Who is your client? – supplementary guidelines for in-house lawyers

The Law Society of Scotland

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1. Introduction to these supplementary guidelines

As an in-house lawyer, your employer is your client. But who is your employer? What about associated bodies? And work colleagues? In your role, you may be asked to give advice to someone who is not your direct employer. Should you give them that advice and, if you do, what do you and your team need to consider?

These supplementary guidelines aim to expand on our existing Guide for in-house lawyers, with more detail about knowing who your client is when you are working in-house. It follows a survey of in-house lawyers which the Society undertook about the changing shape of the legal profession in October 2016. The survey showed that in-house lawyers often come under pressure to advise colleagues, associated bodies, directors / trustees, related persons, other public bodies and even members of the public. This pressure affects both the private and public sectors but is perhaps most strongly felt in local government teams. Also, it is increasing as organisations develop new methods of working. As one respondent to the survey put it: "It would be helpful to have further advice on what is 'legal' advice or services which can only be provided to an employer within their professional indemnity arrangements" as the "model of [in-house] solicitors only being able to provide legal services to their employer is becoming…blurred."

The Society is keen to ensure that the parameters of in-house practice are clear, in order to equip members in this growing area of the legal profession with the tools to deal with the potential pressures they face. It is also hoped that these supplementary guidelines will bring greater consistency to in-house practice. They contain some reminders of relevant practice rules, things to consider and practical tips. They do not contain any new rules and are not designed to be prescriptive.

Note: adherence to the practice rules is essential. In the event of any conflict which may for any reason occur between the Society's rules and guidance and these guidelines from time to time, the rules and guidance will prevail.

If you’re looking for advice and guidance on applying these supplementary guidelines, please get in touch with the Law Society of Scotland's professional practice team on 0131 226 8896. For any general information on the guidelines, contact the Society’s Head of Engagement for In-House Lawyers on inhouse@lawscot.org.uk.

These supplementary guidelines have been produced with the valuable input of a focus group of in-house lawyers.
2. Who is my client? – current guide and rules

The basic position under existing Society guidelines is that your employer (whether permanent or temporary) is your client and you are governed by the same practice rules as private practice solicitors.

The Society's Guide for in-house lawyers says:

"Key characteristics of the in-house lawyer...

“3. Your employer is your client
As an in-house lawyer you should give legal advice exclusively to the company or organisation which employs you. You should not normally be giving advice to members of the public or third-party organisations...Although your employer is your client, you must also maintain your independence by ensuring you adhere to the law and comply with the relevant practice rules..."

“4. You are governed by the same rules as private practice solicitors
...all solicitors are united by the requirement to observe the relevant practice rules at all times...In-house lawyers are also subject to the jurisdiction of the Scottish Legal Complaints Commission."

Under the Society's practice rules B1.7 and B2.1, in-house lawyers must avoid conflicts of interest. Specifically:

"You must not act for two or more clients in matters where there is a conflict of interest between the clients or for any client where there is a conflict between the interest of your client and your interest...

"Even where there is only a potential conflict of interest you must exercise caution. Where the potential for conflict is significant, you must not act for both parties without the full knowledge and express consent of the clients."

Additional relevant detail about when it is possible for in-house lawyers to act for more than one party to a transaction can be found in rule B2.1, with a key consideration being acting only "where there is no actual conflict and where no dispute arises or appears likely to arise between the parties to that transaction".
Under the Society's other relevant Standards of Conduct in the practice rules (rule B1), obligations on in-house lawyers include:

- **Being trustworthy and honest** (maintaining personal integrity at all times);
- **Giving independent advice** (free from external influences or personal interests which are inconsistent with the Standards of Conduct);
- **Acting in the best interests of your clients** (subject to preserving your independence and complying with the law, the practice rules and the principles of good professional conduct);
- **Not accepting improper instructions**;
- **Maintaining client confidentiality**;
- **Disclosing a personal or financial interest to your client** (or declining to act if you cannot reasonably give independent advice);
- **Effective communication to clients** (including providing clients with any relevant information which you have and which is necessary to allow informed decisions to be made by them);
- **Competence, diligence and appropriate skills** (including only acting in those matters where you are competent to do so);
- **Duties to the court** (including never knowingly giving false or misleading information to the court); and
- **Conduct towards other solicitors** (mutual trust and confidence).

