LeO Scheme Transformation Review: business case

Executive Summary

This outline business case seeks approval for a transformation budget within the 2026/2027 levy increase to procure external consultancy support. This funding will accelerate the redesign of LeO's operating model to ensure long-term sustainability.

LeO is experiencing sustained structural increases in demand, complaint complexity and consumer expectations that the current model can no longer absorb. Sector complaints have risen sharply over the past five years, and LeO's caseload has continued to grow through 2024/2025 and 2025/2026. Although significant process improvements and efficiency gains have delivered more than a 50% backlog reduction and LeO's budget has increased by over 50% since 2020/2021, demand is rising at a pace the organisation cannot match. Projections indicate that backlogs will begin to grow again from 2026/2027 onwards, even with current funding levels.

Relying on levy increases above inflation to offset demand is not sustainable. At the same time, shifts in the wider complaints environment – including the growth of high-volume claims markets and increased use of automated consumer tools – are reshaping the pressures on redress services. LeO is reaching the limits of incremental improvement, with internal capability constraints in digital modernisation, data science, AI readiness, organisational design and scalable leadership structures preventing the organisation from redesigning its operating model without undermining service delivery.

In this context, LeO has set out a clear vision for 2030:

> *"The independent Legal Ombudsman will underpin consumer confidence in legal services. As a trusted and influential partner to the regulated legal sector, it strengthens the profession by advancing high-quality complaint resolution and sharing insight-led learning.*
>
> *"At the heart of a digitally enabled, agile and innovative organisation, our people will continue to deliver fair, impartial, proportionate and evidence-based outcomes."*

Realising this ambition requires LeO to become an organisation that:

- embeds AI, automation and digital tools across operations
- uses data and insight to support consumers and influence sector-wide service standards
- supports the legal sector to deliver effective, 'right first time' complaint handling
- identifies emerging risks across the legal ecosystem
- delivers proportionate, evidence-based decisions
- operates with agility to respond to changing demand and expectations

Achieving this requires whole system transformation. A four-year programme is proposed, beginning with research and discovery in 2026/2027, followed by design, delivery, embedding and evaluation through to 2030. This programme will modernise processes, strengthen digital, data and AI capabilities, embed equitable and ethical service design, and develop leadership structures that enhance resilience and performance.

Three delivery options were assessed: external consultancy support, recruitment of fixed term specialists, and internally led transformation with backfill.

Option 1, external consultancy, offers the strongest value for money and lowest delivery risk. It provides the expertise, independence and pace needed to design a futureproof operating model and meets the assurance expectations of the Ministry of Justice (MoJ) and the Legal Services

Board (LSB). The alternative options would mobilise more slowly, carry higher capability risks and potentially compromise operational performance during transformation.

A strengthened governance framework – spanning the LeO Executive Team, OLC Board, MoJ and LSB – will ensure transparency, active risk management, ethical use of technology (including AI) and rigorous control of cost, time and benefits. A well-defined scoping and tender process will ensure the end products are suitable for LeO's requirements in the delivery phase and achievement of the vision.

This business case therefore seeks approval for a transformation budget of **£900,000** within the 2026/2027 levy uplift to procure external consultancy support for the discovery, design and early delivery phases. This investment is essential to safeguard LeO's long-term sustainability, deliver value for money for levy payers and ensure the redress system remains effective, resilient and trusted as demand and complexity continue to rise.

Why do we need to change?

LeO is operating in a period of unprecedented challenge, with demand, complexity and consumer expectations rising faster than our current operating model can sustain. While we have delivered substantial improvements in performance, culture, capability and operational discipline in recent years – strengthening our foundations, increasing throughput and reducing inefficiencies – external pressures now require a shift from incremental improvement to whole system transformation.

Across the wider sector, complaints volumes have risen sharply. SRA regulated firms saw complaints increase from 23,000 in 2021 to nearly 37,000 in 2023, with trends steepening further in 2024/2025 and 2025/2026. Forecast models generated as recently as last year are already being overtaken by real-world volumes, with LeO's demand now significantly exceeding even the upper end scenarios previously modelled.

Complaint complexity is also rising. High-volume consumer claims (e.g., housing disrepair, motor finance, data breaches) continue to expand, fuelled in part by the rapid growth of third-party litigation funding, which has increased from £198m in 2011 to £2.2bn in 2022. Regulatory reviews are surfacing evidence of poor practice in parts of the sector, raising consumer risk and adding further pressure on LeO. In parallel, the shift toward remote legal services creates new vulnerabilities, particularly for digitally excluded consumers.

