s&w

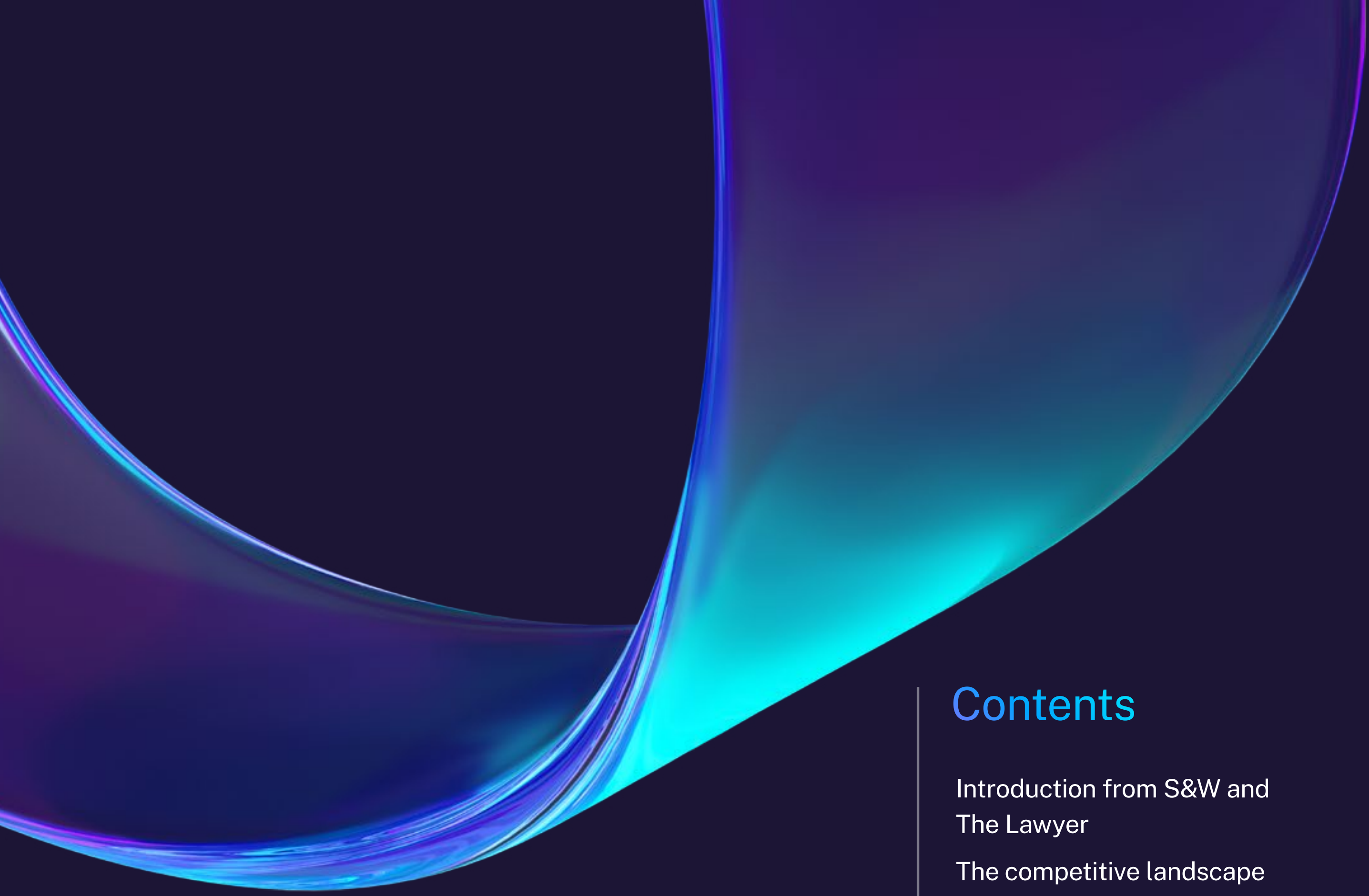
Professional services Annual law firm survey 2024

Annual law firm survey 2024

Celebrating thirty years of transformation in the UK legal sector

THE LAWYER

Hear from over 230 respondents on their views of the legal market



Navigating Complexity. Creating Opportunity.

Since 1881, we've worked with our clients to unlock opportunities and navigate the challenges of a changing world.

A top ten UK accountancy and advisory firm, we're a trusted partner, bringing clarity to clients with complex requirements and shaping solutions that make a difference.*

From the everyday to the extraordinary, we work to understand needs, uncover value and support every stage of business and season of life.

Across the UK, around the world and over generations we help businesses and families build a better future.

Contents

*Source Accountancy Age 50+50 ranking 2024, as part of Evelyn Partners Group

Introduction from S&W and The Lawyer

Welcome to our 30th anniversary report on the UK private practice legal sector, a comprehensive analysis that has chronicled the evolution of one of the world's most dynamic legal markets over three decades. Since its inception, this study has provided valuable insights into the trends, challenges and opportunities shaping the legal landscape in the UK. The legal sector has undergone significant transformation since our first report in 1994, influenced by economic shifts, regulatory changes, technological advancements and evolving client demands.

This milestone edition not only reflects on the historical data and long-term trends but also delves into the current state of the sector, examining how law firms are navigating the post-pandemic environment, embracing digital innovations and adapting to the competitive and regulatory pressures of 2024. The private practice legal sector remains a cornerstone of the UK legal profession, encompassing a wide array of law firms which vary significantly in size, specialisation and organizational structure.

In the years since the COVID-19 pandemic, the sector has exhibited sustained business confidence, buoyed by several key metrics. Firms have adapted swiftly to the changing landscape, leveraging technology to facilitate remote work and thereby maintaining client services without significant disruptions. This adaptability is reflected in stable or increasing billable comhours and a steady flow of new client engagements, particularly in areas like employment law, bankruptcy and corporate restructuring.

Additionally, many firms have reported robust financial performance, with revenue and profit per partner* metrics showing resilience and growth. The sector's confidence and its role in navigating clients through complex regulatory environments during the pandemic have reinforced its critical importance, contributing to sustained confidence and a positive outlook for continued stability and growth.

Nonetheless, the sector continues to face several challenges, including intense competition, pressure to reduce costs and the need to adapt to rapidly changing technological and regulatory landscapes. However, these challenges also present opportunities. Firms that embrace innovation and adopt efficient, client-centred practices may be well-positioned to thrive.

Improvement in lock-up management could significantly help law firms control costs and improve cash flow and profitability metrics. Efficient lock-up management ensures quicker billing cycles and faster collection of receivables, reducing the gap between the time services are rendered and when payments are received. This improved cashflow enables firms to better manage their operational expenses, invest in growth opportunities and reduce reliance on external financing. Moreover, by minimising the capital tied up in unpaid invoices, firms can enhance their liquidity and financial stability, directly contributing to higher profitability and more accurate financial forecasting. Effective lock-up management also demonstrates financial discipline to stakeholders and can positively influence firm valuation.

Current ownership structures can significantly impact the ability to attract external investment and drive innovation. Traditionally, law firms have operated as partnerships and this model has limitations in terms of raising capital for growth and technological advancements. Growing demand for a diversification of ownership structures and the infusion of external capital that these structures can provide, may allow firms to invest in growth and innovation moving forwards. Unlocking external investment is crucial for evolution with external capital helping drive the adoption of AI and other innovative technologies, improving efficiency and client services. It also provides the financial flexibility to acquire specialised boutique firms, invest in talent and expand geographically.

Our report concludes with a look back to 'then and now', where we reflect on some of the major changes that we have seen in the legal market over the past 30 years.

We hope you enjoy reading the report.

Katie Illman
Director,
S&W Group LLP
+ 44 (0)204 617 5723
katie.illman@swgroup.com

Thomas Procter
Research and Data Director,
The Lawyer
+44 (0)7970 4792
thomas.procter@thelawyer.com

*Please note that throughout this report we may use 'partner' and 'member' interchangeably

Law firms remain confident

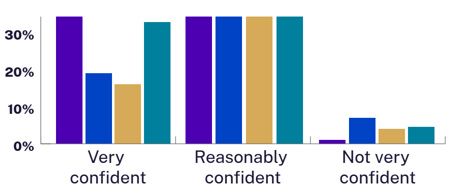
96% of law firms we spoke to this year are confident in the business outlook for their firm. At an aggregate level, this figure has remained constant since we last conducted the survey in 2023, albeit with an increase in the number of firms saying they are 'very confident' in the business outlook of their firm for the year ahead.

