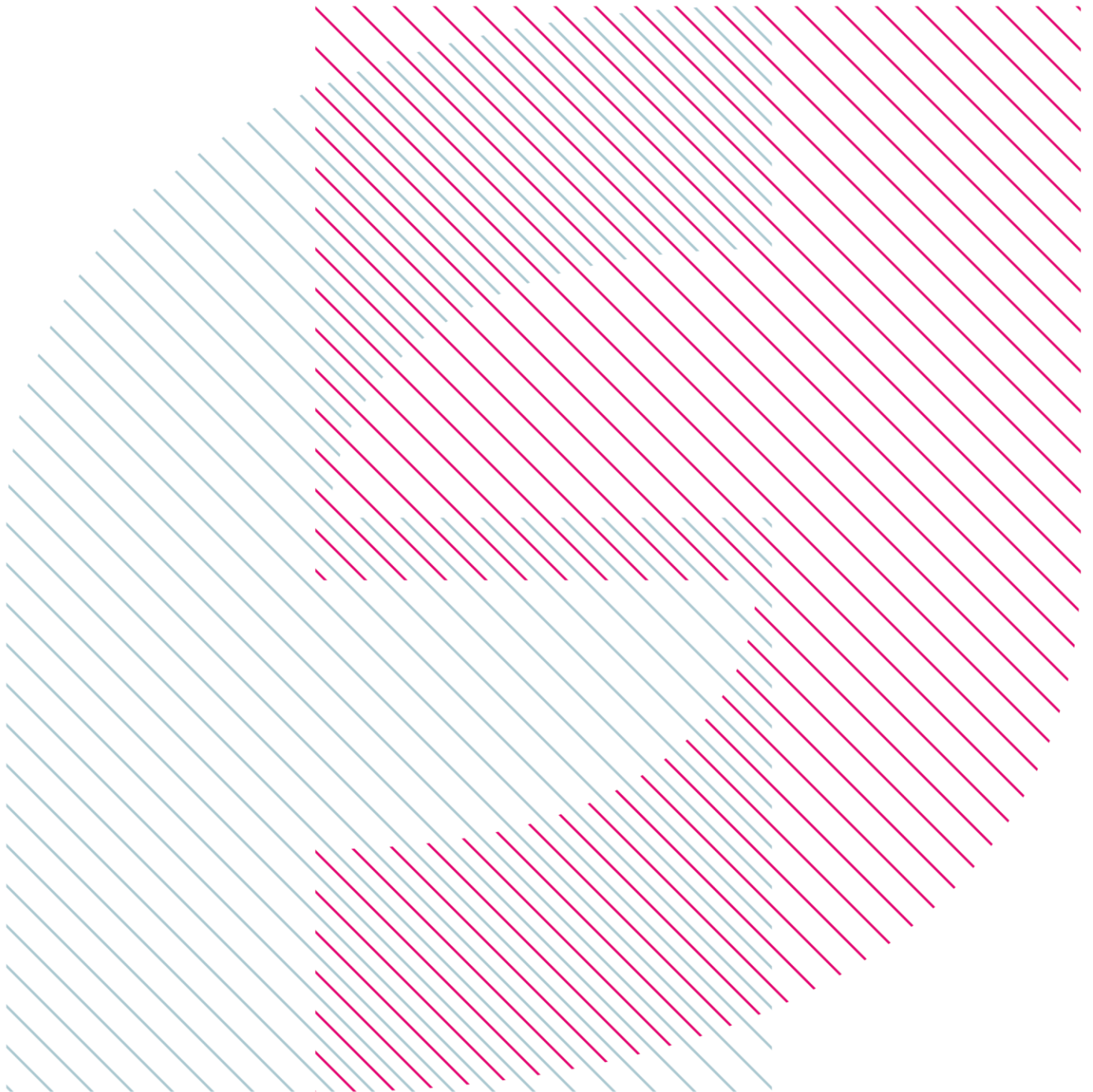


*Consultation 2016-2017  
Draft budget and draft key  
performance indicators*



## Foreword from our Chair

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The Legal Ombudsman has continued to deliver a consistently effective service while significantly driving down its budget. We now cost the legal profession almost £5 million per annum less than we did when we first opened our doors for business in October 2010.

Our expenditure has fallen substantially in the past couple of years, due to a range of measures, including a move to more cost-effective offices. This has resulted in a £3 million reduction in our budget between 2013/14 and 2014/15. This will reduce further in the current financial year.

