



Legal Benchmarking Report 2026



Ulster Bank

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Foreword

The UK legal sector continues to be hugely important within Ulster 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 twelfth edition of the Ulster Bank Legal Report. This is the fourth 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 112 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 £250m (average turnover of £23m). 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 adoption 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 in 2027, that we hope will give you a useful framework to help navigate challenges and leverage new opportunities to pivot, innovate and grow your business.

While the latest results indicate ongoing challenges affecting the sector, leading to more subdued top-line growth and continued pressure on margins, it is encouraging to see strong resilience across the industry, with most firms remaining optimistic about the future.

I hope you enjoy this report.



David Weaver
Head of Professional and
Business Services

Your author

Andrew Allen BSc (Hons) FCA

In our survey Andrew draws on his own experience of the legal sector and provides supplementary analysis alongside the results from Ulster Bank's 2026 survey results.

Andrew is a chartered accountant and graduate in statistics with significant experience in the analysis of financial results for law firms stretching three decades in the UK legal market.

As a partner, and Board member in his own 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 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



Andrew Allen
Partner, PKF Francis Clark

A man with dark hair and a beard, wearing a light blue suit jacket over a white shirt, is seated at a desk. He is looking down at a document in his hands, with a pen held to his chin in a thoughtful pose. A laptop is open on the desk to his left, and a glass of water is visible in the bottom right corner. The background shows a modern office interior with large windows and glass partitions.

Section 1:

Introduction and key findings

Section 1:

Introduction and key findings

► 1.1 Introduction

In our 2026 survey we are aiming to provide a reflective analysis of law firms' results from financial year-ends during 2026 compared with 2025 and consider the current commercial and financial outlook affecting firms today.

This is the twelfth legal report prepared by Ulster Bank and we are delighted to report 112 participants (2025: 110 participants) in this year's survey, with a good spread of firms both by size and geographical location, enabling us to give an insight into the legal sector in 2026.

The combined revenue of firms in the survey exceeded £2.4bn (2025: £1.8bn) and the average revenue of a participant firm was £23m (2025: £17m).

Optimism in the legal sector is solid with 90% (2025: 84%) of firms optimistic about the future with 27% (2025: 30%) of our survey participants being very optimistic.

In many respects it is perhaps surprising that firms have managed to maintain their level of optimism in recent years given the challenges the sector continues to face.

Considering events since our last report, 2026 has continued to deliver a range of hurdles for firms to overcome:

- Employer National Insurance rises – Financially this has been a significant cost for firms, and it has impacted the progress they were otherwise making to improve their core profitability.
- Artificial intelligence (AI) – The volume of firms using AI in the last year has increased exponentially; there have been significant cost and management issues to this change and there is a longer journey for firms to both build on their use and policies in this area but also, crucially, to recover their investment.
- Interest income – Ongoing uncertainty around this aspect of a law firm's business model continues to be a source of concern for many firms. This income stream has long been part of the financial model and its prevalence today is broadly in line with pre-2008 levels. The experience of the legal sector between 2008 and 2012 shows us that when law firms lose this income source the repercussions include financial failures of law firms and increasing prices for consumers
- External investment – This facet of the legal market continues to gain momentum. It brings with it challenges and opportunities for firms, regardless of whether they decide to pursue this route.
- Margin pressure – This is perhaps the most significant underlying issue facing firms. While the last couple of years have seen some improved focus on this, there are in the list of issues mentioned above a good number of distractors which have hindered their ability to improve core profitability. This remains a concern for the sector.

Introduction and key findings

Apart from the usual financial analysis in this report, 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 112 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 regions because the survey is of a sufficient size to provide statistically meaningful insight at this level.

In this report the author, Andrew Allen, also adds commentary on his own experience of law firms in the legal sector in 2026 and those of his firm PKF Francis Clark who work regularly with over 200 UK law firms from highly successful niche firms to top 50 law firm businesses.

1.2 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 (112 firms) who have taken part in the 2026 survey with those same firms' financial results in 2025; 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 2026 year-end results for firms with those from March/April 2025.

In some areas of the survey, we are also comparing what has been reported by the firms that participated in the 2026 survey with those views and results from

the firms that took part in the 2025 Ulster Bank 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 2025 Ulster Bank survey” or similar.

Having made this delineation it is also worth noting that a particular strength of this survey is the high degree of correlation in the participants year on year, so whilst there will be a slightly different cohort of firms that took part in the 2026 survey compared with the 2025 survey these differences are relatively modest, meaning the comparability of the data and conclusions drawn across the years is statistically more pertinent.

1.3 Key findings from the survey

a) Fees

“Income and productivity growth levels have been more modest in 2026 compared with recent years and much closer to inflation than we are used to seeing in law firms. The outlook from firms for growth in 2027 is also more conservative than we have seen in recent years.”

- Median fee income growth in 2026 was 7% (2025: Ulster Bank survey 12%).
- 50% of the firms in the survey reported fee income growth in 2026 of between 3% and 11%; notably lower than in the 2025 Ulster Bank survey when 50% of that cohort reported 7% and 19% compared with 2024 levels.
- Growth in fee income was stronger in larger firms with 50% reporting growth of between 4% and 12% in 2026. Conversely, 50% of smaller firms reported results ranging from a decline of 13% to growth of 8%.
- Fees per equity partner reported a median growth of 3% (2025: Ulster Bank survey 10%) with a result of just over £1.51m in 2026 compared with £1.47m for respondent firms in 2025.

Introduction and key findings

- Fees per fee earner movements were negligible amongst respondents in 2026, with the survey reporting a median result of £166,000 (2025: £167,000).
- 36% of respondents expect 2027 fee income levels to increase by 5-10% compared with 2026 actual levels.
- Private client teams are cited as the strongest fee growth area in 2026 results whilst family teams were reported as those most frequently achieving low growth levels.

b) People costs and expenses

“Margin improvement has stalled in 2026. Despite the strong efforts by firm to focus on areas such as time capture, scoping and matter management the impact of the increase in Employers’ National Insurance and the challenges presented by managing AI in the workplace have all held back improvements in margins for firms.”

- Employee costs as a percentage of fees reported a median of 48% (2025: 46%) 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% (2025: 63%) and this compares with our expected range based on typical sector levels of between 55% and 65%.
- Despite significant efforts to improve core margins by focusing on factors such as time capture, scoping and client communication in the last couple of years, most firms have either seen a static or slightly weaker position in 2026 – evidenced by the distribution of the people costs as a percentage of fees result.

- In context, however, it should be noted that during this last year firms have needed to absorb the increased costs of Employers’ National Insurance, which has tended to increase people costs in a typical law firm by between 1% and 2%. This additional burden has offset some of the positive progress firms have made in improving core margins.
- In relation to planned headcount changes 14% of respondents (2025: 21%) reported that they expect no change in headcount by 2027; whilst 51% of respondents (2025: 49%) reported that they expected headcount to grow by up to 5% by 2027.
- 61% (2025: 52%) of firms reported a decline or static position in their PII during 2026 confirming a continuing soft market in this area.

c) Profits and productivity

“With modest growth levels, challenges on margins from Employers’ National Insurance increases and the high costs of investment in areas such as AI, it has proved difficult for many firms to generate strong growth in PEP. Whilst the overall profile of PEP results has increased in 2026 it has been slightly below general economic inflation in the year.”

- Median Profits per Equity Partner (PEP) increased by 2% (2025: Ulster Bank survey 23%). For small firms the median increase in 2026 was 6% whilst for large firms the median increase in 2026 was 2%.
- The median reported PEP in the survey for 2026 was £326,000 (2025: £327,000) broken down as £157,000 (2025: £200,000) for small firms and £356,000 (2025: £350,000) for large firms.
- 50% of firms in the survey reported PEP of between £236,000 and £484,000.

Introduction and key findings

- 25% of respondent firms reported growth in PEP of 15% or more in 2026 compared with their 2025 results whilst 25% reported declines in PEP of 11% or more compared with their 2025 results.
- Whilst the median PEP results have remained broadly static in 2026 the distribution of PEP has increased, with the lower quartile point rising from £216,000 in 2025 to £236,000 and the upper quartile point rising from £455,000 in 2025 to £484,000 in 2026.
- Joining up some of the results in this report we can see across the sector that there has been much more subdued growth in top line income levels compared with recent years. We can also see that improvements achieved in 2025 in core margins have cooled and sometimes regressed. Once we then factor in high growth in some expenditure areas in the profit and loss account (e.g. IT investment), the overall result is a relatively flat year in terms of PEP movements.

d) Lock up and funding

“The trend of reducing lock up in the last couple of years in the sector appears to have halted and we have evidence of increases in the level of lock up in firms in 2026. Despite this deterioration there is no evidence to show law firms relying on increasing debt levels; although anecdotal evidence points to reducing cash reserves in firms.”

- There has been some deterioration in lock up in 2026 compared with 2025 with median lock up days reported by respondent firms of 136 days in 2026 compared with 128 days in 2025 for the same firms.
- The upper quartile for lock up rose from 178 days in 2025 to 183 days in 2026, and the underlying increase appears to be driven more by an increase in the distribution of debtor days reported (as opposed to WIP levels which appear more stable).

- Given the ongoing impact of basis period reforms, the issue of lock up remains critical in managing the funding of firms. Whilst in the last couple of years we have generally seen reductions in lock up (we believe primarily driven to manage the outflow of cash to HMRC) it seems that in 2026 this progress has been halted and to some extent taken a step back.
- For every £1 of Members’ Funds/net assets in the business the median level of debt was 13p (upper quartile 30p), appearing to be comfortable in relation to debt availability to law firms. This compares to the results in the 2025 Ulster Bank survey where the median was 15p and the upper quartile was 30p.
- It is perhaps surprising to see a reduction in debt reliance when lock up is rising, however in practice our experience is that firms have been taking longer to pay out prior year profits (current accounts) to members and there is evidence that cash balances have been reducing.
- 25% of firms in the survey are debt averse and borrow less than 1p for every £1 of Member funds. Half of firms rely on external debt of between 1p and 30p for every £1 of Members’ funds in the business.

e) Business structure and ownership

“Gearing is a crucial part of the business model for law firms, and it is rarely given as much airtime as the margins in law firms. We never see dramatic shifts in results here and that is the case in 2026. It is worth remembering however that some of the most profitable law firms in the UK have low margins but strong gearing.”

- Gearing (fee earners per equity owner) reported little change in the year with a median result of 8.5 (2025: 8.3) and the upper quartile commencing at 12.6 (2025: 13.4).

Introduction and key findings

- There is a notable difference between small and large firms at a gearing level. Small firms reported a median of 6.0 whilst large firms reported a median of 8.8. 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 0.68 (2025: 0.70) with the upper quartile commencing at 1.07 and the lower quartile ending at 0.53.

f) Technology and risk

“Technology has been a dominant issue in law firms in 2026, and the results show a dramatic change in the numbers using AI; the survey also emphasises that the big challenge for firms is now going to be recovering that investment. Cyber risks remain very much on law firm agendas, and the evidence suggests that investments made by firms are proving to be effective in providing the protection they need.”

- Only 5% of firms reported that they were not using AI in some form. This is a dramatic shift from the results in the 2025 Ulster Bank survey when 50% of firms explained they were not using AI in any way.
- 43% of respondents noted that the most significant benefit of using AI in their business has been the streamlining of administrative processes. By comparison, similar proportions of respondents (around 10% in each case) cited client delivery, cost savings and service accuracy/quality as the most noticeable impact of using AI.
- In terms of recovering the cost of investment in AI, it is clear this is the next challenge facing many law firms. The majority of firms explained that so far they have not taken any action to positively recover these costs. However, 22% said they have changed their pricing and service options to recover AI investment, whilst 7% have increased target chargeable hours or increased charge rates (3%).

g) Other topical issues

i. Attracting and retaining talent

- Focusing on firm culture was cited by 32% of firms as their primary focus in attracting and retaining talent, followed by remuneration levels and career path, noted by 22% and 18% of respondent firms as the most important factor for them.
- Investment by firms in this area has also been focused on workplace culture and employee experience, with 32% highlighting this as their primary area of investment.

ii. External investment

- 60% of firms reported that they would not actively consider any form of third-party investment in their firm. Whilst a significant part of the legal sector, this still marks a reduction compared with 2024 when we asked the same question and 71% of firms said they would not consider external investment.
- 20% of firms indicated that they would consider external investment to support growth, whilst the remaining 20% reported a range of other reasons, including succession management and opportunistic windfall realisation.
- With an established market for external investment in law firms, 33% of respondents reported that competition for talent was the most significant challenge this presents. A further 24% cited increased business investment costs (to keep up with PE-funded firms) as a major challenge, whilst 13% felt the pricing competition for clients was the greatest challenge, as growth hungry PE-funded firms seek to increase market share.

