

The Office for Legal Complaints

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# Annual report and accounts

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For the year ending 31 March 2011



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Presented to Parliament pursuant to Section 118 of the Legal Services Act 2007.

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# Annual report of the Office for Legal Complaints

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Foreword from our Chair, Elizabeth France

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The Office for Legal Complaints (OLC) established an Ombudsman service for England and Wales, known as the Legal Ombudsman. The new scheme began work on 6 October 2010, with the OLC responsible for the oversight of the scheme. The purpose remains unchanged - to provide a single gateway for consumers of legal services to channel their complaints while at the same time driving systemic improvement by feeding back to the profession information and methods to improve.

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This is the Annual Report for the year 2010-2011, of which six months have been 'operational', with the six months prior to that focusing on planning and set-up. It also contains our Chief Ombudsman's report, which gives a flavour of exactly how the organisation is operating.

The establishment of our Ombudsman scheme has been largely welcomed. Our key objective, following on from the objectives set out in the Legal Services Act 2007, was to set up a scheme which stakeholders recognised as independent, impartial, accessible and, most importantly, useful. Our 'one-stop shop' has simplified what was previously a convoluted, slow and expensive process.

Feedback from those who use legal services and the professions has been very useful. To help that, the executive has set up a Stakeholder Advisory Panel to advise the Chief Ombudsman on progress thus far; we will use tools such as this to continue to gauge our levels of success over the coming year.

When the OLC (the board of the Legal Ombudsman) was appointed, we were given a deadline and budget for the new operation. I am pleased to report that the scheme was delivered within budget and on schedule, despite a number of challenges along the way. From June to October 2010, the core set-up team grew to an office of just over 120 people. On 6 October, we went live, with a brand new IT system, a group of staff most of whom had been in the organisation for just six weeks, and new and untested processes and procedures. As the figures in this report will show, the launch was successful, and the organisation is growing in strength and experience.

After 'Go Live', the following months were all geared around ensuring we had the processes and technology in place to do the day job, and from that point we have been continually refining and improving our systems.

In accordance with section 123 of the Legal Services Act 2007, the OLC received the Chief Ombudsman's report from Adam Sampson at our Board meeting on 20 June 2011. This report, which is included here in full, summarises the progress made up to 31 March 2011. It sets out significant achievements which Adam has led but which could not have been realised without the support of the Ministry of Justice and of the Legal Services Board, the commitment of our staff, and the energy and enthusiasm of my fellow non-executive directors.



Elizabeth France CBE  
*Chair*

# Chief Ombudsman's report

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The year covered by this report has been a strange, challenging but immensely satisfying time. The first six months – the period from 1 April to 6 October 2010 – represent the final stages in planning for the launch of the new Legal Ombudsman service. The second six months cover the beginnings of our transition to steady state. This dichotomy runs through the report, down to the rather unusual presentation of two sets of financial figures: the standard financial year results, and a breakdown of the results to show our financial management of the set-up period and the initial period of normal operations.

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The Legal Ombudsman was a start-up and, like any start-up, we faced our challenges. But I am delighted with what we have achieved. In the months running up to the launch on 6 October, we were in the final stages of managing the transition: from designing the business and putting in place the infrastructure, to establishing our offices and recruiting our people. Thereafter, the challenge was to work with our new systems and processes to deliver the service which we were set up to provide. I have to say I am very proud of the way in which our team, a lot of whom are still relatively new, have risen to that challenge, testing new ways of doing things and helping us learn from frontline experience – all focused on improving our service and making sure it is efficient and effective.

Our central task - resolving complaints - is both complex and significant. People rely on legal services when they are dealing with some of the most important and potentially traumatic issues in their lives: family breakdown, death, moving house, even facing criminal charges. When these individuals feel let down by the provider of that service, they are often understandably angry and disillusioned. Many look to a service like ours, not only to put right any harm they may have suffered but also to restore their faith in the legal system.

We know we cannot satisfy all these desires and aspirations. But it is our job to encourage members of the legal profession to improve their practice, to demonstrate their commitment to fairness and to build consumer confidence in the profession. So while we aim to satisfy consumers, we must not lose sight of our responsibility to the profession as well. Our clear duty is to make sure that individuals who may have suffered from poor service have access to redress. Equally, we have to defend providers of legal service from unjustified complaints.

My starting point for reflecting on the past year is our vision - that everyone is able to access legal services in which they have confidence - and our values: open, independent, fair, effective and shrewd. As Ombudsmen, we are not consumer champions or protectors of the profession but independent and neutral. In order to help the profession improve its standard of service, we have begun to act on what we see as our duty to provide feedback and advice. As I have tried to do in this report, we wish to ensure that, where problems have occurred, lessons are learned to prevent them happening again as far as possible.

# Chief Ombudsman's report

## **A cost-effective and efficient start-up**

The key task for the first half of the period covered by this report was to get the Legal Ombudsman opened for business. When I was appointed in spring 2009, I was tasked with opening for business no later than the end of 2010. In fact, we were actually able to launch some three months early. This stands as a huge tribute to the skills and hard work of the interim staff and contractors we employed to manage the start-up (many of whom were later successful in joining us as permanent staff). I would also like to pay tribute to the efficiency of our sponsor team at the Ministry of Justice (MoJ), who skillfully piloted the complex secondary legislation through Parliament. Not only were we able to open early, but the detailed financial figures outlined later in the report show that we brought the launch in under the implementation budget of some £14.8 million. Again, this success was entirely due to the expertise of the set-up staff we were able to attract.

Given the history of our predecessor bodies, those of us involved in planning for the new organisation were always very conscious that one of our most important challenges was to show that the new scheme was operating efficiently and providing value for money. Accordingly, along with trying to make sure we took on best practice from other Ombudsman schemes in relation to fairness and transparency of process, we also sought to be speedy and cost-effective in our operations. Thus, for example, we committed to minimising delay and unnecessary cost by utilising modern technology - using a fully integrated telephone and IT system - rather than relying primarily on paper and post.

The results of these efforts can be understood from the detailed performance figures given later in this report. Overall, these show that the new scheme is already working well and, more importantly, continuing to improve. As the tables show, while demand has been steady over the first six months, the proportion of complaints accepted for investigation has been on an upwards trend. This places greater demand both on our assessment process and investigative resources. However, the organisation has been able to meet this challenge by employing our new team in waves over the first few months and deploying them only when they are fully trained. This has proved to be an effective response as our volumes pick up over time.