This translates into greater value for the professionals who ultimately pay for our scheme and lower costs for their customers. With legal services having to innovate more than ever before to ensure that people still have access to justice, it is right that we should do our bit to keep costs low while maintaining the quality of our service.

Despite continuing to make cost savings we have undergone substantial change in the past 18 months. We have created a new jurisdiction – extending access to redress to thousands of claims management customers and businesses, implemented a new case management IT system, welcomed a new Chief Executive, Nick Hawkins, and a new Chief Ombudsman, Kathryn Stone.

We have also undertaken a governance review following the issues which were raised with the publication of our 2014/15 Annual Report – we continue to engage with both the Ministry of Justice and the Legal Services Board to resolve these issues.

As a public service that's funded by lawyers and claims management companies, it's doubly important we're accountable for how we use our resources. In a demand - led and often unpredictable environment, we rely on our stakeholders' insight into the challenges we need to respond to.

For these reasons, we consult publicly each year on our strategy and budget. This year we have taken the decision this year to separate our consultation on budget and strategy and will consult on these individually. The strategy will be reviewed by the Board in January and published for consultation in the spring.

Like every year, we are keen to hear your views on our budget and particularly on proposed new Key Performance Indicators.

**Steve Green**

Chair of the Office of Legal Complaints

## Context

1. 2016-17 will be the final year of the previous three year strategic plan. The cost efficiency activities in our 2014-2017 strategy have now been delivered, while delivering further efficiency benefits remains a key and ongoing focus. This strategy resulted in substantial reductions to our cost base in 2013-14, and significant further reductions in expenditure for 2014-15 and 2015-16.

	<b>2012-13 actual</b>	<b>2013-14 actual</b>	<b>2014-15 actual</b>	<b>2015-16 forecast</b>	<b>2016-17 draft budget</b>
Legal Expenditure	£16.7m	£15.8m	£12.9m	£12.2m	£11.7m
Legal Case activity	7,360	8,055	7,440	6,600	6,500
	<b>2012-13 actual</b>	<b>2013-14 actual</b>	<b>2014-15 actual</b>	<b>2015-16 forecast</b>	<b>2016-17 budget</b>
Claims Management Expenditure	-	-	£0.8m	£2.0m	£2.1m

2. Since early 2015 we have also seen significant and sustained reductions in the volumes of complaints brought to us in our Legal jurisdiction. These changes have been experienced across almost all areas of legal activity. At the same time we have successfully commenced the operation of a new Claims Management jurisdiction. We elected for a soft launch of this new jurisdiction and we are recently beginning to see an increase in claims management complaint activity levels. Whether this is sustained or not remains to be seen.
3. The OLC will also continue to work to establish the new claims management jurisdiction as a force for improved customer service in the claims management industry.
4. The OLC has just completed a consultation on proposed changes to its scheme rules, following which a decision was taken not to apply to become an ADR provider at this stage. A further decision will be taken by the OLC in 2016-17 on the approach we will take on ADR going forward.
5. Throughout 2014-15 and 2015-16 the OLC and Legal Ombudsman scheme has experienced significant and sustained changes across its senior management while also delivering significant structural changes in the form of an office move and the introduction of a new case management system. During this period it was also under close scrutiny from the Ministry of Justice in response to governance questions raised

following the departure of the previous Chief Ombudsman and Chief Executive Officer. This resulted in the Ministry of Justice assuming Accounting Officer status for us and increased scrutiny of our financial affairs. This continued throughout 2015-16 together with increasingly restrictive spending controls being imposed upon the OLC as part of a wider spending review across all of government.

6. The OLC is currently subject to spending controls from the Ministry of Justice, which are affecting the whole of the Civil Service. The separate nature of our funding does not mean that the OLC is exempted from the spending controls applied within the Ministry. These spending and recruitment controls may impact upon the performance and delivery of the Ombudsman scheme. They may also significantly limit the discretion of the OLC to commit expenditure and to deliver its strategy.
7. The OLC plans to consider the future strategic direction of the organisation in January 2016 and to consult separately on this in the spring of 2016.