Introduction and key findings

iii. Interest income

- In the 2026 survey respondents reported at the median that interest profits represented 3.7% of their earned income (upper quartile commencing at 7.1%); this presents a softened position compared with the 2025 survey which reported a median result of 5.6% with the upper quartile starting at 9.5%.
- Converting those results to consider PEP, the median firm in the survey reported that 14% of PEP (2025: Ulster Bank survey 21%) arose from interest profits. The upper quartile starting at 28% (2025: survey 35%).
- Half of the firms reported that between 5% and 28% of their PEP arose from interest profits. In the 2025 Ulster Bank survey half of firms reported the interest profits represented between 9% and 35% of PEP.
- This provides evidence that exposure of law firms to interest income has reduced in 2026 compared with the position we saw in 2023 to 2025. This has arisen from a combination of slightly reduced base rates and increased payments on interest across to clients under the SRA Accounts Rules.
- In response to the Ministry of Justice consultation to divert client interest income to fund the UK justice system, 29% of respondent firms believe the impact would be inflation in the cost of legal services for consumers, whilst 22% simply felt that a further administrative burden would be the most significant repercussion.

iv. Diversity, equity and inclusion

- 68% (2025: Ulster Bank survey 66%) of firms reported that over 60% of their fee earners were female.
- 15% (2025: Ulster survey 21%) of firms reported that over 60% of their equity owners were female.



Section 2:

Geography and constitution

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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”, and those with turnover exceeding £5m “large”.

Our sample in 2026 extends to 112 firms. Considering the composition of the survey group:

- Total income of survey participants £2.4bn
- The median turnover was £23m
- 12% reported turnover exceeding £50m
- 32% reported turnover exceeding £30m
- 17% reported turnover below £5m
- For defined small firms their average turnover was £3m
- For defined large firms their average turnover was £26m

Geographically our participants are diverse with the following distribution:

- 27% London & South-East (2025: 26%)
- 19% Midlands & East (2025: 22%)
- 25% North & Scotland (2025: 22%)
- 29% South, West & Wales (2025: 30%)

2.2 Firms by constitution

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

	2026	2025	2024
Limited liability partnerships (LLPs)	82%	78%	74%
Limited companies	14%	16%	18%
Unincorporated businesses (partnerships and sole practitioners)	4%	6%	8%

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

Geography and constitution

often require incoming members to operate through a legally regulated limited company to join the consultancy network.

The underlying taxation issue here is illustrated by the table below which compares the cost of earning (and extracting) profits, the differential in cost between the LLP model and the limited company model based on current tax rates.

	£	£	£	£	£	£	£	£
Profit share	100,000	150,000	200,000	300,000	400,000	500,000	750,000	1,000,000
Tax in LLP now and in future	30,869	57,960	81,460	128,460	175,460	222,460	339,960	457,460
Tax in company in future	37,894	66,059	95,095	149,607	204,120	258,632	394,914	531,195
Saving in LLP in future*	7,025	8,099	13,635	21,147	28,660	36,172	54,954	73,735

* Assumes all profits extracted as dividends

Geography and constitution

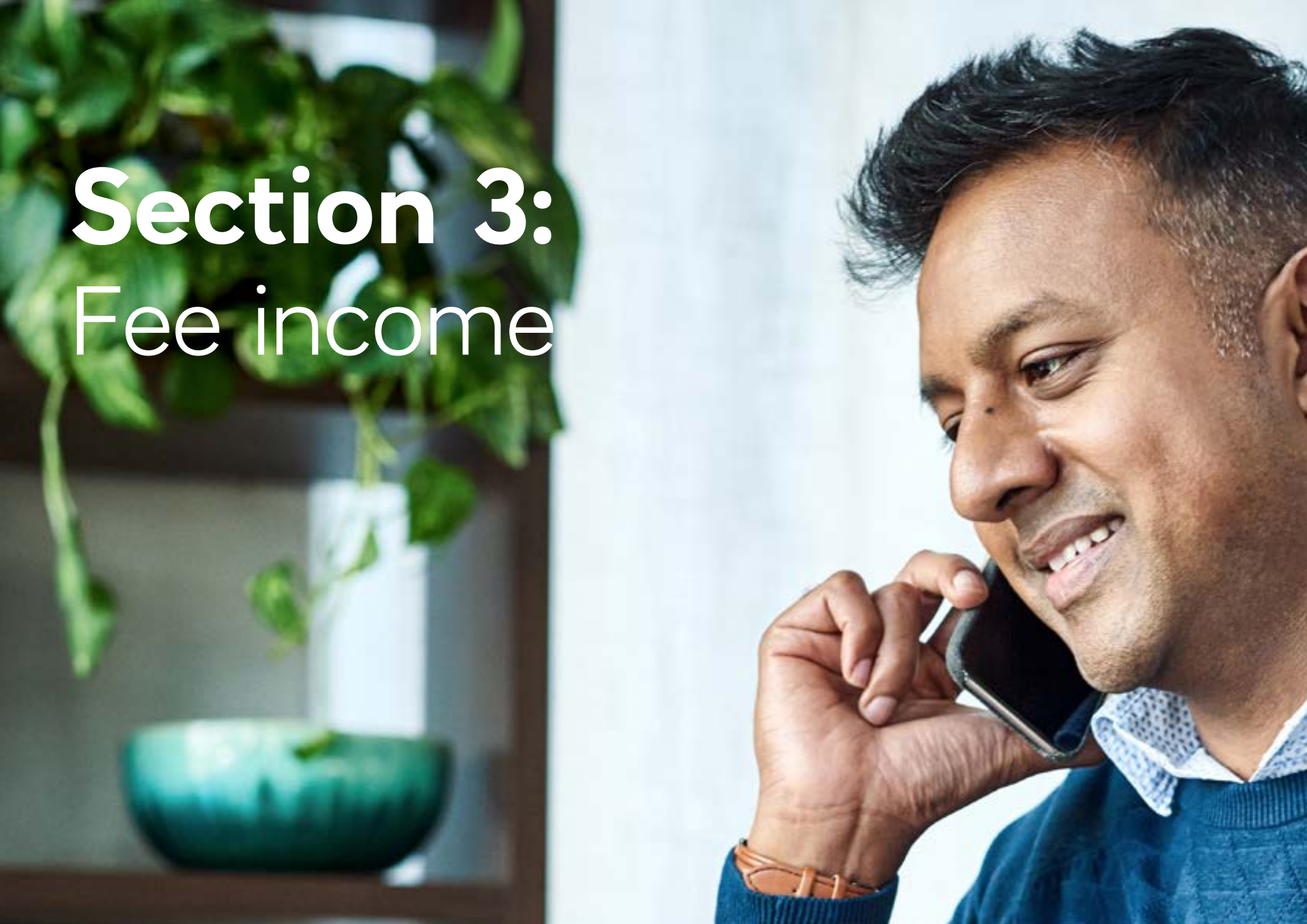
The table on the previous page demonstrates that where profits are earned and being extracted, the LLP model currently provides a cheaper tax structure than a limited company.

Of course, once profits are retained the company model provides the ability to defer tax, which aids investment in the business. Care needs to be taken not to confuse tax deferral with tax saving; ultimately retained profits need to be realised by owners in some way, and a further tax cost arises at that point.

Consultancy models continue to grow in popularity and these often require individual consultants to operate through a limited company.

Employee Ownership Trusts (EOTs) also continue to secure headlines in the legal sector as an alternative option for law firm structures. However, following the restriction of tax benefits associated with these arrangements, interest in EOTs appears to have waned. This may, in part, reflect the prevalence of private equity funding which is often considered to be an alternative option for businesses.





Section 3:

Fee income

Section 3:

Fee income

» 3.1 Overview

- Median fee growth in 2026 was 7% compared with 12% in the 2025 Ulster Bank survey, and 10% in 2024.
- 93% of firms expect 2027 fee income to grow less than 10% (2025: Ulster Bank survey 67%).
- 38% of firms expect 2027 fee income to grow less than 5% (2025: Ulster Bank survey 25%).
- 16% of firms are anticipating either static or declining position for fee income in 2027.
- Highest fee growth levels were reported by private client (probate/trusts) in 2026 (21% of firms).
- Lowest fee growth levels were reported by residential property in 2026 (19% of firms).

Overall, we can see that the level of growth in the fee levels has cooled compared to recent years as have future expectations for growth in 2027. It is possible this links into economic confidence, geopolitical aspects but also factors such as competition in the sector and underlying inflationary levels and client expectations.

Residential teams have seen a swing from being one of the strongest growing areas in the 2025 Ulster Bank survey to one of the lower performing areas in the 2026 Ulster Bank survey. In contrast, private client teams have maintained their top spot across both 2026 and 2025 as the strongest growth area.

3.2 Fee growth - 2026

Our experience is that the level of fee growth in law firms in 2026 has been between 5% and 10% which broadly fits in with the results of this survey.

When considering recent years in the legal sector the growth levels in 2026 are more subdued. For example, in 2025 we frequently saw results of between 12% and 15% and a typical range of 8% to 12% in 2024.

We can see in the table on the next page that the results from the Ulster Bank survey in 2026 present a similar picture, with the median fee growth reported by participants being 7% and with the upper quartile (25% of respondents) reporting growth in fee income exceeding 11%.

Fee income

	Lower Quartile	Median	Upper Quartile
London & South East	102%	106%	111%
Midlands & East	102%	106%	114%
North & Scotland	103%	109%	111%
South, West & Wales	104%	107%	110%
Small	87%	105%	108%
Large	104%	108%	112%
All firms	103%	107%	111%

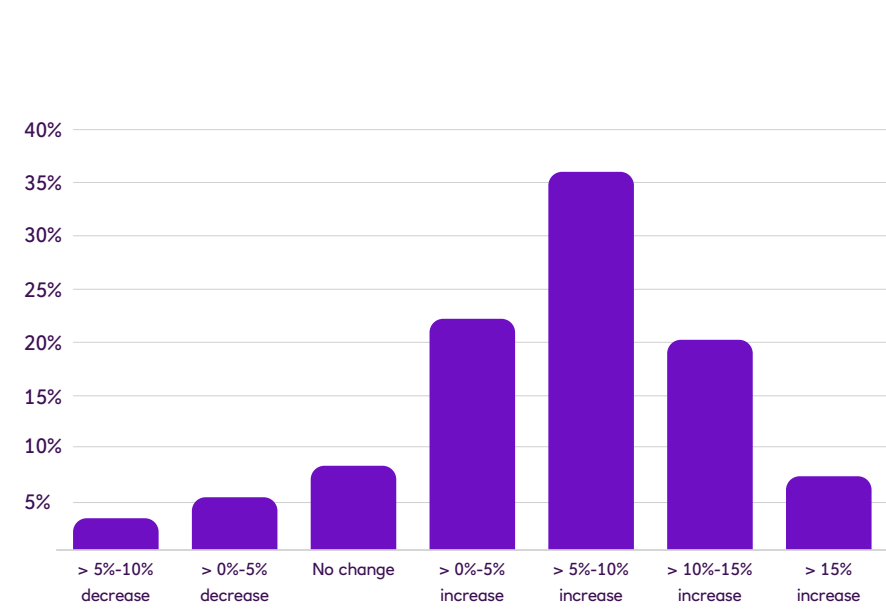
We can also see from the above that there is some variance between our large and small firms with the smaller firms reporting even lower growth with a median of 5% and an upper quartile commencing at 8%, compared with large firms reporting a median of 8% and an upper quartile of 12%.

The picture however is quite different to 2025. In the 2025 Ulster Bank survey 50% of firms reported growth of between 7% and 19%; in 2026 50% of firms reported growth of between 3% and 11%. Smaller firms appear to have been more negatively affected in 2026 than larger firms.

