

Budget 2011-12

Office for Legal Complaints

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LEGAL
OMBUDSMAN

Table of contents

1 Executive summary	2
2 Key sensitivities and efficiency assumptions	3
3 Organisation structure and headcount.....	6
4 Income and expenditure	8
5 Capital expenditure and cash flow	11
6 Approval.....	13

1 Executive summary

The Office for Legal Complaints (OLC), the organisation which formally operates the Legal Ombudsman scheme, came into formal existence on 1 July 2009. The scheme itself was not fully operational until 6 October 2010. So, although 2011-12 will be our second year of existence, it will be the first full year during which we have had any operational activity. As yet, we have little information to challenge the assumption made as to how the scheme will operate, and are still bedding in our business processes and IT systems. As set out in our Strategy and Business Plan consultation document, as an organisation we aim to remain fluid, adapt to circumstances, pre-empt and encompass change, and strive for excellence in everything that we do.

The budget and assumptions set out below provide an indication of the distribution of resources deployed in the operation of the Ombudsman scheme and the amounts of income the OLC expect to arise from the operation of the scheme.

Summary budget	
	2011-12
	£'000
Levy income	17,495
Set up levy	
Case fee income	1,944
Other income	281
Total income	19,720
Staff costs	(12,862)
Travel and subsistence	(94)
Fees and consultancy	(1,131)
IT and telecoms	(1,272)
Premises and facilities	(1,896)
Other costs	(257)
Contingency	(180)
Total cash expenditure	(17,691)
Depreciation	(2,030)
Total revenue expenditure	(19,720)

2 Key sensitivities and efficiency assumptions

After only four months of operation, including Christmas which distorted any early trends that may have been emerging, it is too early to draw conclusions or identify any reliable trends from activity levels so far. To date, the numbers of enquiries and inbound calls do not appear to be significantly different from that expected. The key budget activity volumes for the year therefore remain the same as those upon which the organisational design was based. These are set out below:

Planning assumptions	
Initial contacts – Legal Complaints Service (LCS) data	85,000
Initial contacts - Bar Standards Board (BSB) and others' data	4,500
Total enquiries expected	89,500
Calls : Cases ratio (contacts : cases) – LCS data	16%
Expected number of cases (approximate)	14,000 to 15,000
Investigator upper efficiency range - cases per investigator per year	110
Investigator lower efficiency range - cases per investigator per year	90
Percentage of cases requiring Ombudsman decisions	15%
Number of Ombudsman decisions required	2,098
Number of Ombudsman decisions each per year	350
Staff turnover	15%

Contacts come in the form of letters, phone calls and emails. The numbers of people needed to process these depends on the business process design in terms of the extent to which the whole basis of the complaint is agreed at this initial stage.

Straightforward benchmarks used in the organisational design indicated a contact centre size of 20 – 25 agents for the projected number of calls. Benchmarks from other services which deal with complex legal matters indicate that a talk time of approx 30 minutes per call is achievable to get full details and agree the complaint. Using this information, and more sophisticated modelling, a contact centre of 30 agents (Assessors) has been created.

Investigator efficiencies have also been similarly derived from Legal Complaints Service (LCS) and Financial Ombudsman Service (FOS) data. This indicated a range of between 90 and 110 cases per investigator per year. On this basis, the following organisational capacity ranges result:

Annual case capacity	Efficiency	Investigator headcount			
		120	140	160	180
Cases per year (low)	90 cases per year	10,800	12,600	14,400	16,200
Cases per year (high)	110 cases per year	13,200	15,400	17,600	19,800

As a result, the Investigator team size has been initially set at 160 split into 20 teams of 8. As LeO is a new organisation with new people, a new business process and new systems, initial efficiency is likely to be below these ranges. In addition, assistance with the clearance of Office of the Legal Services Ombudsman (OLSO) cases is likely to reduce capacity available by up to a further 750 cases in the first half of 2011-12. Maximum case-holding for each Investigator has initially been set at 20 cases giving LeO a capacity of 3,200 open cases at any one time. As detailed further on, due to delays in recruitment, not all Investigators will have completed their training and be operational until early to mid June 2011. LeO plans to be at full headcount by 1 April 2011.

Sensitivity to call volume or caseload “demand” changes

Using the organisational design principles set out above, each 5% change in caseload volumes would result in a change of one Team Leader, seven Investigators and one Team Coordinator. A 15% to 20% change in caseload would mean an additional Operations Manager would be required. A 25% increase in caseload would require around 49 additional staff in the Resolution Centre at an additional ongoing cost of around £1.6m per annum.