As in-house lawyers should not be holding or handling client funds in any circumstances, the accounts rules do not apply.

3. Who is my client? – the middle ground

The Society recognises that there is a group of bodies and people between the two extremes of your employer and unrelated third parties / the general public. This middle ground is where giving advice may still be possible, depending on:

- The proximity of the "middle ground client" and their interests to your employer and to your employer’s interests (ie there must be a common objective between the “middle ground client” and your employer);
- Whether you are able to act without compromising your obligations under the practice rules; and
• Whether the “middle ground client” has important protections like legal privilege and professional indemnity insurance.

When providing advice to the “middle ground client”, no legal fees should be charged (other than any internal recharging of budget, covering of expenses or redistribution of public funds) and no client funds should be held.

In some limited cases, advising third parties is specifically permitted by statute. This exemption to the normal position is explained in the Guide for in-house lawyers:

"In-house lawyers in certain organisations have been given powers under statute to provide legal services to bodies other than their employer. For example, the Common Services Agency, which includes the Central Legal Office and which is a division of NHS Scotland, has power under the Public Bodies (Joint Working) (Scotland) Act 2014 to provide legal services to regional health boards and other NHS bodies in Scotland. More information on this particular issue is available in our in-house news section. If you are giving advice to third parties, you should always be mindful of the potential for conflict of interest to arise."

In other cases, here are things to consider:

a) Proximity and interests – related bodies and work colleagues

How closely is the "middle ground client" connected to my employer? Are they a closely related body or a work colleague? Are their interests aligned with my employer’s or is there a conflict?

In your role as an in-house lawyer, you may be asked to advise a related body. Examples include: a company or organisation which is in the same group as your employer; a joint venture between your employer and another organisation (such as another company or another local authority); a partnership which your employer is a partner in; a board which has been created by statute; a trust in which your employer holds an interest (including a pension trust); or an arm’s length external organisation (ALEO) which is formally separate from a local authority but which is performing a public service that would otherwise be discharged by the authority and is subject to its considerable control and influence. A key consideration for you is whether that related body is essentially part of your employer or under your employer’s ownership, control or influence. For example:
- Advising a wholly owned subsidiary or ALEO is more likely to be acceptable than a company or organisation in which your employer has less than 50% ownership and control;
- Acting for a parent company of your employer is more likely to be acceptable if that company has majority ownership or control over your employer;
- Another public body, board or partnership which is controlled by the local authority you work for is more likely to be acceptable than a body in which your employer has a minority interest or no control or influence; and
- Another public body, board or partnership that delivers services normally delivered by your local authority employer and where the interests of both bodies are fully aligned.

Even if the proximity of the related body is sufficiently close, it is important to look at the particular situation and consider if there is any actual or significant potential conflict of interest with your employer or your own interests. See section 2 above regarding the practice rules relating specifically to conflicts of interest. You can also contact the Society's professional practice team for advice.

For work colleagues, the extent to which their interests are aligned with those of your employer is key so that you can avoid conflicts of interest. Therefore, advising a director of your employer company or council member of your local authority on matters associated with your employer may be acceptable if interests are aligned but advising them on a personal matter would not be.

Remember that when acting for more than one “middle ground client”, you must act in the best interests of each client.

b) **Insurance considerations**

**Is there insurance to protect the client?** Over half of respondents to the October 2016 survey said that either there was no professional indemnity insurance in place to cover their work for “middle ground clients” or they did not know if there was. It's important for in-house lawyers to establish the insurance position and its limits before giving advice. Giving uninsured advice is a serious risk for you and for the client and disclosing this risk to the “middle ground client” in writing is important. Protecting your position as a solicitor and the end user of your legal services is paramount. Note that some employers will choose to self-insure. This is perfectly acceptable; however, it is important that in-house lawyers are aware of this practice from the outset.
c) **Client communications**

Is there a need for disclosure to the client? Practice rule B4 covers communication with clients. While this is generally not relevant when advising your direct employer, it is an important consideration when you are asked to advise a "middle ground client", such as a closely related body which has not previously or recently received legal services from you / the team. A service level agreement, terms and conditions or “client care” email provided to the client at the start of the relationship could help to ensure that they understand the remit of the relationship and the protections they have. This will also protect your position, as it will set limits on the work you intend to undertake from the outset. For more detailed guidelines on how you could do this in practice, see section 4(e) below.