## **Overview of statistics from our first six months**

When I became the Legal Ombudsman, my aspiration was to resolve complaints as quickly and fairly as possible. I knew that understanding the volumes we were likely to see year on year, and the causes of any fluctuations, would help equip us to face many of the future challenges we would see as the legal services market continued to evolve and change.

To a large degree, our early performance information tells us that this new, single body for legal complaints is proving an effective model, more so than its predecessor bodies. While it is early days, and the information we have is by no means definitive, the indications are that we look set to be in a position to resolve complaints more quickly and cheaply than before the changes, not least because it appears that we are succeeding in resolving the majority of the complaints raised with us informally. We anticipate that, as our knowledge improves and our systems are refined in the light of

experience, we will continue to gain in efficiency. We are also in the process of developing key performance indicators and will report against them in the future. These are set out in more detail in our business plan, but in short are:

**Timeliness (time taken to resolve complaints):** We will measure, for example, the proportion of cases resolved within three months of a consumer's first contact with us.

**Quality:** We will track against a mix of quality indicators that focus on the accuracy of our work and the quality of customer service provided.

**Stakeholder satisfaction:** We will commission external, independent measurement of satisfaction levels among customers (consumers and lawyers) and stakeholders on an annual basis.

**Unit cost:** We propose to track the unit cost of our work by reporting the annual cost of the organisation averaged according to the number of cases resolved.

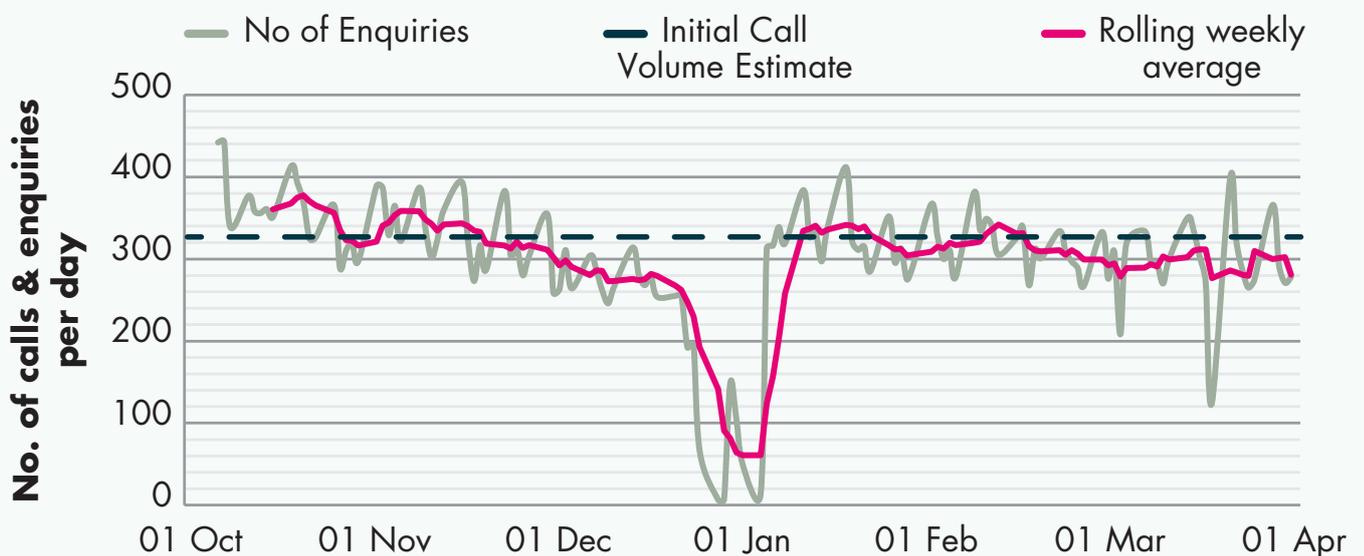
## Volumes of cases

In the six months since we opened, **38,155** people contacted us by phone, email and letter. Of these, we accepted **3,768** complaints into the Ombudsman scheme for investigation.

Contacts	Cases opened
38,155	3,768

The following graph illustrates the trends in people contacting us during our first six months. We saw high volumes of contacts initially, which we think is due to the publicity we achieved around our launch and also possibly to a pent-up demand, with people choosing to wait to contact a new, independent, Ombudsman scheme rather than complaining under the old arrangements. There is also a seasonal variation to the numbers of people contacting us. We are monitoring the volumes of contacts and cases closely, but these statistics suggest that it is too early to tell what volumes we will see in the future.