An increase in call volume by 25% would require a further additional eight Assessors, one Coordinator and one Team Leader at an additional ongoing cost of around £0.3m per annum.

The above recruitment activity would require an additional investment in recruitment of around £0.4m over and above budgeted levels.

Additional IT hardware and furniture costing in the region of £0.2m would be required to support these additional staff. However, the existing premises and the IT infrastructure can accommodate this scale of

increase, albeit with some additional internal reorganisation costs and additions to functions other than operations. Due to the fixed nature of premises and other support function costs, a 25% increase in activity is likely to result in a cost increase of around £2.5 million per annum (or 12.5% of budgeted expenditure). However, should volumes reduce significantly the same is true; even with direct reductions in operational and corporate function headcount, a reduction of 25% in activity would result in cost reductions of only £2.5 million per annum due to the level of the organisation's fixed cost base.

Challenges for 2011-12

The key challenges to the Legal Ombudsman over 2011-12 are likely to be:

- Continuing to deliver and maintaining the same level of focus as during start up.
- Shape of the Office of the Legal Services Ombudsman work (referred to in this document as our Acting Legal Services Ombudsman team).
- Case fee collection – lawyers don't pay.
- First judicial review.
- Claims management companies – links to our jurisdiction or we may be asked to take them on.
- Ministry of Justice cuts – legal aid and court restructuring.
- Relations with approved regulators – conduct and enforcement practices.
- Law Society new business model (proposal to provide a service that will act as the intermediary for complaints on behalf of lawyers).
- Building relationships and common views with other Ombudsman schemes in the context of alternative business structures.
- Possibility of crossover/joint investigations with other schemes.

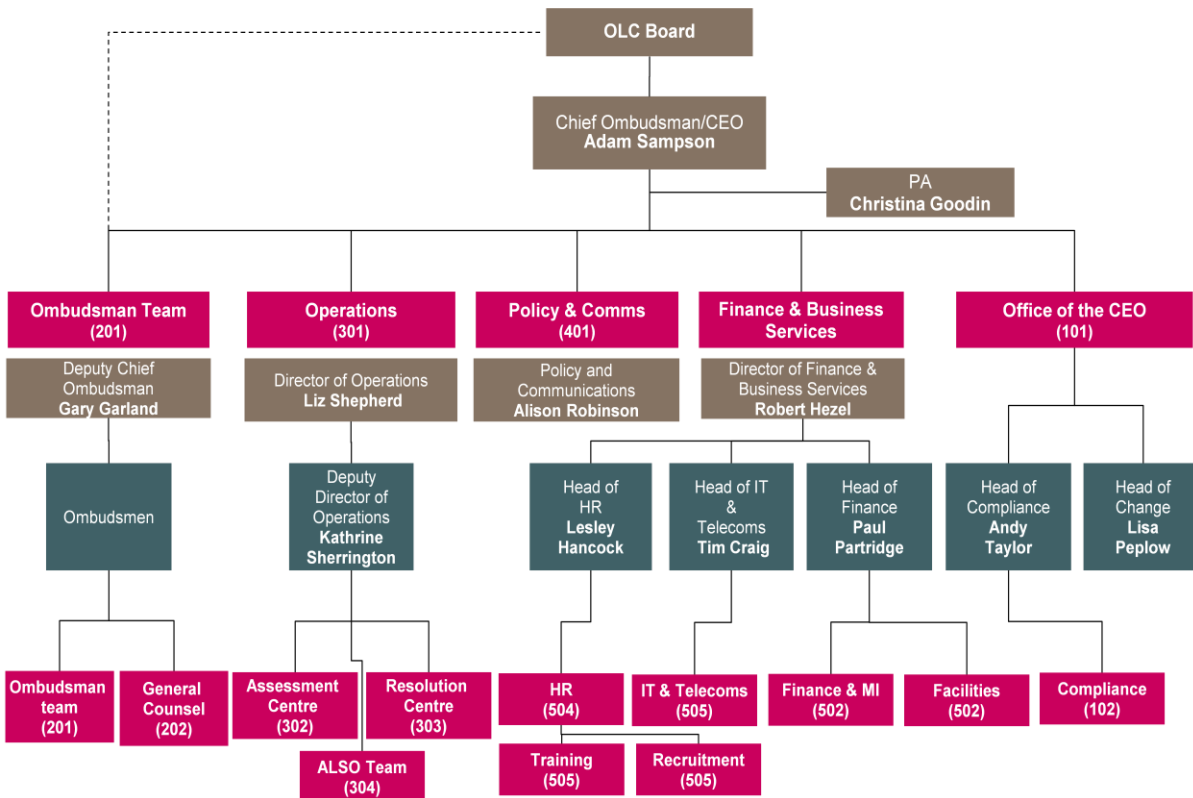
The key risks to the delivery of the financial plan are all around potential additional cost impact of these issues:

