT and management

There has been significant investment by law firms in AI over that last year and it has perhaps been surprising how quickly this has happened and how widespread it has become across the sector. We asked some survey respondents to comment on their experience and plans for AI and how they are recouping their investment costs.

Daniel Steptoe at Hedges Law explains: "We have made some significant investments in AI. We use AI to assist fee earners in transcription and dictation work. AI is also used to automatically draft timesheet for fee earners.

"In client work we use AI in title deed and search reports which transforms a process that used to take several hours into a 2-minute exercise which can be reviewed by a paralegal. Our phone system also uses AI to record calls and help us set up, produce or maintain a client file.

"At this point we have not ventured into generative AI; we currently we do not see the benefit of this unless there is a fixed fee involved. The next stage in our AI journey will be giving legal advice, but we have not started this yet."

"The next stage in our AI journey will be giving legal advice, but we have not started this yet."

Mike Leeman from BLJ Solicitors considers:

"Our onboarding is now largely AI automated – it takes one minute per matter rather than the 25 minutes it took a few years ago. We now use AI to record and transcribe phone calls and to take meeting notes. All of this increases the time available for fee earners to progress matters and focus on client service. We also use AI to evaluate a file, find information, and propose a strategy on certain cases.

"We see a challenge for firms is securing the productivity improvements from AI. We can see the time savings but unless this results in fee earner time being used productively elsewhere or other people costs reduced there is no overall benefit. This may take time for law firms to access as it usually involves decisions about people."

"In client work we use AI in title deed and search reports which transforms a process that used to take several hours into a 2-minute exercise."

Section 7: Finance, IT and management

7.2 Debt and equity

We have commented on the investment plans that some law firms have both in headcount growth 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 then a combination of choice and availability of finance.

For participating firms, the table to 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 current account and tax reserves in an LLP).

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

	Lower quartile	Median	Upper quartile
London & South-East	0%	11%	29%
Midlands & East	7%	14%	32%
North & Scotland	5%	17%	49%
South West & Wales	4%	15%	31%
Small	0%	7%	32%
Large	4%	15%	31%
All firms	2%	14%	31%

Section 7: Finance, IT and management

The median result for all firms is that they borrow 14p (2024 NatWest Bank survey 17p) for every £1 of Members' funds although we note that borrowing levels in small firms at 7p (2024 NatWest Bank 23p) is notably lower than in large firms at 15p (2024 16p).

We find around 25% of firms are debt averse (borrowing less than 2p per £1 of Members' funds) and for those that do have a debt appetite 25% borrow between 14p and 31p 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 borrow 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 and is affected by many factors including the personal views and financial positions of owners, the nature of the work the firm undertakes, future succession planning and partner and fee earner behaviour in the business.

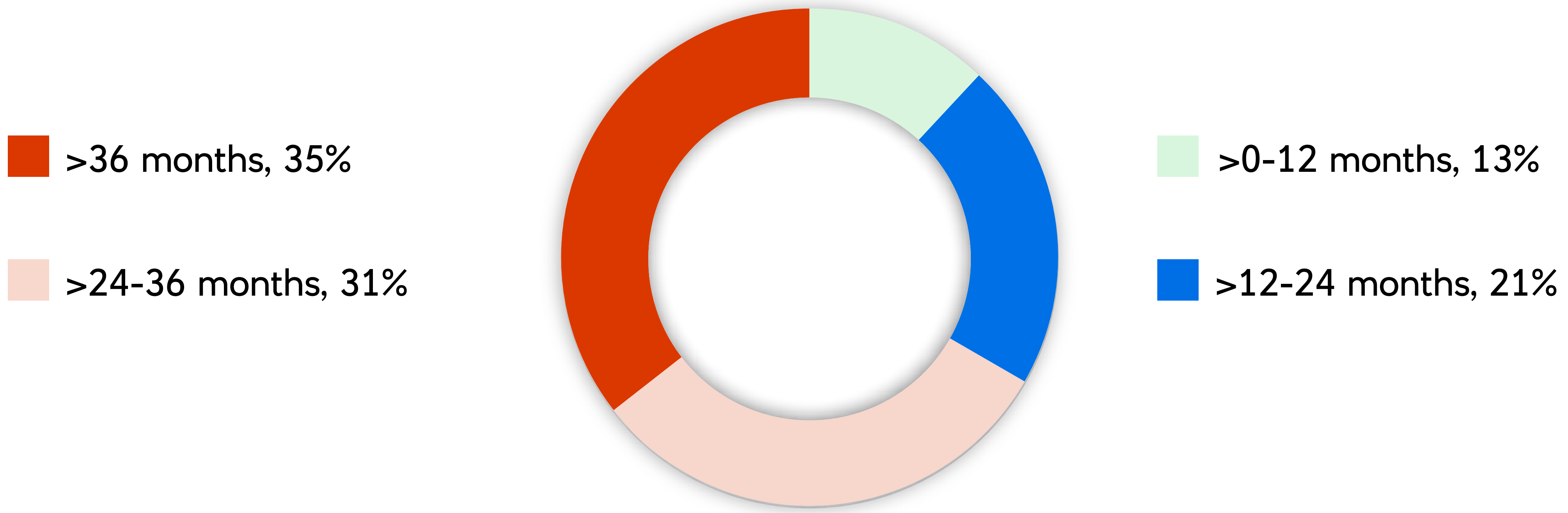
An overall closing observation in 2025 however is that reliance on debt within firms has reduced compared with the 2024 position, and the survey data supports this.