## Contact activity



# Chief Ombudsman's report

## Number of cases we resolved

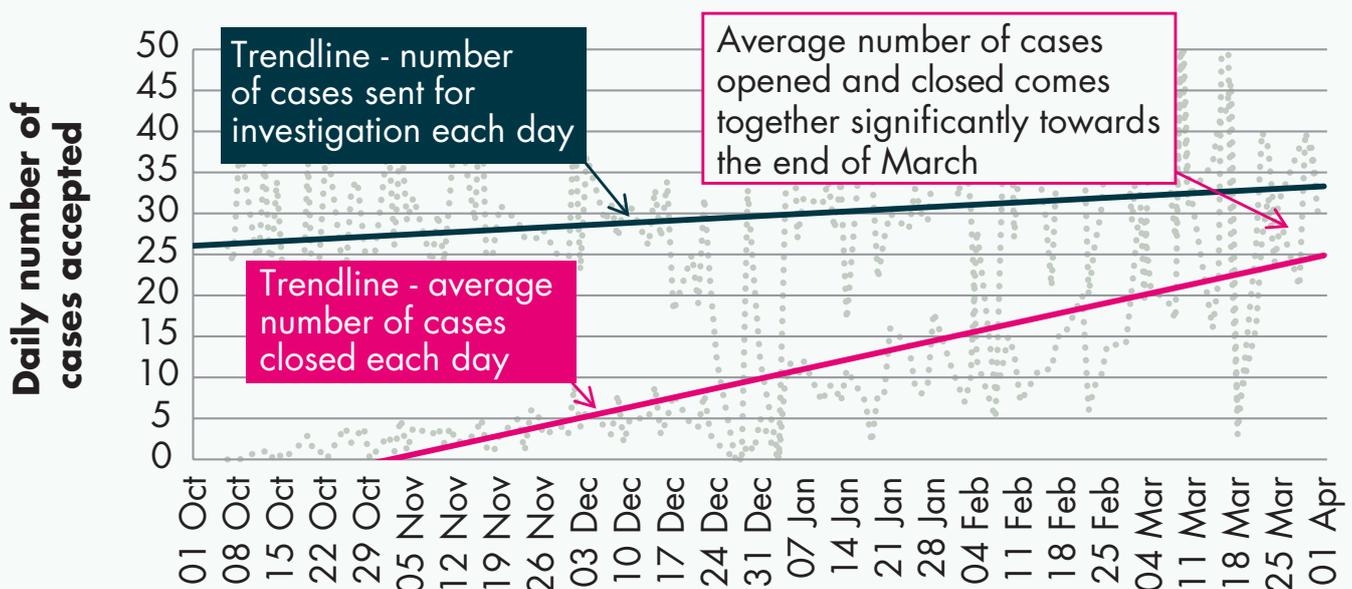
It takes time for a case to come to a conclusion. Depending on the issues in a case, it can be harder or easier to gather information to help us be clear about the facts so we can help resolve the complaint. Sometimes, because people live overseas, are away, or simply have busy lives, it can take time for us to hear back from them and to talk through the issues. Where complaints are about lawyers who have since died or firms which are closed, delays are also inevitable. And sometimes the right way forward is to go carefully through all the stages of our process, as this is what is needed to come to a fair resolution. We are still learning about how all these different factors can impact on the time it takes us to resolve complaints, to check if our planning about how we should approach our work needs to change over time.

As you would expect, in our first six months we accepted more cases than we closed – but the trend is that this gap is lessening over time. The graph below shows this is happening. This is partly because we are becoming more expert as we mature as an organisation. We anticipate that we will see a higher number of closed cases in the future as we move out of our start-up phase.

In the six months since we opened, we resolved a total of **1,450** cases.

We also monitor the trend in cases we accept into our jurisdiction. This has changed over the six-month period, and appears to be on an upward trend. We accepted **27** complaints a day in October 2010 and **34** a day in March 2011.

## Trends of cases accepted and closed



## How we resolved the cases

The approach we take to resolving complaints will depend on the individual facts of a case and the level of formality required to resolve a case. I touch upon some of the stories we hear from consumers and lawyers later in this report; they vary greatly: some are touching, some shocking and all have a heavy impact on those involved.

Where possible, we prefer to resolve complaints informally – getting both sides to agree with the views and analysis of our investigators to reach an informal resolution as early as possible. So far, we have resolved the majority of the cases we have closed by informal resolution.

In cases where it is simply not possible to get both sides to agree to resolve the complaint informally, it may require a more formal process and, after a detailed investigation, these are referred to an Ombudsman for a final decision. During our first six months of operation, the number of cases requiring a formal Ombudsman decision grew. By 31 March, **103** of the cases we closed were resolved this way. We know there are more coming in the pipeline, as it naturally takes time for complaints to reach this final stage of the process. It was also inevitable that, as a start-up, it took some time for the natural volume levels to filter across every aspect of our work.

## Operational performance - timeliness

We want to resolve complaints as quickly and fairly as possible. Of the cases we closed in our first six months, we resolved **55%** of cases within three months of a consumer's first contact with us, **76%** within four months and **92%** within five months.

We measure the time taken to resolve cases from the point at which consumers contact us with a complaint that is within our jurisdiction to the point at which we resolve the case. This measure is more challenging than starting the clock running from the time we accept a complaint. We think this is a fairer reflection of the experience of our customers. The time it takes to resolve a complaint is also determined to a large extent by the parties to the dispute themselves. If a case can be resolved informally, it tends to take less time than if a lengthier investigation or an Ombudsman's decision is needed.

## Quality

We are committed to improving the quality and consistency of our work. We have put in place a quality assurance framework that specifies and reinforces the quality standards which we have set ourselves. It helps us monitor and evaluate our performance, identifying issues where we can improve what we do and how we do it.

Our small quality team are working with assessors, investigators and Ombudsmen to ensure quality of communication, adherence to process and thoroughness in our investigations.

# Chief Ombudsman's report

## **Satisfaction**

We are in the process of commissioning an independent external organisation to measure satisfaction levels among our customers and stakeholders on an annual basis, supplemented by quarterly monitoring. In 2010, we commissioned some research asking consumers and lawyers about their perceptions and expectations of how complaints about legal services should be resolved. From this we learned that many of our assumptions in setting up the Legal Ombudsman have met customer needs. Our approach of asking people to call us, so we can listen to their concerns and talk about how to tackle them, is preferred. Consumers told us that they did not want to face bureaucracy or fill in long and complicated forms.

Consumers and lawyers alike told us that they wanted to try to resolve things informally wherever possible as it is quicker and less emotionally testing for everyone involved.

## **What are the complaints about?**

The Legal Ombudsman is here to resolve complaints made by consumers of legal services. In our first six months, we saw most complaints about areas such as buying and selling houses, wills and probate, family law and personal injury. And some things consumers are concerned about – delay and cost, for instance – come up regularly across all these different sorts of legal services. But failure to advise and failure to follow instructions are the most common categories of complaint.

But what have we learned from the sorts of complaints raised with us over that period?