76% of law firms we spoke to this year said that the level of competitive pressure in the legal profession had increased over the last year (up from 67% last year). The main sources of competition continue to be cited as from direct competition, niche firms and international firms.

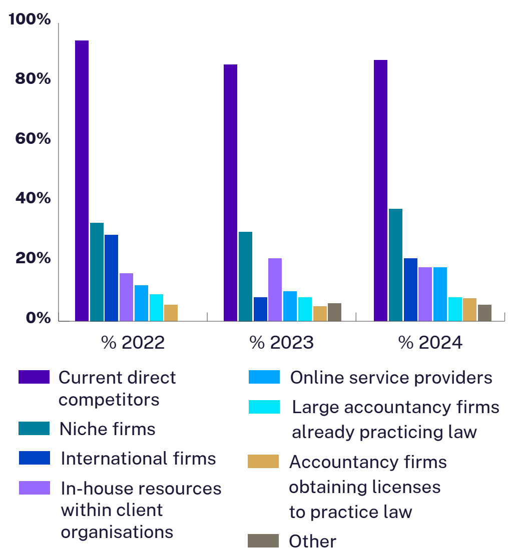
This year, law firms said that attracting and retaining the right people, as well as adopting innovative technology were their biggest challenges. Pressure on fees was also mentioned as a key challenge for 2024. Law firms saw investment in technology, attracting lateral hires, investment in technology and adapting to new ways of working as their biggest opportunities for 2024.

Our analysis shows that firms are keenly aware of the opportunities presented by technology investments, lateral hiring and adapting to new working practices. Overall, the sector remains resilient and forward-looking for the next 12 months.

Looking at the year ahead, how confident are you about the business outlook for your firm?



What do you anticipate as the main sources of competition for your firm over the next three years?



Financial wellbeing

Feature

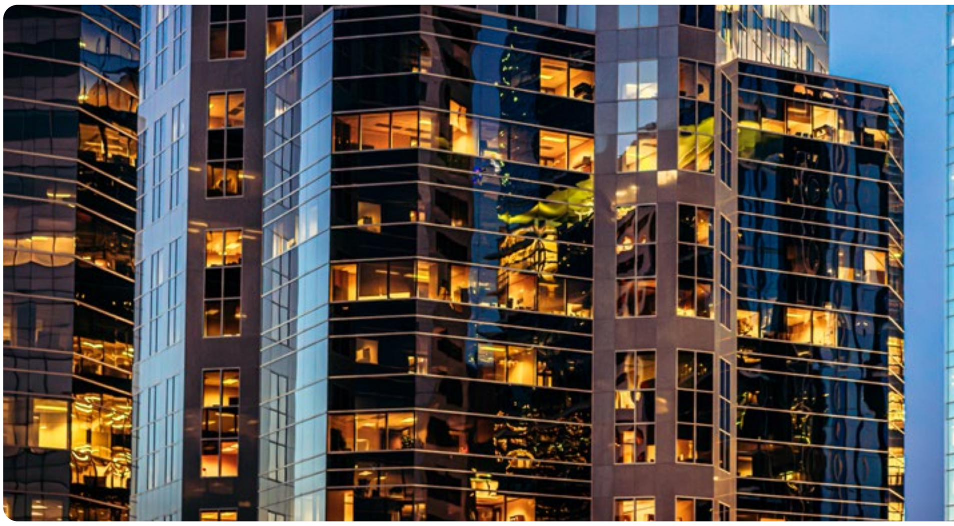
Financial wellbeing and employee assistance programs

Long working hours, limited retirement savings options and peer pressure to maintain a certain lifestyle contribute to the financial challenges that adversely affect financial health

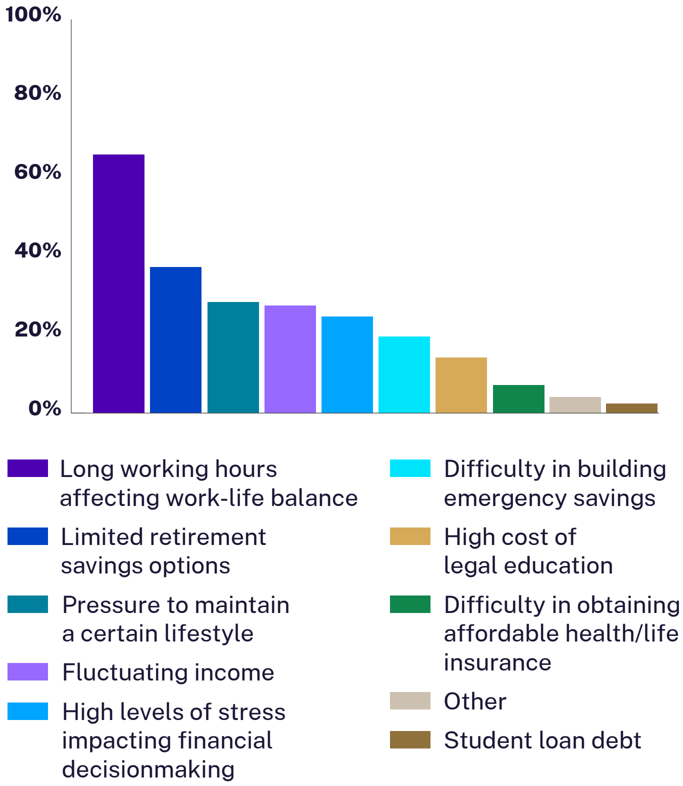
Building on the results from the previous report in 2023, this year we focused on exploring the subject of financial wellbeing amongst lawyers and looked at the employee assistance programs which firms offer to partners and staff.

Firstly, we asked respondents about their current level of financial wellbeing as a lawyer, asking them to take into consideration factors such as their personal income stability, lifestyle management (e.g. mortgages, school fees) and savings accumulation.

- Over half of respondents (52%) rated their current level of personal income stability as either ‘excellent’ or ‘very good’
- 42% of respondents rated their financial lifestyle management as either ‘excellent’ or ‘very good’
- However, only 36% of respondents rated their personal saving accumulation as either ‘excellent’ or ‘very good’
- Respondents said that long working hours, limited retirement savings options and peer pressure to maintain a certain lifestyle as a lawyer all contributed to financial challenges that adversely affected their financial health
- Over half of respondents (53%) said they already used a financial planner or wealth manager and a further 41% of respondents said they had created a financial plan for retirement. However, a collective 28% of respondents said they had taken no action or retirement planning, had no planned steps or didn’t feel prepared for retirement financially
- In terms of the features and benefits they would most like to see in an employee benefit programme, respondents said that private medical insurance, income protection/ long term sickness cover and life assurance would be the most prominent features of the programme

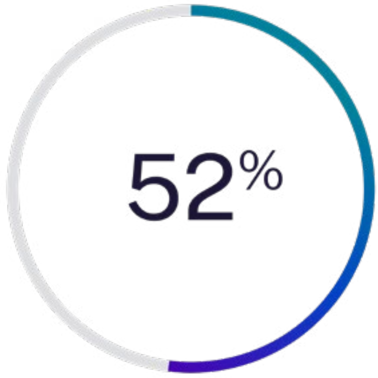


What specific financial challenges have you encountered within the legal profession that impact your overall financial health?

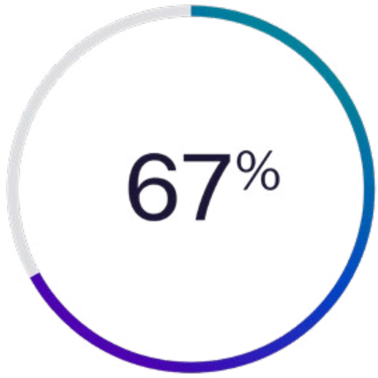


Our analysis highlights both the strengths and areas for improvement in the financial wellbeing of lawyers and the support provided by employee assistance programs. While a sizeable portion of respondents report positive income stability and lifestyle management, concerns remain about savings accumulation and retirement preparedness.