3.3 Fee growth - 2027 forecast

Having considered the out-turn and growth for the financial year ended in 2026, it seems logical to look forward and consider firms’ expectations for 2027. The data below shows that 84% (2025: Ulster Bank survey 89%) of firms expect fee income to increase.

The most common projected level (36% of participants) is growth in fees of between 5% and 10% in 2027; in the 2025 Ulster Bank survey 42% of firms projected growth of 5% to 10% for their 2026 financial year.



Fee income

There are relatively few firms budgeting for substantial growth levels in 2027 with only 7% of respondents indicating growth expectations exceeding 15%. In fact, in contrast 16% of firms are either expecting a static income position or a decline compared to 2026 actual levels.

Firms also reported that they are changing their rates/recurring fee arrangements with clients in 2027 as set out in the table below:

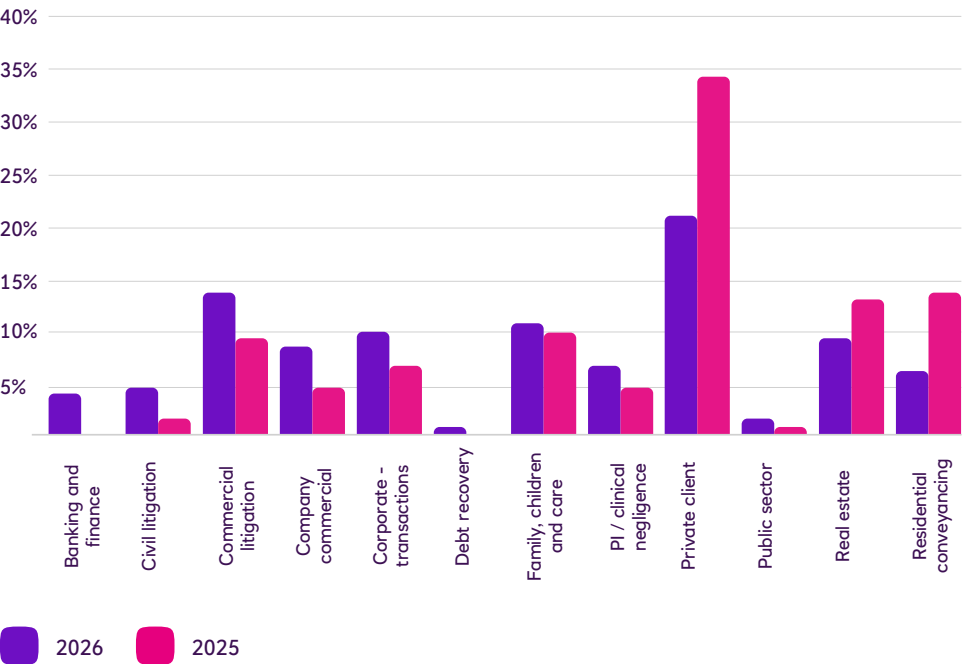
	2026	2025
Expected movement in rates	%	%
No change	9	8
0% - 5% increase	59	51
5% to 10% increase	32	34
Over 10% increase	-	7
Total	100	100

The overall picture presented here is an expectation of lower growth levels in 2027 financial year-ends and a larger challenge in passing on rate increases/ inflation to clients.

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 which of their teams were reporting the strongest growth in the current environment during their last financial year:



Survey responses reported private client (21%) as the most buoyant area at this time in 2026; the same as the 2025 Ulster Bank survey, when 34% of firms noted this as their strongest team.

Fee income

Firms were also asked which areas of their business are currently reporting the least growth: 19% reported that residential conveyancing reflected the least growth in 2026, and 18% also cited family, children and care as a low growth area.

3.5 Fees per equity partner

The results from the 2026 survey are reflected in the table to the right. Overall firms reported a median of £1.513m (2025: £1.472m) of fees per equity partner, although there was a significant difference reported between the small and large firms where small firms reported a median of £949,000 (2025: £919,000) compared with a median of £1.607m (2025: £1.513m) for large firms.

The results here are consistent with our experience of the legal sector in 2026, where in volume terms many firms report fees per equity partner in the region of £800,000 to £1.2m. Once we consider the top 100 firms this result usually exceeds £2.5m.

Fees per equity partners (£'000)

	Lower Quartile	Median	Upper Quartile
London & South East	1,250	1,563	2,270
Midlands & East	960	1,504	2,023
North & Scotland	1,039	1,337	2,388
South, West & Wales	1,128	1,756	2,376
Small	722	949	1,493
Large	1,236	1,607	2,407
All firms 2026	1,085	1,513	2,368
All firms 2025	1,005	1,472	2,193

Fee income

3.6 Fees per 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
London & South East	176	203	268
Midlands & East	136	155	170
North & Scotland	145	157	191
South, West & Wales	138	161	194
Small	129	154	167
Large	149	178	208
All firms 2026	145	166	206
All firms 2025	138	167	200

The median here for all survey firm participants was £166,000 (2025: £167,000).

Large firms reported a median in 2026 of £178,000 (2025: £170,000); a 5% increase and small firms reported a median in 2026 of £154,000 (2025: £146,000), also a 5% increase.

Our experience is that many law firms report results of between £140,000 and £170,000, 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 businesses that typically have a less common ownership and fee earner structure compared with typical law firms.

With income growth levels falling in the sector compared with recent years, we asked firms about their experience in this area and what factors they were seeing.

Fee income

John Seigal from Clintons Solicitors explains:

“We are a niche firm so perhaps our trend is not typical, but we have been very pleased with the level of growth we have seen.

“Although we are a full-service firm our reputation and growth continue to be driven by our music, entertainment and theatre work alongside our highly regarded music litigation advice. We are a ‘go to’ advisor in the music and entertainment sector and this is the backbone of the growth we have achieved.

“Personally, I have been with the firm 40 years now and during that time we have been advising our clients during the transition of music from vinyl to tape to CD and now streaming and full circle back to vinyl. Our clients benefit from this deep history and experience, and this continues to help us achieve strong growth levels.

“At the same time this experience makes us attractive to people who want to work in our areas of law and a leading firm. This becomes self-sustaining and a very positive way to grow a firm.

“A key aspect for us moving forwards remains the importance of teams working together; we develop specialists and they learn best by spending time with colleagues and their clients. Our people spend time meeting clients and potential clients in their context – meeting bands, going to gigs and working side by side with management and other specialists.”

Tom Alder from Lester Aldridge LLP comments:

“We are a full-service law firm and one of the enduring benefits of that position is that this provides stability to income levels. In this last year our core area of real estate saw a challenging market, but this was counterbalanced by our dispute resolution and corporate team that in contrast saw notable growth.

“We have also been investing in specialist areas, including regulatory, care, healthcare and court of protection work in recent years and these have been robust and successful for us in growth terms during the last year.

“We launched our new strategy in the spring with the objective of reaching top 100 status within 3 years. We have focused our strategy on 5 areas – people, technology, sectors, growth markets and geography. We are planning both organic and inorganic growth as part of this strategy.

“As a firm we don’t think we can stand still, we need to grow in order to provide the client experience that our clients will be seeking in this rapidly changing market. The costs of running a firm are growing, regulatory obligations are ever increasing and there is growing competition both for clients and talent.”

Denise Walker from Glenville Walker comments:

“Our firm focuses on acting for businesses so corporate, commercial property and commercial litigation would be our primary income areas. We have seen a static income position in 2026 that reflects an element of consolidation after a few years of strong growth. The most significant reason for a static performance is Government policy related. We have seen successive years of uncertainty in the run up to fiscal Budgets. In our areas of work this has created both rushed transactions and more importantly nervousness.

Whilst we remain very busy the nature of work has shifted from the more revenue generative transaction work to aspects such as reorganisations, general corporate housekeeping and matters such as shareholders agreements. In essence there is a lack of positivity in the country, and this has damaged revenue stream.

“We have to some extent seen a race to the bottom in terms of pricing in our geography and area of the legal market; particularly in real estate / commercial property work where due to a lack of activity from lost confidence there is an increasing number of firms chasing a smaller pool of work. This is not an area we intend to compete in as quality rather than quantity is our mantra.

“We have also seen an impact from people aspects in our business. Consistent with other law firms there has been a shift for some people in the industry to try and run their work around their life commitments rather than the other way around. Recruitment of people is also expensive. Both these aspects mean that the productive capacity in the firm can be stretched.”



Section 4:

People costs and expenses

Section 4:

People costs and expenses

4.1 Overview

- The median result for people costs in 2026 as a percentage of fees was 64% (2025: 63%).
- The median result for employee costs in 2026 as a percentage of fees was 48% and the median year on year growth in employee costs was 10%.
- 84% of firms expect their headcount to increase in 2027. In the 2025 Ulster Bank survey 77% of firms expected their headcount to increase in 2026.
- 61% of firms reported a reduction or static position in their PII costs during 2026.

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 54%.

It is notable here that the results across the distribution in the survey have increased this year, the median has increased 2% from 46% to 48%, the lower quartile has also risen 2% to 42% and the upper quartile has risen 1% to 54%. This reflects the impact of the Employers' National Insurance increases experienced during the year which we comment on further below.

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

Employee costs as a percentage of fees

	Lower Quartile	Median	Upper Quartile
London & South East	39%	46%	59%
Midlands & East	46%	50%	56%
North & Scotland	39%	44%	50%
South, West & Wales	43%	48%	52%
Small	43%	154	48%
Large	42%	178	47%
All firms 2026	42%	48%	54%
All firms 2025	40%	46%	53%

People costs and expenses

At the median respondents reported a year-on-year increase in staff costs of 10%, with the upper quartile for growth in employee costs starting at 14%.

Large firms reported median growth of 10% in employee costs whilst small firms reported a lower median growth in staff costs of 8%.

Employee costs as a percentage of last year's

	Lower Quartile	Median	Upper Quartile
London & South East	104%	108%	113%
Midlands & East	105%	109%	114%
North & Scotland	107%	110%	113%
South, West & Wales	108%	111%	114%
Small	102%	108%	112%
Large	105%	110%	114%
All firms	105%	110%	114%

We should of course keep in mind that during this financial year many firms will have had a full (or almost full) year of the increased Employers' National Insurance charges and this will have created a significant element of staff expense increases along with general inflationary and other increases which firms incur.

In our experience the impact of the Employers' National Insurance charges has typically been an increase in people costs as a percentage of income in firms by between 1% and 2%.

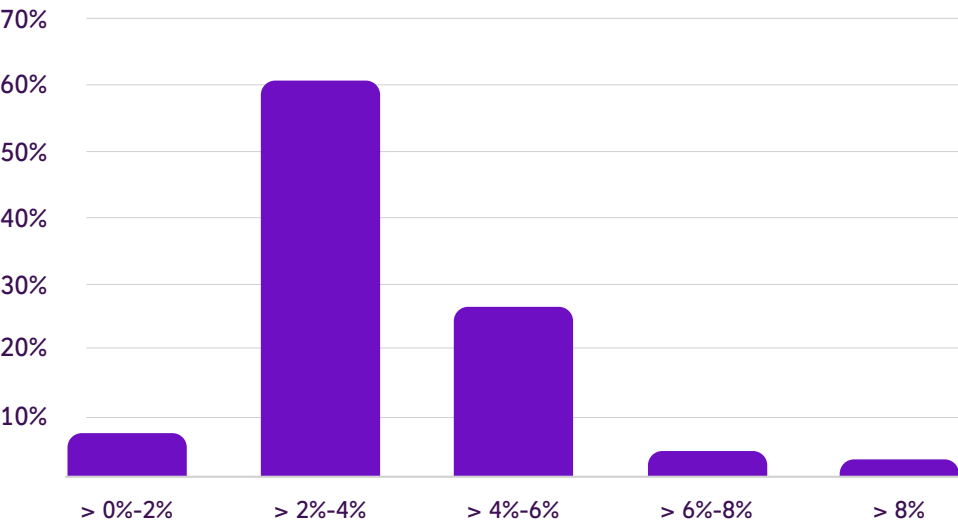
Many law firms adjust their salaries in May to July each year and in recent years there have been some significant adjustments to salaries to enable firms to attract and retain talent.

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

Our respondents reported that 60% of firms expected background salary increases in the 2027 financial year of between 2% and 4%; with 27% of firms expecting the background salaries to rise between 4% and 6%. These results are very similar to expectations for 2026, which were reported in the 2025 Ulster Bank survey.