- Investigator efficiency is not as high as planned in the organisational design, leading to the need to recruit additional Investigators to prevent a backlog of cases from developing.
- Call and case volumes exceed planned levels resulting in the need to increase headcount to respond to increased demand.

The current activity levels and conversion level of calls into cases leads us to believe that the threat to delivery of the budget from these risks is low.

3 Organisation structure and headcount

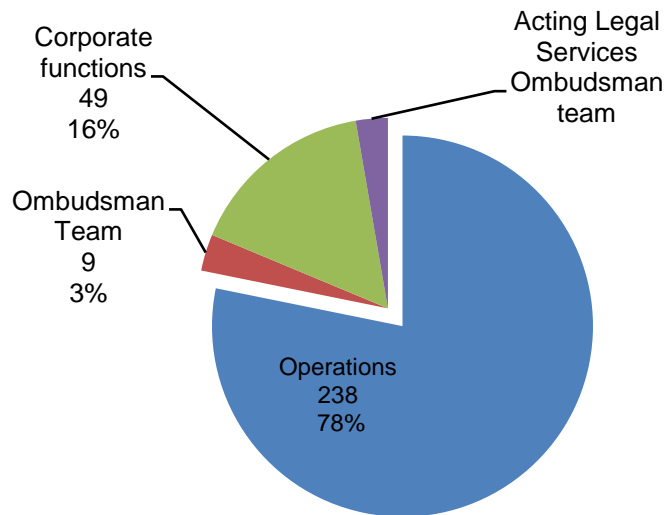
The chart below summarises the organisation structure. Numbers in brackets denote internal cost centre codes.



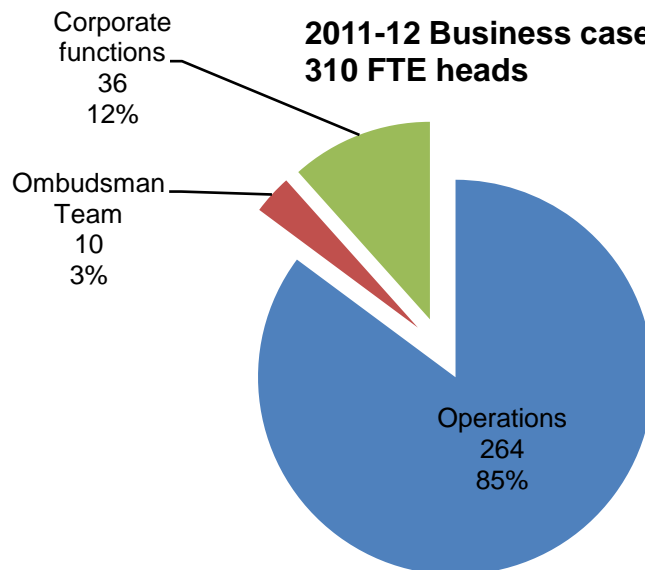
The shape of the organisation is set out below and closely reflects the original business plan. Recruitment of staff has lagged behind the original business plan, resulting in lower staff costs than anticipated during the implementation phase and 2010-11. The final wave of recruitment is currently underway and all staff are budgeted to be in post by 1 April 2011.