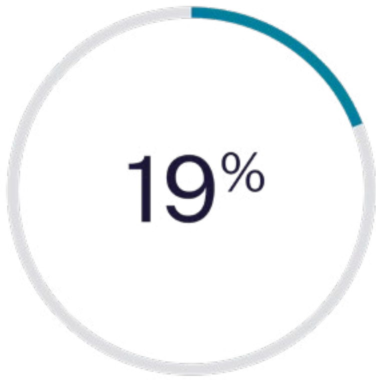
The data suggests that financial challenges such as long working hours, limited retirement savings options and lifestyle pressures significantly impact financial health. There is a clear demand for comprehensive employee benefit programs, particularly those offering private medical insurance, income protection and life assurance, which could enhance overall financial security and wellbeing among legal professionals. Addressing these issues through targeted support and planning could foster a more financially resilient and satisfied workforce.



52% of respondents rated their current level of personal income stability as either 'excellent' or 'very good'



67% of respondents stated that long working hours affect their work-life balance



19% of respondents stated that they had difficulty in building emergency savings

The business case for employee benefits

Expert feature

The business case for employee benefits

The workplace is changing, and fast.

Perhaps the most obvious aspect is the dramatic increase in the number of employees working remotely, and the acceptance of virtual meetings, that a post-pandemic world ushered in.

In addition, for the first time in history, we have 5 generations in the workplace. As younger generations join the workforce, they introduce new values and view their careers through a different lens.

The workplace has also become significantly more inclusive with organisations expanding their diversity, equity, and inclusion (DE&I) policies, and employees are increasingly aware of the importance of contributing to the environment and community, so organisations are striving to embody these aspects in their organisational culture, meet the needs of people from all walks of life and be seen as an inclusive employer who cares about the community and environment in which they work.

The war on talent

Employers who review and adjust compensation in line with the cost of living will be much more competitive in attracting and retaining talent; with lateral hires achieving an average increase of 12% in earnings versus a 3% increase for those employees who stay in their existing roles[1].

This difference creates a strong motivation for employees to leave unless their pay is more closely aligned with what they could earn from another employer. Therefore, organisations need to be aware of the significant differences between pay growth for those who stay in their jobs, compared with those who leave.

Employee needs are also changing, and the pandemic brought about a mindset reset.

The relationship between the employer and the employee has been evolving over the years but throughout the 20th century it has been a 'loyalty contract' wherein employees were provided pay, benefits and security in exchange for commitment.

In a post-pandemic world however, it can be seen as a lifestyle contract. Employees want a healthy experience (physical, mental, emotional and financial) in exchange for sustainable performance.

Organisations are constantly looking to attract and retain talent, and this hasn't become any easier. For many potential employees a balanced lifestyle, and one in which they can contribute more widely to society, may even eclipse the priorities of pay and benefits.

The approach to benefits is no longer static

As a talent shortage puts pressure on attracting and retaining employees, a diverse workforce also makes a benefit offering challenging. This results in many organisations finding a broad review too complex, consequently sticking to what they know and reviewing their benefits on a 'cost' basis.

Overall, most benefits reviews tend to be cost-based and not strategic. The challenge for businesses is to be more pro-active and structure their benefits package based on the features and benefits their employees find most appealing. Taking a reactionary approach, which is the mainstay of the professional services sector, risks missing a significant opportunity to evolve your benefits offering and ultimately your employee attraction and retention strategy.

Why be strategic?

Organisations all have a variety of core business strategies, be it marketing, growth or people. However, very few have any form of benefits strategy that aligns across the business, so having a clear benefits strategy can also act as a differentiator, and therefore a competitive advantage in the legal sector.

Below are 3-key elements for a strategic approach to employee benefits:

1. Do the current benefits align with your Employee Value Proposition, your DE&I and ESG policies, as well as aspects such as statements on your website? A surprising number of organisations overlook these aspects and consequently have a divergent approach and mixed messages.
2. Understanding the current employee demographics, and whether these will change with the strategic plans of the business, and therefore where the benefits may need to pivot. For example, contrary to stereotypes, Gen Z places significant importance on pension benefits for their future planning. In fact, it was the third most important benefit[2]
3. Which trends may disproportionately impact your organisation if you don't act on them?

For example, there is a concerning trend of long-term sickness absence in the 18-24 cohort, with a 79% increase since 2013 – this compares with a 9% increase in the 25-49 cohort[3], which is increasing claims experiences from insurers and therefore having a knock-on effect with premiums.

Visibility and understanding of trends can enable some forward planning and utilisation of approaches, such as early intervention and cost-containment strategies, therefore avoiding nasty shocks when schemes are due for renewal.

With an ageing population, there is a direct correlation with our chances of becoming a caregiver or even a 'sandwich caregiver' with responsibilities for both raising children and support ageing parents.

Long-term sickness absence in the 28-24 cohort has had an increase of 79% since 2013.

Long-term sickness absence in the 25-49 cohort has had an increase of 9% since 2013.

59% of unpaid carers are women[4] and more women than men provide high intensity care at ages when they would expect to be in paid work[5] with 19% of women polled saying that at some point in their working lives they have left a job because of challenges of combining paid work with care[6] . This highlights that women disproportionately take the burden of caregiving in our society[7], resulting in organisations losing senior staff.

Whilst the Carer's Leave Act 2023 came into force in April 2024, existing protection products on the market do not allow provision for managing absence due to caregiving. Yet, there are solutions that can provide caregiver benefits.

The pandemic left many families with an acute awareness of how critical reliable, flexible childcare, eldercare, and pet care is to a healthy work-life balance. In turn, organisations are beginning to support with targeted benefits, such as onsite or shared drop-in childcare for employees, pre-vetted pet care provider recommendations, and on-call access to skilled care providers to address gaps in eldercare support.

Benefits for partners

In many law firms, when you become an equity partner you no longer benefit from group policy schemes such as group life and private medical insurance. This results in partners having to make their own arrangements, such as taking out individual policies with medical declarations and underwriting.

However, being a partner does not mean you have to miss out on group benefits. The inclusion of equity partners in group protection benefits is increasing in popularity due to the scope of cover available, administrative simplicity, availability of medical evidence-free cover levels and generally lower costs.

So, whilst your employment strategy should be multifaceted (and people centric) it's also about managing commercial risks, promoting a competitive advantage, and ensuring good governance.

Balancing and managing these can seem daunting, however, at S&W, our Employee Benefits team have significant experience in all of these areas.

Steve Cave
Director,
Business Development -
S&W Employee Benefit Consultants
+ 44 (0)204 617 5723
steve.cave@swgroup.com

Sources:

1. *McKinsey & Company, 2023: Competition for talent will remain fierce in the UK despite economic uncertainty*
2. *Benify, n.a.: The Five Benefits That Gen Z Want in the Workplace*
3. *ONS, 2023: Sickness absence in the UK labour market: 2022*
4. *ONS, 2021: Census*
5. *Petrillo and Bennett, 2022: New report in partnership with Carers UK for Carers Rights Day 2022*
6. *BITC, 2022: 'Who cares?' report*
7. *Yurtle, 2024: Caregivers are robbing from their future to pay for their present*

Cybersecurity and technological innovation

Cybersecurity and technological innovation

In this year's survey, there was widespread confidence in the ability of law firms to safeguard against cybercrime and the capability of firms to recover from a cyber-attack.

However, respondents identified key challenges in safeguarding against cybercrime including the increasing sophistication of criminals, the complexity of legal data and information systems within their firms as well as the growing reliance on digital technologies which were more susceptible to cyber-attack.