People costs and expenses

What pay rise/background increase are you budgeting for salaries in 2026/27?



Only 5% of firms expected growth in background salaries to exceed 6%, whilst a sizeable 8% expected their growth in background salaries would be less than 2%.

Our experience has been in line with these responses. In the spring and summer of 2026, we found background pay rises being applied by law firms were most often 3% or 4%, with lower increases like 0% also common but not prevalent. Rises above 5%, in contrast, were rare.

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.

Expected headcount change

	2026	2025	2024
> 5% to 10% decrease	1%	0%	1%
> 0% to 5% decrease	1%	2%	2%
No change	14%	21%	9%
> 0% to 5% increase	51%	49%	47%
> 5% to 10% increase	21%	23%	28%
> 10% to 15% increase	7%	3%	9%
> 15% increase	5%	2%	4%
	100%	100%	100%

There is evidence however that those aspirations for headcount growth are broadly similar to last year with 72% of firms looking to increase their headcount by 0% to 10% (broadly in line with most firms’ turnover growth projections for the same year).

We also asked respondents for their views of the recruitment and retention environment over the same period.

People costs and expenses

Recruitment challenge

	2026	2025	2024	2023
No change	62%	64%	62%	57%
More difficult	24%	22%	17%	22%
Easier	14%	14%	21%	21%
	100%	100%	100%	100%

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

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 the fixed profit shares allocated for fixed share partners, in order to arrive at total people costs (calculated as a percentage of fees as set out in the table on the right).

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

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

	Lower Quartile	Median	Upper Quartile
London & South East	55%	64%	68%
Midlands & East	60%	65%	68%
North & Scotland	52%	60%	68%
South, West & Wales	60%	65%	69%
Small	58%	63%	69%
Large	58%	64%	68%
All firms 2026	58%	64%	68%
All firms 2025	57%	63%	68%

(* - 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)

People costs and expenses

The survey reports that the median result for people costs as a percentage of fees was 64% (2025: 63%). Large firms reported a median of 64% (2025: 64%), and small firms reported a median of 63% (2025: 63%).

In the legal sector more widely we 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 reasonably with these expectations.

In some respects, the results for 2026 are disappointing for the sector because since 2024 firms have in general been focusing on improving core margins, considering subjects such as time capture, scoping and client communication skills.

However, we should remember that firms have had to absorb the Employers' National Insurance costs this year, and our analysis suggests that, for a typical firm, this has increased the people costs as a percentage of revenue by between 1% and 2%. In that context, perhaps the results here in the 2026 survey are more encouraging than they first appear.

It is always worth reflecting on the history of this key statistic in the legal sector. Looking back to 2021 and 2020 (the Covid-19 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, with results of 56% commonly reported.

This changed again in 2022 and 2023 when most firms returned to their pre-pandemic people cost levels of around 62% by their 2023 financial year-ends.

By 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.

This subject remains a critical focus for law firm businesses in 2026 and this is evidenced by the responses in this survey – other dynamics such as competition from PE-based businesses, as well as the use and costs of AI are all playing their role.

4.4 Professional indemnity insurance

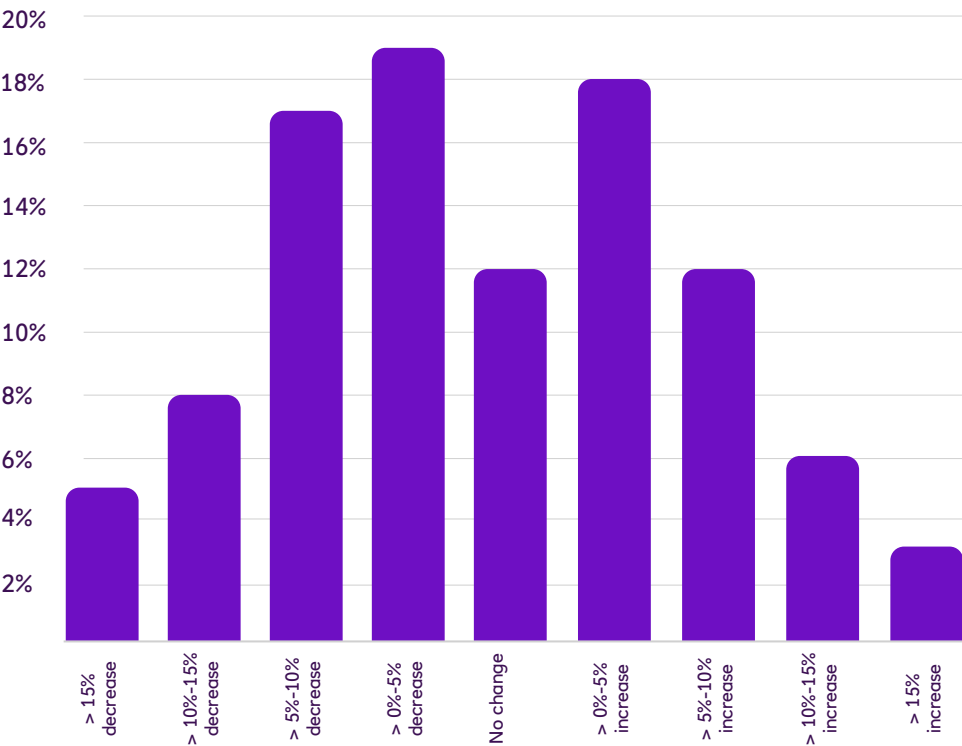
The Professional Indemnity Insurance (PII) market has benefited from a further soft renewal season during the 2026 financial year. Despite most firms reporting growth in fee income over this period, 61% of firms (2025: 52%) reported that their PII premiums had either remained static or decreased compared to 2025 levels.

Among respondents, 13% of firms reported declines exceeding 10%, while 18% reported increases in their PII cost of up to 5%.

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 7% in 2026 (12% in 2025). In this context we can see that there has been a continued reduction in the PII burden for many firms in 2026.

People costs and expenses

What was the change to your PII premium for this year’s renewal?



The outlook for the 2026/7 renewal from brokers appears similarly optimistic with a healthy number of insurers in the market.

In 2026, we have also seen the continued decline in PII costs as a proportion of firms’ overall income, and from a commercial viewpoint we have continued to see increasing instances of firms aiming to lock into the low PII rates by putting 18-month renewal arrangements in place.

Section 5:

Profitability and productivity



Section 5:

Profitability and productivity

► 5.1 Overview

- Median PEP (Profits per Equity Partner) reported in the survey for 2026 was £326,000 broken down as £157,000 for small firms and £356,000 for large firms.
- The PEP upper quartile has risen from £455,000 to £484,000 in 2026 and the lower quartile has risen from £216,000 to £236,000 in 2026.
- The median increase in PEP in 2026 results compared with 2025 was 2%, with large firms reporting a median PEP increase of 2% and small firms reporting a 6% increase.
- 25% of firms reported PEP growth of between 2% and 15% but circa 25% of firms reported a decline in PEP of between 0% and 11%.
- In 2026 25% of firms reported growth in PEP of between 2% and 15%; in the 2025 Ulster Bank survey reported PEP growth was much stronger, with 25% of firms reporting growth in PEP of between 23% and 45%.
- The median net profit margin in the survey was 28%; with half of the results for net profit margin falling between 19% and 35%.

The overall relatively modest movements in typical PEP levels in 2026 reflects a combination of fee income growth of 7% to 10% in many firms along with a worsening of core profit margins (increased people cost %), primarily because of increased Employers' National Insurance costs.

Overall, perhaps the starkest observation is that in the 2025 Ulster Bank survey the median PEP result increased 23%. In this 2026 survey the median growth in PEP is only 2%.



Profitability and productivity

5.2 Profits per equity partner

A common measure for law firm profitability is profits per equity partner (PEP). The table below reports the results for participant firms from their 2026 financial accounts.

Profit per equity partner (£'000)

	Lower Quartile	Median	Upper Quartile
London & South East	286	357	507
Midlands & East	153	307	394
North & Scotland	173	269	444
South, West & Wales	235	329	463
Small	71	157	267
Large	260	356	500
All firms 2026	236	326	484
All firms 2025	216	327	455

Median PEP (profits per equity partner) reported in the survey for 2026 was £326,000; reflecting a broadly static position compared with the 2025 median of £327,000.

However, we can see that the upper quartile has increased notably with 25% of firms in 2026 reporting PEP exceeding £484,000 compared with 25% of firms in 2025 reporting PEP exceeding £455,000.

Similarly, in the lower quartile we can see a positive increase from £216,000 in 2025 to £236,000.

Small firms reported a median of £157,000; being a notable decline of 22% on their 2025 median of £200,000 and large firms reported a median of £356,000, reflecting modest growth of 2% on the 2025 median of £350,000.

PEP as a percentage of last year

Whilst the table on the left considers median PEP for the respondent firms in both 2026 and 2025, 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 overall.

Instead, in the table on the next page we consider, for each firm that responded, their PEP in 2026 as a percentage of their PEP in 2025.

Profitability and productivity

Profit per equity partner as a percentage of last year

	Lower Quartile	Median	Upper Quartile
London & South East	92%	102%	118%
Midlands & East	100%	104%	117%
North & Scotland	83%	101%	113%
South, West & Wales	87%	103%	113%
Small	71%	106%	126%
Large	92%	102%	113%
All firms 2026	89%	102%	115%

We can see from this that across all survey members the median level of growth in PEP in 2025 was 2%. This is significantly lower than the 2025 Ulster Bank survey result where the median growth in PEP for that year was 23%.

In 2026 25% of firms reported growth in PEP of between 2% and 15%; in the 2025 Ulster Bank survey PEP growth was much stronger with 25% of firms reporting growth in PEP of between 23% and 45%.

In 2026 growth was the strongest in small firms where 25% reported that PEP grew by over 26%. However, at the same time 25% of those firms also reported a decline in PEP of over 29%, reflecting a large amount of volatility in the results for the year.

The position for large firms was less dramatic with a median of 2% growth, 25% of firms reporting PEP growth exceeding 13%, and 25% reporting a decline of over 8%.

Reflecting on the overall results above, we can see quite a diverse range of performance in 2026:

- 25% of the firms reported growth in PEP of 15% or more (2025: Ulster Bank survey 45% or more)
- 50% of the firms reported results in the range of (11) % to 15% (2025: Ulster Bank Survey 50% of firms reported growth in the range of (9)% to 45%)

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.

Profitability and productivity

Profit as a percentage of fees

	Lower Quartile	Median	Upper Quartile
London & South East	22%	28%	38%
Midlands & East	17%	24%	32%
North & Scotland	17%	28%	35%
South, West & Wales	22%	31%	35%
Small	15%	19%	34%
Large	21%	29%	35%
All firms 2026	19%	28%	35%
All firms 2025	20%	27%	37%

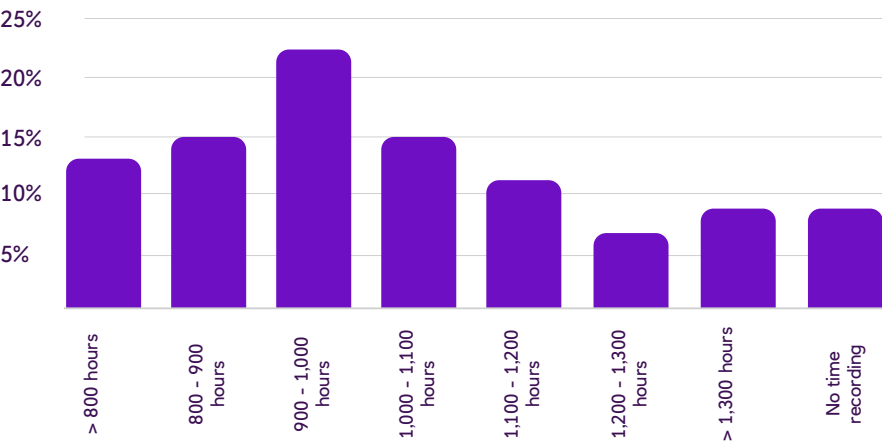
The median for all firms in the survey was 28% but with a notable difference between the median for small firms at 19% and large firms at 29%.

Looking at the distribution of results in 2026 compared to the 2025 Ulster Bank survey, we can see that at the quartile measures there has been a reduction in margins in 2026, which is consistent with other results in this report around PEP and people costs.