Consumer behaviour is changing too. Expectations around redress, admissions of failure and compensation are increasing, and digital tools – including AI generated submissions – have lowered barriers to complaining, resulting in higher volumes, more complex narratives and faster escalation. Sector failures such as Axiom Ince and SSB Group have reinforced systemic demand pressures and heightened consumer vulnerability.

Despite strong internal progress, demand now consistently exceeds LeO's capacity, driving queues, backlogs and pressure on service standards. The organisation is reaching the limit of what can be achieved by optimising existing processes and structures. Planned operational adjustments for 2026/2027 will help but cannot address the scale or persistence of rising demand.

These conditions are surfacing across several strategic risks, including people capacity and capability, governance clarity, technology constraints and operational resilience. These risks are increasingly evident in performance variability, reduced agility and limitations in our ability to leverage data and early warning insights.

Taken together, these factors demonstrate that while LeO is stronger than ever, our current operating model cannot scale or adapt at the pace required in a higher demand, higher complexity, increasingly digital environment.

A whole organisation transformation is now essential to ensure sustainable, effective delivery and maintain public confidence in the years ahead.

LeO's Vision 2030

> ***"The independent Legal Ombudsman will underpin consumer confidence in legal services. As a trusted and influential partner to the regulated legal sector, it strengthens the profession by advancing high-quality complaint resolution and sharing insight-led learning.***
>
> ***"At the heart of a digitally enabled, agile and innovative organisation, our people will continue to deliver fair, impartial, proportionate and evidence-based outcomes."***

The ambition is to see LeO transform into an organisation that:

- Is digitally enabled with AI and automation at the heart of its operating procedures.
- Utilises data and insights to inform consumers of the level of customer service they are entitled to expect from their service providers.
- Supports the legal sector to become more efficient and effective at complaint handling by providing services 'right first time'.
- In partnership, identifies emerging trends that impact on the legal sector to prevent wide-scale issues developing.
- Arrives at evidenced based and proportionate outcomes, through impartial and independent decision making.
- Through agile and innovative operating models, can flex to meet changes in demand and consumer expectations.

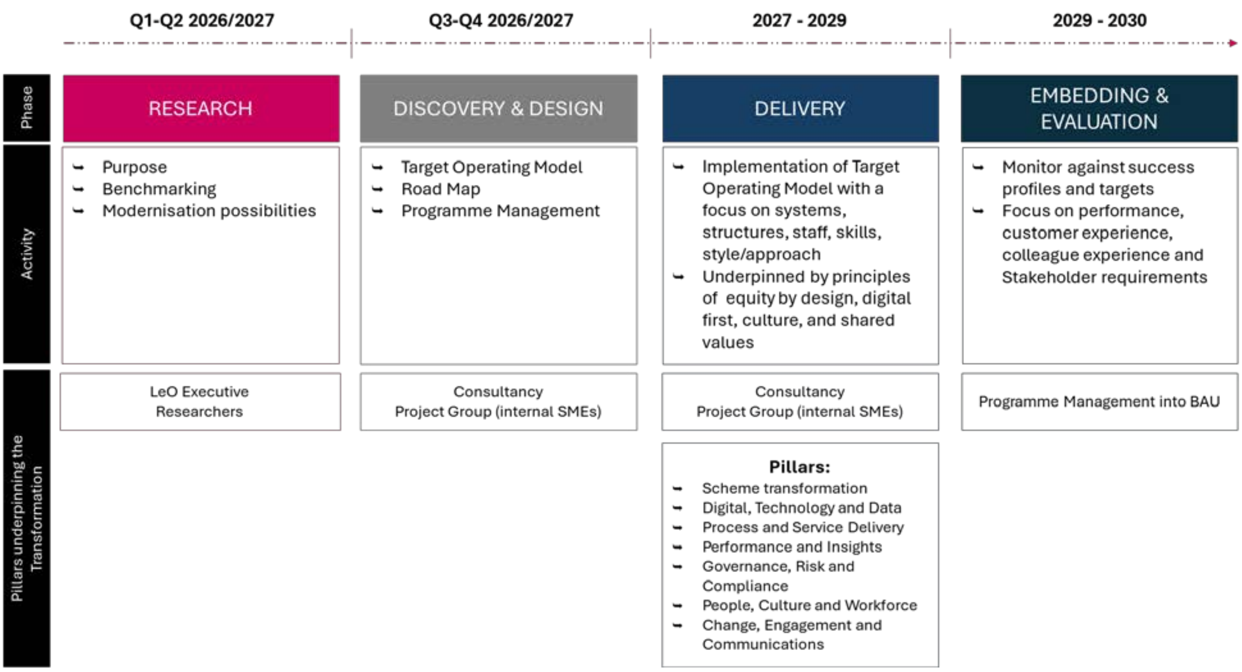
In order to meet this vision, LeO needs to undertake a transformation of its operating model, including:

- Redesigning how LeO delivers value in a system where demand and expectations continue to grow.
- Building a modern, scalable operating model aligned to future strategic outcomes.

- Identifying a layered leadership structure to manage the complexity of transformation while protecting operational performance, enabling faster decision making and stronger governance, and creating the conditions for a high trust, high performance culture.
- Strengthening key capabilities in workforce planning, digital, data, and continuous improvement.
- Embedding consistent, efficient, user-centred processes helps strengthen quality and resilience throughout an organisation.
- Developing a clear, phased implementation roadmap that protects performance while enabling long-term change.

High-Level Transformation Plan

The high-level transformation plan sets out a phased approach to redesigning and modernising LeO's operating model over a four-year period, moving from exploration to sustainable change.



The plan begins with a **Research phase** (Q1–Q2 2026/2027), where LeO's Executive and researchers clarify our purpose, benchmark against best practice, and identify modernisation opportunities.

These insights will inform the **Operating Model Discovery and Design phases** (Q3–Q4 2026/2027), led by external consultants working closely with internal subject matter experts to develop a Target Operating Model, a detailed roadmap, and the programme management structure needed to deliver change.

Please see timeline for Option 1 in the 'Timelines Based on Resourcing Options' section below for procurement and approval timeframes for external-consultancy support.

From 2027 to 2029, the programme moves into **Delivery**, where the redesigned operating model is implemented with a focus on systems, structures, skills development, processes, and cultural expectations. This phase is grounded in principles of equity by design, ethical by design (particularly in the use of AI), digital first approaches, and shared organisational values. Cross functional working groups – spanning technology, service delivery, performance, governance, people, and change – will drive implementation and ensure a coherent, organisation-wide approach.

Finally, from 2029 to 2030, the focus shifts to **Embedding and Evaluation**, where changes are monitored against success measures, service and customer experience improvements, colleague experience indicators, and stakeholder requirements. Programme management transitions into business as usual, ensuring the new operating model is sustained, refined, and continuously improved over time.

Governance

A tiered governance structure will ensure the programme remains on track for time, budget, scope and risk, with clear accountability at each level and transparent reporting across the Executive, OLC Board, LSB and MoJ, consisting of:

- Programme Delivery Board (Operational Accountability) for day-to-day delivery, issue resolution, schedule and budget management.
- Transformation Steering Group (Executive Control & Decision Making) to provide strategic oversight, decision making on scope, design choices, risk appetite, and resource allocation.
- OLC Board Oversight Group (Governance & Risk Assurance) to provide non-executive scrutiny, ensure the programme remains aligned to strategic objectives, and monitor high-level risks.
- LSB Oversight (Regulatory Assurance) to provide regulatory scrutiny and assurance that transformation strengthens service quality, independence, value for money and consumer protection.
- MoJ Sponsorship Oversight (Public Value, Value for Money & Assurance) to provide central government level assurance that the programme delivers value for money, is within budget and timescales, and complies with public body standards.

A detailed governance framework setting out terms of reference, meeting cadence, reporting arrangements, performance gateways and assurance mechanisms, will be produced and communicated as the programme gets underway.

Resourcing Options for Consideration

The scale and complexity of this transformation cannot be delivered internally. While LeO has strong operational expertise, we do not have the specialist capability, available capacity, or independent perspective required to redesign and architect a future-proof operating model, or benchmark rigorously against best practice across government and industry. Regulators and partners have also indicated the need for greater external assurance and objective scrutiny in any transformation we undertake.

