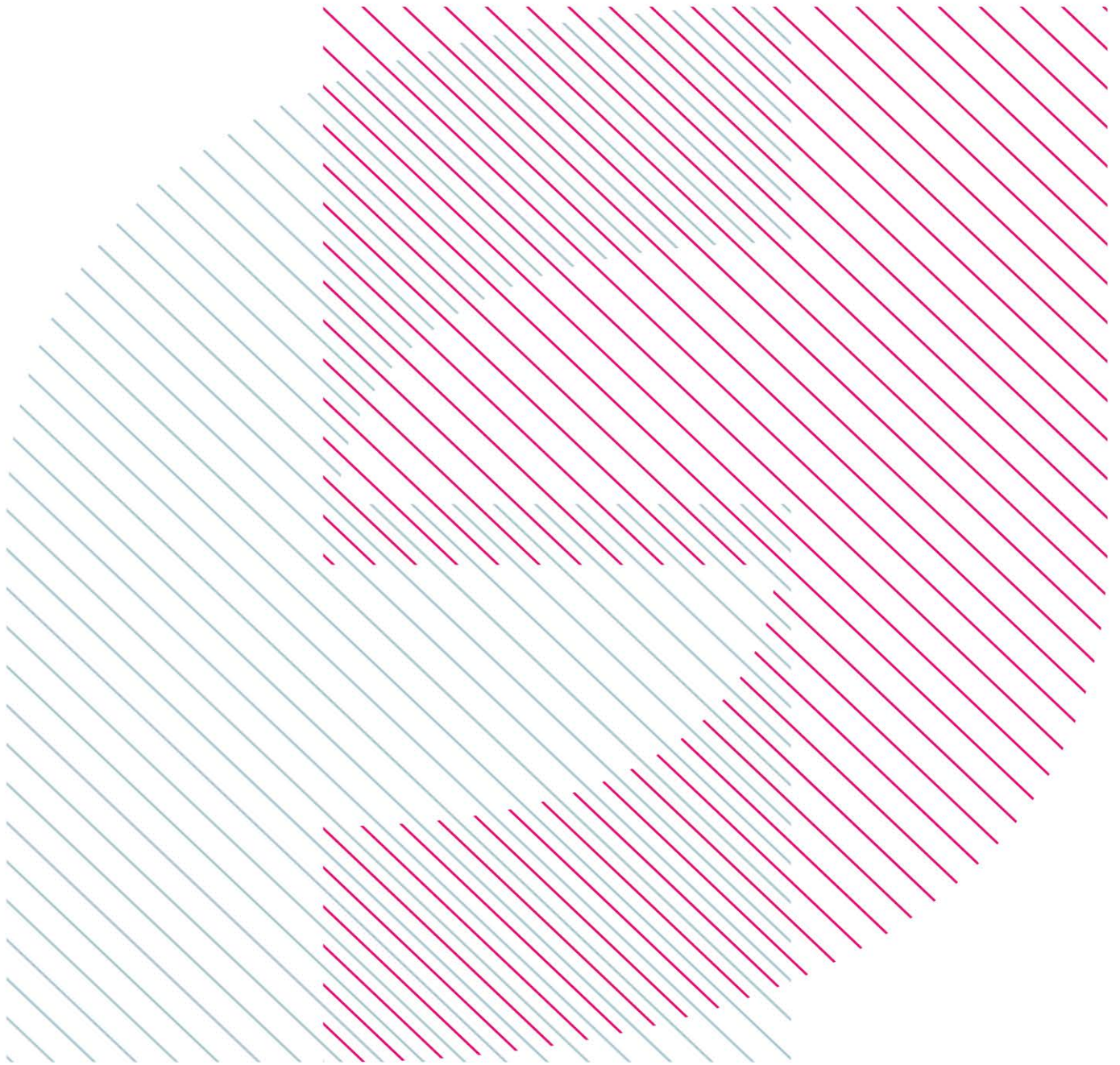


LEGAL
OMBUDSMAN

**Office for Legal Complaints
2019-20 budget**



Executive summary

1. This paper addresses the Legal Service Board's (LSB) acceptance criteria for the Office for Legal Complaints' (OLC) 2019-20 budget. It builds on the earlier budget principles paper discussed at the LSB meeting on 29 November, and feedback from our 2019-20 business plan and budget consultation. The table below summarises how we address the final acceptance criteria, which appear in **Appendix 1**.

Acceptance criteria	Coverage
a) Transparency about expected KPI performance	Sections 2.1-2.4
b) Distribution of resources and income, including key assumptions, staffing and justification of predicted volumes	Sections 2.1, 2.4, 3.1-3.5, Appendices 2 and 3
c) A summary of key risks and mitigations to delivering the 2019-20 plan, and confirmation of sensitivity analysis	Section 2.5 and Part 4
d) Changes in response to stakeholder consultation feedback	Section 3.9
e) Approximate split of expenditure between (i) complaints handling, (ii) feeding back to the sector and justification of the budget allocation for feeding back learning to the profession and anything else not covered by (i) and (ii)	Sections 3.2 and 3.5
f) Modernising LeO impact on cost per case and quality	Section 3.6 & Appendix 4
g) Explanation of case fee structures, income and collection	Section 3.7
h) Transfer of CMS work to FOS	Section 3.8

2. At the end of 2018-19, we will close the Modernising LeO programme. It has delivered a significant transformation addressing historical weaknesses. This provides a high quality infrastructure which has the potential to support greater innovation and flexibility. Our business plan provides more detail on our plans for three areas of innovation: delivery partnerships to help progress cases; piloting virtual teams outside the West Midlands; and developing more formal mediation.
3. This progress has enabled the OLC to accelerate plans to implement the MoJ's Tailored Review recommendation to combine the CEO and Chief Ombudsman roles from April 2019. The key priorities for 2019-20 will be to deliver sustainable and consistent improvement in performance, developing more flexible delivery models, and making quality the central theme of the new business plan.