7.3 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 (87%) are looking over 12 months ahead from a planning perspective and, significantly, 35% of firms are looking over three years ahead in their planning processes.

How far in the future do you plan for your business?



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 table below that with a result of 29% of responding firms, the issue of attracting and retaining talent remains the biggest perceived challenge in the future for firms.

Looking at the trend in views over the last few years however, we can see that whilst this remains the biggest challenge for firms, its prevalence has declined and concern around productivity and margins have quickly become considerable issues for firms.

	2025	2024	2023
Attracting and retaining talent	29%	44%	46%
Improving productivity	21%	15%	6%
Pressure on margins	18%	16%	–
Cash flow	14%	8%	10%
Technology	7%	1%	–
Regulatory challenges	4%	1%	–
Economic outlook	3%	9%	21%
Inflation/Taxation	–	–	10%
PII costs	–	–	2%
Succession/exit strategy	3%	5%	4%
Marketing	–	–	1%
Funding / Finance	1%	1%	–
	100%	100%	100%

These patterns are wholly consistent with our own findings and of course many other statistics in this report point towards the prevalence that law firms have been placing on margins and productivity levels in their firms. Conscious that many firms have been focusing on this area, we asked respondents what their experience had been in terms of average chargeable hours during the 2025 financial year:

Chargeable hours	2025
Increasing	47%
Static	36%
Declining	15%
Don't time record	2%

The responses suggest a degree of success in securing more recorded time and this appears to partially reverse the trends in the sector over the last few years where recorded time for many firms has been declining. Of course, this does not give us a measure of how much more time is ultimately recovered.

For many firms any increases in chargeable hours are often still very modest with many struggling to get much above 4 chargeable hours per day on average from fee earners.

Section 8: Sector outlook and topical issues

8.2 Interest income and client funds

Last year we asked firms for their opinions concerning the SRA proposals to prevent firms holding client money in the future and potentially to prevent law firms retaining any interest from client funds.

Overwhelmingly, 59% of respondents expressed a view that if law firms did not hold client funds, this would result in a reduction in the quality of client experience of legal services. 96% of the respondents did not support the SRA proposals.

The financial results of many law firms in 2023 and 2024 reported an increasing dependence on interest income. Whilst this financial position was no different to that for many law firms pre 2008, it did mark a notable shift in the profit generating model of many law firms.

Interest income - % of fee income

	Lower quartile	Median	Upper quartile
London & South-East	3.0%	5.9%	11.4%
Midlands & East	3.8%	6.5%	8.8%
North & Scotland	1.3%	3.2%	7.7%
South West & Wales	3.4%	5.7%	9.2%
Small	1.4%	3.1%	6.6%
Large	3.3%	5.9%	10.1%
All firms	2.7%	5.6%	9.5%

The table to the left illustrates that, at the median, interest income earned represented 5.6% of law firms' turnover; and for 25% of participants the figure was 9.5% or higher.

Perhaps a more pertinent measure however is to consider how much of PEP represented interest income. The measure here effectively takes interest income earned (after payments to clients) and divides this figure between the Equity Partners in a firm. This figure is then considered as a percentage of total PEP.