d) **Legal privilege and confidentiality**

Does privilege apply and are there any confidentiality concerns? Knowing who your "client" is allows you to consider if legal professional privilege applies. This is an important protection for the client. Privilege is likely to be lost if legal advice is disclosed too widely. For more guidance on retaining privilege, please see sections 18-20 of the Guide for in-house lawyers. Additionally, you should always consider whether advice given to a related body or work colleague has the potential to threaten your ability to comply with your obligation of confidentiality to your employer (rule B1.6 – if it does then this could be a conflict of interest which prevents you from acting for them.

Note that your obligations under anti-money laundering rules will be different if legal services are being provided to “external” clients as you would be classed as an “independent legal professional” so please refer to the Society’s AML guidance for more information.

**4. Best Practice procedures for in-house legal teams**

Management of in-house legal teams or general counsel may wish to consider putting procedures in place to make sure that the considerations in section 3 above are embedded day to day. The following are not mandatory but are examples of good practice. Any procedures should fit the size and nature of the team and be practical.
a) **Who is my client (and can I advise them) check**

Private practice solicitors must establish the identity of their client right at the start of the engagement. This establishes who needs to be identified for anti-money laundering purposes, who pays the legal fees, who the engagement letter goes to and who can sue and claim under professional indemnity insurance cover if things go wrong. Although naturally less ingrained in in-house practice, this is just as important when giving advice to a “middle ground client” and procedures to build this check into the daily life of the legal team can help. These could include a “who is my client” policy, which contains details of:

- Related bodies or types of related bodies which are typically acceptable to advise;
- Categories of work colleagues within the employer group and the types of circumstances in which they can or cannot be advised; and
- Who to speak to within the legal team or wider organisation if the position is unclear.

b) **Conflict checklist**

You could institute a process of assessing the risks and potential for any conflict at the start of acting for a “middle ground client” by producing a conflict checklist which sets out a series of questions to assist with this. You could also have a policy of documenting the circumstances in which a piece of work was taken on. The guidance on rule B2.1 may help you produce the conflict checklist. In particular, key elements to consider are:

- Would you give different advice to your employer and this “middle ground client” or to different clients on the same matter?
- Would your actings on behalf of this “middle ground client” have an adverse impact on a matter you are dealing with for your employer or another client?
- Are you unable to disclose relevant information to this “middle ground client” which is necessary to allow them to make an informed decision because of a duty of confidentiality to your employer or another client?

If the answer to any of these questions is yes then the likelihood is that there is a conflict of interest on this matter and you should not act. There may also be other relevant questions to ask, such as: “What are your employer’s and the ‘middle ground client’s’ interests and are they aligned?”

If a conflict does arise, you will need to stop acting for both clients. This course of action may be more difficult to put into practice in an in-house environment, particularly where one of the parties is your direct employer. The requirement to stop acting relates only to the particular transaction or piece of work concerned. It may also depend on whether continuing to act would result in breaching
the confidentiality of one or other of the parties to the transaction. You may be able to pass the
transaction on to a colleague who has had no previous involvement. Clients should be made aware
of this potential outcome.

c) **Support for new staff and junior in-house lawyers**
Some of the best run in-house legal teams have a strong support network so that in-house lawyers
can easily speak to colleagues for advice about "who is my client". This is particularly important for
new staff and more junior in-house lawyers who benefit from using more experienced colleagues as
a sounding board in a new situation. Escalation routes for “who is my client” issues should be clear.
Internal training on dealing with “who is my client” issues could also be beneficial. Where there are
multiple in-house legal teams, collaboration and support between them is important. For sole in-
house lawyers or small teams, advice and support may be available from senior management or
other professionals in your organisation and is always available from the Society’s professional
practice team.

d) **Explaining insurance cover to new legal colleagues**
When you are new to an in-house role, it can be difficult to find out about the insurance
arrangements. It’s good practice for general counsel / team heads to make sure that new team
members receive information about the professional indemnity insurance cover (or the fact that the
organisation self-insures) and the limits of that insurance (eg if it does not cover anything outwith
the course of employment) as part of their induction into the team / organisation. This information
could also be usefully made available on any intranet site or other shared resource. Sole in-house
lawyers should consult with their line manager in the first instance to find this sort of information out.