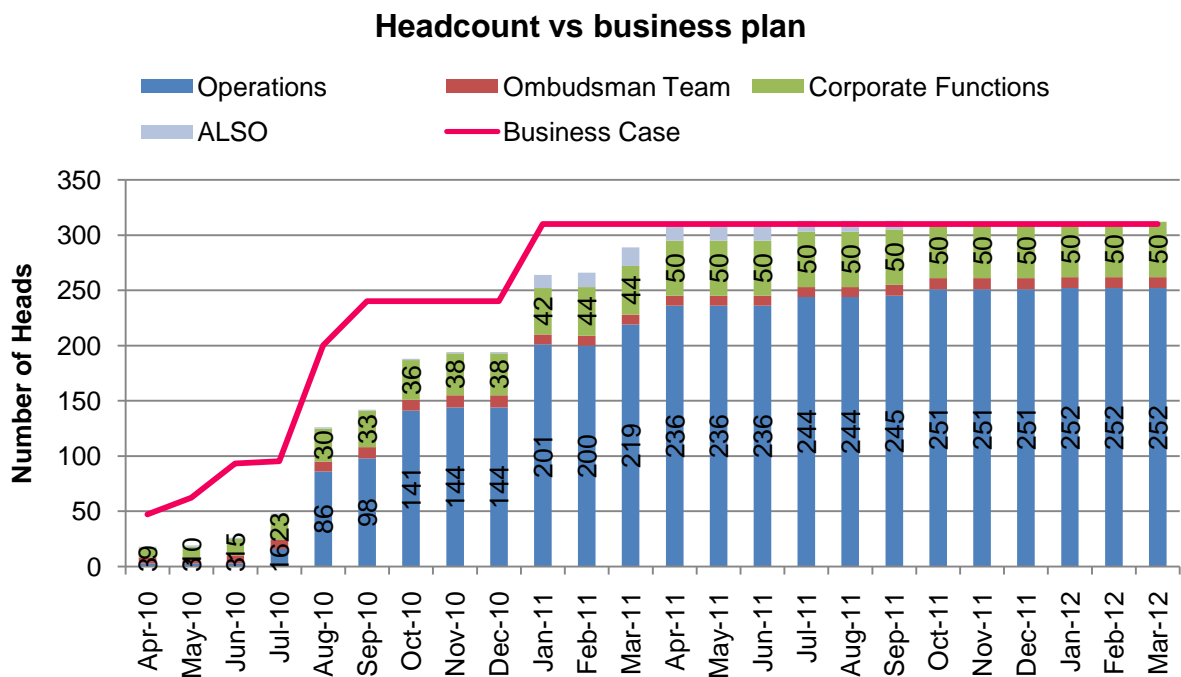
2011-12 Budget

**Full headcount: 310 FTE heads
Average headcount: 304 FTE heads**



**2011-12 Business case
310 FTE heads**





NB: ALSO stands for the Acting Legal Services Ombudsman team

4 Income and expenditure

Key assumptions

Pay progression and revalorisation: Existing staff have been recruited on the basis that they must demonstrate competence in their role as part of their probationary period and pass mandatory training. After that, they are expected to progress within the organisation. Progression is therefore expected to be higher in the forthcoming years than might be expected in a mature organisation. While all roles were benchmarked against market prior to recruitment, it has been challenging to fill these roles with staff of the appropriate quality, and to date not all roles have been filled. Some uncertainty remains around the true benchmark level for roles within the organisation.

An average of 3% has been budgeted for revalorisation and progression within the new organisation. It is expected that this will mainly be targeted on progression and re-benchmarking of roles and that LeO revalorisation will be in line with Cabinet Office guidelines.

National Insurance: Employer's National Insurance has been budgeted for based on the current rate of 12.8%.

Average employer's pension contribution: LeO operates a defined contribution scheme. For the first 190 staff, the average employee contribution to the LeO pension scheme is around 3%. LeO contributes twice the employee contribution up to a maximum of 10%. It is expected that a number of those who aren't currently contributing to the pension scheme will eventually join. Following the change to automatic enrolment made in January 2011, a higher take-up will be experienced in future. Therefore, an average employer's pension contribution assumption of 8% has been used for 2011-12.

Core benefits: 'Death in service' and 'group income protection' benefits have been procured in line with remuneration policy and have been included in the budget as part of the costs of these benefits.