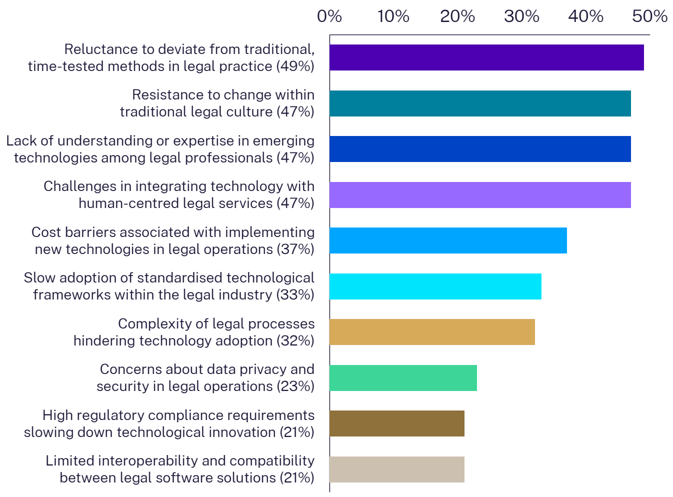
This year, our survey returned to the issue of cybersecurity, asking respondents about the key challenges they face from cybercrime, the level of confidence they had in their cybersecurity defences and the level of confidence about the capability of their firm to recover in the event of a cyber-attack. Respondents were also asked about why they thought the legal industry lagged behind other industries in terms of its historical use of technological advancements and which strategies and initiatives they thought would be essential for fostering a culture of innovation and technological integration within the legal sector moving forwards.

77% of respondents said they were 'very confident' or 'confident' in their current cybersecurity defences, and a further 82% of respondents said they were 'very confident' or 'confident' in the capability of their firm to recover in the event of a cyber-attack.

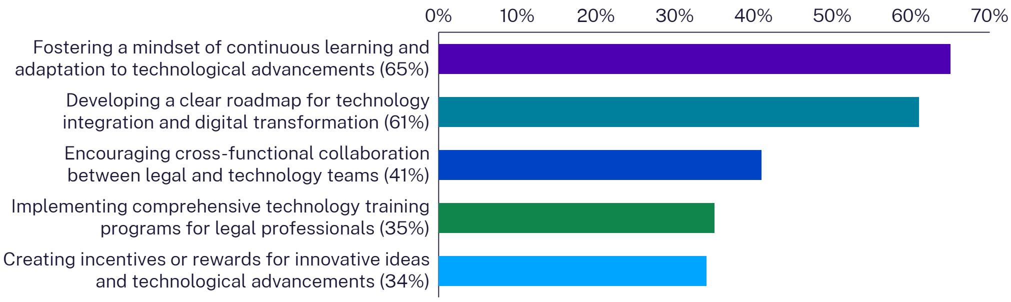
The top three challenges for respondents when safeguarding against cybercrime were the increasing sophistication of cyber criminals (78%), the complexity of legal data and information systems (38%) and a feeling that there was a growing reliance on digital technology within law firms without proper safeguards (37%). Other challenges put forward by respondents included insufficient awareness and training on cybersecurity among legal professionals and the increasing frequency of remote work which people felt created more opportunities for cyber-attacks.

> [We need to have a] greater priority within my partnership and find ways in which highly specialised technological solutions can be afforded by midsized firms.
>
> *Respondent from this year's survey*

Most respondents (67%) felt that the legal sector lagged behind other industries in regard to technological advancements , with several reasons given to explain this including:



Respondents thought there were several strategies and initiatives essential for fostering a culture of innovation and technological integration within the legal sector which included:



The taxation opportunities from investing in technology are discussed further within the taxation article on page 17.

I would not see the human-centred factor as a challenge. Many of the services lawyers provide are face to face in a relationship of trust between lawyer and client where there is an interpersonal relationship. It is more a question of training lawyers to use technology efficiently.

[We need] Better training from our national body the Law Society in technology and the effective use in law firms.

Respondent from this year's survey

S&W's top tips

“

[We require] simplification of our working processes to allow uniform adoption of new processes.

S&W's top tips for improving the cyber resilience of law firms:

1. **Understand your cyber posture:**
Strong cybersecurity requires people, process and technology controls to work harmoniously. So, it's worth undertaking regular reviews to understand how well the overall cyber risk management system is working, identify and address any gaps, and continually improve people, processes and technology controls to ensure efficiency and effectiveness of measures.
2. **Enhance cyber training and awareness:**
Manage a comprehensive and ongoing cyber training programme, using a range of modules and targeting different user groups. This helps in building a culture of vigilance and ensures that colleagues and staff are aware of threats, how to spot them, and how to act. It can also provide valuable intelligence to cyber defence teams.
3. **Develop and test a robust incident response plan:**
Create and regularly update your incident response plans to take account of a variety of scenarios, build resilience into crisis preparedness efforts and enable the conditions for rapid containment and effective recovery in the event of a cyber-attack.

Mark Hendry

Partner,
Head of Cyber Security

+ 44 (0)20 4617 5285

mark.hendry@swgroup.com

If you're not sure where your firm stands on cyber risk or need advice and support dealing with any aspect of cybersecurity, get in touch with our dedicated cybersecurity team today

Tax changes and implications

Tax changes and implications

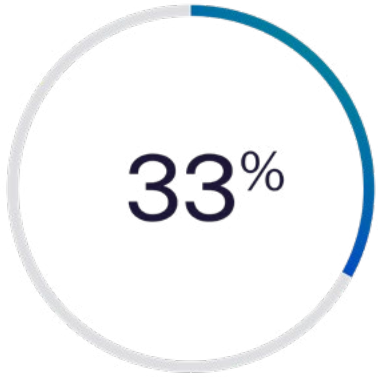
Our survey results show that a decreasing number of firms, when compared to 2023's survey, have yet to model the tax implications arising from the government's basis period reform provisions. Nevertheless, there is a small minority of firms who have yet to complete planning in this area of tax reform.

Last year, our survey continued to track the implications for law firms arising from the government's basis period reform which will align a partnership/LLP's calculation of its partners' profit/losses with the tax year, regardless of the firm's accounting date. For partnership/LLP's which do not have a 31 March year end, this may result in an acceleration of tax due to be paid on the partners' profits from January 2025. This question was asked again in 2024 to measure how well firms are preparing for this change.

In 2024, 33% of respondents said that their firm had modelled the tax impact and had no need for funding to settle tax liabilities, which is a reduction on 43% in the prior year. A greater proportion of respondents this year have confirmed they have a 31 March year end and therefore are not impacted by the changes. A further 12% of respondents said that their firm were changing their year end to 31 March. 7% of respondents said that their firm had not considered any next steps which was a decrease from 16% of respondents in 2023.

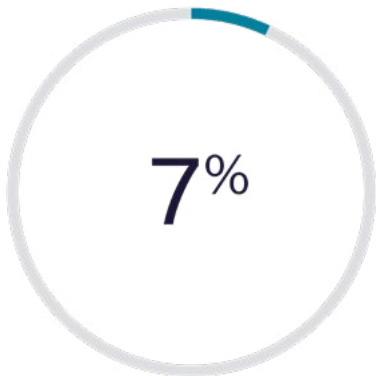
10% of respondents said that they had modelled the tax implications and would need additional funding to settle additional liabilities. 63% said this funding would come from existing partner capital, 50% said this funding would come from improvements in management of lock-up and a further 50% said they would seek funding from an external source.

This year, our survey also investigated the implications of the salaried member rules that apply to UK LLPs. These rules determine whether an individual member is treated as self employed or an employee for tax purposes1. Our analysis looked at each of the conditions associated with the rules and asked respondents about each condition, to see which member/partner group(s) they would expect to fail against the rules.



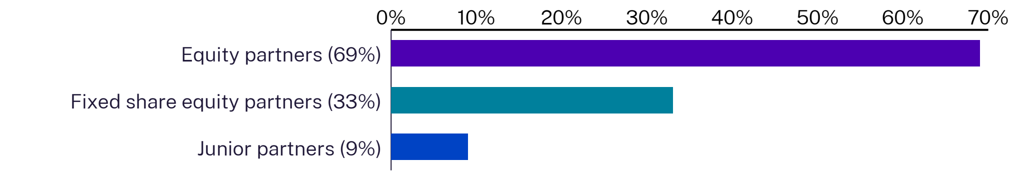
33% of respondents said that their firm had modelled the tax impact and had no need for funding to settle tax liabilities.

12% of respondents said that their firm were changing their year end to 31 March.