5.4 Chargeable hours

Conscious that firms have been focusing on time capture and productivity since 2024, we asked for information about the level of their recorded chargeable hours.

What is your average annual chargeable hours per fee earner?



Profitability and productivity

If we convert these results to average chargeable hours per day, this can often better reflect the reality:

Average annual chargeable hours		From	To
<800 hours	13%	3.5	
800-900 hours	15%	3.5	
900-1,000 hours	23%	3.9	3.9
1,000-1,100 hours	15%	4.3	4.3
1,100-1,200 hours	11%	4.8	4.8
1,200-1,300 hours	6%	5.2	5.2
> 1,300 hours	9%	5.7	5.7
No time recording	9%		

The assumption in arriving at these results is that fee earners have around 230 working days per year (allowing for six weeks of holiday across a year in total and a five-day working week).

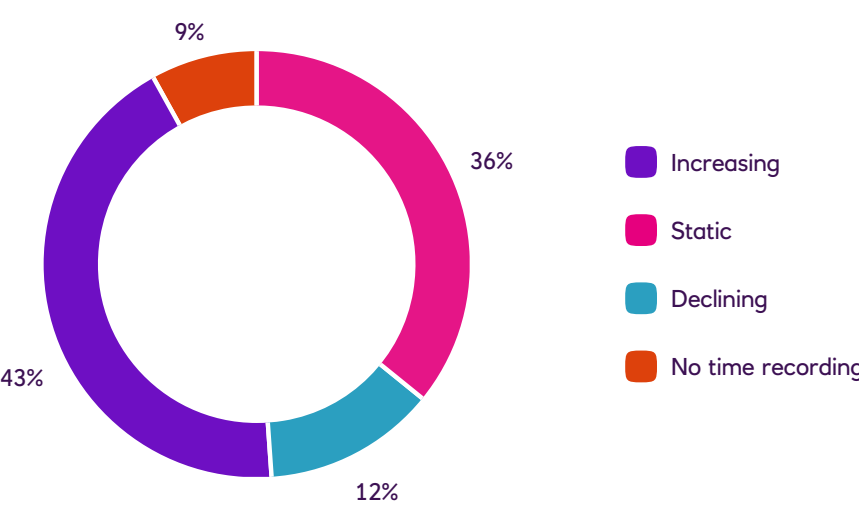
Only around 15% of firms are reporting that their fee earners achieve over circa five chargeable hours per day. Nearly one third of firms (28%) report that average daily chargeable time is less than four hours.

This data clearly points to a challenge for law firms and the first line of attack in terms of both understanding the cost of the work firms undertake but also to enable them to improve profit margins.

Very small improvements in time captured, in our experience, makes a material difference to profit margins and PEP in most firms. Often only one unit extra per day on average per fee earner (with a typical gearing level in a law firm) can quickly equate to a 15% increase in PEP.

One year’s result for chargeable hours in isolation is of limited value, so we asked respondents about their trend for movement in chargeable hours.

In your firm what is happening to the trend of average chargeable hours?



Profitability and productivity

As most firms have been focusing on time capture in the last couple of years, it is reassuring to see that 43% of respondents are reporting increases.

Concerningly it is noticeable that a large cohort of respondents (nearly 50%) are reporting either a static (36%) or declining (13%) position on average fee earner chargeable hours.

The challenges we hear firms citing in achieving improvements in this area include:

- a. Regulatory burdens restricting chargeable activity
- b. Potential inefficiencies in hybrid working arrangements
- c. AI speeding up production but reducing fee earner input
- d. Poor fee earner discipline and training
- e. Lack of consistent prevalence given by the firm in their communication with fee earners
- f. Prevalence of value pricing detracting from the importance of time recording for costing purposes

We are looking to capture chargeable hours data in the Ulster Bank survey each year to build a picture of emerging trends in this area as firms continue to focus on their core profitability and manage the effects of AI on their working practices.

Considering the results of PEP and People costs from the survey we can see that firms have struggled to grow and struggled to improve their margins in 2026 despite significant effort and resources being focused on this area by many firms.

We asked firms to comment on their experiences.

Tom Alder from Lester Aldridge observes:

“At a partner level we have refocused from personal financial results to team-led metrics, moving away from revenue-based KPIs to gross profit and margin-based considerations.

“We have also been working to free up time for senior team leaders to have more time to manage their team and drive the behaviours and outcomes we want for our clients.

“We have been working on achieving ‘brilliant basics’. For example, we have been getting better at our timesheets – getting better at capturing time and getting better at recording the value we have been adding for our clients. Our view was that we really need this information to get better at pricing our services and understanding where value and profits are created in the business.

“We have been driving improvements in the narrative we add to our timesheets but also removing the stigma around write offs. We understand that more time being recorded, even if it is then recovered at a lower rate, is still additional profit for the business.”

Profitability and productivity

John Seigal from Clintons Solicitors comments:

“Productivity is on our agenda. Due to the nature of our work and contractual arrangements we have historically not focused on time recording but this has been changing. We need the information from this to help us with pricing in the future but also for better management information.

“We are investing in a new practice management system which, combined with the change in approach on time recording, is expected to provide us with valuable information in running the firm in the future.

“We are investing in degrees of automation of some of our administrative aspects – for example we are looking at automated billing to free up capacity and resource in the team.

“In relation to revenue growth, earlier I mentioned that teams working together is important to us. This is true of productivity and margin issues as well. We have a highly specialist offering for our clients and it’s important we get our people together in person so they can learn and develop, and build skills so they are able to deliver the advice and service our clients need.”

Denise Walker from Glenville Walker comments:

“Our current year margins have been eroded because a range of factors. It has become a more competitive market, and it has been harder to bring in work. At the same time Employers National Insurance increases have played a significant part but so to has competition for people along with hybrid working arrangements.

“In 2024 our people costs % (as a proportion of earned income) rose; this was a planned investment by the firm in capacity. We saw the benefits of this investment in 2025 when our people costs % reduced by 10%, however in 2026 we have seen this deteriorate by 4% due to a static billings with an increase in wage costs.

“Being Liverpool-based we operate in a very competitive geography for talent with Manchester firms continually looking to pull talent out of the area. We also have strong beliefs that it is best for our people and our clients for much of their work to be office-based. We see that home-based work in particular damages personal development, results in less supervision whilst creating less control, higher risks and lower margins/ productivity. Whilst we firmly believe this stance improves our culture and our services it can impact on recruitment and retention matters. All these factors have put pressure on our margins in 2026.”



Section 6:

Business structure and ownership

Section 6:

Business structure and ownership

6.1 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 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 on the right reports the gearing for the survey participants, and this reports a median of 8.5 fee earners per equity partner with large firms reporting a median of 8.8 and small firms reporting a median of 6.0.

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.

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.

Gearing (total fee earners/equity partners)

	Lower Quartile	Median	Upper Quartile
London & South East	5.5	7.8	9.4
Midlands & East	5.8	9.8	12.7
North & Scotland	6.3	8.3	12.1
South, West & Wales	6.4	11.2	15.3
Small	4.5	6.0	9.9
Large	6.3	8.8	13.0
All firms 2026	5.9	8.5	12.6
All firms 2025	5.5	8.3	13.4

Business structure and ownership

6.2 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
London & South East	0.45	0.65	1.10
Midlands & East	0.57	0.89	1.24
North & Scotland	0.56	0.70	0.94
South, West & Wales	0.53	0.66	0.99
Small	0.69	0.93	1.31
Large	0.52	0.65	1.02
All firms 2026	0.53	0.68	1.07
All firms 2025	0.52	0.70	1.09

The survey reports a median result of 0.68 support staff per fee earner, with small firms reporting a median of 0.93 and large firms reporting a median of 0.65.

The results show that for the firms participating in the 2026 survey there was little change in their support staff fee earner mix between 2025 and 2026.

These results are consistent with what 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.

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 7:

Lock up and funding

Section 7:

Lock up and funding

» 7.1 Overview

- Median WIP days in the survey was 90 days compared with 93 days for the same respondent firms in the prior year.
- Median debtor days in the survey was 41 days compared with 41 days for the same respondent firms in the prior year.
- Median lock up days in the survey was 136 days compared with 128 days for the same respondent firms in the prior year.
- Reliance on external debt in firms has reduced slightly with the median result reporting firms borrowing 13p for every £1 of member funds (2025: 15p).
- It is notable that small firms place more reliance on external debt than large firms. For small firms the median result is 14p of borrowing for every £1 of member funds (the median for large firms being 12p).
- At the upper quartile this becomes more exaggerated with small firms reporting an upper quartile result of 37p of borrowing for every £1 of member funds (large firms' upper quartile being 29p for every £1 of member funds).

7.2 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.

Lock up and funding

7.3 WIP days

	Lower Quartile	Median	Upper Quartile
London & South East	42	81	106
Midlands & East	75	124	157
North & Scotland	35	75	120
South, West & Wales	68	94	144
Small	43	75	102
Large	53	94	143
All firms 2026	51	90	136
All firms 2025	50	93	136

Survey firms reported a median of 90 days of turnover (fees) invested in WIP, reflecting a three-day reduction for the same firms in 2025 where the median was 93 days.

The data distribution across the two years was similar with little change at the upper and lower quartile thresholds between the two years from survey respondents. In 2026, 25% of firms reporting WIP days exceeding 136 days (the same as in 2025) and 25% of respondents reporting WIP days of less than 51 days (2025: 50 days).

The same comment could be made when looking at the distribution across the small and large firm cohorts which remained remarkably similar year on year.

Lock up and funding

7.4 Debtor days

	Lower Quartile	Median	Upper Quartile
London & South East	41	54	76
Midlands & East	19	26	38
North & Scotland	18	36	59
South, West & Wales	29	36	67
Small	18	27	46
Large	26	43	71
All firms 2026	24	41	68
All firms 2025	26	41	64

Like WIP days there has been a great deal of stability in this result with the median in the survey remaining at 41 days in both years.

The upper quartile in 2026 has drifted upwards by 4 days and this has been prevalent as a trend in both the small and large firm cohorts in the survey where the upper quartile increased by 8 days and 4 days respectively.

The median result for small firms of 27 days compares with 31 days for that group in the prior year; for large firms the median in 2026 of 43 days compared with their 2025 median of 44 days.

Lock up and funding

7.5 Lock up days

	Lower Quartile	Median	Upper Quartile
London & South East	102	118	160
Midlands & East	107	159	199
North & Scotland	64	123	165
South, West & Wales	120	136	189
Small	77	99	131
Large	107	145	188
All firms 2026	101	136	183
All firms 2025	103	128	178

Firms reported a median of 136 days of turnover (fees) invested in lock up reflecting an increase from 128 days for the same firms in the prior year.

This increase follows two years where the sector has commonly been reporting reductions in lock-up. Over that period firms were often impacted by the cash outflow from basis period reform, and it was apparent firms were focused on reducing lock up to assist with this issue. The focus in 2026 has perhaps shifted to managing margins and conversely management of lock up has been given lower priority.

The median result for small firms reflects the most notable change decreasing 17 days from 116 days in 2025 to 99 days in 2026. Conversely for the large firm cohort the median lock up days increased slightly from 142 days in 2025 to 145 days in 2026.

Lock up and funding

7.6 Debt and equity

We have commented on the investment plans that some law firms have both in headcount growth and I.T 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 on the right expresses actual debt taken as a percentage of net assets.

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

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

The median result for all firms is that they borrow 13p (2025: 15p) for every £1 of Members' Funds invested in the business.

We find around 25% of firms are debt averse (borrowing less than 1p per £1 of Members' Funds) and for those that do have a debt appetite 25% borrow between 13p and 30p per £1 of Members' Funds.

It is notable that small firms place more reliance on external debt than large firms. For small firms the median result is 14p of borrowing for every £1 of member funds (the median for large firms being 12p).

At the upper quartile this becomes more exaggerated with small firms reporting an upper quartile result of 37p of borrowing for every £1 of Members' Funds (large firms' upper quartile being 29p for every £1 of Members' Funds).

