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**LEGAL SERVICES
BOARD**

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3 June 2015

Dear Steve,

Requirements under Section 120 and targets under Section 121 of the Legal Services Act 2007

You will know that the Legal Services Board (LSB) shares the Office for Legal Complaints' (OLC) firm belief that a well-functioning Legal Ombudsman scheme is critical to the success of the Legal Services Act 2007 (the Act) reforms.

Making sure that consumers have access to a swift and effective redress mechanism when things go wrong, and when legal services providers do not resolve matters satisfactorily, is fundamental to giving consumers greater confidence to purchase legal services. Any such scheme must also be seen to resolve complaints fairly, effectively and efficiently and with regard to due process. These outcomes are as important to the legal services providers who are subject to the scheme, and ultimately who pay for it, as they are to consumers.

The Legal Ombudsman has been a force for good since it opened its doors to complaints in October 2010 and we recognise the efforts that have been made to deliver a complaint resolution scheme that is quicker, cheaper and better than its predecessors.

We also appreciate that a commitment to not just maintaining, but improving on, current performance levels is at the heart of your forward plans and is a commitment shared by your Board and executive. Our two organisations have an open and constructive relationship and this dialogue enables us to take a collaborative approach to identifying new risks, both to the performance of the scheme and to consumers and the profession, as they emerge.

It is as a direct consequence of that dialogue that we know you share our view that a number of factors may combine over the coming months to impact adversely the performance of the Legal Ombudsman scheme. These include the prospect for significant internal and operational changes as you work to deliver transformational change and as you respond to issues identified in your Annual Report and Accounts 2013/14. My Board's view of the risk environment has also taken into account the trends shown by OLC's own quarterly performance statistics (notwithstanding recent exceptional one-off events) and

associated commentary. Taken together these indicate, amongst other things, that:

- current targets are at risk of being missed
- adequate measures are not yet in place to understand quality of output and user satisfaction
- inherent structural features are likely to prevent significant improvements in performance being made.

Whilst the LSB is not responsible directly for ensuring the performance of the Legal Ombudsman scheme, my Board does take very seriously its statutory role in holding the OLC Board to account for its performance in administering the scheme.

We recognise that with the recent arrival of a number of new Board members, you will need to ensure new members understand what a successful Legal Ombudsman scheme looks like and that the Board collectively agrees how best to manage effectively current and future performance risks faced by the scheme.

You have assured us historically that these are duties that the OLC Board and its senior management team take seriously. We also know that you are committed fully to developing a first class Ombudsman scheme that meets the expectations of consumers and practitioners. The OLC has already set a number of stretching targets for aspects of the Legal Ombudsman scheme and we are confident that you will continue to work towards meeting them.

After careful consideration, however, my Board has concluded that, given the importance it attaches to strong Ombudsman scheme performance, it is proportionate for it to support the OLC Board in its aspirations by exercising its formal powers in relation to the performance by the OLC of its functions.

Attached to this letter is a requirement under Section 120 of the Act for the OLC to provide a report to the LSB by the 1 November 2015 that, amongst other things, sets out OLC's proposals for a comprehensive framework for key performance indicators (KPIs) and performance measures (including targets) to apply to the performance of the Legal Ombudsman scheme (in respect of its legal jurisdiction) from April 2016 onwards. There is a requirement for an interim report on progress to be sent to the LSB by 1 September 2015. We understand that this accords with your own timetable for such proposals.

Also attached to this letter are LSB-set performance targets for timeliness, cost and user satisfaction that are intended to act as 'trigger thresholds' - in the sense that performance below these levels would trigger an obligation (under Section 120 of the Act) on OLC to explain to the LSB why performance had slipped to this level and what steps the OLC is taking to remedy the situation. We have agreed with your team's suggestions as to what these trigger thresholds should be and have captured these in the attached requirements. These targets are set under Section 121 of the Act and are intended to apply for the remainder 2015/16 and for the legal jurisdiction only.

The associated Section 120 requirement obliges OLC to provide relevant performance information on a monthly basis to the LSB to support monitoring of these targets. Moreover, the OLC are required to provide a statement to the LSB by 1 September 2015 on the governance arrangements the OLC Board has adopted to ensure that its administration of the Legal Ombudsman scheme in 2015/16 allows for effective monitoring of performance against current OLC-set performance measures, alongside LSB targets.

