

Law Firm Breakfast & Learn 2026

This summary provides an overview of the key topics discussed at the Law Firm Breakfast and Learn event held on Tuesday, 10 February 2026. The session focused on current challenges and opportunities within the legal sector, with insights and practical guidance from Hazlewoods Legal specialists.

The content covered updates on SRA and financial compliance matters, including the potential impacts of recent budget announcements and perspectives on the Ministry of Justice consultation regarding client account interest. It also explored the current market landscape, offering financial benchmarking insights and highlighting strategic considerations for law firms planning for the future.

The following sections outline the main themes and takeaways shared during the event.

Trish Kinahan's "state of the nation"

One conversation that dominated the profession above all during 2025 was private equity and its interest in the legal sector. It was probably the biggest year for the number of deals that were actually done, but there have been many more conversations, with one report suggesting 70% of regional firms between £15m and £50m have been approached. This might make law firm owners hopeful about increased multiples, as we've seen in other industries, but the two challenges facing law firms are retention of talent and the ability to grow. Higher multiples are only going to come from the latter and how many firms can execute that strategy well? It is also important to remember that there is a difference in the approach to valuation if you are selling part of the business (i.e. not a controlling interest) as an internal sale, to selling the whole business to a third party.

By the end of 2025 we had lost another two law firms off the market, leaving Knights, Keystone, Gateley and National Accident Helpline. Knights are always interesting to monitor and when it released its half year results in early January they showed that underlying income was up 30% to £103.2m but organic growth was just 2.6% (still slightly better than the year to April 2025 when it had negative organic growth). However, the acquisitions are coming at a real cost, as pre-tax profit fell from £9million in the first half of 2024 to £2.4million.

In mergers and acquisitions, the run up to the October 2024 Budget saw a surge of activity, where transaction numbers doubled above the prior 12-month average and, as a result, in the first half of 2025 deal volumes fell by over 19% compared to the first six months of 2024. In Q3 the number of completed domestic M&A deals fell to the lowest level since 2017, although the value of those deals rose. What we are expecting to see is very busy final quarter for the larger law firms dealing with the larger value deals and a quieter period for the SME market.

We now have over 30 law firms that are owned by Employee Ownership Trusts (EOTs). Under the October 2025 Budget EOTs will no longer be tax free, but effectively taxed at 12%, which is still favourable against 24%. They are still a viable option, but law firms will always need a person or group of people that will continue to drive the business forward. If you have those people, why would they want to do an EOT when then can get better rewards personally for their investment of time and energy.

There have been several scares around the status of Fixed Share Partners (FSPs) following recent Budgets. As a brief reminder, the factors to be considered are:

- FSP status is part of career progression
- FSP have the characteristics of a partner
- Capital contributions are part of an overall capital structure
- All capital contributions represent genuine risk capital
- Capital satisfies the 25% test, at all times
- The firm's need for capital is documented.

The number of fixed share partners is growing in comparison to equity partners. There is still a talent shortage in particular areas, and talent is a key differentiator between firms. To attract and retain staff more layers are being added to give longer career paths, with the option of more discretionary awards to reflect exceptional performance.

By comparison, we are starting to see signs of changes away from investment in people at the top end of the market, with a drop in the number of people in the largest law firms of 2% and the number of

training contracts in the top 100 down by 4.94% between 2024 and 2025.

In the larger firms, chargeable hours are down across the board, with the exception of equity partners. On average, chargeable hours are 947 this year compared to 969 last year, with the biggest drop in the newly qualified and legal executives (6-7%).

The signs are all indicating that how we use our most valuable resource is changing and will continue to change. It is anticipated that GenAI will take away approximately 16% of chargeable hours in the future, and research by Thomson Reuters states that the expectation in 2026 is that on average a lawyer is going to save 190 worked hours by leveraging AI tools from drafting assistance, legal research automation and contract analysis platforms. Consider what an advantage this gives firms who are embracing AI over those who are not. This, in turn, will lead to a move towards pricing that reflects efficiency gains and a premium on expertise and multi-disciplinary skills set.