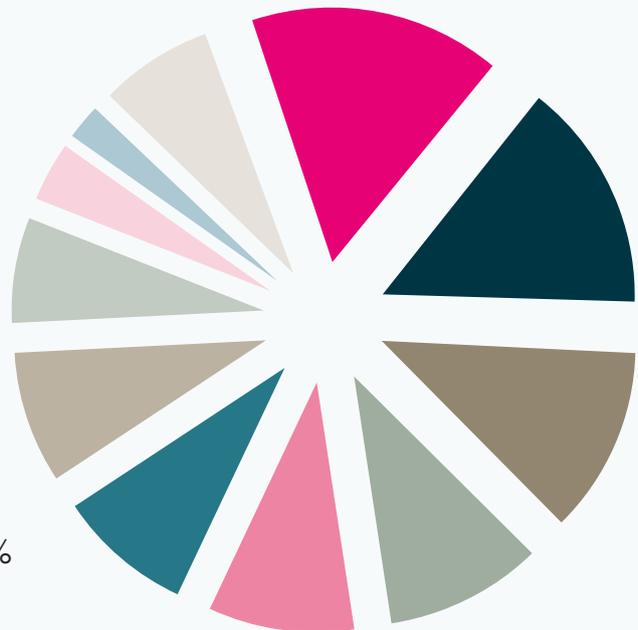
## Cases accepted for investigation by area of law

- Residential conveyancing, 20.18%
- Family law, 19.19%
- Wills and probate, 13.35%
- Litigation, 10.33%
- Personal injury, 9.83%
- Other, 5.93%
- Crime, 5.62%
- Property, 4.59%
- Immigration and asylum, 4.12%
- Employment, 6.86%



## Complaint categories

- Failure to advise, 16%
- Failure to follow instructions, 15%
- Delay, 12%
- Costs excessive, 10%
- Failure to keep informed, 9%
- Failure to progress, 9%
- Costs information deficient, 9%
- Conduct, 7%
- Other, 7%
- Failure to investigate complaint internally, 4%
- Failure to keep papers safe, 2%



# Chief Ombudsman's report

## What we are learning and sharing

While we provide a new way of dealing with complaints about legal services, we are able to draw on the history of complaints raised with our predecessor bodies. The charts on page 13 indicate the range issues raised with us so far – and within this there have been few surprises. The importance of good communication crops up, across all these different sorts of legal services, as regularly as it did in the past. People come to us when they are confused about what has been agreed with their lawyer - and it doesn't have to be in the context of a complicated case; it can arise in any transaction, simple or complex:

**Miss A**, a private landlord came to us after she had been to a solicitor for advice on how to deal with a tenant she believed was breaching the terms of his contract. She thought the meeting was arranged just to seek advice – nothing more. Her understanding of what had happened was that she had not given the solicitor any instructions during that meeting and received no estimate of costs from them at the time.

Sometime later, Miss A received a bill for over £400. This included a charge of around £200 for the initial meeting and another £175 for a letter that was sent to the tenant. But she says she didn't ask for a letter or anything else to be done at that meeting.

Although she did eventually receive an estimate for this bill, this wasn't until a few days after the actual bill was sent. Miss A said that she would not have gone ahead with the meeting if she had been made aware of the costs.

What happened when we got involved? Well, both parties agreed that £100 should be refunded to Miss A. But more interesting, given that this case had been through a firm's in-house process and then to us, was how easily any confusion could have been avoided early on in the process.



In these early days, it is perhaps too soon to be looking for meaningful trends in the types of complaints we handle. Having said this, some patterns are emerging. One of the key conclusions we can draw from our first six months is that poor communication lies at the heart of many disputes between lawyers and their customers. We are seeing cases where a clear, non-legalistic, helpful and early response to the issues raised would have resolved misunderstandings, and in all likelihood prevented the complaint in the first place. As the following stories show, even when the service provided by a lawyer is of a decent standard, sometimes all people need is a clear explanation, so that they understand what has happened and why.

The dedicated team in our Assessment Centre can tell you better than me that listening, and showing that we have understood what has happened, seem to be among the most valuable (and valued) aspects of our service. I have included a small selection of cases that illustrate how communication, and a lack of acknowledgment of the impact of what has happened on someone, is often at the core of the complaints we see:



# Chief Ombudsman's report

## Acknowledging impact

**Mr B** tripped over a paving slab in the street and fell, hurting his knee badly and scarring his face. His accident also left him feeling distressed and shaken up. He felt that he had fallen because of the wonky paving. So he went to a solicitor to see if they could give him advice. He'd not used a solicitor before; he told them what happened and trusted them to keep him updated.

Mr B contacted his solicitor's office regularly to see if he needed to do anything and to find out what was happening. Over time he realised he hadn't heard anything from his solicitor. He didn't think too much about it as they said they would get in touch when they needed to. Two and a half years passed, and Mr B received a call from his solicitor. But instead of giving him an update, Mr B was told that his file was 'misplaced' and, because of this, no work had been carried out on this case.

Mr B was upset and worried that he had lost his chance of seeking compensation for his injuries. Instead of things all being in hand, a long time had passed and he no longer had any of his evidence to support his claim. He had taken some photos after his fall with an old mobile phone, and these were on the file. And the pavement had since been repaired by the council.

He went to a new solicitor to see what his options were. They said that, while they would try to pursue his claim, it would be very hard without the evidence that had been gathered at the time of the accident.

Mr B complained to the first firm of solicitors. They admitted that they should have kept him up to date and offered him £600 to acknowledge this. Mr B then came to us as he didn't feel that his first solicitor had understood the impact of losing his file, on him personally and his case. We looked into it and, as a result, the first firm acknowledged that the lack of work on Mr B's case had caused him a lot of distress. After speaking to us, they offered Mr B £750 in recognition of the impact their delays had had on him. Better still, after some hunting, they also managed to locate his file with original photographs, which would be forwarded to his new solicitor.

Mr B was happy with this outcome – he thought the first solicitor had acknowledged the impact of their actions on him and, most of all, finding his file meant he was still able to see if he was eligible for some compensation for his injuries.

### Clarity of service

**Mr C** complained that his barrister had not followed his instructions regarding a final hearing to decide which parent his child would live with. Mr C told us that he thought that his wishes had been set out in the faxes he had sent to his solicitor and in person at pre-hearing conferences.

When we looked into what happened, we found that Mr C hadn't been as clear as he thought when he told his barrister what he wanted. Mr C had been asked to make some decisions about the sort of residence order he wanted. We saw that the barrister had explained the options as clearly as he could (this was a complicated area of law) but that it was not clear whether Mr C wanted to challenge the suggested residence order or to go for a shared residence order. The letters and notes taken at previous hearings showed that the barrister had acted in accordance with what Mr C had appeared to be asking for, and that the barrister had advised him about his options and what they could mean. It was also apparent that Mr C had accepted his barrister's advice about the prospects of his case.