The LSB is asked to **APPROVE** the 2019-20 revenue and capital budgets:

- **£12.3m gross revenue; this includes estates costs recovered through a sub-letting arrangement; and**
- **£0.25m capital.**

Part 1 - Strategic context

1. 2019-20 is the final year covered by the OLC's three year strategy. Our stakeholder consultation on the 2019-20 business plan has informed these budget proposals. In 2019-20 we will develop a new three year strategy in consultation with stakeholders.
2. This has been a period of intensive change through the Modernising LeO programme. These have led to further changes in operational delivery, and significant investment in quality and capability. The programme has:
 - a) implemented a new, more flexible staffing model, business process, and case management system (CMS) which successfully went live in April 2018;
 - b) developed a customer assessment tool and web complaint form as the first stage of digitising appropriate elements of our service;
 - c) improved data quality and assurance and developed a new business intelligence platform which will support effective feedback to the profession;
 - d) developed a new employee value proposition, and behavioural expectations;
 - e) successfully implemented Cloud-based IT infrastructure and telephony; and
 - f) implemented our estates strategy to divest half a floor of our Birmingham office, and developed our flexible working approach.
3. We are operating in a rapidly changing operating environment. There are short- and long-term changes in the market, regulation and the wider public service environment. At the same time, work is concluding to transfer the CMC jurisdiction to the Financial Ombudsman Service (FOS), which remains on track for 1 April 2019.
4. The LSB's recent decision to approve the SRA's *Looking to the Future* handbook changes is a key focus for 2019-20. As the OLC flagged in its response to the SRA's consultation and in its business plan consultation, important points of detail remain unresolved. The Law Society also raised these issues in its response to our business plan consultation. To maintain trust and confidence in the Legal Ombudsman scheme, it is imperative that further, more detailed work is undertaken by the SRA and other stakeholders to flesh out the practical implications of the assurances the SRA provided the LSB about our scheme. The SRA's own response to our business plan consultation reiterated their commitment to continuing to work with us on the practical implementation of the new arrangements.
5. We will continue to engage fully in work to clarify the practical operation of the changes and their impact on LeO. In particular, the changes need to deliver intended benefits without creating unintended negative consequences for consumers, such as confusion about jurisdiction, enforcement or lack of access to redress.

6. Longer-term, social and demographic changes, new technologies, and increasing personalisation will fundamentally change the legal and public service landscapes.
7. Significant cost efficiency activities have been delivered, resulting in substantial reductions in our cost base as shown in Figure 1.

Figure 1 – budget trends

	'12-13 actual	'13-14 actual	'14-15 actual	'15-16 actual	'16-17 actual	'17-18 actual	'18-19 forecast
Legal income	£0.26m	£1.2m	£1.1m	£1.3m	£1.4m	£0.94m	£1.0m
Legal expenditure ¹	£16.7m	£15.7m	£12.8m	£11.6m	£10.4m	£11.8m	£12.0m
CMC expenditure ¹	NA	£0.15m	£0.8m	£2.1m	£1.8m	£3.0m	£1.3m
CMC income	NA	NA	£0.07m	£0.38m	£0.43m	£1.074m	£0.13m
TOTAL OLC	£16.7m	£15.85m	£13.6m	£13.7m	£12.2m	£14.8m	£13.3m

¹ 2018-19 expenditure is shown net of £0.13m estates costs and income from releasing 25% of our office to another public body from April 2018. The gross budget will include both in addition to the figures above.

8. Demand is the biggest factor that impacts our ability to achieve KPIs and avoid undue delays in our service. Demand is not simply cases accepted. We also receive just under 100,000 enquiries and other general contacts, which we need to deal with. Some of these become cases, some do not, and others are 'premature' and return later.
9. In the first half of 2017-18 we experienced an increase in case volumes and case complexity in the legal jurisdiction which, along with high staff turnover, contributed to a build-up of unallocated work, which our legacy team has worked through during 2018-19. Our delivery plan anticipated closing 8,000 cases in 2018-19 based on average historic performance and a forecast increase in investigator capacity. Staff turnover and absence has materially impacted our capacity and we will not achieve the intended output in 2018-19.
10. We are also affected by supply factors in an increasingly competitive local recruitment market. High turnover and organisational changes means we have a relatively inexperienced operational workforce. We are focusing on building capability and developing a more robust and consistent approach to progression and quality.
11. In line with our strategy and the Tailored Review, the OLC Board set new KPIs and tolerances for 2018-19 to establish a stronger performance framework. Performance for new cases under the new process and CMS has been in line with the majority of timeliness KPIs; overall timeliness performance remains challenging due to the impact of legacy work from 2017-18. We identified positive benefits from 'supervision model' pilots, including the legacy team. These led to the OLC Board approving the

roll out of a 'quality and feedback model' in 2019-20 to improve quality and case progression.

12. The OLC Board has consistently indicated that it will take time for improvements to translate into sustainable performance. The 2019-20 budget principles have been developed with sustainable performance and quality as the key drivers.

Part 2 – Performance

2.1 Key assumptions

13. The key assumptions we have made in setting the high level indicative budget include:

- at this stage, we assume core “demand” for our legal jurisdiction will be in the range of 7,000 to 7,400 cases accepted in 2019-20 (central assumption 7,200);
- forecast resolution of 6,800-7,400 cases (central forecast 7,280 closures);
- case mix is assumed to be 10% high complexity, 45% medium and 45% low;
- we assume CMC transition will take place as planned on 1 April 2019; in the unlikely event of any delay, a separate budget would need to be approved to maintain CMC work in the short-term;
- in light of recent challenges with recruiting and retaining staff in a highly competitive local market, we are assuming average pay increases of 1.5%;
- we reduced indirect costs even after we took on CMC work; these costs will be allocated to the legal budget and will not reduce significantly as a result of CMC transfer; and
- our current assumptions about staffing appear in **Appendix 3**.

14. We have developed the volume assumptions based on our forecasting model, which models the flow through of cases and uses milestones to forecast the progression of cases from acceptance to conclusion. Testing of the assumptions around the required time to resolve cases of varying complexities has been completed, indicating that the assumptions remain in line with previous years. This supports the expectation that the forecast for cases resolved, and hence the new cases accepted, is broadly consistent with previous years.