Borrowing as a percentage of net assets (Members' Funds)

	Lower Quartile	Median	Upper Quartile
London & South East	0%	15%	24%
Midlands & East	7%	15%	32%
North & Scotland	0%	8%	16%
South, West & Wales	4%	13%	41%
Small	5%	14%	37%
Large	1%	12%	29%
All firms 2026	1%	13%	30%
All firms 2025	2%	15%	30%

Lock up and funding

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 60p 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 2026 however is that reliance on debt within firms has reduced compared with 2025 and the survey data supports this. A similar position was reported in the 2025 Ulster Bank survey when comparing with 2024 results.

To some extent this position is surprising given the growing lock up levels reported in the survey and the fact we know that around two thirds of UK law firms have needed to manage the acceleration of tax payments following basis period reform. Whilst not evident from survey data, our own experience is that firms have seen positive cash balances declining and they have been slower to pay out profits to partners than in recent years.





Section 8: Technology

Section 8: Technology

► 8.1 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.

8.2 AI investment

No survey into the legal sector in 2026 would be complete without delving into the subject of AI and its impact in law firm businesses.

We asked our respondents a range of questions, starting with where they felt the biggest challenge was in adopting and using AI in their business.

The range of responses were diverse, but we can see from the chart on the next page that uncertainty about which AI tools to use has been one of the most significant challenges facing most law firms, identified by 34% of respondents.

A further 18% of firms next identified concerns around their ability to recover the investment costs associated with AI.

Whilst reporting lower responses two other areas also warrant note; 11% of firms see client confidentiality as a primary concern, whilst 9% point to the governance around AI as being a key issue.

Interestingly, 5% of firms acknowledged they do not use AI in their law firm. In the 2025 Ulster Bank survey 50% of firms reported they were not using AI in their firm – a 45% swing in firms now using AI within a year.

Technology

What is the biggest challenge your firm is facing in adopting or using AI?



Technology

We also asked firms to confirm whether in addition to simply using AI they were also investing in its development, and if so which areas of investment have had the most significant impact on their business.

The results from this tell a further story. We can see 43% of respondents noted that using AI to streamline administration processes was the most noticeable impact of AI in their law firm at this point.

Most law firms using AI are therefore doing so primarily for administrative purposes. In practice, this can mean both internal business administration and administrative tasks associated with client matters.

For other firms making positive investments in AI, 10% cited client delivery and 10% cited cost-saving opportunities as the most noticeable impacts arising from their activities.

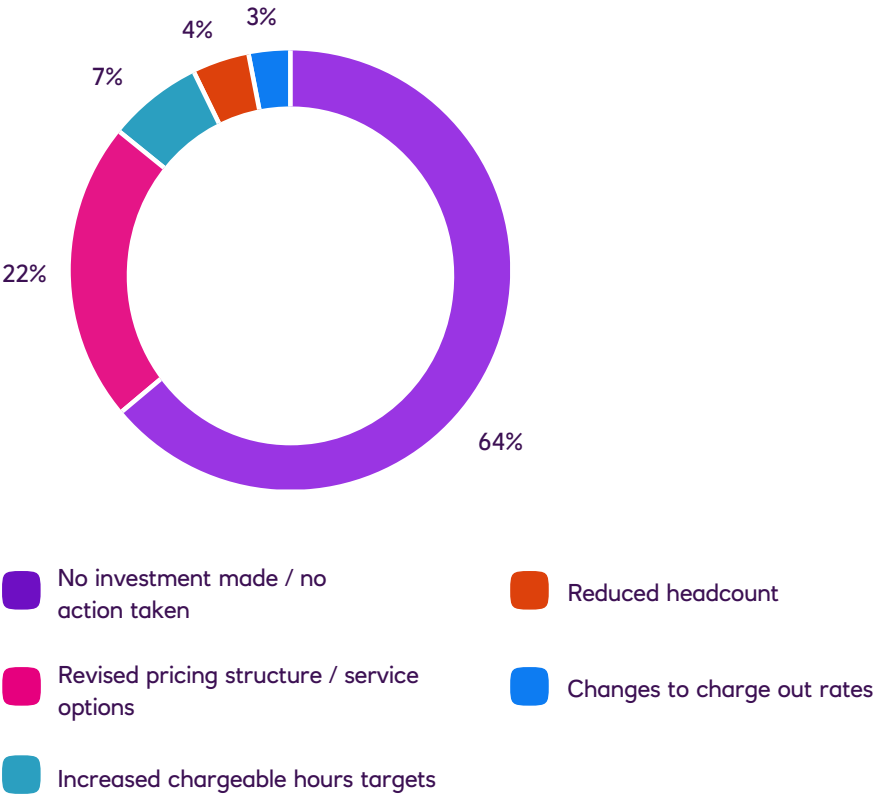
We note however that 24% of firms did not feel that they had made a specific investment in AI, although only 5% of firms overall claimed that they do not use AI in their firm. We therefore seem to have a 19% differential of firms who appear to accept they use AI (presumably in free or “nearly free” formats) but do not make particular investment into developing its use.



Technology

When asked about the challenges that AI presents, 18% of firms noted that recovery of the investment costs was the most significant factor. We therefore asked firms what actions they are taking to generate a return on their investment in AI.

If your firm has invested in AI, what actions have you taken to recover your investment?



The most frequent response from firms here is that no action has been taken to recover the investment in AI, with 64% of firms providing this response (although this includes the 24% who have not made any specific investment).

Either way, the conclusion is that those firms who are investing currently remain broadly passive regarding the recoupment of their investment.

However, we can also see the remaining 36% of firms have taken some action, with, most significantly, 22% of firms reviewing their pricing and service options, 7% increasing fee earner chargeable hour targets and 3% increasing charge out rates.

Interestingly, only 4% of firms have sought to achieve reduced headcount as a mechanism to recoup their investment in AI.

Given the swing in a 12-month period from 50% of firms using AI in the 2025 survey to 95% of firms using AI in 2026, it will be interesting to see how this area develops in its dominance in the next few years in law firm businesses.

Technology

Considering AI, John Seigal from Clintons Solicitors explains:

“We have been taking a measured approach in this area. We have primarily been using the tools available to assist in work such as contract reviews and to help accelerate the preparation of advice to clients. However, we are focusing on using AI to help fee earners rather than replace them. We are not for example using AI to draft advice or provide any opinion unless there are substantial levels of human input.

“We are using AI in our work and where used we operate a closed system, and we remain very cautious about the subject as a whole and client confidentiality is at the heart of our management in this area.

“We are a niche firm, and this will undoubtedly impact on how we move forwards with AI. We are unlikely to be at the forefront of jumping into new things in this area, but we equally appreciate and embrace it and recognise that it can be unbelievably helpful to us and our clients.”

Tom Alder from Lester Aldridge comments:

“We engaged a Chief Information Office earlier this year and part of their focus is on getting value from what we have already invested in AI – for example the investment in Microsoft 365 and CoPilot is being supported by a focus on practical internal training. We are also trialling a specialist AI platform within the firm, in the first instance within our Real Estate team.

“The way we approach AI is to identify the need in the business first and then consider what AI tools are available to help us rather than the other way around.

“There are undoubtedly challenges arising from the use of AI. Change management and pricing impacts are key issues for us and both areas we need to continue to focus on moving forwards. AI has the potential to release notable capacity of people in the business and again ensuring that capacity is effectively used is an important aspect for all firms to now manage.”

Technology

Denise Walker from Glenville Walker comments:

“We are using AI to a limited extent to help with initial analysis and research but at the same time we are very wary of the extent of reliance that we place on it. We see a great danger in young lawyers losing the development skills associated with reasoning if they become dependent on AI – this has been defined as ‘Cognitive Surrender’ and is not something we want our firm to be associated with.

“Our focus has been, and continues to be, on automating back-office/ administration activities where we can and AI can help us with this at times but it will not usually be the whole of the answer. We are a small and relatively young firm (10 years old and 25 people) so we have a range of easy wins we can still make on automation which will be beneficial to us.

“We commonly use CoPilot and a tool that helps us identify drafting errors in documents. While we embrace facilities such as these, and the general benefits of AI, our work is specialist and we believe the longer-term applications for us are likely to be lower than other areas of law.”

8.3 Risk management

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

We can see that the general profile of attacks is stable. Specifically, we noted that 64% (2025: 66% and 2024: 51%) of firms responded reporting no attacks and 12% (2025: 9% and 2024: 17%) reported only receiving one attack during the last year.

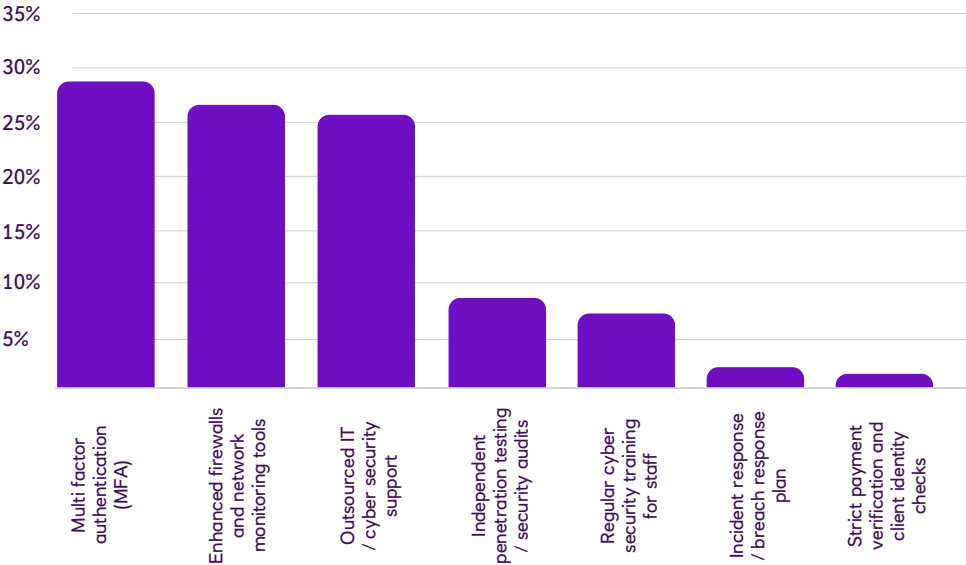
Firms

Number of attacks in last 12 months	0 or 1	2	3	4 <
2026 % of firms responding	75%	6%	2%	17%
2025 % of firms responding	75%	4%	1%	20%
2024 % of firms responding	68%	12%	0%	20%
2023 % of firms responding	54%	16%	7%	23%

Technology

Delving deeper into firms’ performance in this area, we asked respondents where they were focusing their efforts to strengthen the security of their IT infrastructure and systems against fraud and cyber attacks.

Which is the primary measure your firm is deploying to mitigate cyber risks?



The chart on the left illustrates that the primary focus from firms was evenly spread across three areas, with 29% of respondents explaining that the implementation of multi-factor authentication for system and software access was their first line of defence.

Firewalls and networking monitoring tools were cited by 27% of firms as their primary focus, closely followed by outsourced IT and cyber security support, which was identified as a key element of their approach by 26% of firms.

Section 9:

Sector outlook and topical issues



Section 9:

Sector outlook and topical issues

9.1 Our challenges

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

Respondents reported on a range of issues here and we can see from the table on the right that, for the second year in succession, margins and productivity have been cited as the primary area of concern, overtaking talent-related issues which in prior years dominated the top position.

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.

The rise of margins and productivity as a concern for law firms is notable in the last four years. It is clear this remains the dominant issue for firms, and we have already considered this subject in a range of measures and other sections in this report.

	2026	2025	2024	2023
Pressure on margins/productivity	44%	39%	31%	6%
Attracting and retaining talent	20%	29%	44%	46%
Economic/geopolitical outlook	13%	3%	9%	21%
Adoption of AI	8%			
Cash flow	6%	14%	8%	10%
Regulatory challenges	4%	4%	1%	
Succession/exit strategy	3%	3%	5%	4%
Competition from PE backed firms	2%			
Technology		7%	1%	
Inflation/taxation				10%
Pll costs				2%
Marketing				1%
Funding/finance		1%	1%	

Sector outlook and topical issues

9.2 Attracting and retaining talent

With 20% of firms identifying talent as a key challenge for their business, we asked respondents two additional questions in this area. Talent has been a consistently recurring theme throughout the Ulster Bank Legal Report series and remains one of the daily challenges facing law firms.