e) **Terms and conditions of in-house legal services**
A time-saving option for disclosure to “middle ground clients” could be to simply point them to
standardised, plain English terms and conditions. These could be posted on your intranet page or
attached to an email. However, as the parameters of your in-house legal services could vary
considerably depending on the nature of your relationship with different “middle ground clients”, you
may need to tailor these terms and conditions on a case-by-case basis. In these circumstances,
you could have a standard terms and conditions document to use as a style, which you adapt to
include the specific service levels, contact names etc, and then provide to the “middle ground client”
by email or letter. Broadly, the terms and conditions could cover:
- Any standard service levels, i.e. timescales to turn around pieces of work or that timescales
  will be advised to the client separately;
• Confidentiality, legal privilege and procedures for retention of files and documents;
• Procedures where a conflict of interest arises;
• Professional indemnity insurance position (including if there is self-insurance);
• Relevant governance arrangements which authorise the service provision;
• Cross-references to any applicable written policies of the organisation;
• Complaints procedures, including who they can escalate any concerns to within the legal team or wider organisation or referral of any complaint to the Scottish Legal Complaints Commission;
• Regulation of in-house lawyers by the Society and the key obligations of in-house lawyers under the practice rules;
• Outsourcing of legal services to external law firms or counsel (when, to whom, who pays etc); and
• Any responsibilities of the client, for example, in relation to giving clear and timely instructions and retaining legal privilege by not circulating advice which is marked “privileged and confidential” more widely than absolutely necessary.

Some legal teams will have an organisational policy about legal advice which may cover these points and others and which “middle ground clients” could be made aware of.

5. Case Studies

The following case studies are designed to help you understand how to apply these guidelines in practice.

Case study 1: It is your first day working under a temporary six-month employment contract as a legal manager for a glamorous accessories group holding company, Alba Accessories Group Ltd, and you have been asked to advise Roma Bags SCpA, a subsidiary company which is based in Italy. Roma Bags is 60% owned by Euro Bags Plc, which is a third-party company and a key competitor of your employer in various European countries. Roma don't have any lawyers in Italy and their managing director has asked your boss for help as a favour so they can amend their customer terms and conditions by the end of the week and avoid a regulatory fine for non-compliance with new EU consumer law requirements. Your boss hands you an email and says: “Can you sort this out?”

Roma Bags is majority owned by a third party. If the third party also controls it then it is not sufficiently closely related to your employer and there is a clear conflict with the third party. The fact that you are not a
permanent employee is irrelevant; you are still an employee and therefore an in-house lawyer. Additionally, unless you are qualified in Italian law, this work is likely to be outside of the remit of your competency. You should always be careful to advise your client of the limits of your expertise, e.g. that you are only advising on Scots law (or English / EU law if you are qualified to do so) and that they must take separate advice on local laws. If this had been a 50:50 joint venture and there was no clear conflict with the other owner then you may have been able to act, though the other owner should be advised to get their own independent legal advice too and you may want to enter into a service level agreement to ensure the parameters of your advice are clearly set out from the beginning. You’d still need to obtain separate advice on any applicable local laws. As you are new to the role, you may not yet be aware of whether there is professional indemnity insurance in place to protect the client – you should ask your boss to confirm this to you, including the scope of the insurance, i.e. what it does not cover, before you give any advice.

**Case study 2:** Mr Bigwig has just been appointed as a non-executive director of Big Old Tech Limited, the parent company of your employer, Little New Tech Limited. He has not held this role before. You meet him at a board meeting. Mrs Executive, the CEO, introduces you as the company lawyer. Mr Bigwig makes a beeline for you during the coffee break and asks if he could have some advice on “what directors are supposed to do” and his rights under his new benefits package.

Acting for a work colleague who is a director of your employer company or a company within your employer’s group is acceptable depending on whether or not there is a conflict of interest with your employer. In this example, advising on general director duties could be permissible as it is in your employer’s interests that its directors and the directors of its group companies understand what is required of them in the role. However, advising on rights under a benefits package risks straying into personal employment law matters and you should recommend independent external legal advice instead. You should never advise a work colleague on a purely personal matter, such as selling their home or a personal injury claim.