15. The volume of cases accepted in 2018-19 is running behind the forecast that we included in the business plan. This is an anomalous year, reflecting two main factors:

- short-term impact of changes to the assessment process on the level of cases accepted; our new model works on a ‘pull’ basis, with staff taking new cases when they close others, with clear management information and control of caseloads and complexity of case mix; it will take time to achieve a smooth ‘pull’ through the system following recent refinements to the process; and
- the work of the legacy team, which comprises some of our most experienced and capable staff; their sole focus has been taking cases from the unallocated

queue at the end of the previous financial year, thus reducing the level of experience within the core staff group working under the new process and system; this has affected capacity to take new cases for investigation.

16. This makes it difficult to use run rates from 2018-19 to forecast demand in 2019-20.
17. Our assessment that underlying demand has not changed is based on underlying contact volumes being stable. Our estimate is broadly consistent with the long-term average number of cases accepted (7,355 between 2014-15 and 2017-18). However, as noted earlier, 2018-19 has been an anomalous year and therefore we will keep a close eye on demand patterns both in terms of initial contacts and case volumes.
18. We are currently assessing the potential impact of regulators' new transparency requirements on volumes in respect of signposting, and may revise our plans in light of this exercise. If improved signposting increases volumes, our plans need to allow us to provide sufficient resource to mitigate the risk of people waiting too long at the front end of our business process.
19. We are not currently anticipating significant changes in demand in 2019-20 as a result of the LSB's decision to approve the SRA's *Looking to the Future* handbook changes. During 2019-20 we will build up a data set and intelligence about potential longer-term impacts on demand and the scheme more generally.

2.2 Key performance indicators

20. 2018-19 has been a year of mixed performance. Nevertheless, it has seen progress within the Legal Ombudsman's performance. Significant work remains to sustain improving performance and address variable performance by achieving improved flow, progression and quality. As a result of Modernising LeO changes, we have moved to a new business process, staffing model and case management system. Performance against KPIs in the new case management system has been strong.
21. Using additional budget approved for 2018-19, we have also allocated a team of experienced staff to resolve legacy complaints which built up during 2017-18 as a result of combined demand and supply pressures. This team is one of five that have trialled 'supervision model' pilots which have a twin focus on progression and quality. This model has demonstrated benefits both in the legacy team and with our new starters.
22. As we have developed our operational modelling, we have refined our performance and capacity forecasting and now have more robust and reliable assumptions.
23. While we have made good progress in many areas, we have seen fluctuations in

performance during 2018-19 as we have embedded the new process. A significant proportion of staff are new in role and we have experienced a short-term impact of running dual systems. The executive team has put significant effort and focus into managing performance and building a high performance culture.

24. As well as demand, three key issues will affect operational staffing levels in 2019-20:

- we need to invest in extending the benefits of the supervision model by implementing a new 'quality and feedback' model across our wider operation, which should reduce the resource required for later stages of cases but will require up-front investment in both capability and capacity;
- the transfer of the CMC jurisdiction to FOS and the need to absorb legacy budget means that we are likely to commence 2019-20 over-establishment and intend to allow turnover to bring us back to establishment; this has the potential additional benefit of allowing us to recruit above establishment and better mitigate the impact of staff turnover and absence on service quality; and
- the Birmingham recruitment market remains highly competitive, with new bodies such as the General Dental Council and RICS moving to the city and increasing existing competition from the numerous regulators in Birmingham, which is why we will be focusing in 2019-20 on developing more innovative delivery models.

25. We anticipate our average unit cost in 2019-20 being £1,695 compared with the budgeted 2018-19 unit cost of £1,578. Due to lower than planned output (on account of shortages in staffing), the actual unit cost in 2018-19 is likely to be £1,873.

Legal jurisdiction	'13-14	'14-15	'15-16	'16-17	'17-18	'18-19 (forecast) ¹	'19-20 (budget)
Cases resolved	8,055	7,440	6,416	6,736	6,125	6,300	7,280
Cost (£m) ²	15.71	12.77	11.63	10.4	10.94	11.8	12.3
Ave. actual unit cost (£)	1,950	1,716	1,813	1,587	1,857	NA	NA
Budgeted unit cost (£)	-	1,734	1,575	1,650	1,663	1,873	1,695

¹ The budget was based on an estimate of closing 8,000 cases.

² 2018-19 and 2019-20 expenditure is shown net of £0.13m estates costs/income from releasing 25% of our office to another public body from April 2018. The gross budget will include both in addition to figures above.

2.3 Performance in 2018-19

26. As we have reported to the LSB through the voluntary assurance letters, overall performance is improving but remains mixed. It will take until 2019-20 to achieve more sustained and sustainable improvement. Board reports setting out the detail about our performance against our new KPIs and tolerances have been published on our website.

27. We have achieved timeliness performance in line with our KPIs for new cases under the new business process. The 'all' complexity performance is more challenging due to the impact of legacy work, and this remains in line with KPIs for all but the 180 day 'all cases' KPI which we are unlikely to achieve due to the opening age of legacy cases. General quality and customer satisfaction indicators show a mixed pattern in line with the challenges set out above.
28. However, our output has been lower than planned as a result of staff turnover, our focus on developing a high performance culture, other absence, and the difficulty of maintaining a temporary increase in staffing for 2018-19 to cover legacy work and then reverting to lower staffing levels from April 2019.
29. Having significantly reduced the time it takes to receive a final ombudsman decision and improved timeliness, the other key performance challenge we face is reducing the time it takes from an initial enquiry before being accepted for investigation, which is a key element of flow and the smooth operation of the new business process. The executive is developing performance measures to track progress and a triage stage to further refine the process. In 2019-20, reducing the volume and age of work awaiting assessment is the key priority to realise the benefits of the new business process and to sustain consistently good performance.
30. Our variable performance and output reflects the identification of learning points about case progression, which we continue to respond to, in particular by:
- **Establishing a framework for managing case progression:** in light of fluctuating output, we have introduced a new workload management framework to drive the effective management of case progression and embed the 'pull' model Modernising LeO changes are designed to achieve;
 - **Front-end business process:** we have introduced changes to the intake and assessment processes, which have improved the quality of work ready for investigator assessment;
 - **Building staff capability:** performance and output is variable; we continue to invest time, attention and resource in providing additional support for performance improvement and building staff skills, particularly in scoping complaints, telephone skills and dealing with vulnerable people; at the same time, we are improving our management information and grip on performance; and
 - **Developing more flexible delivery models:** whereas our focus in 2018-19 was implementing major change in systems and process, we now have an infrastructure that can facilitate more flexible, innovative and sustainable operational delivery models. Our business plan will provide more detail on our

plans, which focus on three areas of innovation: revisiting options to develop delivery partnerships to help progress cases; piloting the development of virtual teams working outside the West Midlands; and developing more formal mediation as part of our service.

