



Criminal Law Solicitors' Association

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CLSA response to:

Interest on Client's Account Consultation - response by 9 February 2026

This response to the government consultation to seize solicitors client account interest is submitted on behalf of the Criminal Law Solicitors Association (CLSA). We are extremely concerned about the impact that these proposals will have upon our members and the sustainability of mixed practice legal aid firms in the future. It is these firms who have been under significant pressure in recent years and who operate on very small margins. The provision of legal aid is a matter for government and should not be funded by clients or lawyers.

Legal services contributed £52billion to the UK economy in 2024. The legal sector pays significant taxes, regressive move which will cause instability to the smaller firms negating any benefit as set out in our response below.

The consultation references the Ontario system. The interest raised from that system only deals with civil cases. The federal government of Canada pays for criminal and family systems which does not rely on the removal of interest. As crime and family areas are the largest users of funds, the amount required to be covered in Ontario is very much smaller and should not be used as comparative for this proposal.

This proposal is an additional tax targeted at solicitors firms which are often subject to significant regulatory and administrative burdens due to the nature of the work that they undertake. Furthermore, firms already pay tax on interest earned in client accounts if the money is retained by them. This could result in firms being pushed into a higher tax bracket. Therefore, the scheme will not raise much in additional revenue for the government as it will lose the tax that would have been otherwise paid. It is our view that this scheme will lead to further weakening of the financial viability of criminal legal aid mixed practice firms who have historically had to use private work to fund legal aid work. If this proposal goes ahead it likely to result in larger legal aid advice deserts and loss of job for employees of those firms. This will result in significant cost to the public purse and will negate and benefit derived from the monies seized. It is also noted that interests rates appear to be on a downward trend, with projections of a .75% reduction this year. For a significant part of the last 20 years interest rates have been so low that any interest earned has been negligible. If the projections are correct then it is likely this position will return and that therefore, this scheme is unlikely to raise any significant funds.

1. Do you have any views on the proposed scope of the scheme?

We do not agree that the MOJ should be entitled to the interest on solicitors client accounts. Solicitor firms are subject to burdensome and expensive regulation in relation to holding client funds. We are very concerned at the impact that these proposals will have on small and medium sized firms, particularly those undertaking criminal legal aid work, given the recent additional tax rises such as increased national insurance and rise in minimum wage. In addition, there are significant increased overheads due to rise in utility costs, regulation, insurance, cyber security to name a few. Holding client money is a burdensome responsibility which carries significant responsibility and on the firms and their owners who have to carry the risk of this.

This amounts to a tax on solicitors practices which is unfair. Central government should be funding the justice system.

There are already increased costs of holding client money due to the regulatory burden. Accounting and administering this scheme will increase costs on firms at a time where they are dealing with small profit margins and it may cause firms to close.

Small practices often get preferential banking rates because of the money held in client account. Any problems resulting from MOJ taking the interest would have a serious effect on profitability and/or the willingness of banks to lend or allow overdraft facilities and free banking causing instability in the market which could lead to small forms closing.

It is well documented that firms holding legal aid contracts are at risk of closing. There is a significant reduction of firms carrying out legal aid work and the recent increase in fees for criminal legal aid, still leaves firms in the same position that they were in when Bellamy reported that a 15% interest on fees was immediately required due to inflation. Fees have not increased in real terms and firms are struggling to stay afloat. Given the stated aim of the MOJ that the money should be used to safeguard the justice system, we would propose that firms that hold a legal aid contract should be exempt from the scope of this proposal.

We are very concerned about the impact of these proposals for firms undertaking criminal legal aid work who use privately funded work to ensure that they are able to continue to provide a necessary service.

2. Aside from reserved legal activities, is there other work undertaken by legal service providers that includes holding client money? Should this be in or out of scope of the scheme?

We are not aware of any

3. Are there other account types used for holding client money that should be in scope of the scheme?

We do not accept that client account interest should be paid to the MOJ.

4. Are there any types of individual account used for holding client money that should not be included in scope of an ILCA scheme? And why?

We do not accept that client account interest should be paid to the MOJ.

5. We propose that the scheme retains a higher proportion of interest generated on pooled client accounts (75 - 100 percent), and a lower rate of 50 percent of interest on individual client accounts. Do you have any comment on these rates.

We do not accept that client account interest should be paid to the MOJ. Most small and medium firms that hold client accounts will do so in a pooled account. The higher rate of interest is due to a culmination of different client's money and the rate of interest varies on a daily basis dependant on the monies in the account. The administrative burden to apportion this on firms will be significant. It will be the smaller firms that rely on the interest that the accounts gain to fund the administrative costs of having such accounts.

In relation to individual client accounts, the interest can be apportioned back to the client and is often accounted for to the client subject to any deduction for administrative costs. This prevents clients from being able to recover money which may be due to them.

6. Do you foresee any difficulties with keeping in place the existing rules on client interest, for the interest not secured by the scheme?

If the scheme takes 75 - 100 % of the interest then it will prevent firms from being able to pay the clients back the interest earned on their money. Clients should be entitled to have all interest repaid to them if requested.

7. For legal work undertaken on your behalf as a client, have you received (or are you expecting to receive) interest on your funds?

We can only speak on behalf of our members and not in relation to a specific solicitor's practice, but can confirm that clients do ask for firms to account for the interest raised in relation to their funds. This is a significant administrative task.

8. If yes to the previous question, how much interest have you received/are expecting to receive?

We are unable to answer this.