**Case study 3:** You have started volunteering for your local Citizens Advice Bureau a couple of hours a week as something extra on top of your day job as an in-house lawyer. You are enthusing to your boss, Mr G Counsel, about how rewarding it is to “give something back” at your 1:1 meeting. He asks you if you have checked if you are breaching Law Society rules because he didn’t think in-house lawyers could give legal advice to the public.

As a general rule, in-house lawyers should not give advice to members of the public or unconnected third parties. However, there are exceptions such as pro bono scenarios such as this, which are acceptable. Volunteering for CAB is clearly something separate from your employment and the Law Society encourages all solicitors to seek opportunities to use their legal skills to give back to their communities. You should check whether you are covered by CAB’s insurance for any advice you give. If so, and
provided you follow the usual practice rules about conflicts of interest, confidentiality etc, and you are not holding any client funds, then advising members of the public in these circumstances should be acceptable. Clearly, you should not be disclosing any CAB client details to your employer or anyone else. You will also need to be careful about conflicts with your employer. For example, if you work for a local authority and the CAB client has a complaint about their council tax with that authority, or if you work for a bank and a CAB client has a complaint about overdraft charges with that bank, then you should get another volunteer to advise them. You should also check what your employment contract allows, as you may need express permission from your employer to carry out additional work (even on a voluntary basis).

Local government case studies

Case study 4 – councillor: You work for a local authority and Mrs A Official, a highly respected councillor, takes you aside after one of the council meetings. She says she has been extremely impressed by your legal skills and practicality and that you deserve a promotion. She then asks if she can trouble you for some quick “off the record”, informal advice about how she can claim more expenses as “these pesky rules are so unfair”, offering to pay you a small fee in return.

It can be permissible to advise a councillor but only on matters related to your employer and where there is no conflict of interest. You should not advise the councillor on a personal matter but should instead advise her to seek her own independent legal advice. In these particular circumstances, it may also be appropriate to report to your authority’s monitoring officer. There is also a clear conflict of interest here. Informal advice is no different to formal advice and can even be more dangerous for you. You should not accept a fee from a work colleague and you should also be careful to comply with your employer’s anti-bribery and corruption policy.

Case study 5 – shared working: Your boss, Mrs V Busy, asks you to run with a rent-recovery housing case for your employer, North District Council. She says that she is too busy to give you much information about it but you should read the papers, “oh and it spans South District Council’s area too”. The procedural hearing is tomorrow. You phone your friend, Mr S O Chilled, at South District Council to ask who is representing them and he says: “Can’t you just do it seeing as we are ‘on the same page’?”

The Local Authorities (Goods and Services) Act 1970 permits a local authority to enter into an agreement for the provision by that authority of “professional services” to another local authority. In addition, the Local Government (Scotland) Act 1973 allows a local authority to arrange for another local authority to discharge its functions – in this case, legal services connected with rent recovery. The 1973 Act also allows a local authority to enter into an agreement to put one of its officers at the disposal of another local authority for
the purposes of their functions after consulting with that officer. You should therefore check if this is what is being arranged in this case and seek written confirmation from the two local authorities. If so, and the interests of the two local authorities as regards the case are fully aligned (i.e. there is no conflict of interest), and no fee is charged, then this may be acceptable as North District Council is effectively acting as the agent of South District Council. It will be important to establish any limits to your authority and procedures for agreeing any settlement or making other decisions about the case on behalf of South. A service level agreement with South or other format of disclosure to them will be important. The risk of any potential conflict of interest arising should be considered and, if a conflict did arise, you would need to withdraw from acting for both North and South in this matter. For procedural hearings, it may be easy to determine that both clients’ interests are aligned. For more complex matters, or once a case reaches the proof stage, the potential for conflict may increase and this should be considered at the beginning of the instruction.

Case study 6 – health and integration: You work for East local authority, which has recently set up the East Integrated Joint Board (EIJB) with the local health board, NHS East, to support people in the area to improve their own health and wellbeing as well as improving the quality and consistency of health and social care. EIJB is a separate, distinct legal entity with delegated powers from your employer and NHS East with the local health board. You’re asked to advise EIJB on their service contracts but you remember reading something in a Law Society guide that in-house lawyers can’t advise third parties. What should you do?

The Society has issued a news release on this issue saying that:

“The Public Bodies (Joint Working) (Scotland) Act 2014 came into force on 1 April 2016. This legislation implements health and social care integration by bringing together NHS and local authority care services under one partnership arrangement for each area.