31. The performance trajectory in 2018-19 reflects the factors set out above. A further key risk to the performance trajectory is staff turnover and in the context of our enhanced focus on managing performance.
32. In terms of timeliness trajectory in 2018-19, we expect to maintain performance against KPIs for new cases. In terms of all cases, our forecast trajectory will maintain performance above our KPIs for 90 days but means the 180 day KPI is not achievable due to the opening age of the case holding.
33. Work is ongoing to refine the operational capacity and forecasting model, which underpins our budget, business plan and delivery plan. Our modelling reflects learning from the evaluation of supervision model pilots and plans to roll-out a new 'quality and feedback model' across LeO in 2019-20. We anticipate a further year's work to refine the model fully but are already seeing significant improvement in our ability to forecast resource requirements and future performance, and to understand what level of performance should be achieved for given demand, resource inputs and process efficiency.

2.4 Expected performance in 2019-20 and beyond

34. In 2019-20 the OLC Board has set KPI targets that require annual incremental improvements in timeliness as set out in the table below (which formed part of our final 2018-19 budget submission). We have tested these assumptions through our forecasting model, and our plans remain to achieve these. The key factor will be maintaining adequate levels of trained staff throughout the year, and achieving a more consistent level of output and performance by building the capability of our staff, a large proportion of whom are new in role.

	2018-19	2019-20	2020-21
KPIs - new cases accepted from 1 April 2018			
90 days			
% of low complexity legal cases resolved within 90 days	60%	65%	70%
% of medium complexity legal cases resolved within 90 days	30%	40%	50%
% of high complexity legal cases resolved within 90 days	0%	0%	0%
180 days			
% of low complexity legal cases resolved within 180 days	85%	90%	90%
% of medium complexity legal cases resolved within 180 days	80%	85%	90%
% of high complexity legal cases resolved within 180 days	30%	33%	40%
365 days			
% of low complexity legal cases resolved within 365 days	99%	99%	99%
% of medium complexity legal cases resolved within 365 days	90%	95%	98%
% of high complexity legal cases resolved within 365 days	85%	95%	95%
KPI - all cases (legacy and new business as usual)			
% of all legal cases resolved within 90 days	26%	45%	54%
% of all legal cases resolved within 180 days	72%	78%	88%
% of all legal cases resolved within 365 days	90%	95%	95%

2.5 Sensitivity analysis and responding to changes in income and volume

35. We have developed alternative scenarios modelling the sensitivity of our plans to changes in demand, case complexity, staffing factors, opening work in progress and time inputs required for each case.

36. The Legal Ombudsman forecasting model is built around a core set of assumptions including staffing, productivity, the nature of incoming demand and also the way in which cases are investigated by the organisation.

37. The assumptions within the model have been (and are regularly) tested against actual figures to ensure that they are reasonable and also reflect any trending changes, both internal and external to the organisation.

38. In line with the draft budget acceptance criteria, we have undertaken a sensitivity analysis of variations in key variables. The sensitivity analysis has considered the impact of changes in:

- **inputs:** demand and case complexity;
- **efficiency:** staff turnover and assumptions about staff time input per case by complexity; and
- **outputs:** staff performance (output).

39. The sensitivity analysis tested the extent to which any variation in the core assumptions would impact on the forecast of cases accepted and resolved. While the forecasts are sensitive to changes in the core assumptions, the ranges provided cover all of the reasonable scenarios expected.

40. The key conclusions from this exercise are as follows:

- the volume of unallocated assessment work is highly sensitive to changes in demand, and the impact is cumulative and increases over time;
- in-year outputs in terms of cases accepted and resolved are not particularly sensitive to changes in complexity due to the case mix and constraints on our ability to flex resource; however, significant and long-term changes in the profile of case complexity would have an impact;
- we need to enhance our model to reflect better the impact of increasing staff turnover; this is difficult to model because of the impact of reallocating existing cases and the differential time it takes new starters to get up to speed; nevertheless, we know from experience that turnover materially impacts levels of closures and pull-through of cases from the assessment queue; and
- levels of output are sensitive to changes in productivity (time input per case), which reflects our experience this year with variable performance and productivity across the organisation.

41. Case fee income depends on the numbers of cases resolved and the proportion (37%) of these for which a case fee is payable. The income projection is sensitive to changes in both of these variables.

42. Historically, case fee income in the legal jurisdiction has been fairly consistent at just above £1m. Our 2019-20 legal budget reflects a similar level of income at £1.1m. Case fee charges would also be sensitive to both variation in the volume of cases resolved and also changes in the proportion for which a case fee is chargeable.

43. A change in case fee income could affect the amount of levy payable. We would seek to manage costs to reduce the impact of this uncertainty and draw initially on any remaining deferred levy on the balance sheet.

44. Feedback from some stakeholders in response to our budget consultation highlighted issues associated with case fees, and views about where the burden of case fees should fall. In particular, the Law Society advocated a case fee review in 2019-20, and greater flexibility for small firms.

45. Our 2018-19 business plan included a review of the legislative framework and options to change the Scheme Rules. We have identified a number of initial policy options, and will develop these in 2019-20 as part of our stakeholder consultation on the new three year strategy (2020-23).

46. Volume changes are more challenging. We are confident, particularly as the volume of assessment work suggests a strong pipeline of casework for 2019-20, that the volume of incoming work will be strong in 2019-20. However, one of the lessons of recent years, is that it takes significant time to recruit and train new operational staff.
47. The Legal Services Act creates risks and potential constraints on our ability to outsource casework or other functions delegated from the Chief Ombudsman, which we are revisiting in light of the quality and feedback model. Nevertheless, we would only consider cutting operational staffing if there was a material, long-term reduction in incoming demand, which we would measure not only in terms of cases but also in demand expressed through initial contacts via our General Enquiries Team.
48. In the short-term, we have the ability to delay recruitment decisions, but again, our general intention is to recruit ahead of turnover and maintain operational staffing, and only to reduce the operational establishment if we have robust evidence of a structural reduction in demand.
49. Should demand increase, we will remain flexible in our operational establishment and consider accelerating recruitment. We have also got some limited headroom from the MoJ in respect of our Medium-Term Financial Plan, which would allow us to approach the LSB for a budget variation if demand was sufficient to justify it.