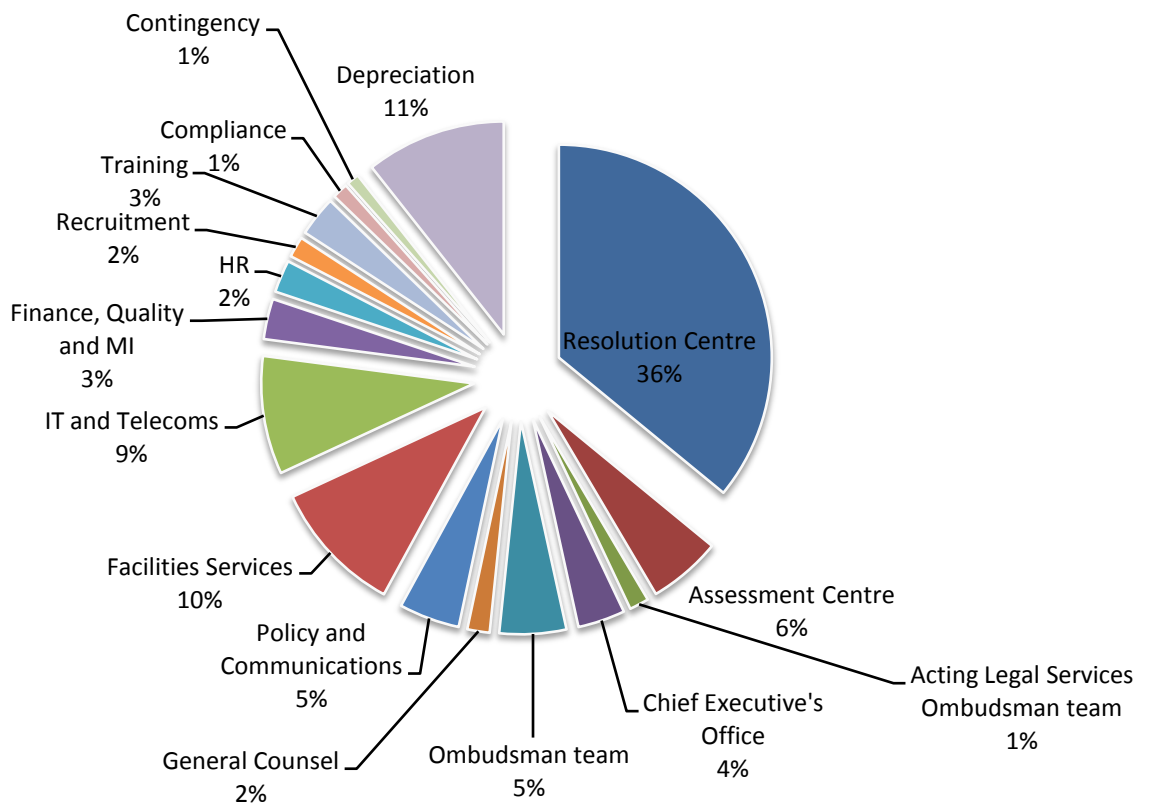
Flexible benefits: As part of the organisational set up a flexible benefit scheme has been included in the total remuneration package. Total employer costs of both the pension and flexible benefit scheme are capped at 13.5% of basic pay. Of this, 10% is allocated to pension on a 'use it or lose it' basis. Therefore employees have flexible benefits of 3.5% of basic pay to utilise. This has been budgeted in full as part of employee's total remuneration package.

VAT increase: All costs subject to VAT have been budgeted to include VAT at 20%.

Cost centre summary

	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Total
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Central Operations	60	60	60	51	51	51	51	51	51	51	51	51	642
Resolution Centre	541	541	541	565	565	571	588	588	588	590	590	590	6,858
Assessment Centre	87	87	87	89	89	89	89	89	89	89	89	89	1,059
OLSO	59	59	59	39	39	22	2	2	2	-	-	-	281
CEO	33	108	111	108	63	33	33	33	33	63	33	33	684
Board Members	-	-	-	-	-	-	-	-	-	-	-	-	-
Ombudsman team	75	75	75	75	75	85	85	85	85	85	85	85	968
General Counsel	56	11	6	57	7	33	57	6	6	56	6	26	324
Policy and Communications	85	72	70	70	65	96	68	66	72	68	69	77	879
Facilities Services	161	160	160	161	165	160	161	165	160	161	165	160	1,938
IT & Telecoms	135	135	136	126	126	157	235	141	139	127	128	128	1,712
Finance, Quality & MI	51	49	48	48	51	49	48	50	50	48	48	48	586
HR	33	33	81	34	34	34	34	52	34	34	34	34	470
Recruitment	25	25	25	25	25	25	25	25	25	25	25	25	301
Training	26	26	25	25	25	25	301	25	25	25	25	25	581
Compliance	19	22	19	19	19	19	19	19	19	19	19	19	226
Contingency	-	-	-	-	-	-	-	-	-	-	-	180	180
Depreciation	149	153	157	160	164	168	171	175	179	182	185	186	2,030
Total Cash Expenditure	1,595	1,615	1,659	1,652	1,563	1,615	1,968	1,571	1,555	1,622	1,551	1,755	19,720