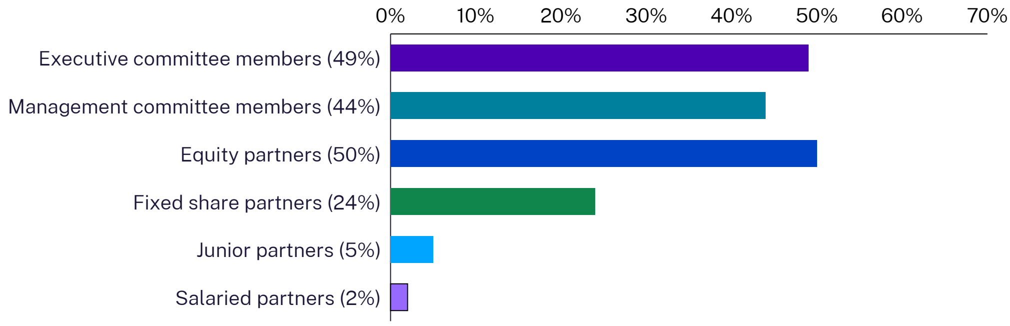
7% of respondents had not considered any next steps.

Condition A - variable remuneration: whether at least 20% of the member's income is variable and based upon the profits of the UK LLP



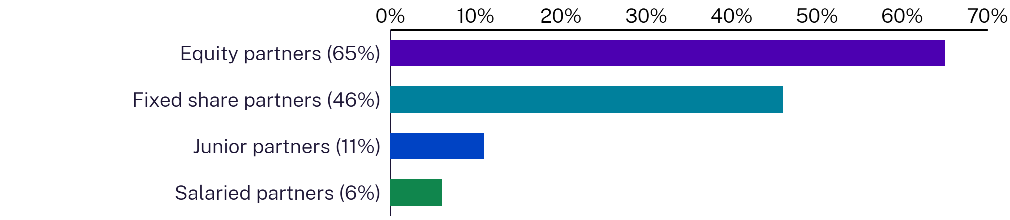
This is in line with general expectations that the more senior levels of partners would be allocated a greater variable profit share based upon the profits of the UK LLP, with a declining likelihood amongst junior partners who more commonly receive a greater fixed profit share element.

Condition B - significant influence: whether the member has significant influence over the affairs of the LLP



This is perhaps more surprising with more respondents considering equity partners having greater significant influence than executive or management committee members.

Condition C - capital investment: whether the member's capital contribution into the UK LLP is at least 25% of any fixed remuneration



Again, this seems in line with the general trend that more senior partners would be expected to have a higher level of capital within the firm compared with more junior partners. However, we would typically expect most fixed share partners to have this as a minimum level of capital.

Taxation changes

Expert feature

Taxation changes give rise to broader opportunities

We explored a number of topical areas within our survey this year, which has highlighted some key areas of taxation requiring attention.

Basis period reform

The 2023/24 tax year signalled a year of change with the self-employed transitioning from being taxed on profits using basis periods, to profits being taxed on a tax year basis. Law firms drawing their accounts to 31 March / 5 April are not impacted by these rules, as partners are already taxed on profits arising within the tax year.

Following our call-to-action last year to encourage firms to model the cashflow impact, consider additional funding requirements and to review the compliance process, it is pleasing to see the majority of affected firms have done so. A much smaller proportion of respondents still need to consider next steps, with the number dropping from 16% to 7% this year. We consider it imperative they review their positions well ahead of the 31 January 2025 tax payment deadline to get ahead of any cashflow issues.

For firms where additional funding is required to settle tax liabilities, this has presented an opportunity to renew energies and focus on the importance of lock-up management, which historically has been a challenging area for many.

With other sources of funding often accompanied with an associated cost, which could ultimately impact a partner's net take home pay, the prospect of using the tax rule changes to encourage an overall improvement on lock-up would seem an obvious and cheaper place to start. This is by no means a quick and easy fix and requires constant attention, but with renewed focus and a desire to reduce the cost of other forms of funding, this should hopefully instil further progress in this area and over time reduce the requirement for other funding.

In the meantime, firms continue to bridge further funding shortfalls predominantly with partners' capital contributions and external bank funding. This again would present an opportunity for firms to review capital levels to fulfil any funding requirements and manage compliance with the salaried members' rules (addressed further overleaf).

Next steps:

- Finalise the 2024 compliance process well ahead of the 31 January 2025 filing deadline to lock in final tax payments and ensure funding of tax liabilities is adequate
- Maintain a clear record of transition profits spread over the next (up to) 5 years and factor into future cashflow modelling
- Continue to actively monitor funding requirements and the split between sources of funding, as well as continued efforts to improve lock-up management and updated partner capital contributions. This is likely to change over time.

Salaried members

An update in HMRC's guidance regarding the 'Capital' test within the salaried members' legislation, alongside the Upper Tribunal's judgment on this legislation (BlueCrest Capital Management (UK) LLP v HMRC), have had wide ranging implications for many UK LLPs within the legal sector and beyond.

It has been helpful to obtain further clarification around the application of the rules, however, in some instances it has challenged how firms have interpreted some of the principles, which for the most part were considered to be well understood. For example, contributing capital into the business specifically to fail Condition C would be seen as not within the spirit of the legislation, even though it should provide genuine financial risk for the member.

When reviewing their own positions, firms need to be aware that the legislation contains an antiavoidance provision, which broadly provides that any arrangement with the main purpose of securing that a member is not to be deemed an employee is to be disregarded. In practice, this can seem like a bear pit and means care needs to be taken when making any changes to partner capital and remuneration policies.

We recommend firms operating via a UK LLP review the status of their partner groups in light of the updated guidance. This legislation continues to be under HMRC's spotlight, with compliance checks testing compliance of the rules. One of the principles from BlueCrest is that it is important sufficient supporting documentation is available to demonstrate the position.

Many law firms have been wanting to revisit partner capital levels for a number of years and are now seizing the opportunity to implement changes given their changing upcoming cashflow requirements.

With the recent updates to HMRC guidance, the implications around the application of the salaried members' rules requires firms to consider tax rules alongside

commercial capital funding for their business.

Next steps:

- Review the annual testing for all three Conditions and ensure conclusions are robust and well documented
- Check all LLP documentation is consistent with the firm's position on the salaried members' legislation
- Any changes required to the capital or compensation methodology, on an individual basis or across the partner group, should be reviewed thoroughly before implementation.

Investment in technology

With a general consensus that the legal sector lags behind in their digital transformation, firms are anticipating a strong need to invest in technology more than ever before. With the annual investment allowance currently at £1m, this is a 100% capital allowance for qualifying expenditure on plant and machinery. Where firms are anticipating a large capital spend, there could be planning opportunities in respect of the timing and structure of the expenditure to maximise on capital allowances available, which will have a knock-on effect on the partners' taxable income. As ever, intergenerational fairness between the partner population will need careful consideration.

In addition, a proportion of this investment may qualify for research and development (R&D) tax incentives. The vast majority of digital transformation activities will be based on the development and/or implementation of software systems, tools and products as firms seek to make their businesses more cost effective and competitive. Whilst only companies are eligible for R&D tax incentives, so LLPs are not eligible, many law firms will have a corporate entity within their group structure. Our research also showed that only 65% of those surveyed think the partnership model is the ideal vehicle for the modern law firm. Should law firms look to move away from the LLP model and operate through a corporate structure, then this again may be an area which could provide benefits.

Next steps:

- When undertaking a significant capital investment, consult your tax adviser during the planning stage
- Consider planned capital investment and timing of these works to optimise capital allowance claims
- Where there are innovative technological projects that could be undertaken by a group company, consider whether R&D tax incentives could be claimed

Should you wish to explore any taxation matters with us, please contact us.

Emma Neoh
Director,
S&W Group LLP
+44 (0)2036 675 834
emma.neoh@swgroup.com

Future business direction

Planned Merger and Acquisition (M&A) activity remains static year on year. Developing a specialist practice area along with UK expansion plans and diversification strategies are the key drivers behind M&A activity.

