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Dear Steve,

Thank you for presenting your budget principles to the November meeting of the LSB. As always, our Board Members found talking to you and your colleagues very valuable.

Our next key governance milestone is the LSB's approval of the OLC's budget for 2017/18 and I am aware that you will be attending the LSB's 23 March meeting to present your submission.

In accordance with the Act, the LSB is required to approve the OLC annual budget before the start of the financial year. We understand that the MoJ process for budget allocation has to run in parallel. In the interest of clarifying what can be a relatively complicated process, we have set out the major milestones and timings that we will need the OLC to meet in order for the LSB to fulfil its function.

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). 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.

8 March	OLC Board consider 2017/18 budget and approve submission to be sent to LSB for approval
9 March	OLC submission sent to LSB
13 March	Papers distributed to LSB Board
23 March	OLC colleagues present budget to LSB Board for approval.

As in previous years, the timetable is tight but if it is not met my Board will be unable to consider, and therefore approve, the OLC Budget at its 23 March meeting. This may also have consequences for your ability to gain necessary MoJ budget authorities.

For 2017/18, I am keen to see your submission address criteria similar to those from previous years but with some differences in emphasis. I would be grateful if you could therefore ensure that the OLC submission addresses the following:

- 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 e.g. 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 2017/18 **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. In particular, this year, confirmation that capital delegations for the Modernising LeO programme have been approved.

Finally, we would like to understand more clearly the rationale behind the significant increase in bad debt contingency. This was mentioned when we met in November and it would be helpful to have this rehearsed clearly in writing.

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. In regards to the latter, our Board will also expect to see details of the planning assumptions for the transfer of the Claims Management Jurisdiction to the Financial Ombudsman Service.

I look forward to seeing you in Birmingham next week.

Yours sincerely,



Sir Michael Pitt
Chairman