External consultancy support is therefore required to provide objective assessment, deep operating model expertise, and the structured methodology needed to deliver a step change transformation. This includes specialist capability in maximising technology, particularly the effective and ethical use of AI, and advanced expertise in data insight and data science – skills that LeO does not currently possess at the level required. This approach builds on LeO’s existing strengths rather than replacing them, allowing current internal resources to remain focused on managing ongoing operational pressures so that service performance is not compromised.

Without this external capability, LeO would remain constrained by its current operating model, unable to capitalise on the opportunities offered by a modernised, data driven, AI enabled design, and unable to meet future demand or deliver the improvements expected by stakeholders.

Initial Cost Indicators

A pre-market engagement exercise started in January 2026, requesting costings for a ‘discovery’, ‘design’ and ‘delivery’ organisational wide transformation. The costs below are from five suppliers through the MoJ’s Crown Commercial Framework.

For comparison and transparency, approximate costs have also been included for Options 2 and 3.

Option 1: External consultant-led support

<table>
<tr><th>Role(s)</th><th>Est. Cost</th><th>Benefits</th><th>Risks</th></tr>
<tr><td colspan="4">Discovery, Design & Delivery Phases</td></tr>
<tr><td>Discovery</td><td>c. £300k</td><td rowspan="3">• External objectivity and independence
• Reduces capacity constraints on LeO colleagues
• MoJ and LSB assurance strengthened through independent analysis.
• Scalable resourcing and reduced management burden.</td><td rowspan="3">• Lower continuity after consultants exit knowledge may dissipate.
• Risk of broad or overly theoretical outputs without strong internal steering</td></tr>
<tr><td>Design</td><td>c. £600k</td></tr>
<tr><td>Delivery</td><td>To be determined following design</td></tr>
<tr><td>Internal resource to support in year 1</td><td>c. £79,121</td><td colspan="2">@ c. 20% FTE*</td></tr>
<tr><td>Total Year 1</td><td>c. £979,121</td><td colspan="2"></td></tr>
<tr><td>Total Year 2</td><td>TBD</td><td colspan="2">Plus, internal resource to support @ c. £423,325**</td></tr>
<tr><td>Indicative total cost</td><td>£979,121 +</td><td colspan="2"></td></tr>
</table>

**Figures for internal staff year 1 are based on subject matter expert and communications support at 20% FTE (as detailed in ‘Deliver with in-house resource’).*