Planned M&A activity has remained stable in the last year. 4% of respondents said that their firm planned to combine with a similar or bigger sized firm in the next 12 months. The percentage of respondents who said their firm planned to acquire a smaller firm in the next 12 months remained static at 17% in 2024.

The percentage of respondents who said their firm was actively seeking a merger partner or acquisition with another legal services firm also fell to 9% in 2024 (from 12% the previous year). 26% of respondents said their firm was planning to hire a new team in the next 12 months (a small decline from the previous year).

The three primary reasons for considering a M&A or hiring a new team in 2024 were:

- DEVELOPING A SPECIALIST PRACTICE AREA
- GEOGRAPHIC EXPANSION WITHIN THE UK
- DIVERSIFICATION OF LEGAL SERVICES

NB: Based on a ranking where respondents were asked to rank the top three reasons for M&A and new hiring activity.

Main sources of law firm funding for the next 3 years are driven by an improvement in lock-up and contributions from partner capital.

When asked about future funding sources, as well as which sources of funding will increase at their firm over the next 3 years, respondents said that primarily it was improvement in lock-up that would fund future development. Although it was found that bank funding and partner capital were other key funding sources for the next 3 years. This is similar to the sources of funding identified in 2023.

The main sources of law firm funding for the next 3 years were identified by respondents as

- IMPROVEMENT IN LOCK-UP
- PARTNERS' CAPITAL
- BANK FUNDING
- RETENTION OF PARTNER PROFITS AND/OR DRAWINGS
- EXTERNAL INVESTMENT
- USE OF TAX RESERVING
- SPECIALIST LAW FIRM FUNDING (LITIGATION/DISBURSEMENT)

NB: Based on a ranking where respondents were asked 'which of the following sources of funding do you think will increase at your firm over the next three years' and ranked the top two sources of funding.

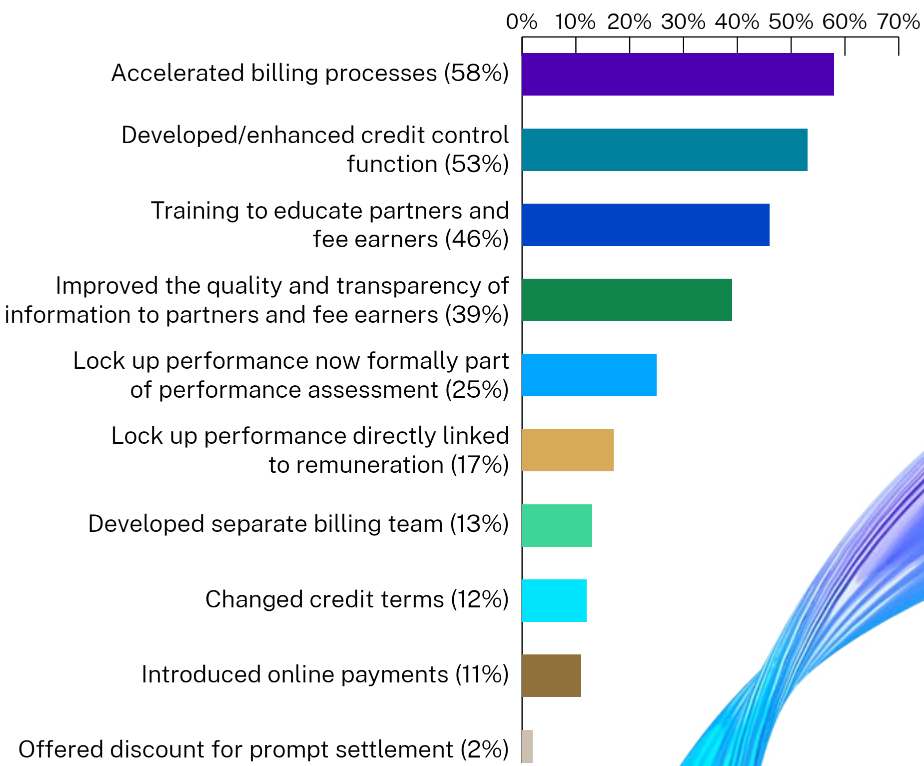
Lock-up improved across the board in 2024, with just under half of respondents saying they had a lock-up target of 75 days or under.

Our survey introduced some new questions in 2023 to add additional insight into the way in which firms manage and intend to improve lock-up performance over the next 12 months. These included questions to measure lock-up targets, how lock-up targets had changed and assess how firms thought lock-up would improve or deteriorate in the current economic environment.

At the overall level compared to 2023, lock-up days improved in 2024 with 46% of respondents saying their firm had a lock-up target of up to 75 days (compared to 31% in 2023). However, there is a polarisation in the market with 45% of firms saying their lock-up target had improved in the last 12 months but an almost equal percentage at 43% saying that lock-up targets had deteriorated in the last 12 months. Accelerated billing process and enhanced credit control functions in 2024 undoubtedly contributed to the improvements in lock-up over the last 12 months, as did education and training on the importance of lock-up to partners and fee earners.

Just under half of respondents thought that lock-up would improve over the next 12 months whilst the same percentage of respondents thought it would remain the same, a sign of optimism that lock-up improvement is expected to mitigate cash outflow in respect of basis period reform and capital expenditure.

Factors that contributed to a change in approach to managing lock-up in the last 12 months included

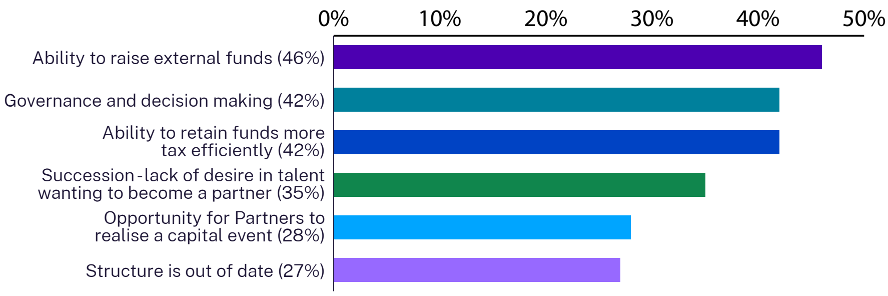


Top tips from our experts

The future of law firm's operating structures

Most respondents, (65%) still saw the partnership model as the preferred structure for law firms in 2024. However, over a third of respondents (35%) disagreed with this model, seeing alternative structures being more effective in the ability to raise funds, make clearer governance decisions and act more tax efficiently.

In 2024, the main drivers in moving away from an LLP model were



Top tips from our experts for how to improve lock-up:

- Be proactive e.g. agreeing the billing schedule up front with clients, monitor over-runs and have early conversations
- Prompt and regular invoicing throughout a matter – chase cash regularly
- Upload disbursements regularly to ensure all costs are billed
- Set up workflows in practice management systems to nudge behaviours
- Use business partners to work with fee earners to actively reduce lockup and reduce barriers
- Provide training – many fee earners are put off billing because it's difficult, and late billing causes recoverability issues
- Centralised terms & conditions stating invoices are payable either on presentation or at a maximum, 30 days
- Hold fee earners and departments accountable
- Finance teams automatically emailing out raised invoices

Claire Burden
Partner,
Restructuring and Recovery Services,
S&W Group LLP
+44 (0)117 233 2108
claire.burden@swgroup.com

From parchment to pixels

Expert feature

From parchment to pixels: technology innovation in the legal sector

Since the launch of Chat-GPT, technology is everywhere. In our personal lives, our recommendations for TV and online shopping are becoming increasingly AI generated; whilst in the world of sport, the England women's cricket team is partially selected by AI.

AI has branched into every industry, but we know from our survey that historically the legal sector has lagged behind other sectors. This year 67% of respondents in our survey said that the legal market lags behind other industries in terms of technological advancement.

This is not to ignore the sustained level of activity which we have seen from law firms in the last 18-24 months, focused on harnessing the opportunities offered by AI. Only this summer Ashurst announced the roll-out of the Harvey AI platform on a worldwide basis whilst Linklaters announced plans to deploy Copilot for Microsoft 365 with a deal value of $1.8m (£1.42m) with the latest version of the product made available to over 6,900 employees.