Expenditure by cost centre



5 Capital expenditure and cash flow

	Apr £'000	May £'000	Jun £'000	Jul £'000	Aug £'000	Sep £'000	Oct £'000	Nov £'000	Dec £'000	Jan £'000	Feb £'000	Mar £'000	Total £'000
Systems Development	110.0	110.0	110.0	110.0	110.0	110.0	110.0	110.0	110.0	110.0	100.0	100.0	1,300.0
Facilities Services	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	150.0
Total	122.5	122.5	122.5	122.5	122.5	122.5	122.5	122.5	122.5	122.5	112.5	112.5	1,450.0

Systems development

As part of the original business case and a part of the Ministry of Justice's financial delegations, LeO was granted permission to spend £5,367k on the development of its IT infrastructure. In recognition that no new IT infrastructure can be entirely put into place in advance of operations starting, and that such systems that have been implemented will require further development to enhance their effectiveness and efficiency, this was split into £3,867k of initial capital expenditure and an additional £1.5 million for ongoing development.

As a result of prudent management of resources to date, LeO has yet to commit any of this additional £1.5million. However, it is clear from the first quarter of operations that significant improvement and efficiencies in the service can be achieved by further investment in the IT infrastructure. In addition, some of the IT solutions initially procured have failed to deliver the expected benefits. Remedial expenditure is required to ensure that these benefits are realised in a timely manner. In addition, the business case anticipated annual capital expenditure of £350k per annum.

Anticipated capital expenditure IT projects	£'000
Additional desktop/laptop hardware	100
Telephony development	500
CAS Workpro development	400
Sharepoint development	200
Knowledge management	50
Management information systems	50
Total	1,300

Facilities services

The fit out of LeO's offices was completed in 2010-11. Remedial work to soundproof certain meeting room areas and to reduce solar glare is expected to be required. Therefore, a budget allowance of £150k has been included to cover these costs and any capital changes to the office environment which may be required to accommodate disabled employees or to replace minor breakages of furniture or other office equipment throughout the year.

Cashflows

Because LeO receives levy funding in arrears, it will remain reliant upon Ministry of Justice Grant in Aid until at least the end of 2011-12. Thereafter, subject to no significant capital expenditure being required or any significant step up in demand volume, the Office for Legal Complaints should be able to finance ongoing operating activities. Levy funds due in respect of the set up levy and the operating period to March 2011 have been estimated at £8.3m compared to planned operating cash and capital expenditure of £19.2m. As funds from the levy are not normally received until the end of March, it shall also be necessary to carry approximately one month's operating cash at the end of February to ensure that the organisation can meet its payroll and other supplier obligations in March. As a result, additional Grant in Aid of £11m is required during 2011-12.

Cashflow: 2011-12	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Net Expenditure	(1.6)	(1.6)	(1.7)	(1.7)	(1.6)	(1.6)	(2.0)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(19.7)
Levy and fee income	1.6	1.6	1.7	1.7	1.6	1.6	2.0	1.6	1.6	1.6	1.6	1.6	19.7
Add back depreciation	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	2.0
Increase/(decrease) in creditors	(0.6)	(0.0)	(0.0)	(0.1)	(0.2)	(0.0)	0.0	(0.2)	(0.1)	0.0	(0.2)	(0.1)	(1.4)
(Increase)/decrease in debtors	6.7	(1.6)	(1.6)	(1.7)	(1.5)	(1.6)	(2.0)	(1.6)	(1.5)	(1.7)	(1.5)	22.9	13.2
Net operating cashflow	6.3	(1.5)	(1.5)	(1.6)	(1.5)	(1.4)	(1.8)	(1.6)	(1.4)	(1.5)	(1.5)	23.0	13.9
Purchase of IT equipment and software development	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(1.3)
Purchase of premises Equipment and leasehold Improvements	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.2)
Cashflows from investing activities	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(1.5)
Grant In Aid from MoJ	-	-	-	-	-	2.0	2.0	2.0	2.0	1.5	1.5	-	11.0
Cashflow for the month	6.1	(1.6)	(1.6)	(1.7)	(1.7)	0.4	0.1	0.3	0.4	(0.1)	(0.1)	22.9	23.4
Opening bank balance	1.0	7.1	5.5	3.9	2.2	0.5	1.0	1.0	1.3	1.8	1.7	1.5	1.0
Closing bank balance	7.1	5.5	3.9	2.2	0.5	1.0	1.0	1.3	1.8	1.7	1.5	24.4	24.4

6 Approval

The Legal Services Board is asked to approve the budget for the year 2011-12.