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Law firm rallies to cause of legal aid centres

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A leading City law firm has challenged its rivals to donate hundreds of thousands of pounds that they earn as interest on client accounts to cash-strapped legal aid centres.

Allen & Overy, one of the "magic circle" of top five firms, is to give voluntary legal agencies all the extra interest retained from clients' cash that it handles on deposit.

The firm has also taken the unusual step of writing to Tony Blair, urging the government to boost civil legal aid funding.

In a rare political inter-vention from a City law firm, it warned the prime minister that the poorest people could be denied access to justice within five years because of the "crisis" in legal aid.

Law firms routinely place large amounts of their clients' cash in "client accounts", for example while transactions are being completed. Because the lawyers are able to consolidate cash from many clients into a single account, they can achieve higher interest rates than each single tranche of money could have achieved had it been deposited in an individual account.

When the cash is paid out, the lawyers pay the clients the interest they would be due had the cash been deposited in an individual account. As a result, the firms pocket the extra interest accrued on their clients' cash.

Law firms have long viewed the extra interest as a lucrative windfall that can add up to tens or even hundreds of thousands of pounds.

From this week, A&O will donate a sum equivalent to all its extra interest to centres that offer free legal advice on such problems as housing, employment and family issues.

The sums involved are not likely to be excessively painful for the firm. A&O estimates that over three years its donation will amount to £200,000: equivalent to the profits a single average partner at the firm makes in four months.

Nevertheless, Bob Nightingale, who chairs the London Legal Support Trust that will administer the donations, said: "It will certainly make a difference if many of the top 100 firms get involved."

Law centres operate on shoestring budgets, relying on donations and volunteers, including many young City lawyers offering advice *pro bono*.

With the rise in demand for criminal legal aid - which has swelled the total legal aid bill to £2bn - public funding for civil problems has been squeezed, forcing many people to turn to law centres for free advice.

Guy Beringer, A&O senior partner, said: "We hope this simple voluntary model will be considered by other firms with more than 20 partners."

Mr Beringer accepted that smaller high street firms often needed any extra interest to make their practices viable, but he added: "We believe that it is not essential for larger law firms to retain additional interest."

The extra interest should not go back to the clients, Mr Beringer insisted. "The clients get fairly paid, so there is no detriment to them," he said.

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