Interest income - % of PEP

	Lower quartile	Median	Upper quartile
London & South-East	10%	24%	35%
Midlands & East	17%	27%	35%
North & Scotland	6%	15%	37%
South West & Wales	11%	18%	30%
Small	6%	21%	32%
Large	11%	23%	35%
All firms	9%	21%	35%

Section 8: Sector outlook and topical issues

This tells us for the median firm in the survey 21% of their PEP was earned from interest income. With 25% of the survey reporting that at least 35% of their PEP was earned from interest income.

Our experience is in line with these results. In fact, the results we have seen in the sector in this year suggest that the position in 2025 is less acute than in 2024. This position is arising from a combination of falling interest base rates and firms paying more interest in lieu to clients in accordance with the Solicitors Accounts Rules.

Reflecting on 2024 we commonly saw results where 30% to 35% of PEP was interest related. It was also not unusual to see firms where 50% of PEP was interest income and in fact in some firms (we would estimate up to 5% of law firms), once profits were set aside for fixed share members, 100% of the remaining profit and PEP was interest income.

Returning to the 2025 survey results where the median is now 21%, we can therefore see this position has stabilised compared with 2024.

It is however still an important issue for firms to consider – remembering of course in 2022 before the base rate rises, less than 1% of PEP would have been related to interest income.

We must of course be careful in reporting these types of financial performance statistics and remind ourselves that clients do, in accordance with the SRA Accounts Rules, receive the interest they would have earned if they had held client funds themselves. We should also be mindful that inflation in legal service fees/rates over the last 5 years have usually lagged behind general inflation.

Based on the current profit model in law firms, which like the position pre 2008, is supported by interest income, it is important to consider that if law firms no longer retained excess interest then this would lead to both significant inflation in their fees and most probably the demise of notable volumes of law firms with the associated pressures and challenges that would bring to the SRA intervention team.

The SRA delivered a significant consultation during the year which largely focused on improving consumer experience and fairness. The consultation largely focused on whether law firms should hold client funds, whether they should retain any client interest and the management of residual client balances.

With a degree of instability in the regulatory arena for law firms, we discussed with some participants what their outlook was for the future on regulatory matters and the potential impact for their firms.

Alison Lobb from Morecrofts Solicitors explains:

"Interest income has been a substantial part of our PEP for the last few years, and it has enabled us to keep costs down to clients but as a significant legal aid provider it has given us income to fund our operations that deliver the legal aid work. Without this interest income and fixed legal aid rates the public funded work would not be viable.

"Recent Ministry of Justice proposals which point to the redirection of client interest to fund legal aid misses the point that these monies are in fact already used by firms for the purpose they set out. Redirecting them via a levy is likely to mean the funding will be absorbed in bureaucracy."

"Without this interest income and fixed legal aid rates the public funded work would not be viable."

Section 8: Sector outlook and topical issues

Joanna Kingston-Davies at MAPD Group discusses: “It is a complex regulatory point in time. Axiom Ince has unfairly tarnished the whole of the legal sector. We have seen a system that is too reactionary, against a backdrop of a questionable outcomes-focused regulatory approach. The existing framework is not working.

“Naturally, we are big supporters of the benefits of external investment in the legal sector, but we can see equally that the regulators need to develop a better, proportionate, and less reactionary method to manage it.

“Holding client money, from a practical and financial viewpoint, is fundamental for smaller firms (say less than £5m turnover). There is no viable alternative practically, and the income stream from this interest is needed for financial survival in many cases.”

In considering the proposals for law firms not holding client money or retaining any profit from client funds Mike Leeman of BLJ Solicitors comments: “Whilst the consultation has been alarming and disruptive we do not expect anything to happen which is too dramatic here in the short-term. There is little political will for change currently which is likely to mean no immediate changes.

“Law firms managed with no client interest profits for 15 years up until 2022 so we do not see this as a big issue; however not being allowed to hold client money would make it difficult to run many law firms and damage client experience.”

Daniel Steptoe at Hedges Law: “Most firms are relying on interest income to keep fee inflation down for clients (or maintain/boost profits). Interest profits are not only insulating clients from costs, but they allow firms to invest in their facilities, IT and improve operational capacity. Third Party Managed accounts as an alternative would be horrific and present poor control and visibility during legal matters.”

8.3 External investment

In 2024 we asked survey respondents about their appetite for external investment into their firms and 71% of respondents reported that it was unlikely their firms would participate in such transactions.

At the same time, 26% of respondents suggested it was possible that such a transaction may take place in their firms and 38% of firms reported that they had been recently approached by potential investors.