Again, our expectation is that these requirements will sit alongside your Board's existing scrutiny of scheme performance.

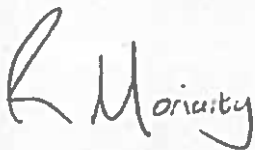
For the avoidance of any doubt, the LSB expects the OLC to continue to meet its own published performance commitments. The new LSB thresholds act as a trigger for our detailed scrutiny in 2015/16; and not the limit of our shared expectations for scheme performance or the limit of our ambitions for the future.

I must emphasis again the importance that my Board attaches to the success of the OLC role in managing the performance of the Legal Ombudsman scheme. Placing these formal requirements on the OLC is not a step the LSB has taken lightly. The intention is designed to support the OLC's own ambition to see a step change in performance and to mitigate the possibility of unacceptable risks to consumers and the professions of any decline in Legal Ombudsman performance.

I would be grateful if you could confirm the OLC's intention to comply with these requirements by 12 June 2015.

Please note that shortly after the 12 June 2015 deadline, we will put a copy of this letter on our website along with the formal requirements. I would be grateful if your response could be placed alongside it. We are also required by the Act to publish the reports we receive from you under Section 120 requirements.

Yours sincerely,



Sir Michael Pitt
Chairman

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Annex A:

Part A: Section 121 Legal Services Act 2007 – performance targets

1. Further to Section 121(1)(a) of the Legal Services Act 2007, the Legal Services Board sets the Office for Legal Complaints (“OLC”) the performance targets in paragraph 2 below, in relation to its function to administer an ombudsman scheme (“the targets”).
2. From 1 June 2015 to 31 March 2016, the OLC must ensure that it meets the following targets in administering the Legal Ombudsman scheme as regards its legal jurisdiction:
 - a. **Timeliness – the number of cases resolved within 90 days (from first point of contact) must not fall below 60% in any month**
 - b. **Unit cost – the unit cost per case must not exceed £1,750 in any rolling quarter**
 - c. **Quality – the average satisfaction of complainants and lawyers (regardless of the outcome of the case) must not fall below 40% in any quarter (July – September, October – December, January – March).**
3. The LSB reserves the right to amend or revoke this notice, by giving further notice to the OLC.

Part B: Requirement under Section 120 Legal Services Act 2007 – performance targets

1. This requirement is served on the Office for Legal Complaints ("OLC") by the Legal Services Board ("LSB") under Section 120 of the Legal Services Act 2007. It requires OLC to prepare and give to the LSB a monthly report of its performance in respect of the targets set out in paragraph 2 of Part A of Annex A to the LSB's letter of 3 June 2015.
2. This report is required to enable the LSB to monitor the extent to which the targets are being met.
3. From 1 June 2015 to 31 March 2016, the OLC must prepare and give reports (in PDF or Word format) to the LSB providing the following information for the legal jurisdiction:
 - a. Timeliness statistics showing the actual and percentage numbers of cases resolved within 56 days, 90 days, 180 days and 12 months (all from first point of contact)
 - b. Unit cost statistics showing the unit cost per case per rolling quarter (calculated in accordance with the currently agreed methodology)
 - c. Quality statistics showing average satisfaction levels of complaints and lawyers (regardless of the outcome of the case) by quarter (July – September, October – December, January – March).
4. In addition, where any of the targets are not met, the OLC is required to provide to the LSB:
 - a. a written explanation as to the reasons for the failure to meet the targets; and
 - b. details of timetabled remedial action proposed to bring performance back into compliance with targets.
5. The reports should be as comprehensive as possible.
6. The reports must be delivered to the LSB within seven calendar days of the end date of each month to which the report relates.
7. OLC is also required to report by 1 September 2015 on the governance arrangements which the OLC Board has adopted from June 2015 to ensure that its administration of the Legal Ombudsman scheme allows for effective monitoring of performance against current OLC-set KPIs and measures, alongside the targets set by the LSB.
8. The LSB reserves the right to amend or revoke this requirement.