We explained to Mr C why we thought what the barrister had done was reasonable and that we thought he had received an adequate level of service. We also explained that we couldn't comment on the outcome of the court hearing itself. After hearing what we thought, Mr C decided not to take his complaint any further and accepted our explanation of what we thought had happened.

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### Communication breakdown

**Mrs D's** marriage was failing. In early 2009 she finally went to a solicitor to seek a divorce. After speaking to the firm, she was granted legal aid for her case and the firm took it on.

Mrs D hadn't heard anything for months. Then, in December 2009, her firm called her to say that no progress had been made on her case until recently because the firm had been waiting for her to have been married for over a year. But the problem was that her legal aid had run out before the work had been completed.

Her solicitor told Mrs D that she would need to reapply before they could continue to represent her – or she would need to pay the fees herself. Mrs D told us this came as a real shock – she had tried to seek updates, and she thought that things were in hand as she had received a grant that would cover her costs.

She made a formal complaint to the firm saying that she didn't understand the delay, that her solicitor hadn't explained the full details of the grant of funding and he had failed to carry out any work on her divorce while she had had funding available.

When she came to us, Mrs D was still unhappy. Her concerns hadn't been addressed and she told us that she felt that the firm insinuated that she was complaining in order to avoid paying their costs, which upset her more.

During our investigation we suggested that Mrs D and her solicitor meet in order to try to address her concerns informally. During the meeting a detailed explanation of the firm's charges was provided, Mrs D was given an apology and the firm agreed to progress her case without further delay. Mrs D was happy with this result and requested that her complaint be withdrawn.

# Chief Ombudsman's report

## Choice and innovation: the changing landscape of legal services

Before I go on to describe the more complex issues and lessons we have learned – and continue to learn – as a new Ombudsman scheme, it is necessary to place them in the context of the changing landscape in which we find ourselves. The Legal Services Act, which gave us our inception, also threw down a gauntlet to the legal profession to modernise, to open itself to new business models and to embrace the principles of consumer choice, innovation and competition. Most of the dedicated, hard-working individuals who make up the legal profession are now actively grappling with what this change means to them, their principles and values, and their clients.

The Act sought to free up the legal services market. But the market is powerful. We are seeing new forms of legal service being offered to meet consumer demands for ease of access, fixed or lower prices, and innovative uses of technology. New players are coming into the legal market, including large corporate businesses looking to offer bundled professional services. The nature of the legal profession looks set to change and change quickly.

This poses a real challenge for regulation and, with it, our jurisdiction. In the face of this diversity of provision, the traditional distinction between what is regulated and what is unregulated is becoming difficult to negotiate. Newer providers are, as one might expect, interested primarily in finding structures and business models that work in market terms rather than ones which easily fit the existing regulatory structures.

While these developments may offer a wider range of legal products to customers, there is a danger of both consumer confusion and regulatory inefficiency. Take these examples, demonstrating the new range of legal products available to consumers. They may, or may not provide good quality legal services which may satisfy consumer demands. But, if they do not, how confident can we be that consumers – or indeed we ourselves – know who would be the proper avenue for appropriate redress? Is it the Legal Ombudsman, another Ombudsman scheme, Trading Standards? Or is it no-one?



## Legal Services

### 24 Hour Legal Advice

An independent team of qualified legal advisers is available 365 days a year. They can give you legal advice over the phone on English and Scottish law, but may decline to provide advice in certain exceptional circumstances.

The legal services covered are:

- Employment
- Consumer
- Motoring
- Holiday
- Credit agreements
- Negligence misconduct
- Accident
- Property
- Civil litigation
- Neighbour dispute
- Basic VAT and Tax

If you require advice please call the appropriate number, as detailed below, quoting your sort code and account number. The legal helpline is open 24 hours a day, 365 days a year.

### How to get in touch

**If you are a Current Account Plus customer**  
Please call the Current Account Plus Helpline on **0800 328 6931\***, selecting the legal helpline option.

**If you are an Additions Active customer**  
Please call the Additions Active Helpline on **0800 99 44 22\***, selecting the legal helpline option.

**If you are a Graduate Additions customer**  
Please call the Graduate Additions Helpline on **0845 300 3726\***, selecting the legal helpline option.

**Accounts no longer available to new business**  
While the following accounts are no longer available they continue to operate as usual.

## Defining our boundaries: early lessons

The overwhelming learning which emerges from our first six months of operation, then, is that the edges of the jurisdiction of the new scheme, boundaries laid down in the Legal Services Act itself and directly embodied in our Scheme Rules, are not yet clearly drawn. However, this is not simply the result of the difficulties illustrated above. Some of this lack of clarity is temporary - the inevitable result of the introduction of a new piece of legislation and the absence of case law. As the scheme beds in, experience will begin to provide that clarity.

Take, for example, our first Ombudsman decision. This case tested the geographical reach of our jurisdiction. While we are technically the Ombudsman for England and Wales, in this case our jurisdiction touched on a lawyer practising in England helping an English consumer purchase property in Eastern Europe.

**Ms E** bought some property overseas 'off plan' but ran into trouble when she found the developers had breached their contract. So she employed a firm of solicitors to negotiate a settlement with the developers.

She agreed to pay £1,000 for the negotiations and another £5,000 for any subsequent case brought to court. Ms E was later told that, if she wanted the firm to negotiate further on her behalf, it would cost £7,500 - some £1,500 more than she had originally agreed. Added to this, Ms E was not happy about the firm asking for power of attorney. This would allow them to accept a settlement on her behalf without her agreement. She complained (first to them and then to us) that she hadn't been kept up to date, nor was she sure what her solicitors had actually done for the money.

When we came to look into Ms E's complaint, we found that, for the most part, the solicitor had provided a satisfactory service. However, they hadn't told Ms E that her costs might increase. Nor had they sent her a client care letter setting out what they thought the costs might be, nor that these might change if certain things happened. We recommended to both parties that the firm should pay Ms E £150 in compensation.

Ms E was initially unhappy with our suggested resolution and asked for an Ombudsman's decision. The Ombudsman agreed with our investigator's original conclusions. They decided that the solicitor should pay Ms E £150 in recognition of the firm's failure to provide sufficient cost information from the outset. Ms E accepted this decision.