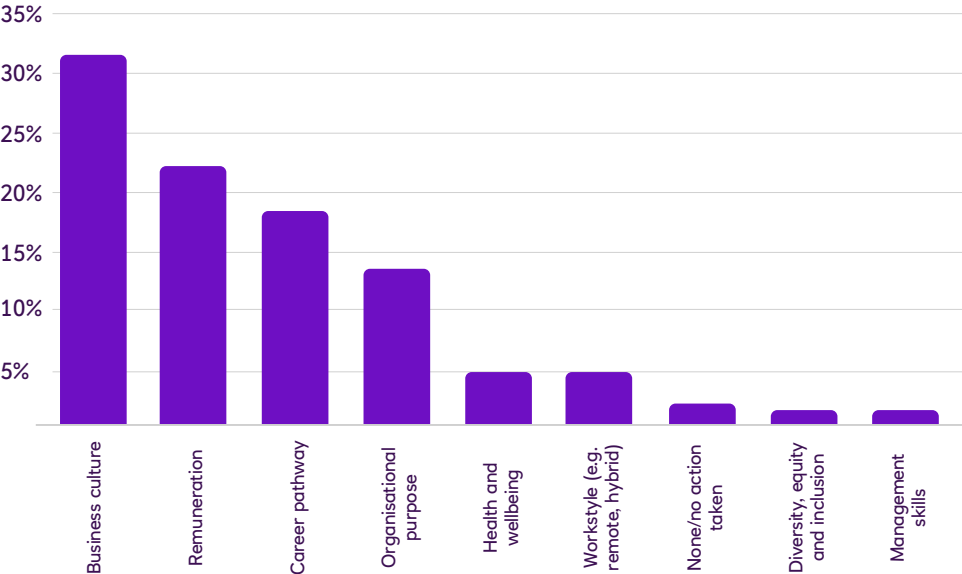
In 2026, we were keen to understand where firms were directing their efforts to attract new recruits and retain existing members of their teams. We asked firms to identify their primary area of focus.

The chart on the right illustrates that the front runner in this area is the culture of the law firm, with nearly a third (32%) of respondents citing this as the most important area of focus.

Perhaps unsurprisingly, salary and remuneration arrangements were also noted by 22% as the cornerstone of their defence, whilst skills development and career enhancements were noted by 18% as their key focus in attracting and retaining talent.

A significant amount of airtime is devoted by firms to the issue of employee health and wellbeing, although only 5% of firms noted this as their primary activity in terms of retaining and attracting people. This was possibly more of a dominant issue during and immediately after Covid-19.

What is the primary action your firm is taking to improve recruitment and retention?



Sector outlook and topical issues

Naturally, firms deploy a range of strategies to attract and retain talent, but it is interesting to appreciate what they see as the most important or primarily effective part of their toolkits.

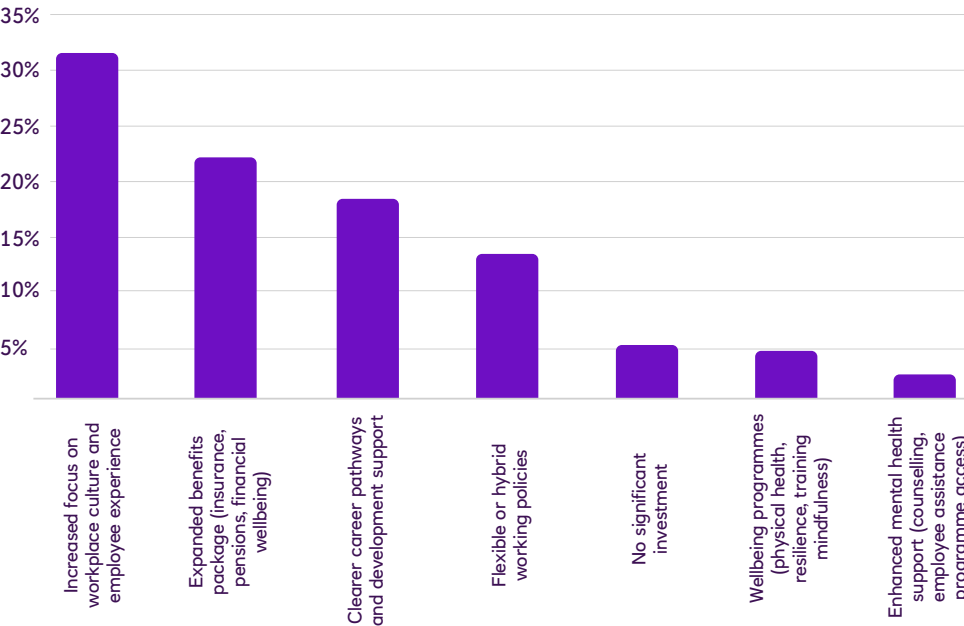
We also asked firms where they felt they had made their most significant investments to improve their proposition as an employer.

The investment priorities seem consistent with respondent views on their primary action areas, with workplace culture and employee experience emerging as the dominant theme. Overall, 32% of firms selected this as their principal area of investment

Benefits packages (aligned with the importance of remuneration) is the focus of 22% of firms, whilst career development and support are cited by 18% of firms as a key investment area.

All the responses point towards a clear understanding from law firms that business culture and purpose, remuneration and career experience are all key buttons to push when attracting and retaining talent in 2026.

What is the primary investment your firm has made to improve or enhance employee proposition?



Sector outlook and topical issues

9.3 External investment

Along with AI, it is hard to read any legal press in 2026 without being confronted by the latest transaction or rumoured transaction in the private equity and consolidator market in the legal sector.

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.

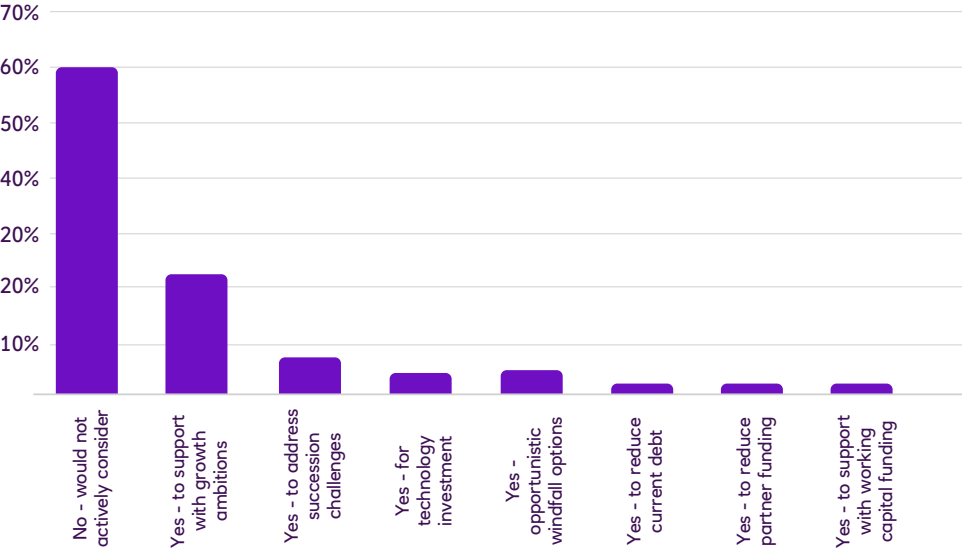
We have now asked firms the same question two years later in the 2026 survey.

The position has softened, with 60% of firms now maintaining that they would not consider third party investment compared with 71% in 2024. So, in 2026 40% of firms are saying they would consider external investment compared with 29% in the 2024 survey responses.

Interestingly of those firms within the 40% who would be open to such investment, 22% suggested that they would seek investment to help them with the growth plans, whilst 6% suggested investment might be accepted to manage succession challenges and 4% for investment in technology (possibly for growth as well or potentially simply sustainability of the business).

Notably, perhaps 4% of firms simply expressed that they would consider external investment from an opportunistic viewpoint for the purposes of realising a value for their investment.

Would you actively consider third party capital/PE investment? If so, for what primary reason?



Sector outlook and topical issues

We also asked firms, regardless of their appetite for external investment, what they saw as the primary challenge of operating in a legal market that now places a market value on law firm businesses and where transactions and external funding are now commonplace.

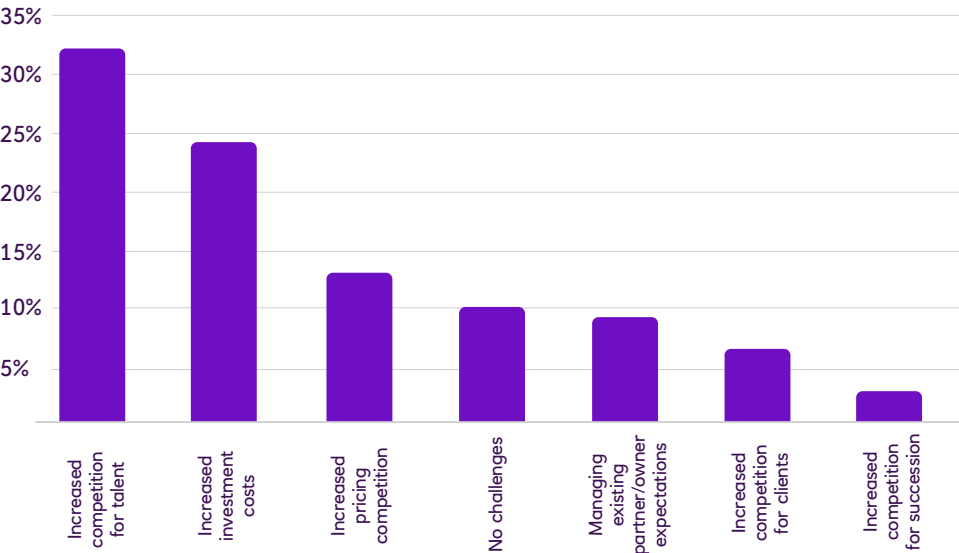
Respondents clearly see PE-backed businesses as a competitor for talent, with 33% of firms citing this as the biggest challenge from this evolving market.

The next two most common challenges highlighted by respondents of increased investment costs (24%) and price competition (13%) present a similar picture.

Many firms are being pushed to accelerate investment in infrastructure to enhance both the employee and client experience, enabling them to compete with externally funded firms which often have the budgets to invest quickly and boldly in these areas.

At the same time many externally funded firms, for a mix of reasons including the medium-term exit of their investors, are seeking to rapidly gain market share which in turn places price pressures on work pricing.

What do you see as the biggest challenge of operating in a market with PE backed firms?



Denise Walker from Glenville Walker comments:

“We established our firm for independence, so we start from a premise that a corporate structure is not our preference. We can see a great deal of benefit of the new external investment market for firms where owners wish to exit or extract their cash. Conversely, we see no long- term benefits for clients from these structures and question whether such firms will be a good choice for client service given the significant financial pressures they all face from their new demanding corporate owners.

“In our experience from what we have seen the arrangements available on the sales and investments are not perhaps as great as the publicity indicates. Whilst there is a certain amount of cash upfront in most transactions it appears to be difficult to collect the earn outs promised at the outset.

“Younger lawyers in some cases are less interested in law firm ownership but there are, in our experience still people out there who want to be real equity partners and run their own firm. Whilst external investment may make it easier for younger lawyers to avoid needing to own and run a law firm it will also have the impact over time of dumbing down the skill-set of the underlying legal profession.”

Sector outlook and topical issues

Tom Alder from Lester Aldridge discusses their experience in this area:

“It’s important for the legal sector to appreciate that external investment is here to stay and it will remain a feature of funding and development options in the legal sector moving forwards. The overarching impact in our view is that it makes all firms ‘sharpen their pencils’ by bringing additional competition and commercialism to the sector.

“We can see the appeal for firms given the range of challenges the legal sector continues to face and we can see the benefits it can bring where firms are looking to invest for further growth. It helps firms get over the inherent limitations in 2026 of the partnership model.

“Even where a firm has decided at this point to go in a different direction to private equity it will still be important not to ignore the impact this will have on the sector more generally in terms of competing for people and clients.

“There is no one-size-fits-all for this subject – the options are wide: public offerings, consolidations, pure private equity and even consultancy models. It’s going to be important for law firms to keep a careful watch on how the sector evolves.”

John Seigal from Clintons Solicitors comments:

“Our general approach here is a watching brief. Our challenge with this subject, considering the niche nature and position of our firm, is that there is no underlying obvious need for external funding. We don’t see any challenge from the partnership model, and we are able to fund circumstances where we need to make developments and investments in our business.