This reflects the huge opportunity in investment in technology that was identified in our survey with 69% of respondents saying that this was the number one opportunity for growth.

Technology, please – but steady as we go

There are examples of technological excellence in many firms. Businesses of all sizes have embraced cloud solutions for document management and storage. Most billing is now automated, whilst the profession has moved away from wet signatures and in-person meetings to an acceptance of electronic communications and online meetings.

These changes have streamlined the practice of law, however most are focussed on productivity by making existing processes more efficient, rather than generating new services.

Culture vs. technology

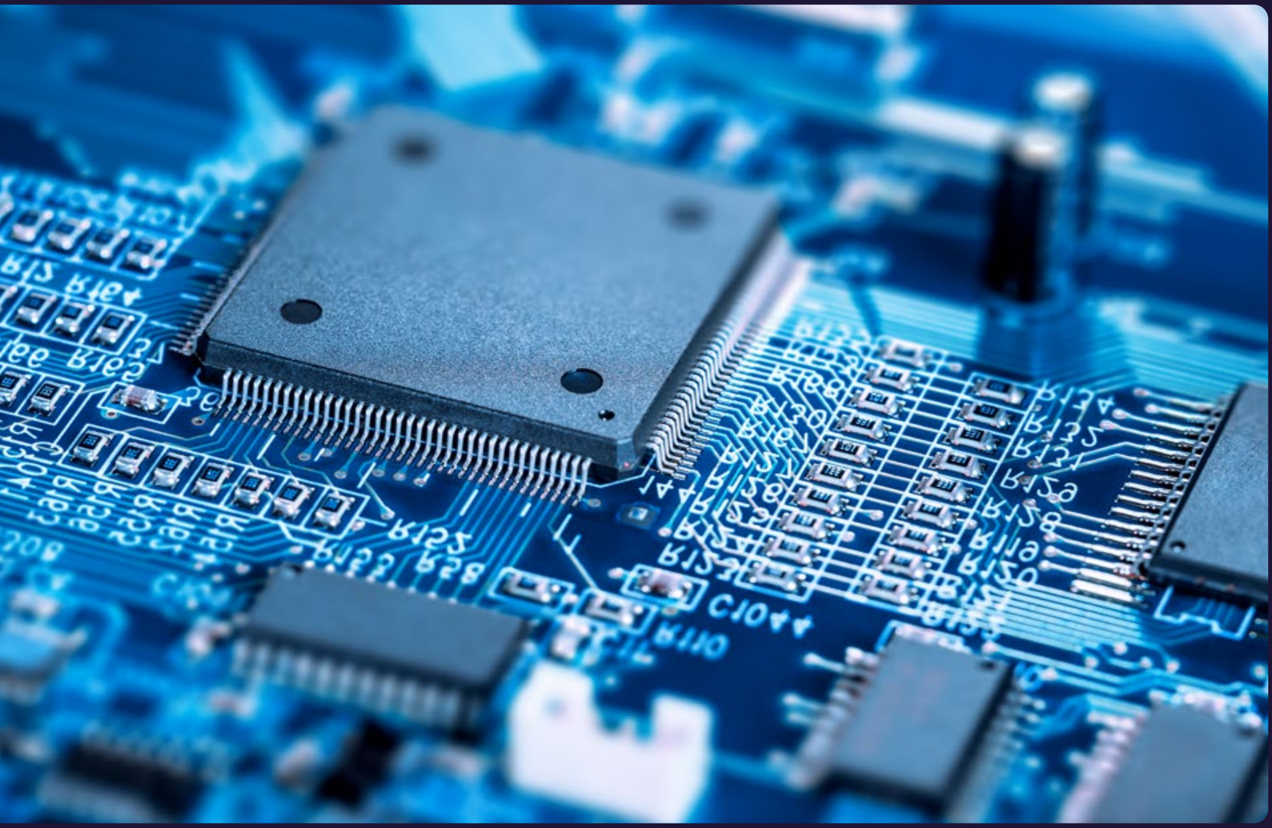
Historically, there are structural reasons why law firms may have been slower to embrace technology. Tradition and precedent are embedded in the fabric of many firms. 49% of the respondents in our survey this year noted a firm's culture can hold back the adoption of new technology, whilst 47% of the respondents also called out resistance to change as a barrier.

However, our survey results also show a real desire for change in attitudes within law firms, with respondents keen to see clear product road-maps and continuous learning pathways set out so they can fully exploit the use of technology within their firm in the future.

A look down the high street

Service-led businesses on the high street give us a clue to the future. Accounting practices are thriving but the traditional work of bookkeeping and tax compliance would be unmanageable without specialist software. This has resulted in hefty competition from online providers. Financial advisors remain but market share and margins are heavily challenged by online trading websites and automated algorithm-led investment strategies.

The businesses that thrive are increasingly automated and use the data they gather to position additional insights and services. Back-end automation, allowing clients to be serviced more efficiently, has become existential. This approach will increasingly inform how law firms drive growth in the future.



Allowing lawyers to be human again

Recent advances in generative AI have accelerated the conversation. An AI model 'passed' the Solicitors Qualifying Exam in November 2023. We are a long way from 'RoboLawyer' but a more pertinent question is, how will junior staff learn if entry level work is automated?

Again, case studies from other professions are informative. Trainee accountants now spend less time on repetitive tasks such as reconciliations and more on assisting with advisory and analysis. This gradual shift also requires developing more data focussed and tech-savvy skills.

Irrespective of the AI landscape, most firms could benefit significantly from making better use of current technology. It helps to have a clearly articulated vision for the use of technology to support the growth goals of a firm, as well as a welldefined strategy to bring this to life. This, in turn, needs commitment from the top rather than the enthusiasm of a few hobbyists.

Executed well, this can automate large amounts of unproductive tasks and allow practice staff to focus on where they can add value. It can also generate high quality data which can then be used to identify and deliver new opportunities.

Managing change

Forward thinking firms are already seeing results from digital transformations. Some firms are even addressing their own housekeeping. For example, LLP compliance is notoriously manual and timeconsuming and automating this could remove significant costs. Other firms are automating processes including creating documents and filing client communications. A select few have seen success in consolidating data to get a single view of their customers which they have used to drive demand for new services.

There are also interesting results in generative AI. Setting up a dedicated innovation lab is costly but carving out time for enthusiastic and motivated staff to work with third-party organisations can be relatively inexpensive. Without a clear strategy however, there's a risk of fatigue due to multiple unfinished small scale initiatives – if coordinated well, it can generate clear benefits.

All of this comes with a health warning, however. Automating poor processes may bring some benefit but using technology as the catalyst to actually improve ways of working can be transformative. Strong and effective change management is as important in changing a culture, as the technology that underpins it.

Laurence Kiddle

Partner,
Business Tax

+44 (0)20 4617 5648

laurence.kiddle@swgroup.com

Where to get started:

Find out more about how S&W's dedicated technology team can help you understand your current systems landscape and the wider tech environment. If you need support in creating a tech strategy, or require a full tech systems health check, simply contact our team.

Advice from the top

Advice from the top: What advice would you give to someone entering the legal profession today?

This year as part of our 30th anniversary year report, we asked respondents to each provide one piece of advice that they would give to someone entering the legal profession today. The feedback from respondents ranged across several different subject areas from career and professional development, to practical advice and reflections.

Career and professional development

- Consider alternatives to being a partner; other opportunities can also be as fulfilling
- Being aware of various career paths within and outside law is essential

Diversity and workplace culture

- Challenging discrimination is important, especially for those starting their careers

“

I wish I had known at the start of my career that sometimes firms' interests and your personal interests are not always aligned. You have to consider what is in the best interest of your life and your career and not make sacrifices for a law firm that may not always adequately recognise your contribution

Learning and growth

- Continuous learning is vital, as even experienced lawyers must keep learning
- Collaboration and co-operation are more effective than conflict
- Networking early in one's career can be beneficial
- Learning to manage stress is crucial
- It is important to have both legal expertise and business acumen

Industry and professional realities

- The increasing burden of regulation and compliance affects job satisfaction
- Technology impacts the legal profession, demanding adaptability
- The legal market is saturated, making it more challenging to succeed
- Income levels can vary significantly and the financial treadmill can be harsh

Work-life balance and personal wellbeing

- A balanced life is crucial; enjoy downtime
- Long working hours can adversely affect health
- Leave stress at work to maintain personal wellbeing

Practical advice and reflections

- Plan your day and set goals to stay organised
- Success in law is a marathon, requiring stamina and patience
- Learn from failures and stay focused on long-term goals
- Understanding that personal and firm interests may not always align is crucial for career satisfaction

> Regulatory compliance and the outlook of the younger generations is making it significantly more challenging to maintain a stable and successful business operation.