### **High level budget for 2016-17**

8. This is the budget for both our existing work for legal complaints and for our claims management jurisdiction. These budgets and expenditure are ring-fenced as each is paid for separately by the legal profession and claims management regulator respectively. Budgeted expenditure for our Legal activities in 2015-16 was £12.2m with a 2015-16 budget of £2.6m for our Claims Management activities. Our full-year forecast outturn is to remain within this budget for both jurisdictions.
9. The budget principles agreed by the OLC in October were:
  - Demand assumptions for 2016-17 will be based upon existing, lower demand levels for the legal jurisdiction.
  - Operational resource levels budgets will be based on existing proven performance and productivity levels. Additional ombudsman resource will be allowed for to add resilience to this part of our operations.
  - Budgeted expenditure for activities to improve first tier complaint handling systems by service providers and to disseminate what we have learned should be retained in 2016-17.
  - OLC will aim to drive year on year improvements in indirect expenditure, while recognising the need to respond appropriately to the findings of the governance review.
  - Capital expenditure should be planned to ensure and enable ongoing delivery and business continuity.

# OLC initial budget principles

## 2016-17

In setting this high-level budget for our work we have also taken into account the informal feedback and draft findings from the recent review of governance and financial controls. Our proposed budget for 2016-17 reflects our desire to continue to improve the efficiency of our work while ensuring that we continue to deliver a high-quality, customer-focused service.

	<b>2016/17 Indirect Activities Budget £'m</b>	<b>2016/17 Legal Activities Budget £'m</b>	<b>2016/17 Claims Mgt Activities Budget £'m</b>	<b>2016/17 OLC Budget £'m</b>	<b>2015/16 OLC Budget £'m</b>
Levy income / Grant in Aid		10.7	1.8	12.5	13.2
Case Fee income		1.0	0.3	1.3	1.6
<b>Total Income / funding</b>		<b>11.7</b>	<b>2.1</b>	<b>13.8</b>	<b>14.8</b>
<b>Direct Costs</b>					
Staff		6.1	1.1	7.2	7.2
Other services		0.6	0.2	0.8	1.1
Unrecoverable case fees		0.1	0.1	0.2	0.2
Direct contingency		0.1	-	0.1	0.3
<b>Total Direct Costs</b>		<b>6.9</b>	<b>1.4</b>	<b>8.3</b>	<b>8.8</b>
Indirect contingency	0.2			0.2	0.2
Indirect staff costs	2.8			2.8	
Indirect other costs	2.5			2.4	
Indirect cost apportionment	(5.5)	4.8	0.7		5.8
<b>Total expenditure</b>	-	<b>11.7</b>	<b>2.1</b>	<b>13.8</b>	<b>14.8</b>
<b>Planned cases resolved</b>		6,500	2,000		
<b>Capital Expenditure</b>				0.50	0.75

## **Capital / other expenditure**

Although the OLC's levy funding capital includes depreciation of capital expenditure, and this budget includes capital expenditure, the OLC is also subject to a separate capital expenditure budget delegation from the MoJ. In 2015/16 the MoJ did not delegate a capital budget to the OLC.

In 2015/16 we budgeted for the capital costs of IT hosting changes, ongoing CRM system enhancements, and for the re-fresh of our laptop estate, most of which is now over five years old. Therefore this expenditure has, where possible, been deferred, or delivered in-house and any capital expenditure incurred during 2015-16 has been minimised. Ongoing CRM enhancements have been largely delivered in-house, and costs of IT hosting changes are to be expensed during 2015-16.

To support our strategic goals and to maintain effective and efficient working the following key activities are anticipated to require capital expenditure in 2016/17, and expenditure for these has been allowed for in this initial budget:

- Refresh of the OLC's laptop estate
- Office equipment and improvements
- Ongoing CRM developments
- Refresh of the OLC Intranet and Website