Part C: Requirement under Section 120 Legal Services Act 2007 – performance measurement framework and performance assurance

1. This requirement is served on the Office for Legal Complaints (“OLC”) by the Legal Services Board (“LSB”) under Section 120 of the Legal Services Act 2007. It requires OLC to prepare and give to the LSB interim and final reports in respect of the matters specified in paragraph 2 below, within the period specified in paragraph 3.
2. The OLC must prepare and give to the LSB interim and final reports (in PDF or Word format) on the following matters:
 - a. **Proposals for a comprehensive framework for key performance indicators (KPIs) and performance measures (including targets) to apply to the performance of the Legal Ombudsman scheme from April 2016 onwards.**
 - b. **An explanation of the reasoning behind the proposals at a. in order to illustrate why the OLC is assured that these are the most appropriate KPIs and performance measures for the Legal Ombudsman scheme, having due regard to the regulatory objectives and the best practice principles for administration of ombudsman schemes.**
 - c. **Proposals for the governance arrangements which the OLC will adopt to ensure that its administration of the Legal Ombudsman scheme allows for effective monitoring of performance against the KPIs and measures from 1 April 2016**
3. The OLC is required to provide the LSB with an interim report on progress by 1 September 2015 and a final report by 1 November 2015.
4. The LSB reserves the right to amend or revoke this requirement.

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12 June 2015

Sir Michael Pitt
Chairman
Legal Services Board
One Kemble Street
London
WC2B 4AN

Dear Mike,

Requirements under Section 120 and targets under Section 121 of the Legal Services Act 2007

Thank you for your letter of 3 June.

As you recognise, the Legal Ombudsman is engaged in a programme of transformational change. It is worth taking a moment to set out what this involves.

So far this year, the Legal Ombudsman has achieved significant savings by moving to new offices, begun the challenging process of implementing a new and much more capable (but complex) Case Management System - and successfully taken on the entirely new Claims Management Companies jurisdiction. These are just the first steps in a process which will, over the coming months, refocus the organisation to enable us to deliver our wider strategic objectives and to operate in an external control environment which is very different from that in which the Legal Ombudsman began its work.

This initiative is being led by a largely new Board, which is bringing fresh energy and ideas to the process. New ways of working are being explored which will improve our efficiency and raise the quality of our work - and the organisation is reorganising itself to be able to deliver a much more comprehensive and effective data analysis and research function. At the same time we will be strengthening our governance. Those senior executive posts of the organisation, currently occupied by experienced interim staff, will be filled permanently by the autumn.

The new Board is highly committed to improving current performance levels - and to revisiting the way in which we measure our performance to provide a much more transparent and useful range of indicators of cost, effectiveness, and efficiency. We have made this plain to the LSB. We have also shared our concerns that the changes necessary to achieve that may have some short term impacts on certain existing performance targets. We are committed to doing all we can to avoiding those impacts whilst driving forward the work to improve and strengthen the organisation for the future - but that refocusing work is, in our view, essential.

The logo features the word "LEGAL" in a bold, red, sans-serif font. A large, stylized, red cursive flourish or signature-like element is positioned above the letters "L" and "A". Below "LEGAL", the word "OMBUDSMAN" is written in a larger, black, sans-serif font.

LEGAL
OMBUDSMAN

As requested, we will, by 1 November 2015, provide a comprehensive framework for KPIs and performance targets for our legal jurisdiction to apply from April 2016. We will also provide an interim report on progress by 1 September 2015. Regarding the performance targets for timeliness, cost and user satisfaction that you have set us for the remainder 2015/16, we will provide relevant performance information on a monthly and quarterly basis to the LSB. The attached annex sets out in greater detail the targets we will measure against and reporting frequency in order to meet this obligation. We will of course continue to work to our own more demanding performance targets. We note the requirement to write explaining any failures to achieve the LSB targets and to set out our proposed remedy.

We will also provide by 1 September 2015, as required, a statement on the governance arrangements we have adopted to ensure effective monitoring in 2015/16 of performance against current OLC-set performance measures and the LSB –set targets.