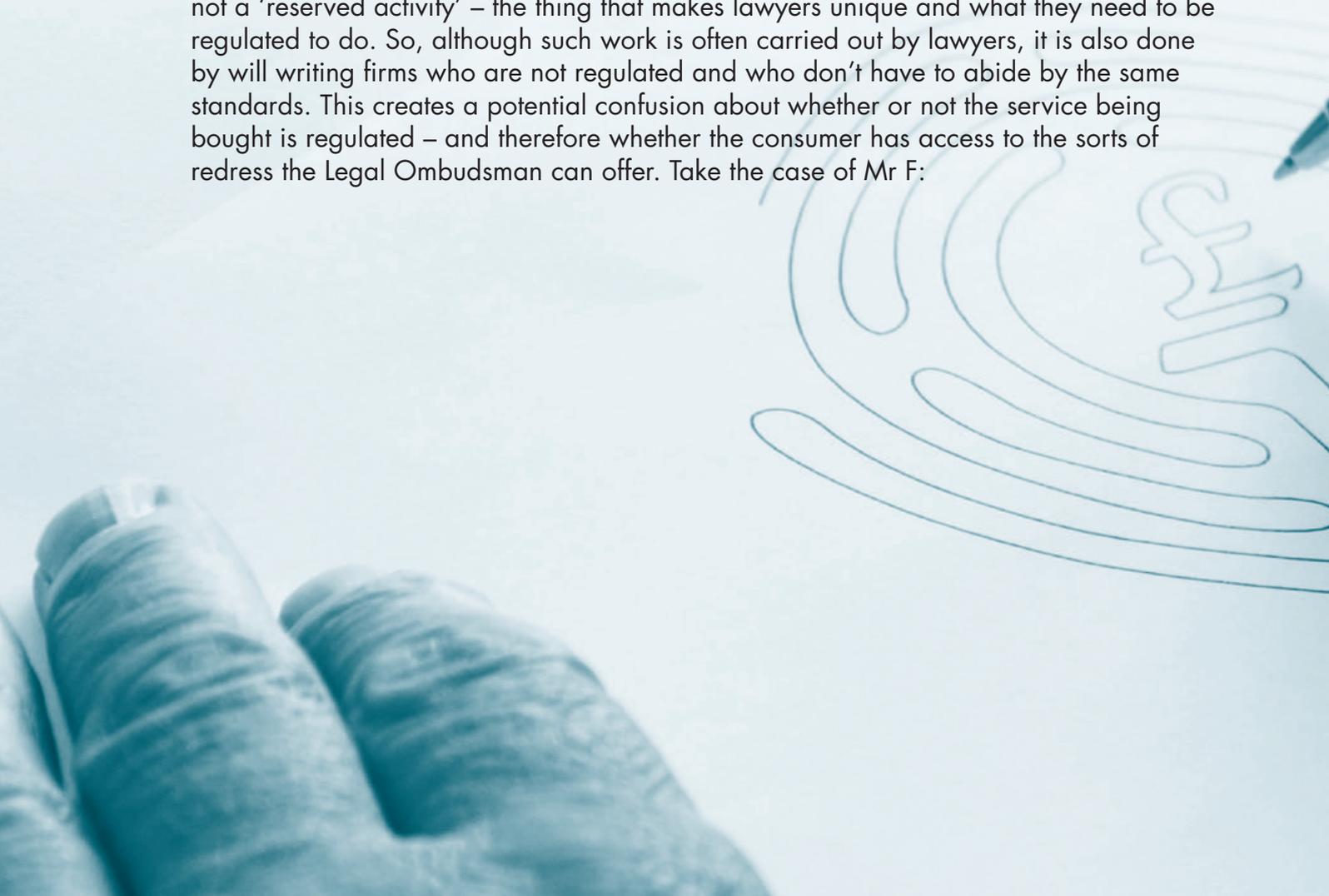
# Chief Ombudsman's report

There have been similar cases which have begun to clarify some of the other jurisdictional tests which we will apply to complaints raised with us. These include whether the person making the complaint has been provided with legal services (a test which is significantly wider than whether the complainant was a "client" of a lawyer); whether the complaint was within the timescales laid down by our Scheme Rules (normally within a year of the complainant having knowledge that there was reason to complain); whether the complaint was from an individual, small charity or micro-enterprise (rather than a larger, corporate entity), and so on. We believe that, although we will need to keep these aspects of our jurisdiction under review, there is nothing inherently so opaque about these tests that cannot be clarified over time.

## **Defining our boundaries: the blurred edges of regulation**

However, there are aspects of our jurisdiction which remain problematic to us, to consumers and to those providing legal services. These centre on the issues raised above: the gap between consumer expectations of what sort of legal services are protected by access to the Legal Ombudsman and the equally vexed question of the circumstances in which those providing such legal services fall within the ambit of regulation by one or other of the Approved Regulators. Much of this revolves around difficulties in understanding the regulatory status of the entity providing the service.

One of the clearest examples of these issues commonly arising is in will writing. This is not a 'reserved activity' – the thing that makes lawyers unique and what they need to be regulated to do. So, although such work is often carried out by lawyers, it is also done by will writing firms who are not regulated and who don't have to abide by the same standards. This creates a potential confusion about whether or not the service being bought is regulated – and therefore whether the consumer has access to the sorts of redress the Legal Ombudsman can offer. Take the case of Mr F:



**Mr F** complained to us that he had gone to a high street solicitor to write a will. He was then introduced to an individual in an adjoining office whom he was told would provide the service. In the event, the will proved defective. However, when he complained, Mr F was told by the firm's senior partner that the will writer concerned had been working for a linked, but unregulated, company offering legal services, including will writing.

This was the first of a number of similar matters raised with us about the same company. Although the company claimed to be out of jurisdiction and the service – will writing – is not a reserved activity, we considered that the connection between the solicitors firm and the company complained about was umbilical: the firm had made the introduction, the complaint was answered by the senior partner on behalf of both entities, and the senior partner was the owner of both. Since the senior partner was a regulated individual, we judged that the company fell within our jurisdiction.

In the event, and to complicate matters further, while our investigation was nearing its end, the senior partner died. The company was then taken over by another, similar company which appears to have even less connection with a regulated individual. Nevertheless, we believe that the remedy we ordered in this case will be enforceable, either against the successor company or the legal insurers.

