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Dear Steve

OLC budget proposal 2016/17

I wanted to write to thank you for presenting your Annual Report and Accounts for 2014/15 to the Legal Services Board (LSB) in January. I was pleased to see that the Report was laid before the end of January.

Our next key governance milestone is the LSB's approval of the OLC's budget for 2016/17 and I am aware that you will be attending the LSB's 23 March meeting to present your submission. I am conscious that the LSB's process runs in parallel with the Ministry of Justice's (MoJ's) process for budget allocation and that this adds a layer of complexity to the process. The Legal Services Act 2007 does, however, require LSB to approve your annual budget before the start of the financial year, irrespective of the MoJ process, and so I wanted to be clear about the process we will need OLC to follow in order for LSB to take an informed decision.

I am aware that you have recently completed a consultation on the Legal Ombudsman's draft budget and draft key performance indicators for 2016/17 and that you intend to issue a consultation on your strategy in spring. My understanding is that this means you will not have an agreed strategy for 2016/17 and so there is some risk that your current budget proposals will not align with any new strategic outcomes your Board identifies. I hope that you will be able to address this risk in your submission to the LSB.

The process we are proposing for budget scrutiny and approval is similar to that adopted in previous years, namely an OLC submission addressing a set of LSB-set acceptance criteria (set out below and slightly adjusted from previous years). The timing we propose is based on our understanding of key milestones and is designed to allow adequate time for informed analysis by LSB. I would be grateful for confirmation that this timetable is achievable.

- 9 March 2016 – OLC Board consider 2016/17 budget and approve submission to be sent to LSB for approval
- 10 March 2016 – OLC submission sent to LSB
- 16 March 2016 – papers distributed to LSB Board
- 23 March 2016 – OLC budget presented to LSB Board for approval (OLC to have attendees at meeting)

This really is a very tight timetable and I must stress that if it is not met, my Board will not be able to consider the OLC budget at its 23 March meeting. This may have consequences for your ability to gain necessary MoJ budget authorities.

Turning to the criteria my Board needs to see addressed in your submission, these are described below. Whilst they are broadly similar to those from previous years, there are some differences in emphasis:

- 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:
 - staff costs and numbers broken down by function – for instance: enquiries; investigations; ombudsman team; corporate, others
 - any possible variation around the income prediction eg in response to volume changes, or should changes to the case fee structure be introduced in-year
- a summary of the **key risks** to delivering the Plan for 2016/17 **and mitigation** proposed
- the **volumes predicted** for the year, along with a **sensitivity analysis** illustrating the organisation's response should volumes fluctuate. In particular,
 - what is the resourcing strategy for responding to in-year fluctuations (up or down) particularly in the climate of recruitment and spend controls
 - if activity to address the question of numbers of contacts that turn into cases results in a change to volumes, what would be the resourcing strategy response
- a summary of where the budget has changed in response to **stakeholder responses** to consultation. I should emphasise that the Board will expect to see the **outcome of discussions with MoJ** and the extent to which the final budget takes account of their input covered explicitly before it reaches a decision.
- the OLC Board's most up to date thinking on the extent to which the budget is designed to deliver transformational change eg around the operating model to allow for a more flexible response to demand change. In particular, what elements within the budget are intended to deliver system improvements ie 'one off' costs and what could more reasonably be considered 'steady state'

The Act requires the LSB to approve the entirety of the OLC budget, not simply for the legal jurisdiction, and so your submission will need to be clear about both the legal and claims management company elements of the budget. I appreciate that the funding stream for the latter work is grant-in-aid.

Finally, it is important that the budget is designed to underpin and deliver a Legal Ombudsman scheme that meets performance expectations. The LSB will also be considering its future approach to OLC performance assurance at its March meeting and so it would be helpful to understand, as quickly as possible, how your proposed performance framework has developed since your November report to us and, in particular, where your thinking has developed around measurement of service quality.

I am sure that you will have seen the Consumer Panel's submission on your proposals, particularly around quality, fairness and diversity, and we will be reflecting carefully on their views as we develop our thinking.

I believe we are next due to meet on 9 February, with Neil and Nick, and I am sure this will form part of our discussion.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Neil R.', with a stylized flourish at the end.

Sir Michael Pitt
Chairman