# Risks and Assumptions

## Key Assumptions

10. The key assumptions we have made in setting the high-level budget include:

- Any new activities, which fall outside our existing purpose or jurisdictions will continue to be funded separately. Funding will be accounted for within a separate budget. Any additional jurisdictions will have the costs of Legal Ombudsman's existing infrastructure fairly and transparently apportioned to that budget. Economies of scale would be expected to reduce the cost to the existing stakeholders for the running of our existing scheme.
- Activity for our legal jurisdiction has reduced significantly in 2015-16 and is likely to remain at these reduced levels. Legal "demand" will remain at around 6,500 cases in 2016/17. CMC "demand" will be for around 2,000 cases per annum. Staff resourcing levels have been reduced during 2015-16 through natural turnover.
- Pay increases will be in line with ongoing government pay guidelines limiting increases to 1%. Although it is intended to regularise the flexible benefit scheme by the end of 2015-16, the costs of the existing scheme remains in this draft 2016-17 budget. Once proposals for regularisation of the scheme have been agreed with the Accounting Officer and the Ministry of Justice this assumption and the budget for 2016-17 will be updated to reflect the outcome of the agreed changes.
- CMC- related work will continue to be financially ring-fenced from legal complaints and shared costs will be apportioned across these two budgets in line with the impact of this additional area of work on our overall service.
- The budget includes the same level of resource as allowed for in 2015-16 to enable increased research and information dissemination activities.
- Our capital expenditure budget allows for renewal of desktop computer equipment that is significantly past its reliable lifespan, together with renewal of internal document and knowledge management systems that were implemented in 2010 and ongoing case management system development activity.

## Key Risks

11. The risks to the business plan remain similar to those outlined in previous years, including, for example, variation from anticipated contact and case

volumes, lower than planned investigator efficiency, unplanned staff turnover levels, and unanticipated judicial review costs.

12. The specific financial risks identified for the coming period are:

- The cost and/or disruption caused by the regularisation of the flexible benefits scheme and total remuneration supplements, to the extent that this cannot be completed in 2015-16.
- The cost of additional governance and controls outlined in the recent review completed by Grant Thornton remain uncertain at this stage, although we have sought to allow for these based on initial feedback.
- Central government spending controls and restrictions may restrict, delay, or prevent spending on activities set out in this plan. In particular replacement of business critical IT hardware and infrastructure that is now over five years old may be prevented by central government expenditure restrictions on capital expenditure.
- Delivery of IT projects – ongoing work to complete development of our case management system, consumer portal, and IT infrastructure migration activities remain areas of focus. In addition we will be re-procuring the support services for our case management system in the final quarter of 2015-16.
- Ongoing development of our jurisdiction to CMCs in a period where the Claims Management industry is itself changing rapidly.



## Measuring our performance

13. On 1 November 2015 the OLC provided the LSB with proposed key performance measures which it plans to adopt for 2016-17. The OLC welcomes feedback from other stakeholders prior to making its final decision in respect of these proposals.

<b>Strategic Priorities</b>	<b>Objectives</b>	<b>Proposed KPIs</b>	<b>Proposed targets</b>
Improve our efficiency	Improve times taken, deliver to approved budget	Expenditure, legal jurisdiction Cost per Legal complaint Cost per Legal investigation 90 day resolutions, legal 180 day resolutions, legal	On budget On budget On budget 60% 90%
Implement agreed changes to our jurisdiction	Effective second year of CMC jurisdiction	Expenditure, CMC jurisdiction Cost per CMC complaint 90 day resolutions, CMC 180 day resolutions, CMC	On budget On budget 90% 100% <sup>1</sup>
An improved complaints handling system	Outcome quality and service quality	Average satisfaction of complainants and lawyers in any quarter. To be replaced by  Customer ratings of indicators of satisfaction at initial contact, investigation and end of the process	40%  TBC (these targets are to be established following collection of 6 months' data)
Disseminate what we have learned more widely		Policy and research delivery  Policy and research expenditure	Delivery to plan and quality  On budget

<sup>1</sup> This reflects our understanding of the first year of CMC operational effectiveness and the differences in complaints received and process followed.

# Questions

***Question 1: Do you agree with our overall analysis of the broader context for our budget? Are there other issues that you think we should take into account?***

***Question 2: Do you agree that the assumptions and risks we have taken into account in setting our proposed budget are sensible and appropriate?***

***Question 3: Do you agree that the KPI's we are proposing for 2016-17 are the right ones?***

## **Further Information**

Other key documents include our Annual Report, Management Statement and Financial Memorandum and our governance framework.

To view these documents or for further information visit:

[www.legalombudsman.org.uk](http://www.legalombudsman.org.uk)

## **How to respond**

We welcome comments on all aspects of this consultation, including those questions we have specifically highlighted. If possible, please send your responses electronically. Hard copy responses by post are also welcome. Please note that we plan to publish all responses we receive in relation to this consultation paper.

**Email:** [consultations@legalombudsman.org.uk](mailto:consultations@legalombudsman.org.uk)

## **Post:**

Janet Edwards  
Legal Ombudsman  
PO Box 6803  
Wolverhampton  
WV1 9WF