Part 3 – Other acceptance criteria

3.1 Distribution of resources, income and staffing

50. Our total budgeted revenue expenditure for 2019-20 is £12.3m (net of inflation and estates costs/associated income). The total OLC budget represents a reduction of £0.4m compared with the equivalent 2018-19 legal budget of £12.7m.
51. As a result of the CMC jurisdiction transferring to FOS on 1 April 2019, both direct and indirect costs are fully allocated to the legal jurisdiction.
52. An explanation and justification of our key assumptions around volumes appears in section 2.1.

3.2 Breakdown of the budget - revenue

53. Our original indicative budget for 2019-20 for the legal jurisdiction, as per assumed volumes and unit costs set out in the 2018-19 business plan, anticipated a budget of £12.3m (net of inflation and estates income/costs). This remains our central assumption, with inflation included at 1.6%.
54. Our indicative total budgeted revenue expenditure for 2019-20 is in the range of £12.1m-£12.6m (net of estates costs and associated income). The central assumption is a budget of £12.3m which includes inflation. This remains in line with our 2019-20 forecast of £12.3m net of inflation. This central assumption represents a reduction of £0.4m compared with the final inflated 2018-19 legal jurisdiction budget of £12.7m.
55. We are budgeting case fee income of £1.1m, based on 7,280 cases. Appendix 2 sets out the case fee structures, with a flat case fee of £400 applying where a case fee is chargeable. Given the need to consider changes to case fees in the context of changes to our process, our plans assume no fundamental changes to the case fee structure in 2019-20. Building on an options appraisal of potential Scheme Rules changes undertaken in 2018-19, we will consult and engage stakeholders in 2019-20 as part of developing the 2020-23 strategy.
56. All figures quoted in this paper are stated including inflationary uplifts. The indicative budget is broken down as follows:

Element of budget	£m	%
Casework	7.4	60
Feeding back to the profession	0.3	3
Overheads	4.6	37
TOTAL	12.3	100

3.3 Investing in digital and IT

57. There has been significant progress improving LeO's IT infrastructure and systems in the last two years through the Modernising LeO programme. Major changes have been successfully delivered, including new Cloud-based infrastructure and telephony, a new CMS and new hardware. We have implemented a new online customer assessment tool and much improved digital complaint form. Performance measures show that we now have stable, modern and reliable IT infrastructure and systems, and downtime no longer has a material impact on operational performance.

58. During 2018-19, some of our investment plans have been impacted by the scale of the work involved in applying the mandatory Microsoft upgrade to both the old and new case management systems. This has required us to decommission the old CMS to a challenging timetable, and also apply changes to the new one. As a result, we expect some of the work originally planned for 2018-19 to move into 2019-20, affecting the IT budget. Any costs that move into 2019-20 should be offset by a corresponding underspend on the IT budget in 2018-19. The next phase of enhancements to the new CMS will now be spread across 2018-19 and 2019-20; as result we returned £87k of the 2018-19 capital budget to the MoJ.

59. Building on the firm foundations laid by Modernising LeO, we are now undertaking initial work to scope opportunities to digitise appropriate elements of our service and, longer-term, AI and machine learning. We will close the Modernising LeO programme in April 2019, moving to a continuous improvement approach to project delivery and an incremental approach to building digital functionality, based on an in-depth analysis of our processes, demand for our service, and horizon scanning. Our strategic approach is to be a 'first follower' on AI, machine learning and digital services, building on existing scoping work by the Management Team.

3.4 Breakdown of the budget - capital

60. The OLC's levy funding includes depreciation of capital expenditure, the OLC is provided with a separate capital expenditure budget delegation directly from the MoJ.

61. The primary focus for capital investment in 2019-20 will be developing a new website platform to replace the current platform, which is outdated and needs replacement to enable development of digitally focused, secure service provision. There will also be project work to develop further digital services, and some capital costs to facilitate the ongoing refresh of hardware and to complete CMS2 enhancements.

Element	Budget (£k)	Benefit
Website platform	100	Improvements to web platform to enable digital services
Digital projects	100	Specific capital investment to develop digital services
End user devices	30	Rolling refresh of laptop/desktop computers
CMS enhancements	20	CMS enhancements delayed from '18-19 by upgrade
TOTAL	250	

3.5 *Split of revenue expenditure and allocation for feeding back to the profession*

62. The budget acceptance criteria requested a justification for the allocation of the budget to feeding back learning to the profession. This comprises the time of our ombudsmen and costs associated with our work on insight, research, feeding back, stakeholder engagement, policy and communications.

63. Data quality and assurance underpins feedback to the profession. We will complete ongoing development of a new business intelligence and insight tool during Q1 to enhance our insight and feedback to the profession, and share data with the regulators. The quality agenda focuses on recommendations from casework to influence improved complaint handling at first tier.

64. We have assured ourselves that the budget is sufficient to discharge our business plan objectives to feedback learning, while prioritising investment in addressing the challenges we face with our casework.

65. In terms of value for money, our focus is on impact rather than inputs. MoJ spending controls effectively preclude spending on external communications and engagement activity. As a result, our work necessarily uses staff time and low cost, effective and targeted communications, social media and engagement. We have reduced our research expenditure as a result of concerns about the value for money of some of our major externally-commissioned research, and the opportunity of contributing to joint research with partners.

66. Over time our new business intelligence system will allow us to produce simple, high impact data and insight about running the scheme which will enable us to make a wider, deeper impact through simple, low or no cost social media communications. While the cost of this work is reducing, we have increased the volume of feedback work in 2018-19 and will continue to do so, without needing to invest significant expenditure. We are working through and with other partners, such as the Law Society Small Firms group, SRA and Society of Licensed Conveyancers, and have continued to deliver face-to-face interactions with the profession at our own events or those of key partners.