“Q. Can an in-house solicitor employed by a local authority advise both their employer and an ‘integration joint board’ set up by their employer and the health board?

“Yes – the opinion of the Society’s professional practice team is that such solicitors may advise both their employers (the local authority) and an integration joint board, as long as there is no conflict of interest with their employers and providing any issues of confidentiality are addressed. Often, there will be a common interest that the board and the authority wish to achieve, and in such cases there would clearly not be a problem.

“However, as individuals, solicitors should be aware of potential conflicts and issues such as privilege and confidentiality. For example, a solicitor might know something from their work for the local authority, which might be relevant to the joint integration board, which they could be precluded from divulging to the board because of duties of confidentiality to the local authority. Conflict of interest is matter which can only really be considered on its own individual circumstances. It is up to
the solicitor to assess the risks in any particular case; however, help is available from the Society’s professional practice team – who can be contacted on 0131 226 8896 or on profprac@lawsco.org.uk.

“A service level agreement, between the local authority and the integration joint board, might assist. It could set out the scope of the agreement to provide legal services and include issues such as the possibility that the solicitor may have to withdraw from acting in certain circumstances. It could also be used to consider the need for insurance and to specify that the solicitor will not incur personal liability.”

It is also good practice to designate one person in the legal team as the EIJB adviser and another person as the adviser to your employer on matters relating to EIJB to preserve the necessary independence and confidentiality and try to avoid conflicts arising.

Case study 7 – ALEO: You work in the litigation legal team of West local authority, which has recently decided to transfer its public functions regarding management of the West Leisure Centre, the local public leisure centre, to an ALEO called West Leisure Management Limited. Mr. Muscles, a well-known local body-builder, injures himself on a piece of gym equipment and is threatening a personal injury claim, saying he did not receive adequate training from staff at the centre on using the equipment. Are you able to help West Leisure Management deal with this complaint and defend this claim?

As a first step, you should check the insurance position for West Leisure Management. If insurance is in place, the ALEO should contact their insurers, who will take up the action. Otherwise, whether you can advise this ALEO will very much depend on the specific circumstances and how closely aligned the ALEO’s structure, management and interests are with the local authority. Is the ALEO wholly owned or at least majority owned or controlled by West local authority? Is the ALEO’s budget controlled by West local authority? Who are the directors? If they are councillors or external directors who are nominated by West local authority then this may indicate a sufficiently close link. Is there a commonality of interests between the ALEO, its management and West local authority? Other than any internal budget or public funds reallocation, fees should not generally be charged. If the ALEO does not have its own insurance then it may be prudent to tell the local authority’s insurer about acting for the ALEO. You should also consider whether to protect your interests by asking councillors to approve you acting for the ALEO. You should make sure you provide suitable terms and conditions or a service level agreement to the ALEO management. Client confidentiality is also important. Some local authority legal teams will seek to preserve this in a structural way by having staff who are wholly dedicated to the ALEO’s work, and staff who are dedicated solely to local authority work. Remember that “who is your client” is an ongoing consideration, not a one-off. If you start to act for an ALEO and then the ALEO’s and local authority’s interests later diverge in a fundamental way or there is a fundamental change to the structure or functions
of the ALEO, then you need to consider your position and, in some cases, you may need to cease to act for the ALEO. It would be prudent for your terms and conditions / service level agreement to specify what would happen in this situation, e.g. that the ALEO would have to instruct its own solicitors.

**Note on community empowerment:**

The Society is aware of the increasing importance that the Scottish Government is placing on “community empowerment” initiatives, particularly in light of the Community Empowerment (Scotland) Act 2015. We understand that this may include pressure on local government to provide legal advice to community groups that may not have the funds to instruct their own solicitors. This is obviously a complex area and there is clearly potential for conflict between the interests of the local authority and the community group, which could obviously preclude local government solicitors from advising the community group. In addition, community groups made up of members of the public may not have much previous experience of a solicitor / client relationship and a lack of appreciation in respect of a local government solicitor’s duties and obligations to its employing authority. This is an area which the Society will keep under review. If you have any specific questions or concerns, please contact us at inhouse@lawscot.org.uk or profprac@lawscot.org.uk
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