Looking at the activity in the market in 2025 we have seen a rising number of transactions – we might include in this mix private equity, public entity investment but also consultancy models and Employee Ownership Trusts.

We have seen an increasing number of private equity transactions with law firms in the last year, along with considerable growth in the volume of actual transactions and pipeline.

Irrespective of opinions on the longevity and potential success of these models it is apparent that the level of activity is impacting law firms in several ways including:

- Pushing firms to look at equity options (due to peer pressure)
- Pushing firms to look at other development options – often mergers and acquisitions of their own
- Increasing fears for the main market over the ability to attract and retain successors
- Increasing fears in the main market over the ability to compete on investment needs perceived in areas such as IT/AI and the ability of partners to fund those investment needs

Section 8: Sector outlook and topical issues

The pressures here are created not only from private equity investment into the sector but also from the consultancy models which are often taking people resources away from the main legal market.

There is evidence that some people attracted to consultancy models are perhaps those who would have historically pursued the sole practitioner route (which is certainly radically declining) however additionally there is evidence that people who would have historically remained in a traditional law firm model are being attracted to this approach to working in the legal sector.

With such high volumes of activity and discussion on equity investment in the legal market we asked survey participants what impact this landscape is having on their law firms.

Daniel Steptoe from Hedges Law considers: “Whilst we operate as an EOT we do see some challenge from other new law firm models. We do sometimes lose some people to private equity (PE) funded firms and we usually find that it arises from aspects such as working arrangements (hybrid or offices physically closer) which is a factor that attracts people to those firms rather than higher salaries. Whether these arrangements work well for clients or are sustainable is less easy to conclude at this point.

“The PE funded models have bigger budgets generally and can offer things to people which can be hard for mainstream law firms to compete with.”

Mike Leeman from BLJ Solicitors comments: “We are not really seeing any impact from this. We of course hear about the firms who have been bought out in various ways, but we are not seeing any impact at a client or fee earner level. In the short term we do not see any substantial issue for us and in our view, it will take a few years for this phase to pass. Our experience is that many investments we see are driven by succession challenges for firms.”

Alison Lobb from Morecrofts Solicitors adds: “We are focused on remaining an independent firm and our strategy in the current legal landscape remains one of organic growth with strategic firm (or team) bolt-ons. We are not seeing any significant impact to our clients or people from the new law firm models.”

“Our experience is that many investments we see are driven by succession challenges for firms.”

Section 8: Sector outlook and topical issues

8.4 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 ranging from attracting and retaining clients, employees but also overall firm brand and image in the legal sector.

We asked participant firms for their views on the relative importance that they placed on diversity and inclusion. The table below shows that most firms 52% (2024 NatWest Bank survey 48%) reported that it was of "medium" importance to them (giving a score of 3 out of 5) whilst only 14% of firms cited this as a high priority (giving a score of 1 out of 5).

	Priority ranking				
% of firms	1 (High)	2	3	4	5 (Low)
2025	**14%**	**26%**	**52%**	**3%**	**5%**
2024	12%	24%	48%	5%	0%
2023	19%	21%	52%	8%	0%

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

	% of female fee earners				
% of firms	<30%	30-40%	40-50%	50-60%	Over 60%
2025	**4%**	**2%**	**8%**	**20%**	**66%**
2024	2%	6%	9%	28%	55%
2023	0%	5%	7%	26%	62%

	% of female equity partners						
% of firms	0-10%	10-20%	20-30%	30-40%	40-50%	50-60%	Over 60%
2025	**9%**	**10%**	**21%**	**21%**	**13%**	**5%**	**21%**
2024	11%	17%	16%	22%	16%	5%	13%
2023	15%	23%	-	19%	13%	6%	24%

At a fee earner level, 86% (2024 NatWest Bank survey 83%) of respondent firms reported that females account for over 50% of their fee earners, with 66% (2024 NatWest Bank survey 55%) of firms reported females account for over 60% of their fee earners.

The position at equity partner level remains different and here only 26% (2024 NatWest Bank survey 18%) of respondent firms reported that females account for over 50% of their equity partners with 21% (2024 NatWest Bank survey 13%) of firms reporting that females account for over 60% of their equity partners.

Section 8: Sector outlook and topical issues

8.5 Environmental, social and governance (ESG)

8.5.1 Focus on ESG

Like diversity and inclusion, ESG is a prominent issue which affects many of the core decisions law firms make. We asked our participant firms their opinion on relative importance that they placed on ESG.