67. Measuring the effectiveness of work to feed back is inherently challenging for the

Legal Ombudsman as it is for other organisations. Our new KPI framework includes annual stakeholder feedback about whether the Legal Ombudsman provides value-adding insight. We also have strategic measures about the impact and quality of our feedback activity, and our Klout social media score. Individual projects within this stream of our business plan have their own success criteria to measure and evaluate impact.

3.6 Cost savings and quality improvements as result of Modernising LeO initiatives

68. The Modernising LeO programme was focused on delivering a fundamental transformation that aligned with our vision for the organisation as set out in the 2017-20 strategy. The programme objectives were to deliver that vision, in particular by:

- making LeO a high-performing organisation through integrated end-to-end processes, structures and ways of working that ensure excellent customer service;
- ensuring our IT environment is effective, efficient and reliable, and then enhancing our service through strategic IT investment and further modernisation of ways of working;
- achieving a step change in the quality and integrity of our management information, and using this to maximise impact from our scheme;
- making LeO an excellent place to work with high levels of flexibility, personal development and staff engagement.

69. Our focus has been on delivering sustainable improvement in service and performance by reducing long-term cost and raising quality. Our unit cost is analysed in Appendix 4. Reducing unit cost was never an explicit objective of the programme, and would be an inappropriate primary driver for an organisation whose purpose is to achieve the right outcome as quickly and fairly as possible.

70. Our new Chief Ombudsman has prioritised quality and sustainability of performance, and her primary focus is on implementing her plans to accelerate quality improvement and further simplify our processes. These plans have changed significant elements of the original programme vision, and the programme has successfully adapted to the supervision model and the new ombudsman-led vision for the organisation.

71. After a year embedding our new business processes in 2018-19, we anticipate further improvements in efficiency as our quality and capability improves.

72. We have reduced our operational staffing in 2019-20 as a result of absorbing legacy

resources. In 2020-21 we expect to realise further process efficiencies and effectiveness gains through improved quality. This also depends on demand and case complexity being in line with forecasts, and our ability to achieve staffing reductions will depend heavily on levels of staff turnover. As our staff capability and quality improves through rolling out the quality and feedback model across the organisation and embedding our workload management tools, we have the potential (subject to demand and resilience constraints) to deliver further reductions in our core staffing. The timing and extent of these savings is unknown, and will also be impacted by case mix and changes in the wider marketplace.

73. The key benefit we expect to see in 2019-20 is improved quality and performance against the new KPI framework and tolerances, which has enhanced transparency, visibility and grip of organisational performance. Once this has been stabilised and performance is on a more consistent and sustainable footing, we will be in a position to review staffing levels and seek further efficiencies. By reducing rework and 'failure demand', we expect unit cost to reduce over time.

74. Unit cost in 2019-20 reflects forecast closures, and the impact of absorbing all of the corporate overhead following CMC transfer. Operational staffing efficiencies will be largely offset by the impact of all overhead being charged to the legal jurisdiction after the CMC jurisdiction transfers to FOS.

3.7 Case fees

75. We have considered changes to the case fee structure, including the possibility of introducing tiered case fees. This assumed changes that were cost neutral and did not increase the cost of the scheme to the levy payer. Feedback from some stakeholders in response to our budget consultation highlighted issues associated with case fees, and views about where the burden of case fees should fall.

76. Our 2018-19 business plan included a review of the legislative framework, scheme rules and business process to maximise value for money including the impact of case fees. Building on this scoping work undertaken in 2018-19, we will consult and engage stakeholders on options for future development of our scheme rules, including options for case fees, as part of our work on the new strategy. In 2019-20 we aim to further refine proposals which will be included in the consultation process for the new three year strategy.

3.8 Transfer of the CMC jurisdiction to the Financial Ombudsman Service

77. The CMC jurisdiction will transfer to FOS from 1 April 2019. There are two main implications for the 2019-20 budget:

- we assume transition will take place as planned in April 2019, but have provided

the MoJ with an alternative medium-term financial plan including CMC costs in 2019-20 should transition be delayed (based on a scenario that assumes the delay lasts until August 2019 with a total of £0.065m for the period to August 2019, with a £0.2m reduction in overhead charged to legal); we assume any CMC budget implications of an unexpected, late delay in transfer would be approved by the LSB, including changes in overhead allocations between the jurisdictions; and

- CMC transfer will impact overhead apportioned to the legal jurisdiction as £0.8m overhead was apportioned to CMC in the original 2018-19 budget; total overheads in the indicative 2019-20 budget will have reduced significantly since LeO began handling CMC complaints, reflecting the fact that running the CMC jurisdiction did not significantly impact indirect costs. A number of indirect costs (e.g. estates) have been reduced in advance of the CMC transfer.

78. The majority of our overhead costs will not reduce significantly despite the loss of the CMC jurisdiction. We continue to focus on reducing overheads through:

- £0.13m p.a. net saving on estates costs by releasing half a floor for use by another agency - additional income will offset gross estate costs, and we will continue to state the budget net of estates income and costs;
- reduction in IT costs by £0.3m against the 2018-19 budget; and
- the new management structure which combines the roles of the Chief Executive and Chief Ombudsman following a reduction in management costs since 2017.

79. We do not expect there to be a medium-term impact of CMC transfer beyond the fact that our largely fixed corporate overhead will continue to be charged fully to the legal jurisdiction. There will also be some redefinition of overhead, with some functions which deliver front-line work relating to the second regulatory objective being redefined as direct costs, as they no longer need to be apportioned to CMCs.

3.9 Changes in response to stakeholder consultation feedback

80. We published a consultation document on our 2019-20 Business Plan and Budget on 14 December 2018. Four organisations responded; their feedback included:

- general support for our direction of travel and interest from a number of respondents in seeing more granular delivery plans, milestones and timescales to achieve the high-level priorities set out in our consultation, particularly regarding improved performance and quality of decision-making;
- a general theme about the importance of working through the implications of regulatory reforms for the Legal Ombudsman scheme;
- interest in seeing a dedicated sub-strategy on our work to feedback insights

from running the scheme, more explicit coverage about benchmarking the scheme against best ombudsman practice, and specific plans to improve timeliness and quality (Legal Services Consumer Panel);

- strong interest in reforms to case fees (The Law Society); and
- an emphasis on reductions in unit cost and questions about whether performance improvements were achievable (Council for Licensed Conveyancers).