In other cases, however, consumers who have purchased very similar services and suffered very similar difficulties have been left without any access to our services. For example:

**Mr and Mrs G** had a home visit from a will writing company following an initial telephone enquiry. They agreed to pay the company to prepare a lasting power of attorney and some protective property trusts for them.

A number of months passed and the couple had not received anything from the firm. Mr G rang and was told that more information was needed, but that work was nevertheless being carried out. Another month went by. Mr and Mrs G still hadn't heard anything, so they decided to write a letter of complaint to the firm. They heard nothing back, but a month later some documentation did arrive.

Mr and Mrs G thought the quality of the work was very poor. All they received was a standard document with a few personal details inserted. Mr and Mrs G felt that this was something they could have done themselves, using a pack from a stationer. In their view, it was certainly not worth the £1,500 they had paid the company.

Mr and Mrs G sent another formal letter of complaint to the firm - again with no response. When they complained to us, we reviewed the status of the company to see whether it fell within our jurisdiction. However, it quickly became apparent that the company was not regulated and that there were no regulated individuals sufficiently closely connected with the service provided that we could accept for the complaint to be investigated. There appears to be little prospect of Mr and Mrs G getting access to effective redress for the loss they consider they have suffered.

# Chief Ombudsman's report

These cases reveal a mismatch between consumer expectations of what constitutes a 'legal service' - which consumers clearly assume implies access to a proper system of regulation and redress - and the reality of the diverse market providing such services. This confusion is not helped by the habit many unregulated companies have of presenting themselves as though they were traditional law firms, with websites and advertising material branded with the panoply of wigs, gowns and quill pens.

## **Defining our boundaries: the new regulatory maze?**

We have seen evidence of similar consumer confusion in relation to claims management companies. Here there is a regulatory regime in place - the Ministry of Justice. Nevertheless, while many of the consumers who use these firms' services appear to believe that they are being provided with legal services, most of that work is carried out by non-authorised persons. So consumers are unable to get access to the sorts of protection provided by the Legal Ombudsman. Here's an example:

**Mr H** hired a claims management company to represent him in an unfair dismissal claim. Mr H told us that, after preparing paperwork, they failed to appear at the employment tribunal on three separate occasions.

Mr H complained to the company and received a response to the effect that, as some work had been done preparing the case, he would not be refunded any fees. Mr H took his complaint to the Ministry of Justice, who regulate both the claims management company and their parent company. The Ministry referred him to the Solicitors Regulatory Authority, who in turn referred him on to the Legal Ombudsman.

But when we looked into it, the company's advisers were not qualified lawyers and not regulated by one of the legal Approved Regulators. We contacted the Ministry who then agreed to take on Mr H's complaint because of the number of complaints they had already received about the parent company.

In another case:

Following a car accident, **Ms I** thought she might be entitled to some compensation, so she decided to make a personal injury claim. She believed the solicitor acting for her (who had bought her case from a claims management company) was working on a 'no win, no fee' basis – also called a conditional fee agreement or a CFA. This was later denied by the firm, who said that no conditional fee agreement had been made (although a copy did turn up eventually, dated at about the same time the firm took over the claim).

Some months into the process, the firm decided the claim was 'flaky' and unlikely to succeed. They said they had tried to get in touch with Ms I to explain their position and to ask her to pay their costs. They received no response, the firm said, and no payments. So they went for a County Court judgement to recover costs, which was granted.

Various attempts were made by Ms I and her family to ask why this action was being taken. The firm had not kept her informed, she said, and had misled her about her chances of success. Naturally enough, she also wanted the bailiff collections where she used to live to stop (she had moved house in the meantime) and to see a full breakdown of the solicitor's costs – all to no avail.

Ms I made a formal complaint against the firm of solicitors. She said that the firm had misled her as to her prospects of success, wrote misleading and contradictory letters and carried out work she hadn't asked them to do. In addition, she said they hadn't sent correspondence to her new address after she moved and had failed to send her a breakdown of costs. Nor had they tried to resolve things with her properly.

We concluded that the firm's service did fall short of what Ms I could have reasonably expected when they refused to provide her with a breakdown of their costs. But we concluded that the firm had provided a reasonable service in all other respects. Our final decision required the firm to apologise to the complainant for their failings, which they did. Ms I told us that she was pleased with the thoroughness of our investigation and to be able to put the experience behind her.

# Chief Ombudsman's report

## Mixing, matching and confusing

As I have said, consumer confusion is exacerbated by the difficulties in understanding the increasingly complex structures involved in the delivery of legal services. One of the reasons behind the creation of the Legal Ombudsman was the recognition that legal services provision was often a team effort involving individuals and entities from different parts of the profession and beyond. It was in recognition of this that we were given the power to resolve complaints about any sort of lawyer – solicitor, barrister, legal executive, licensed conveyancer, notary, cost lawyer, trade mark attorney, patent attorney. Indeed, there have already been cases where this has proved valuable:

**Mr J** was convicted of burglary in November 2009. He'd apparently entered a house and stolen a mobile phone. He was also found guilty on two counts of common assault, following a struggle with his wife and her lover at the address in question. He claims he was living at the house at the time. He'd come home unexpectedly one afternoon, let himself in with his own keys and gone upstairs, only to find his wife in bed with another man. A bit of a tussle ensued. Mr J then took his wife's phone, left the house and phoned his mother to ask her to collect his children. His wife, meanwhile, had called the police, who promptly showed up and arrested Mr J on the spot.

Mr J's complaint was that neither the duty solicitor at the time nor the barrister had done their jobs properly and that, as a consequence, he was wrongly convicted. His keys were produced in court, along with a copy of the tenancy agreement, to prove that Mr J had a right to enter his own home. But at least two witnesses who could testify to his version of events were never called, despite the fact that the solicitor knew who they were and how to contact them. Adding insult to injury, the solicitor failed to appear in court on the day as well. The barrister requested a half day adjournment to bring a witness in to court, but this was refused. Mr J was convicted.