Yours sincerely,



Steve Green
Chair
Office for Legal Complaints

Att:

Annex A:

Part A: Section 121 Legal Services Act 2007 – performance targets	OLC Reporting
<p>1. From 1 June 2015 to 31 March 2016, the OLC must ensure that it meets the following targets in administering the Legal Ombudsman scheme as regards its legal jurisdiction:</p>	
<p>a. Timeliness – the number of cases resolved within 90 days (from first point of contact) must not fall below 60% in any month</p>	<p>Timeliness is measured from the point at which we confirm that the complaint is within our jurisdiction. This is almost always the first day the contact becomes a case (“is accepted”). Timeliness is measured to the date it is resolved or determined, excluding any time during which the complainant has agreed that we should suspend the investigation.</p>
<p>b. Unit cost – the unit cost per case must not exceed £1,750 in any quarter</p>	<p>This will be reported monthly, on a rolling quarterly basis.</p>
<p>c. Quality – the average satisfaction of complainants and lawyers (regardless of the outcome of the case) must not fall below 40% in any quarter (July – September, October – December, January – March).</p>	<p>This is reported quarterly as a single overall percentage covering both complainants and lawyers. Results are provided by the independent research company within three months of the end of the quarter in which the complaints were resolved. For example, the survey results relating to complaints resolved in quarter two (July to September) are received by the end of December. A more detailed breakdown showing responses from lawyers and complainants separately will also be provided.</p>

Part B: Requirement under Section 120 Legal Services Act 2007 – performance targets

1. This requirement is served on the Office for Legal Complaints (“OLC”) by the Legal Services Board (“LSB”) under Section 120 of the Legal Services Act 2007. It requires OLC to prepare and give to the LSB a monthly report of its performance in respect of each of the targets set out in paragraph 2 of Part A of Annex A to the LSB’s letter of 3 June 2015.
2. This report is required to enable the LSB to monitor the extent to which the targets are being met.
3. From 1 June 2015 to 31 March 2016, the OLC must prepare and give reports (in PDF or Word format) to the LSB providing the following information for the legal jurisdiction:
 - a. Timeliness statistics showing the actual and percentage numbers of cases resolved within 56 days, 90 days, 180 days and 12 months (all from first point of contact) This is measured as set out in the table above.
 - b. Unit cost statistics showing the unit cost per case per rolling quarter (calculated in accordance with the currently agreed methodology)
 - c. Quality statistics showing average satisfaction levels of complaints and lawyers (regardless of the outcome of the case) by quarter.
4. In addition, where any of the targets are not met, the OLC is required to provide to the LSB:
 - a. a written explanation as to the reasons for the failure to meet the targets; and
 - b. details of timetabled remedial action proposed to bring performance back into compliance with targets.
5. The reports should be as comprehensive as possible.
6. The reports must be delivered to the LSB within seven calendar days of the end date of each quarter to which the report relates.

7. OLC is also required to report by 1 September 2015, on the governance arrangements which the OLC Board will adopt from 1 June 2015 to ensure that its administration of the Legal Ombudsman scheme allows for effective monitoring of performance against current OLC-set KPIs and measures, alongside the targets set by the LSB.
8. The LSB reserves the right to amend or revoke this requirement.

Part C: Requirement under Section 120 Legal Services Act 2007 – performance measurement framework and performance assurance

1. This requirement is served on the Office for Legal Complaints (“OLC”) by the Legal Services Board (“LSB”) under Section 120 of the Legal Services Act 2007. It requires OLC to prepare and give to the LSB interim and final reports in respect of the matters specified in paragraph 2 below, within the period specified in paragraph 3.
2. The OLC must prepare and give to the LSB interim and final reports (in PDF or Word format) on the following matters:
 - a. Proposals for a comprehensive framework for key performance indicators (KPIs) and performance measures (including targets) to apply to the performance of the Legal Ombudsman scheme from April 2016 onwards.
 - b. An explanation of the reasoning behind the proposals at a. in order to illustrate why the OLC is assured that these are the most appropriate KPIs and performance measures for the Legal Ombudsman scheme, having due regard to the regulatory objectives and the best practice principles for administration of ombudsman schemes.
 - c. Proposals for the governance arrangements which the OLC will adopt to ensure that its administration of the Legal Ombudsman scheme allows for effective monitoring of performance against the KPIs and measures from 1 April 2016
3. The OLC is required to provide the LSB with an interim report by 1 September 2015 and a final report by 1 November 2015.
4. The LSB reserves the right to amend or revoke this requirement.