81. The majority of the feedback related to our planned priorities, performance and delivery rather than budget. These will be addressed in the final business plan. The elements of consultation feedback most relevant to the budget related to unit cost and feeding back to the profession.

82. On unit cost, our detailed views appear in Appendix 4. Targeting unit cost specifically risks unintended consequences. The thrust of our business plan is to improve quality, which will reduce overall cost, duplication, rework, and (over time) unit cost.

83. On feeding back to the profession and ombudsman best practice, as set out in Section 3.5, the combined pressure on the budget from absorbing all overheads into legal, and our current performance challenge means we are unable to increase the budget for feeding back. The business plan will set out our plans to be smarter and more effective in the feedback we provide, underpinned by Modernising LeO investments in business intelligence and data.

84. We have maintained close contact with the Ministry of Justice about our budget and plans for 2019-20, and have agreed in principle a level of budget cover of up to £12.6m revenue and £0.25m capital as part of the medium-term financial plan (MTFP) process. This provides a limited buffer should demand increase in-year; if this transpires and we feel it appropriate to approach the LSB, we could do this in the comfort that the MoJ's MTFP provided sufficient headroom.

Part 4 – Key risks and mitigations

85. General risks to the business plan remain similar to previous years: variation in demand, ‘supply side’ risks (turnover, sickness, capability), and unanticipated judicial review costs. Inflation, changes in the value of sterling and uncertainty about skilled labour availability could increase non-pay cost pressures, particularly IT. EU Exit could have significant immediate impacts on the legal services sector, and in the medium-term on the scheme, but we consider organisational risks to be low.

86. Specific financial risks identified for the coming period align with our strategic risks:

Risk	Mitigation
<p>Demand - the major risk is that our forecasted caseload proves inaccurate</p>	<ul style="list-style-type: none"> • Flexible staffing model, pool ombudsmen and revised approach to operational recruitment developed and tested in Q4 2018-19. • If demand falls materially, we will hold vacancies and reduce non-pay expenditure. • If demand increases significantly we may need to seek an increased budget and/or adjust KPIs. • A key focus of our 2019-20 business plan is building capacity and capability to improve quality and case progression, which in the medium-term will improve our ability to meet demand. During the course of 2019-20, we will invest significant time and budget in developing our ombudsmen and phased implementation of a new quality and feedback model based on the ‘supervision’ pilots. We will also be investing in staff skills in dispute resolution rather than basic complaints processing. • The new transparency requirements mandate more prominent signposting to LeO on service providers’ websites, which we forecast will increase the volume of contacts and enquiries we receive, a proportion of which will convert into new cases; this may require additional resources both in our General Enquiries Team and investigators.
<p>Operational resourcing – high turnover and other absence impacts performance and cost</p>	<ul style="list-style-type: none"> • Recruitment in advance of turnover to maintain staffing above formal establishment (also mitigates the impact of maternity/paternity leave). • Develop and deliver ombudsman development programme to grow the next cohort of level 1 ombudsmen to run the quality and feedback model when it is extended across LeO in 2019-20. • Scoping work to develop an operational hub pilot in a different geographical area of the country. • Improved management information ensures transparency about case progression and supports work on high performance culture

	<ul style="list-style-type: none"> • Quality and feedback model better supports new recruits and existing staff to deliver case progression and quality, and allows us to revisit options to use the quality and feedback model to support delivery partnerships for casework. • Additional workload management guidance, support and training to manage case holdings and the distribution of milestones to maximise case progression and productivity. • Development programmes for Team Leaders. • Flexible resource through ombudsman pool.
<p>Organisational capability: staff engagement, morale and sickness issues could compromise performance</p>	<ul style="list-style-type: none"> • An action plan has been developed to respond to the 2019-20 staff survey - implementation is being monitored by LeO's Staff Council. • We will continue to focus attention on a project to develop a high performance culture, which is likely in the short-term to increase turnover and issues with morale and engagement but will also increase the quality of corporate and individual performance management, line manager capability and management information. • We are working proactively with our occupational health provider and line managers to manage sickness actively. • We have expanded business partner capacity in our HR team and refocused the team on supporting operational performance. • Work on more flexible delivery models – operational hub pilot, delivery partnerships and mediation. • We continue to work to the Time to Change workplace well-being commitment, and have retained mental health and well-being as an equality priority objective for 2019-20, given the strong link to performance and productivity.
<p>Budget risk: significant budget pressures mean there is a risk of overspending</p>	<ul style="list-style-type: none"> • Budget based on over-recruitment to mitigate turnover risks, forecast staff turnover savings and an in-year corporate savings target (£0.1m). • The budget will be subject to stringent monthly monitoring in months 1-6, with budget holders likely to lose unused budget as it occurs. • A full review at the end of Q2 will lead to budget revisions to ensure the organisation remains within budget, and an overall approach whereby we will seek to 'slow down quickly' should the budget prove too tight. • Through the MTFP process, the MoJ budget cover is expected to be up to £12.6m, higher than the budget we are asking the LSB to approve, which provides some contingency for us to ask the LSB to approve an increase should demand increase or unexpected budget pressures arise in year.