> Collaboration and cooperation are more effective long-term strategies than conflict.

> A career in law is a marathon not a sprint which means that stamina is more important than pure strength.

The UK legal market then and now

Over the past 30 years, the UK private practice legal market has undergone significant transformation driven by regulatory changes, technological advancements, globalisation and evolving client expectations. These changes have reshaped the landscape, creating both challenges and opportunities for law firms.

Firms that have successfully navigated this period of transformation have done so by embracing innovation, adapting to new regulatory and market conditions and continuously evolving to meet the needs of their clients. The future promises further change as technology advances and Artificial Intelligence (AI) presents ongoing opportunities for law firms.

In 1994, virtually all professional practice firms were general partnerships, governed by the 1890 Partnership Act (and any partnership Agreement). Partnerships operated with freedom on their accounting policies, albeit with the underlying principle of equity between partners and the financial results and position of the business were confidential.

With increasing concern from the professions that the general partnership left partners personally exposed to significant claims, the Limited Liability Partnership Act of 2000 signalled a new vehicle to operate through. Take up was initially slow (particularly in the risk averse legal world) but by the middle of the decade, most professional practices had already converted or were in the process

of planning to do so. There was much fear as to what clients, the press and employees would make of the profitability, and perhaps most controversially, the profit share of the highest earning member. But after some initial headlines, the publication of annual results at Companies House is now uneventful, except of course if the results disclose an extreme position. This greater transparency allows firms like S&W to undertake analysis and assess the financial health of the profession, like in our **annual review of the top 50 LLP accounts.**

One of the most profound changes has been the deregulation of the legal market. The introduction of the Legal Services Act 2007 was a watershed moment, allowing for the creation of Alternative Business Structures (ABS). This legislation enabled non-lawyers to own and invest in law firms, fostering a wave of innovation and competition. As a result, traditional partnerships had to adapt to new business models with many firms embracing corporate structures and external investment to fuel growth and innovation.

Technology has revolutionised the way legal services are delivered. The proliferation of digital tools and platforms has improved efficiency and accessibility. Case management systems, electronic discovery and legal research databases have streamlined processes, reducing the time and costs associated with legal work. Additionally, the rise of AI and machine learning has begun to transform areas such as contract review and predictive analytics, enhancing the capabilities of lawyers and enabling firms to offer more sophisticated services.

The UK legal market has also become more globalised. Many UK firms have expanded internationally, establishing offices in major financial and commercial centres around the world. This expansion has been driven by the need to serve clients with cross-border interests and to compete on a global stage. The M&As of law firms have created larger, more diversified entities capable of offering a broad range of services across multiple areas.

Clients have become more discerning and cost-conscious, demanding greater value and transparency from their legal advisers. This shift has led to increased use of alternative fee arrangements (AFAs) such as fixed fees, success fees and retainers, moving away from the traditional billable hour model. Clients now expect more for their money, including better communication, efficiency and tailored solutions. This has pushed firms to adopt client-centric approaches, focusing on understanding and meeting specific client needs.

The competitive landscape has also intensified, with new entrants such as legal technology startups and ABS firms challenging traditional law firms. These newcomers often offer innovative, cost-effective solutions which forces established firms to rethink their strategies. In response, many traditional firms have embraced collaboration and partnerships with tech companies to enhance their service offerings.

Another significant trend is the move towards specialisation. As legal issues become more complex, clients increasingly seek out firms with deep expertise in specific areas. This has led to the rise of boutique firms specialising in particular sectors or types of law, such as intellectual property, environmental law and financial regulation. These firms can often provide more focused and expert advice compared to generalist practices.

Diversity and inclusion have become critical issues in the legal market. There is a growing recognition of the importance of a diverse workforce in fostering innovation and understanding diverse client needs. Many firms have implemented initiatives to improve gender, racial, and socio-economic diversity within their ranks, though there is still much progress to be made.

Economic fluctuations have also impacted the legal market. Recessions and financial crises tend to lead to an increase in certain types of legal work, such as litigation, insolvency and restructuring, while economic booms drive demand in areas like M&As and real estate. Successful firms have had to be agile, adjusting their focus and resources in response to these cyclical changes.

Over the past thirty years, we have observed two main constants; firstly, the remarkable robustness of professional services firms to survive the volatile world and markets that they operate in and secondly, that challenges on improving lock up remain.

Recruitment, retention of talent, succession, branding, external investment, profitability, capital, profit sharing models and taxation have all been topics that have ebbed and flowed over the period, but the obvious threat and opportunity that now faces all firms is technology.

If all firms end up using similar technology to enhance and deliver services, the key differentiator could well be the quality of the people employed to be responsible for delivering the enhanced service. Despite being on the cusp of significant change from technology, perhaps what was hugely important to firms 30 years ago, may also be just as important in 30 years' time.

Methodology and respondent profile

Methodology and respondent profile

This year's report includes a mixture of fully completed and partially completed survey responses. This means that for 'non-routed' survey questions, the base size for each question varies between 157 and 77 responses

The respondent profile for 2024 broadly matched that of 2023

40% of respondents came from London based firms with a further 20% of firms located in the Southeast or Southwest. 16% of firms said they were organised on a national basis

Most respondents were in a firm with a partnership or Limited Liability Partnership (LLP) structure

Most respondents were either senior partners, managing partners or partners

53% of respondents came from firms with a partner headcount of up to 100 people

Our services to professional practices

Our services to professional practices

Recognised as a leading firm in this market, we have experience of advising over 100 professional practices.

Our professional practices team has over 50 partners, directors and support staff. We offer a coordinated, cross-discipline approach and provide all-round accounting, tax, business, investment management and financial planning advice tailored to the needs of your partners and your firm.

Recognised as a leading firm in this market, we have experience of advising over 100 professional practices operating as partnerships, LLPs and companies, including those with external investment.

Our clients include firms of lawyers, surveyors, engineers, architects, actuaries, patent agents, trademark attorneys and barristers' chambers, as well as the individuals within these organisations.

As a founding member of CLA Global, S&W provides high quality, bespoke tax, audit and advisory services to clients across the globe. Our UK-based teams work closely with firms globally to source local advice or compliance support where required.

If you would like to discuss how we can assist, please liaise with your usual S&W contact or email Katie Illman at katie.illman@swgroup.com

Get in touch

Get in touch

Katie Illman
Director,
S&W Group LLP
+44 (0)20 4617 5723
katie.illman@swgroup.com

Claire Burden
Partner,
Advisory Consulting
+44 (0)117 233 2108
claire.burden@swgroup.com

Rebecca Combes
Partner,
Tax
+44 (0)238 254 0339
rebecca.combes@swgroup.com

Karen Knapp
Director,
Tax
+44 (0)20 3667 5867
karen.knapp@swgroup.com

Emma Neoh
Director,
Tax
+44 (0)20 3667 5834
emma.neoh@swgroup.com

Tim Adams
Partner,
Assurance and Business Services
+44 (0)20 4617 5576
tim.adams@swgroup.com

Andrew Edmonds
Partner,
Assurance and Business Services
+44 (0)238 254 0398
andrew.edmonds@swgroup.com

Pranav Nadkanri
Director,
S&W Group LLP
+44 (0)20 4617 5759
pranav.nadkanri@swgroup.com

Navigating complexity.
Creating opportunity.

S&W

www.swgroup.com

Issued by the S&W group of companies (the "Group") which comprises S&W Partners Group Limited and any subsidiary of S&W Partners Group Limited from time to time. Further details about the Group are available at www.swgroup.com.

Registered in England at 45 Gresham Street, London EC2V 7BG. No. 04533948