***Year 2 figures are based on full internal support as detailed in ‘Deliver with in-house resource’ at 20% FTE.*

Option 2: Recruit 2-year fixed term contracts

<table>
<tr><th>Role(s)</th><th>Est. Cost</th><th>Benefits</th><th>Risks</th></tr>
<tr><td colspan="4">Discovery, Design & Delivery Phases</td></tr>
<tr><td>Organisational Transformation – lead role (LS)</td><td>Exec</td><td rowspan="8">• Builds internal ownership
• FTCs are embedded as part of the team; they are generally better placed to support handover and skills transfer than short-term consultancy teams.
• Ability to scale and flex the team, providing flexibility during intense phases of discovery, design or delivery.</td><td rowspan="8">• FTC recruitment is dependent market availability and potential talent shortages in specialist areas (e.g. TOM design, digital) may delay progress or reduce quality
• Potential delays of post approvals
• Higher management burden due to line management, integration, process training and oversight.</td></tr>
<tr><td>Programme Manager</td><td>c. £66k</td></tr>
<tr><td>Business Analyst - TOM Consultant</td><td>c. £68k</td></tr>
<tr><td>Data Scientist/Business Analyst</td><td>c. £67k</td></tr>
<tr><td>Organisational Design Specialist</td><td>c. £70k</td></tr>
<tr><td>Change Manager</td><td>c. £70k</td></tr>
<tr><td>Digital Lead/Enterprise Architect</td><td>c. £78k</td></tr>
<tr><td>People, Culture and Workforce Lead</td><td>c. £65k</td></tr>
<tr><td>Total Year 1</td><td>£757,772*</td><td colspan="2">Incl. on-costs at 21.62% and 3.25% Cost of Living (not incl. against individual roles – only totals)</td></tr>
<tr><td>Total Year 2</td><td>£627,525</td><td colspan="2">Incl. on-costs at 21.62% and 3.25% Cost of Living (not incl. against individual roles – only totals)</td></tr>
<tr><td>Indicative total cost</td><td>£1,385,297</td><td colspan="2">2 year costs</td></tr>
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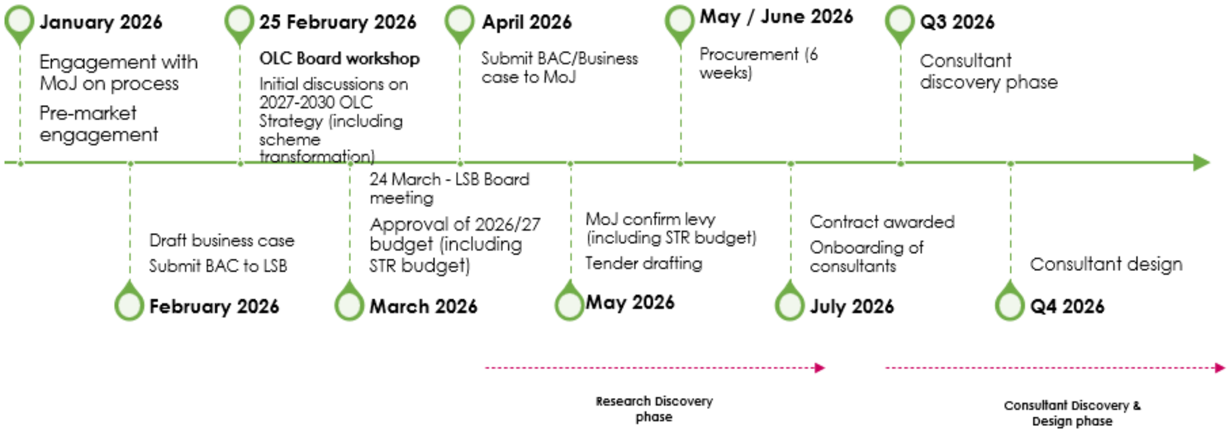
**Please note, Recruitment agency costs will also need to be factored here along with internal audience to support: Executive Team; Leads from Business functions / SMEs; internal and external stakeholder communications; Legal; and Finance.*

Option 3: Deliver with in-house resource

Role(s)	Est. Cost	Est. Cost on 0.6 FTE	Benefits	Risks
Discovery, Design & Delivery Phases				
Programme Management Team	c. £164,543		• Unlike consultants, internal resource remains in the business after the programme concludes, reducing dependency on external parties and improving sustainability of benefits. • Allows transformation activity to be shaped by lived experience rather than assumptions.	• LeO does not currently have the expertise needed to design or lead a complex, multi-year transformation. • Internal staff, being "too close to the detail", may struggle to: o step back strategically, o provide objective challenge, or o redefine the operating model at root cause-level. • Using internal resource diverts individuals from ongoing service delivery commitments, worsening existing capacity pressures - especially during unprecedented demand levels. • Access to tools to support diagnostics are limited.
Executive Team (sponsors for work streams)	Exec			
IT	c. £118,314			
Business Intelligence Team	c. £59,157			
HR lead	c. £64,897			
OD Lead	c. £59,157			
Internal and External communications and engagement	c. £108,204			
Subject matter experts (SGs)	c. £287,402			
Legal	c. £64,897			
Finance	c. £64,897			
Total Year 1	[illegible]	[illegible]	Incl. on-costs at 21.62% and 3.25% Cost of Living (not incl. against individual roles – only totals)	
Total Year 2	[illegible]	[illegible]	Incl. on-costs at 21.62% and 3.25% Cost of Living (not incl. against individual roles – only totals)	
Indicative total cost	[illegible]	[illegible]	2 year costs	