Appendix 1 – LSB budget acceptance criteria

1. Transparency about expected performance against the OLC's KPIs. This should include analysis of actual performance to date against KPIs in 2018/19 (separately for new casework and all casework including legacy), as well as the forecast performance trajectory for the 2019/20 financial year and beyond.
2. In accordance with the Act, an indication of the distribution of resources deployed in the operation of the ombudsman scheme and the amounts of income OLC expect to arise from the operation of the scheme. This should include a clear breakdown of:
 - a. staff costs and numbers broken down by function – for instance: enquiries; investigations; ombudsman team; corporate, others
 - b. explain and justify assumptions around the volumes predicted for the year.
3. A summary of the key risks to delivering the Plan for 2019/20 and mitigation proposed, to include confirmation that sensitivity analysis of key assumptions has been carried out (although the full numerical details of the analysis are not required) around:
 - a. the volumes predicted. Please include information about how the organisation would respond (including in terms of its resourcing strategy in the climate of recruitment and spend controls) in the event of volume fluctuation;
 - b. any possible variation around the income prediction, for example (but not limited to) due to changes in volume (up or down), or if changes to the case fee structure are introduced in-year; and
 - c. the sensitivity analysis should demonstrate the impact of variations in anticipated levels of case complexity.
4. A summary of where the budget has changed in response to stakeholder responses to consultation. In particular, the submission should cover the outcome of discussions with MoJ and the extent to which the final budget takes account of MoJ's input.
5. The approximate split of expenditure between:
 - a. handling complaints about legal services
 - b. work to analyse and feed back to the sector learnings from handling complaints – please explain and justify this figure
 - c. anything else not covered by (i) and (ii)
6. For 2019/20 in particular:
 - a. an estimate of the cost per case saving/the improvement in quality (as relevant) OLC expects to deliver as a result of Modernising LeO initiatives
 - b. an explanation of case fee income and how case fees are set, including the status of the business plan commitment to review the impact of case fees as part of the planned review of scheme rules
 - c. an update on the status of the transition of the CMC jurisdiction to the Financial Ombudsman Service, including any potential impacts on budget should the switchover happen after 1 April 2019. Please also provide commentary on any medium-term impacts on the budget for the legal jurisdiction that might result from the removal of the CMC jurisdiction.

Appendix 2 – Breakdown of 2019-20 revenue budget

Budget line	Legal £'000	Overhead £'000	Total £'000
Staff Costs	7,059	2,677	9,736
Training	25	47	72
Recruitment	34	38	72
Travel & Subsistence	1	8	9
Fees (internal and external audit, service complaint adjudicator, legal fees, licences)	57	150	207
Print, Post, Scan & Translation	152	11	163
Research, surveys		67	67
Premises - net of income		601	601
IT & Telecoms		1,093	1,093
Bad debt	48		48
Other (Bank charges, books & publications)		13	13
Interest receivable		-45	-45
Depreciation		444	444
Rental income		-134	-134
Total Costs	7,376	4,970	12,346

Appendix 3 – breakdown of average staff numbers and costs

2019-20	Legal	Corporate	Establishment	Legal	Corporate	Total
	FTE	FTE	FTE	£'000	£'000	£'000
Operational Management	4		4	286.8		286.8
Level 2 Ombudsmen	12		12	725.8		725.8
Level 1 Ombudsmen	25.7		25.7	1,075.3		1,075.3
Team Leaders	12.3		12.3	580.8		580.8
Investigators	102.7		102.7	3,788.2		3,788.2
General Enquiries Team	23.4		23.4	601.9		601.9
Total establishment operational	180.1	0	180.1	7,058.8	0	7,058.8
Executive		4.8	4.8		434.9	434.9
External Affairs		4.4	4.4		147.6	147.6
Legal		3.0	3.0		157.5	157.5
Operational Support		8.2	8.2		358.6	358.6
Operational Transformation		3.6	3.6		197.7	197.7
HR		7	7		330.9	330.9
Facilities Management		2	2		50.7	50.7
Finance		4	4		201.3	201.3
IT and Governance		11	11		568.6	568.6
Portfolio Management Office		2.3	2.3		114.2	114.2
Total establishment corporate	0	50.3	50.3		2,562	2,562
TOTAL ESTABLISHMENT	180.1	50.3	230.4			9,620.8
Apprenticeship levy/non-consolidated bonus/other/paternity and maternity						115.2
Total staff costs						9,736.0

Appendix 4 - Unit cost analysis

We have a KPI on the overall unit cost for our work. Some stakeholders focused on this in their business plan consultation responses. Overall unit cost is an imperfect measure which combines a number of elements of both cost and activity. It includes the costs of dealing with over 94,000 enquiries each year, of which only around 10% become actual cases in terms of unit cost performance. It also reflects the costs of feeding back to the profession in line with our statutory duty and also corporate overheads which support front-line delivery. Many of these overheads have only a loose relationship with activity levels.

Unit cost is also influenced by case mix and the proportion of cases that resolve informally or require a final ombudsman decision, as well as person-specific factors which may require extra time to tailor our service for vulnerable people. Compared with a legal unit cost of £1,784 in 2017-18, the proposed budget delivers an overall unit cost in 2019-20 of £1,695 (net of estates costs and income). Removing the effect of inflation from the 2019-20 unit cost, this delivers a 9% reduction in unit cost between 2017-18 and 2019-20.

The table below shows that the unit cost for 2019-20 reduces largely as a result of the increase in the forecast number of case closures during the year. There are also reductions in our overhead costs as a result of investment in our infrastructure through Modernising LeO and other changes made (£60 per case).

Legal jurisdiction	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19 (forecast)	2019-20 (indicative)
Cases resolved	8,055	7,440	6,416	6,573	6,125	6,300	7,280
Cost (£m)	15.71	12.77	11.63	10.4	10.9	11.8 ¹	12.3 ¹
Average unit cost (£)	1,950	1,716	1,813	1,587	1,784	1,873	1,695

¹ 2018-19 and 2019-20 expenditure is shown net of £0.13m estates costs/income from releasing 25% of our office to another public body from April 2018. The gross budget will include both in addition to the figures above.

The table below sets out a more granular analysis the various elements of our costs, and relates them to activity levels:

Element	Cost £'000	Number	Unit cost
Handling enquiries to our General Enquiries Team	763.4	94,000 contacts	£8.12
Investigating and resolving complaints	6,501.2	7,280	£893
Feeding back insights from running the scheme to the profession	322.1	n/a	n/a
Corporate & other enabling costs	4,759.3	n/a	n/a

Our cost base has increased for 2019-20 as a result of a number of one-off factors:

- loss of CMC work from 1 April 2019 means all overheads are charged to the legal jurisdiction (an impact of £477k overall);
- legislative changes impacting pension contributions from 1 April 2019 have increased staffing costs by £0.1m; and
- the proportion of investigators new in role (less than a year's service) creates an opportunity cost in terms of productivity.

Longer-term reductions in cost will flow from improving our quality, impact and effectiveness, which will allow us to operate with reduced staffing. This is the reason this plan focuses on quality, throughput, consistency of approach and building staff capability, rather than risking the unintended consequences of targeting unit cost, or unreliable, simplistic comparisons with other ombudsman schemes.