9. Are there any impacts of the proposed scheme on clients that we have not considered?

This scheme will prevent interest accrued on client money being returned to clients. There is no basis for this to be justified.

10. For the legal service providers: how easy or difficult do you find it currently to open pooled or individual client accounts?

It is difficult to open pooled and individual client accounts due to the AML regulations that are in place and reluctance of institutions to offer client accounts. This scheme will make it harder to open such accounts and it will mean that providers will be less likely to want to hold client money and administer the scheme as it place additional administrative burdens and responsibility on them.

11. For client accounts providers (including Third Party Managed Account providers): are there any benefits or challenges foreseen with introducing banking products with the specified criteria proposed?

If the scheme is introduced anything, there must be no additional burden on the providers. Why should providers have to bear additional costs when many are already under significant financial constraints due to the underfunding of the justice system by central government.

12. For client account providers: Would you be able to offer client accounts that could automatically transfer the appropriate amount of interest to the scheme? How would they work?

We cannot comment on this.

13. By what process should a "comparable rate" of interest on client accounts be determined

We cannot comment on this. However, financial institutions will need to consider carefully whether they are still able to offer interest on client accounts. It is only recently that interest rates have risen and historically very little interest has been generated.

14. We propose that interest is credited to client accounts, and collected by the scheme, periodically (such as monthly or quarterly). What should that frequency be?

We are not in agreement with the proposal that the interest should be collected.

15. Are there other account criteria for the accounts that would be recommended to make the scheme work as intended

We are not in agreement that the interest should be collected and we believe that this scheme will place unmanageable requirements on the providers.

16. Do you foresee any practical difficulties with the proposed process for legal service providers?

We have set out our concerns to this scheme above. There will be additional administrative burdens on firms if it is implemented that may result in firms not wishing to hold client money. This is particularly true of small and medium firms who deal with a mixture of work types. This could cause financial instability in the legal services market and make it harder for clients to find service providers willing to hold client money.

17. Do you have any suggestions for changes that could improve how the model works for legal service providers?

These proposals will place additional burdens on to firms and will cause many of them to struggle financially.

18. Do you have any other thoughts on the intended scheme process for legal service providers?

This scheme will placed additional burdens upon providers who are already subject to AML regulations, increased insurance premiums and legal and professional responsibilities. This will mean that it is not desirable to hold client money and may well result in providers refusing to do so.

19. At your firm, how much interest is typically generated on a single client's funds including:

a. On one client's funds in a pooled client account; and b. On one client's funds in an individual client account.

20. What proportion of your firm's turnover is client account interest?

21. What does your firm currently do with client account interest?

22. How would the scheme, as proposed, affect your firm?

Q 19 - 22 we can only answer as a representative body and therefore, cannot answer specific questions relating a to a particular firm. However, we are aware that many firms which are multi-

disciplinary have, for years, used privately funded work to subsidise legal aid work. This scheme in effect places an additional tax upon firms which may render them unsustainable.

23. What indirect/administrative costs may the scheme place on your firm and how can we limit them?

Firms are already subject to significant administrative costs and regulation relating to the holding of client money. This requires training of all staff, cost of accreditations and audit. This scheme will inevitably cause additional burden which firms simply cannot bear and remain sustainable.

24. Does your firm conduct legal aid work?

25. If yes to the previous question: a. What proportion of your firm's turnover is derived from legal aid work? b. Would the proposed scheme impact your provision of legal aid services, and to what extent?

Q24 - 25 Our members conduct legal aid work in an area which has been subject to numerous reviews and commissions over a number of years. All of these have reported to successive governments that the sector is in danger of collapse. Criminal firms are unable to recruit and retain staff. They have received minimal, below inflation rises in rates over the last 20 years. This scheme will be another tax on those firms undertaking legal aid work and may well render them unsustainable. This will result in unemployment of staff, a lack of lawyers able to undertake criminal work. Given the governments stated aim of fixing court backlogs and mending the criminal justice system, it is hard to see how this can accomplish those aims.

26. Do you envisage circumstances in which you would need the scheme administrator to assist you?

It is likely the burden on ensuring that the monies are transferred will rest with firms, placing excessive burdens upon them without recompense.

27. For client account providers: what are your views on the two proposed models for managing scheme interest: multiple administrator accounts across institutions versus a single central account?

It is not accepted that the MOJ should seize interest from client accounts. Neither of the proposals would be fair or justified.

28. We propose that the Ministry of Justice initially administers the scheme. Do you think there is a more suitable organisation to take on this role in future, and why?

Whoever manages the scheme will cost the government money in the set up and running costs. This is likely to negate the benefit of monies seized from client accounts.

29. Do you have any other comments on the proposed roles of the scheme administrator?

No

30. What reporting activity do you already undertake on client accounts and client account interest?

Solicitors firms are subject to regulation and accounting requirements. There are significant legal burdens already placed upon them.

31. How might we ensure that an approach to monitoring and enforcement is proportional and effective?

These proposals will place additional burdens on a sector which is already subject to legal and regulatory burdens.

32. What do you consider to be the proposed ILCA scheme's equalities impacts on individuals with protected characteristics (if any)?

There are a disproportionate number of persons with protected characteristics practising in legal aid firms. This proposal places those firms at risk of closure and significant financial hardship.

33. Is there further evidence (including data, or case studies in other jurisdictions) you can share that could inform our equality analysis for the proposed scheme?

N/A

34. Are there forms of mitigation in relation to equality impacts that we should consider?

N/A