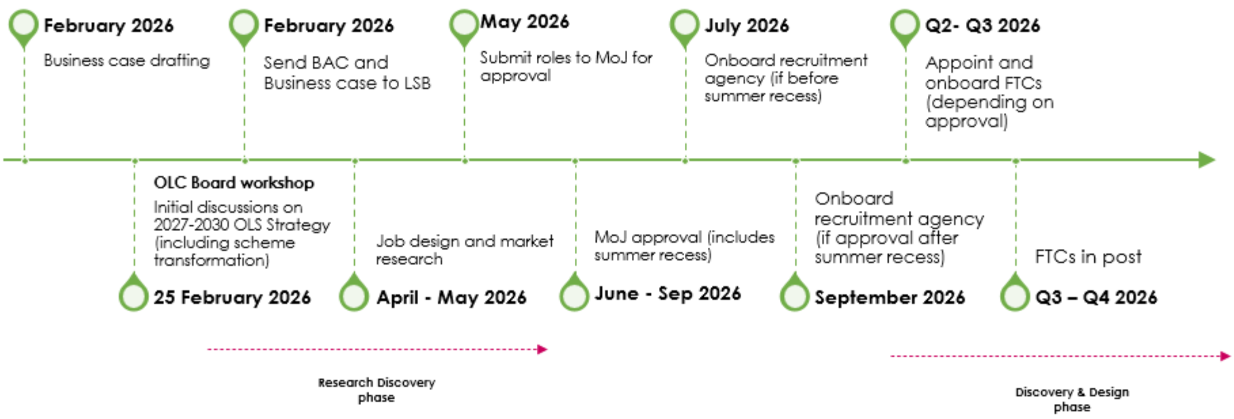
Timelines Based on Resourcing Options

Option 1: External Consultant Support



This option provides the quickest mobilisation. Following early MoJ engagement and business case submissions in January to March 2026, procurement runs across May and June, with consultants appointed and onboarded by July. The consultancy leads the full discovery phase in Q3 2026/2027 and moves directly into design work in Q4. This approach brings immediate specialist capability and minimises internal resourcing pressure but requires upfront procurement activity and strong contract management to ensure alignment and value.

Option 2: Fixed-Term Contractors



Here, LeO recruits specialist FTCs to deliver the work. Following business case approval throughout February and March 2026, job design and market research run through April and May, with roles submitted to the MoJ in May. Recruitment begins once approved, and depending on timing and the summer recess, FTCs are onboarded between Q2 and Q3 2026/2027, enabling discovery and design work to start in Q3, concluding in Q4. While this model offers flexibility and closer internal control, it mobilises more slowly and carries employment risks, including obligations linked to contracts (extensions, and termination), parity of treatment, and potential challenges if temporary roles appear to meet ongoing organisational needs.

Option 3: Internal Resources

This option uses internal staff, supported by backfill recruitment to release capacity. After business case steps in February to April 2026, internal engagement and planning take place from May to June. Backfill recruitment begins in August, with internal staff training through July to September. The discovery phase starts once internal colleagues are fully released and onboarded in September/October, with design work following in Q3 to Q4 2026/2027. This strengthens internal ownership and lasting capability but is the slowest to mobilise and most dependent on successfully backfilling roles and training in key skill sets such as data science and AI specialisms.

Analysis of Options

Option 1: External consultants offer rapid access to deep transformation expertise, the ability to mobilise at pace, and the independent challenge required by MoJ and LSB to give confidence in LeO's transformation plans.

From a Value for Money (VfM) perspective, consultants provide the strongest return because their specialist capability materially reduces delivery risk, accelerates progress, and limits the likelihood of costly delays or rework. Their proven methodologies, structured governance, and robust assurance mechanisms provide high confidence that transformation decisions are sound, benefits are realised, and risks are proactively managed.

While consultancy day rates are higher, the pace, depth of expertise, and assurance they bring represent the most efficient route to delivering a transformation of this scale, especially during critical early phases where clarity, certainty, and diagnostic accuracy have the greatest VfM impact.

Option 2: Recruiting external FTCs through an agency can offer flexible, cost-effective capacity and support longer-term internal capability building. However, in VfM terms this model often provides lower immediate value.

Time is required to onboard and upskill individuals, availability can be inconsistent, and capability gaps can persist - reducing delivery pace and increasing the risk of mis-steps that introduce hidden costs. The absence of independent assurance also limits their suitability for high stakes early transformation stages, where objective challenge is necessary for VfM.

Option 3: LeO's internal assessments highlight material capability gaps in strategic design, TOM development, digital modernisation and transformation leadership, alongside capacity pressures and the risk of burnout.

Internal recruitment and mobilisation timescales exceed programme needs, and internal-only delivery lacks the independence needed for objective challenge. As a result, internal delivery alone would present significant VfM risks due to slower progress, increased rework, and reduced assurance.

Recommendation

Taking these factors together, Option 1: External consultants, provides the best overall VfM for LeO's transformation by delivering the expertise, pace, independence and assurance needed to secure early momentum and reduce long-term programme cost and risk. A blended model can still support capability building over time, but consultants form the strongest VfM core for achieving successful, timely and sustainable transformation.