Ashurst undertook an interesting example where they started scoping and pricing matters along parallel tracks using both traditional and AI enabled approaches to show efficiency gains and price transparency. In one pilot, a client matter estimated at 700 hours reduced to 200 with AI support.

Rather than billing only the reduced time, they priced to reflect client savings and the value of the technology and multidisciplinary expertise. What they wanted to do was to capture the value of their technology and expertise whilst passing on meaningful savings to clients, which was a win-win for both parties.

With AI delivering more efficiently and with sharper answers, the idea of billing chargeable hours starts to wobble. The old profitability model built on leveraging junior labour, particularly in the very large firms, begins to get dismantled. Client demands will change, and it is easy to see how a subscription model might become more attractive, especially where speed matters.

Other pricing options might include:

- Direct monetisation of AI tools, i.e. charging for access to proprietary systems that slash turnaround time whilst retaining senior lawyer oversight
- Outcome-aligned or success fees
- Hybrid matters that pair hourly billing for bespoke high judgement work with fixed fee for AI accelerated tasks in the same matter



Industry insights and emerging trends with Ian Johnson

Ian provided an overview of how firms across the legal sector have been performing over the past 12 months, highlighting some clear trends that have begun to take shape.

After several years of sitting lower on the agenda, cyber security has re-emerged as one of the sector's most significant concerns. Close behind are people-related challenges, particularly recruitment, retention, and rising salary costs.

He went on to outline a number of financial traits shared by stronger-performing firms, including:

- Higher fee-earner gearing (the number of fee earners to partners). This can be effective, provided those fee earners have sufficient work and proper supervision
- Cost management
- Lower total lock up days, which although not directly linked to profit, is indicative of better financial hygiene. Don't forget that whilst time is unbilled, it is at risk. The longer it remains as WIP, the more likely it is to be written off

- Chargeable hours, which, although slightly higher than last year in many firms, still appear low compared with the total number of available working hours. Not all fee earners are recording their time, and where they do, it is often only the chargeable element. Fee earners should understand their chargeable hours targets and also record non-chargeable time, allowing performance to be measured and monitored. This process should become easier as AI-based time-recording tools continue to develop

On a more positive note, we are seeing a reduction in borrowings per partner for many firms, with improvements to office cash balances. Tied in with this is a rise in partner capital, driven partly by last year's changes to tax basis periods. Most firms opted to spread this additional tax over five years, meaning we can expect elevated levels to continue for some time.



Partial exemption explained by Andy Harris

With increasing interest rates, and therefore the amount of interest earned and retained by law firms increasing, there has been more and more talk about partial exemption. This comes into play when a portion of your income is VAT-exempt, as interest is. If partial exemption applies you are unable to recover all of the VAT incurred on your expenditure. We are aware of some accountants recommending that provisions be put into accounts in respect of this VAT.

Our view has always been, and for the majority of firms continues to be, that partial exemption is unlikely to be an issue. We are not seeing any signs that HMRC are focusing on it, and we have acted for several firms where we have successfully demonstrated that the interest income is incidental (and therefore that partial exemption does not apply). Furthermore, accounting standards only allow you to make a provision when it is probable, i.e. more likely than not that you will need to make the payment. If you do include a provision but are not paying HMRC, arguably this opens up the possibility of even higher fines

Indicators that a supply might be incidental (HMRC's PE32000):

- The transaction is related to a business's normal activities, but not part of one
- Income received results from 'passive' action, e.g. deposit interest on a bank account
- The supplies are made as and when as part of a wider business area without monitoring
- Only a few staff are engaged in actions relating to the supply compared with total staff
- The duties involved in such activities are only a small part of the total person's duties

Make sure you look at guidance carefully, to ensure you are fully compliant, but there have been no changes to the published HMRC guidance. This has only become more prevalent due to the interest figures in recent years (which are going to start coming down again now).

Ultimately, we will need a Tribunal decision, as we had for Brabners disbursement case a few years ago.

If you're worried, there are ways to mitigate your potential exposure, so please speak to us.

Andy also covered the recent SRA and MoJ consultations. Our recent article covering their content, along with the deadlines to respond, can be [found here](#).



If you would like to discuss any of the topics included in the summary, please get in touch with your usual Hazlewoods contact or contact the team via the details below.