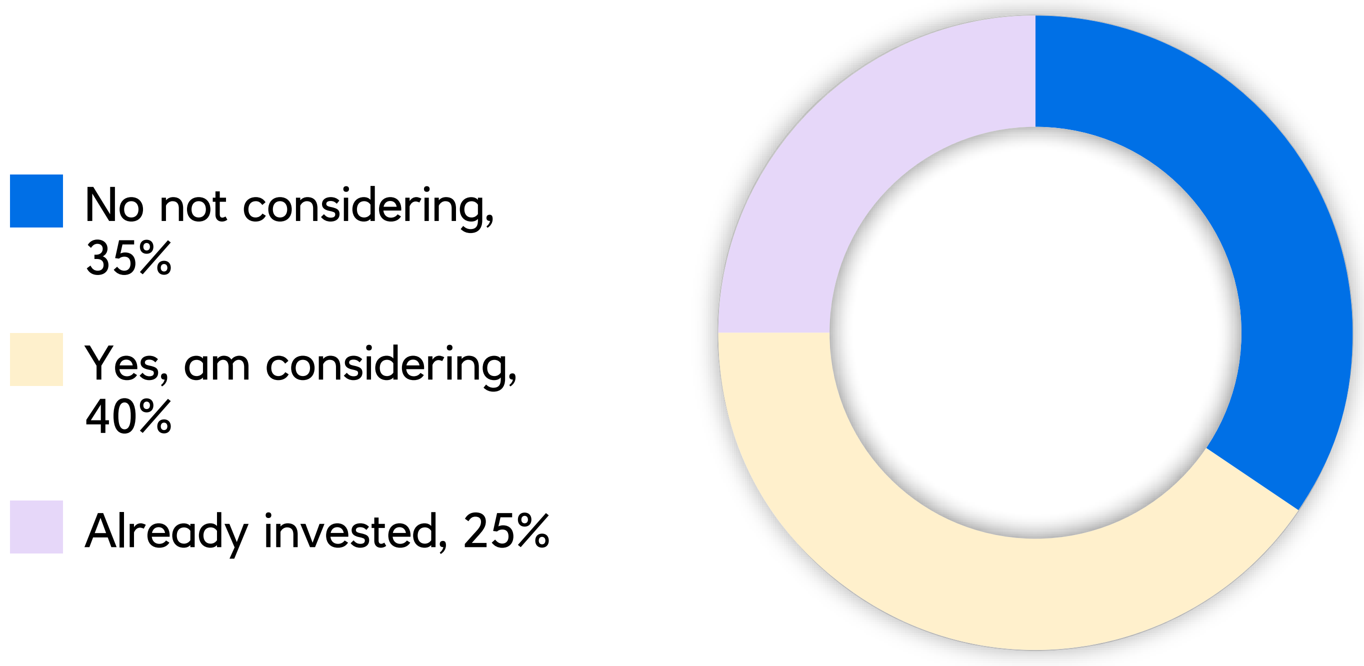
The table below shows most firms (43%) reported that it was of "medium" importance to them (giving a score of 3 out of 5) whilst only 6% of firms cited this as a high priority (giving a score of 1 out of 5).

Priority ranking	1 (High)	2	3	4	5 (Low)
2025 - % of firms	**6%**	**31%**	**43%**	**13%**	**7%**
2024 - % of firms	7%	27%	48%	15%	3%

8.5.2 Energy cost management

We enquired with firms about the extent to which they have considered green energy solutions.

Have you already or are you considering investing in green energy solutions?



We found that 25% of respondents had invested in renewable energy solutions to safeguard against rising costs or for environmental reasons. This compared with 13% in the 2024 NatWest Bank survey.

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

Section 9: Celebrating success

9: Celebrating success

We asked some managing partners to tell us about some of their proudest achievements over the last year in their own firms and what they enjoyed most about working in their firms.

Daniel Steptoe from Hedges Law explains: "For us, the biggest reward is seeing everyone in our firm work together. By doing this we are achieving so much more for our clients, for our people and for the business longer term. We believe this is the EOT (Employee Ownership Trust) effect of our trading structure shining through – our owners 'Hedgeholders' as we call them are the real drivers in our business and make it a great environment to operate in.