“Having said this, we are certainly not oblivious or dismissive of the opportunities external investment could present. We are keeping a watching brief and taking action to educate ourselves on what the opportunities are and might be in the future.

“Alongside this we are cognisant of the impact that this existence of external investment and a market value for a law firm will have on our business in the future. Firms that have not sought external investment at this point can’t ignore the impact it will have on their business, particularly around the issue of equity owners joining and leaving firms.

“The external investment option has stimulated discussions in our own firm about arrangements for those joining and leaving the firm. We have historically had mechanisms in place to manage this but the advent of external investment has caused us to review these arrangements.”

Sector outlook and topical issues

9.4 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.

The table on the right illustrates that, at the median, interest income earned represented 3.7% of law firms turnover; and for 25% of participants the figure was 7.1% or higher.

These results compare with the 2025 Ulster Bank survey which reported a median of 5.6% (lower quartile 2.7% and upper quartile 9.5%).

Interest income - % of fee income

	Lower Quartile	Median	Upper Quartile
London & South East	1.0%	4.0%	6.9%
Midlands & East	3.1%	5.4%	7.7%
North & Scotland	0.6%	1.4%	3.4%
South, West & Wales	2.3%	4.5%	8.2%
Small	1.2%	3.4%	7.5%
Large	1.8%	3.8%	7.1%
All firms	1.5%	3.7%	7.1%

Sector outlook and topical issues

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.

This tells us for the median firm in the survey 14% of their PEP was earned from interest income. With 25% of the survey reporting that at least 28% of their PEP was earned from interest income and 25% reporting that less than 5% of their PEP was earned from interest income.

These results compare with the 2025 Ulster Bank survey which reported a median of 21% (lower quartile 9% and upper quartile 35%)

Our experience is in line with these results. Client interest income remains a significant contributor to profit in many law firms although the position has eased since 2024 and 2025. This position is arising from a combination of falling interest base rates and firms paying more interest clients in accordance with the requirements of the Solicitors Accounts Rules.

In both 2024 and 2025 we commonly saw results where interest represented 30% to 35% of PEP in law firms and for between 10% and 15% of firms we saw in those years it was not unusual to see firms where over 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.

Interest income - % of PEP

	Lower Quartile	Median	Upper Quartile
London & South East	2%	17%	26%
Midlands & East	10%	21%	33%
North & Scotland	2%	7%	13%
South, West & Wales	9%	16%	28%
Small	6%	17%	28%
Large	5%	13%	27%
All firms	5%	14%	28%

Sector outlook and topical issues

Returning to the 2026 survey results where the median is now 14%, we can therefore see this position has stabilised further compared with 2024 and 2025 position.

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.

For those of us that can remember the financial position of law firms before 2008 we can of course relate to the fact that the positions seen in recent years are in fact not uncommon compared with the longer-term financial relationship which law firms hold with interest income.

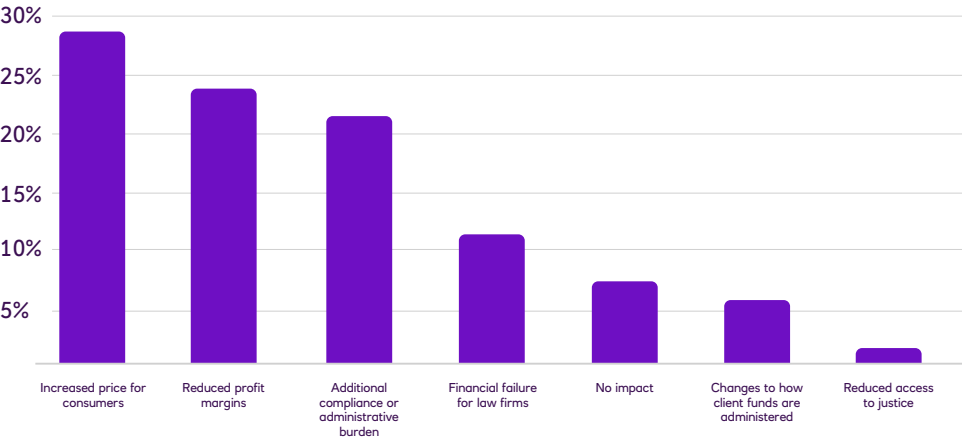
We must of course be careful in reporting these types of financial performance statistics and remind ourselves that clients do, in accordance with the SRA Accounts Rules, receive the interest they would have earned if they had held client funds themselves. We should also be mindful that inflation in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

Following the SRA consultation into various issues surrounding client interest, we saw another consultation in early 2026 by the Ministry of Justice which remains to be concluded at the date this survey report is being compiled.

We asked survey respondents for their views on the key proposal from this consultation; namely that a significant element of client interest income earned by law firms would be diverted to the MoJ to fund the justice system in the UK.

What do you see as the primary impact if the Ministry of Justice's proposed Interest on Lawyers Client Accounts (ILCA) scheme goes ahead?



We can see the predominant responses are similar to those widely mooted by respondents to the consultation itself, with 29% of firms suggesting inflation in legal prices would be the main consequence of this change, 24% noting simple pressure on margins for law firms is likely, whilst 22% suggest it will primarily create an administrative burden.

Interestingly, 11% of respondents felt that the financial failure of law firms is likely to be the primary consequence of these changes. Whilst not the dominant response, if that were indeed the case for 11% of the legal sector as a whole, we would be looking at a substantial number of law firm failures. In turn, this could lead to a significant increase in the number of regulatory interventions required to protect clients.

We do of course have some past evidence of what happens when interest income is abruptly removed from the law firm business model – it happened in 2008, and in the following years from 2009 to 2011 there was both a significant increase in inflation of legal costs and a high number of law firm failures.

Sector outlook and topical issues

9.5 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.

In the Ulster Bank 2025 survey we asked firms about the relative importance that they placed on diversity and inclusion; 52% of firms reported that it was of “medium” importance and 40% of firms cited this as a significant high priority.

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

At a fee earner level 92% (2025: Ulster Bank survey 86%) of respondent firms reported that females account for over 50% of their fee earners, with 68% (2025: Ulster Bank survey 66%) of firms reported females account for over 60% of their fee earners.

The position at equity partner level remains different and here only 27% (2025: Ulster Bank survey 26%) of respondent firms reported that females account for over 50% of their equity partners with 15% (2025: Ulster Bank survey 21%) of firms reporting that females account for over 60% of their equity partners.

% of female fee earners	< 30%	30 - 40%	40 - 50%	50 - 60%	Over 60%
2026 - % of firms	2%	2%	4%	24%	68%
2025 - % of firms	4%	2%	8%	20%	66%
2024 - % of firms	2%	6%	9%	28%	55%

% of female equity partners	0 - 10%	10 - 20%	20 - 30%	30 - 40%	40 - 50%	50 - 60%	Over 60%
2026 - % of firms	12%	10%	17%	18%	16%	12%	15%
2025 - % of firms	9%	10%	21%	21%	13%	5%	21%
2024 - % of firms	11%	18%	16%	22%	16%	5%	12%

Section 10: Celebrating success



Section 10:

Celebrating success

We asked some participant firms 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.

John Seigal from Clintons Solicitors explains:

“We have seen great success in our Music Theatre and Entertainment team over the last year, and it is pleasing to see the growth we have been able to achieve and the quality of work we continue to attract and retain in the firm. We are the “go to” firm for music and theatre work and this has been the cornerstone of our business for many years. Our investment over a long period is now rewarding us in terms of attracting the best talent to advise our clients.

“A further notable success for our firm over the last year has been how effectively we have all worked together as a team in overcoming some challenges in the business. The need for us to work together and support each other has been a great experience and further cemented our relationship as a partnership group, which is a great attribute for us moving forwards.”

Denise Walker from Glenville Walker comments:

“We have been delighted to be advising on a significant international litigation matter involving a very substantial sum of assets. It has been rewarding to demonstrate how as an independent firm we can be autonomous in our decisions and take on processes and be agile in making decisions. We have been competing against large London-based firms in this process and they demonstrated inflexibility and from the clients’ perspective a lack of interest. It shows that niche firms with a real focus on expertise and client service can get involved in exciting work.”

Tom Alder from Lester Aldridge comments:

“The undoubted highlight was the launch of our purpose, strategy and guiding principles. Having over 350 of us gathered together was really something, and it was a moment of extreme pride to launch something that reflected a wealth of engagement, feedback and input across the whole business, and indeed our client base.

“The day was deliberately practically focused, and everyone came away with not only an understanding of the direction that the firm is headed, but as importantly the part that each of them has to play in delivering on our agreed goals. I was blown away by the energy, it was a real hearts as well as minds day.

“We have also seen some terrific success with clients and the work we have undertaken. Perhaps a stand-out case was a very large (significant not just in a UK context but on a global scale) transaction we advised on. Our involvement in that matter demonstrated the international level of recognition of our people’s expertise, and also the advantages of a targeted sector-based approach. We were also involved in a landmark motor finance case in the Court of Appeal.”

A Black man with a beard and curly hair, wearing a dark suit, light blue shirt, and striped tie, is smiling and looking towards the right. He is sitting at a desk with a laptop. The background is a blurred library or study with bookshelves and plants.

Section 11:

Top tips for law firms in the 2027 financial year

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Top tips for law firms in the 2027 financial year

1. Time capture and scoping

With most firms reporting that margins and productivity are their biggest challenge, the primary issue for firms to create improvements here start with better time capture and matter management.

Many firms have been investing in time capture education for their fee earners and in some cases, this has progressed towards working with teams on scoping.

Time capture – getting better at understanding this is about costing and not billing, getting better at talking about the value added with the time spent rather than what the fee earner “did”.

Scoping – getting better at talking about this with clients throughout the matter, promptly and by reference to a clear understanding of what all parties committed to do.

Client communication on scope and costs – without this element, good time capture and scoping habits are pointless.

Firms might consider:

- Improving consistency of behaviour as a firm and from partners on the importance they place on time capture, scoping and client communication.
- Regular and repeat training for all fee earners.
- Standardised scoping documents.
- Review processes internally for scoping material on individual matters.
- Improving understanding in the firm that this is not a “project”, it needs to be culturally embedded in managing client matters.

2. Recovering investment in AI

The survey tells us that 95% of firms that took part in the survey are using AI in their business. To varying extents this also means those firms are incurring AI costs within their profit and loss account.

Not only is the advent of AI placing pressure on the management of delivery processes and risk in firms, it is also placing pressure on making changes to the financial arrangements with clients.

AI gets the work done quicker and maybe better but how is the value of this charged to clients and how are the costs of this managed and recovered?

We have seen in this survey that firms are already acknowledging that recovery of the investment is proving difficult. Firms need to focus on issues including:

- Impact in pricing policies.
- Impact on costing (does AI get covered in charge rates or in another way to cost matters?).
- Management of surplus chargeable fee earner capacity.
- Proactive management of surplus capacity.

Firms who invest time and effort into addressing these problems will be better placed to run their businesses in the new arena of AI supported/driven services.

Top tips for law firms in the 2027 financial year

3. Living with external investment

Access to external investment in the legal sector is now an established part of the sector and looks set to remain with us for the foreseeable future.

Most law firms have considered this route to some degree as a source of funding for their business and whilst this survey reflects that 60% of respondents have rejected this option it remains prevalent in the sector and will remain an option for firms to revisit.

Even where firms have decided to take a different route, all firms need to acknowledge that they are now operating in a sector where law firms have a marketable value. Firms may need to be mindful of the impact this may have on the competitive landscape.

Specifically what impact does the existence of a market for law firms have on:

- Decisions around the appointment of new equity owners.
- Personal retirement decisions of existing equity owners.
- Retirement arrangements and protections in Members Agreements.
- Arrangements on appointment – goodwill payment? Commercial value of unbilled time in CFA focused firms?
- Arrangements on retirements – annuity arrangements? Goodwill payments, anti-embarrassment protections?

Not a comprehensive list but many of these matters have both a personal impact and perhaps, more importantly, drift into causing commercial challenges for firms – are partners deferring retirement waiting for the golden handshake from PE? Or holding back new entrants into equity to preserve existing interests in equity value?

It's important for firms to fully consider this new marketplace as this may impact future competitiveness and commercial opportunities.

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