"For me personally I enjoy working with Hedges because I am in a business where I can draw on my own professional sector experience and along with the other Hedgeholders make a real difference to our business moving forwards."

"For us, the biggest reward is seeing everyone in our firm work together."

Daniel Steptoe
Hedges Law

Mike Leeman considers the success of BLJ Solicitors: "We are proud of our continued growth levels. We have seen an almost 30% increase in new lawyers in our firm when we operate in a demanding market for talent. We have seen sustained fee income growth in 2025 of 20% which follows growth of over 20% in 2024.

"This growth creates a great feeling in the business and despite the challenges of managing that growth we have been successful at winning a number of awards during the last year including Conveyancing Firm of the Year (North) at the British Conveyancing Awards.

"Working with our people and seeing the high satisfaction ratings from our clients is a very pleasing aspect about working in our firm. We invest in and support our people; this is rewarded with a great working atmosphere and happy clients."

"We are proud of our continued growth levels."

Mike Leeman
BLJ Solicitors

Section 9: Celebrating success

Joanna Kingston-Davies from MAPD Group explains:

"MAPD is a people-first business. Indeed, it is in our name, MAPD stands for Making a Positive Difference, and it drives everything we do. And that is what I most enjoy, being able to make a positive difference every day for our clients, people and community.

"Every MAPD board meeting celebrates examples of where, as a business, we have made a recent positive difference."

"MAPD is a people-first business."

Joanna Kingston-Davies
MAPD Group

Alison Lobb from Morecrofts Solicitors reflects and explains: "The continued growth of the business remains one of our most pleasing achievements along with our strong retention record. This year to date we have retained all of our trainees at qualification and when we do rarely lose a member of team, this is almost always because they are taking a different career path or have a change in life circumstances.

"The lovely culture of our firm is what motivates me at the beginning of the week; we have a fantastic team that provides great service to our clients."

"The lovely culture of our firm is what motivates me at the beginning of the week."

Alison Lobb
Morecrofts Solicitors

Section 10: Top tips for law firms in 2026

10: Top tips for law firms in 2026

1. Time capture and scoping

Still on the list in 2025, productivity remains a pressing issue for law firms and one of their biggest challenges.

Some firms have reported positive improvement in 2025 but there is a long way for some firms to go to repair the lost productivity in their teams since 2021.

Time recording, scoping and general matter management is at the heart of this subject. 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, it's a way to evaluate what works in your business and what doesn't.

Time recording is a completely different subject to value pricing.

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

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 the financial performance of that matter.

- 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 the matter.

2. Getting the most out of AI

We have reported that 50% of law firms in the survey are using AI and this is generally being used for administrative benefits in the firm and in running client matters rather than providing legal advice.

- Is the investment being made by firms actually being used efficiently?
- If fee earner time is being created by the use of AI, is this resulting in additional productivity for the firm and how is this being measured?
- How will the firm identify potential people capacity savings from AI and implement those reductions over time?
- How will firms recover the cost (including investment time) in the new AI processes? How will this be built in to charge rates and fee quotes?
- What programme does the firm have to keep up to date with future AI opportunities and implement those in their firm?

10: Top tips for law firms in 2026

3. Managing external investment

It is important for firms to remain alert to the impact of the changes from the new law firm models and funding of them.

Private equity, public companies and consultancy models all feature in the modern legal landscape, and it is important that all firms consider the relative merits of these models but also plan appropriately for the impact they may have on their own firms over time.

a) Consider the impact that the evolving market may have on aspects of your own firm e.g. recruitment and retention, succession and client offerings and how you might address those challenges.

b) Review and be clear on your own firm's strategy for the future and how this may address some of the perceived challenges in the market.

c) It may be appropriate to have internal discussions to actively discuss the options – even if this is with a view to dismissing the opportunities potentially available.

d) Does your firm need to revisit retirement arrangements in the firm (goodwill/annuities) in light of the current landscape?

4. Manage the cash and funding

On balance, it appears that to date firms have managed the cash challenges of basis period reform through generating strong profits in 2025 and better management of lock up.

It remains possible however that there may still be a funding gap when they seek to pay out 2025 profits later this year. It is therefore important that firms continue to pay close attention to cash management.

Firms need to focus on how they can generate cash.

- Does the firm have a funding policy at partner capital level?
- Is there a need to revisit external debt levels to manage the basis period reform impact?
- What initiatives can be introduced to reduce lock up?
- Is dependence on cash flow from interest income being managed?

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