Following a complaint to us, the solicitor agreed to pay £250 for not dealing with Mr J's concerns properly through his own, in-house complaints procedure first. The solicitor also agreed to meet Mr J and the missing witnesses and draft their statements. Both he and the barrister involved – who also accepts he should have got the case adjourned for this very purpose – will be assisting Mr J in making an application to the Criminal Cases Review Commission, all free of charge.

However, although the way our jurisdiction is constructed has improved the ability to offer a joined-up response to complaints about services by a team of regulated legal professionals, it is not so helpful in enabling us to deal with cases where the service has involved both regulated and unregulated entities. Some of these structures, whether accidentally or by design, have the effect of taking the complaint outside our jurisdiction. For example:

**Mr K's** wife passed away. Mr K then looked for help to execute his wife's will and with the administration of her estate. He shopped around, and chose to go with a firm offering online wills and probate services, thinking that their quote of around £2,500 seemed reasonable.

The company came to his home to speak to him to explain what they would do and how much it would cost. Mr K agreed to go ahead and the company started with the administration. When the work was drawing to an end, Mr K received the final bill and found that it was nearly double the amount he had been quoted. He raised his concern with the company. Their response was to refuse to complete the work until the full amount of the bill was paid. Mr K was told that the additional amount was for 'third party' costs. Although he had signed an agreement which included this information, Mr K said that he was not told this explicitly by the company when they visited him to explain their service.

Mr K came to us with his complaint. When we looked into it, the company told us that they didn't carry out reserved legal activities themselves – in short, no one in the company is a lawyer regulated by one of the legal regulators. Instead, the company is structured so that they use a third party firm of solicitors to apply for the 'grant of probate' (which allows an executor to distribute assets as detailed in a person's will). These were the 'third party' services that were in Mr K's agreement.

Technically, this complaint was outside our jurisdiction as Mr K had employed this company and not a lawyer to do this work. However, once we were involved, the company did agree to contact Mr K again to attempt to resolve the complaint. And they have now offered to waive the third party costs, taking the final bill much closer to the original quote that Mr K had received.

This sort of subcontracting structure appears increasingly common. It will be important that the issues it creates are kept closely under review by the regulatory authorities so that the dangers of widespread injustice are avoided.

Difficulties in understanding the extent to which the legal services being complained about have been provided by a regulated or unregulated organisation are particularly pronounced where those services have been delivered via the internet. Given the move of services from high street to web, it's not surprising to find a growing number of entirely web-based legal service organisations coming to market.

# Chief Ombudsman's report

These include services which use the internet to attract customers and elicit information. But they then provide largely generic documents for matters such as divorce or tribunal proceedings. There are firms as well that offer 'expert' advice on a wide range of issues, often by 'bundling' them with other professional services, such as financial services or insurance. Many of these are backed by large corporations.

Naturally enough, consumers expect to receive the same standard of care from these online offerings as they would from the high street lawyer. But in some cases this expectation is not met:

**Mr L** filled in an online form with a web-based legal provider and paid the fee of £97.00. For this amount he was getting a cohabitation agreement written by a qualified solicitor.

The first copy of the agreement Mr L received was made up of five clauses, three of which were dramatically incorrect. Mr L called them up and told them which parts were wrong. They agreed to send out another copy. After some time, exactly the same document was received - with no changes.

Mr L complained again and an amended document was issued. But he found the fifth clause was still incorrect. Following yet another complaint, Mr L again received a copy of the original, incorrect draft of the agreement.

It was never explained to Mr L whether or not he was speaking to a qualified solicitor who was responsible for writing the document. Mr L asked for a copy of the firm's complaints procedure and was directed to a website, where a complaint form could be completed online. He duly completed the form. In response, he was offered 25% off the next service he bought from them. There was no way to respond to this offer, so Mr L had once again to complete the online complaint form, this time asking for his money back. The firm replied saying that, since Mr L had 'accessed the software', no refund was possible. Confused and cross, he contacted the Legal Ombudsman for help.

The company challenged the Ombudsman's jurisdiction but, following the Ombudsman's intervention, Mr L did receive a full refund.

As with many of the cases highlighted above, it is difficult for the Legal Ombudsman to assess whether a complaint falls within our jurisdiction - to understand whether the legal service is being provided by a law firm or by a lay organisation. If it is the latter, we have to see if there was sufficient involvement on the part of a regulated lawyer to bring it within our scheme. And if we, as – the experts – have to agonise, what hope is there to break through the confusion even for the best-informed consumer?

## Defining our boundaries: Alternative Business Structures

The way services are packaged and explained to consumers is critical. The difficulties with the current regulatory regime are already apparent and likely to increase, given the increasing 'commoditisation' of legal services and the continuing influence of technology.

The impending introduction of Alternative Business Structures - under which businesses owned by non-lawyers will be authorised to provide legal, and other, services - later in 2011, and the consequent regulatory reforms which they will herald, will clearly also have an impact on the position of consumers and present new challenges at the edges of regulation. The regulators are keenly aware of these issues and we look forward to working with them to help them refine their solutions.

In the meantime, we have been encouraged by the positive relationship we've been able to develop with some of the business that are likely to play a much more prominent role in the provision of legal services in future:

**Mrs M** went to a well-known high street retail and banking chain in April 2009 to get help with administering her father's will. She trusted the company implicitly.

Her father's estate, she was told, would take about six months to sort out. But it was a very different story 18 months later, when still nothing had been done. Mrs M had tried to find out why, but no one at the company's legal services department appeared to know anything about her father's will.

She'd already been given the run-around when, in March 2010, the Department of Work and Pensions (DWP) got in touch to say that there had been an overpayment of benefits and that she was liable for the repayment. Her solicitor told her - quite wrongly - that the house would have to be sold if she couldn't pay. If the lawyer had been up to scratch, they would have known that the DWP calculates overpayments on the basis of income, not property values. Mrs M looked into it herself and found that her solicitor had actually been in touch with the DWP on a number of occasions since the previous summer - a full seven months before she first learned about the overpayment. Indeed, the DWP had already checked her bank account to see what she was worth, but Mrs M was never informed. And her solicitor claimed he knew nothing about it.

She complained to the firm and was offered a 10% reduction in their fee, which she refused. They upped it to £1,000 and, after further wrangling and our support, made a final offer of £1,500. This was in recognition of what they admitted were significant and serious service failures on their part.

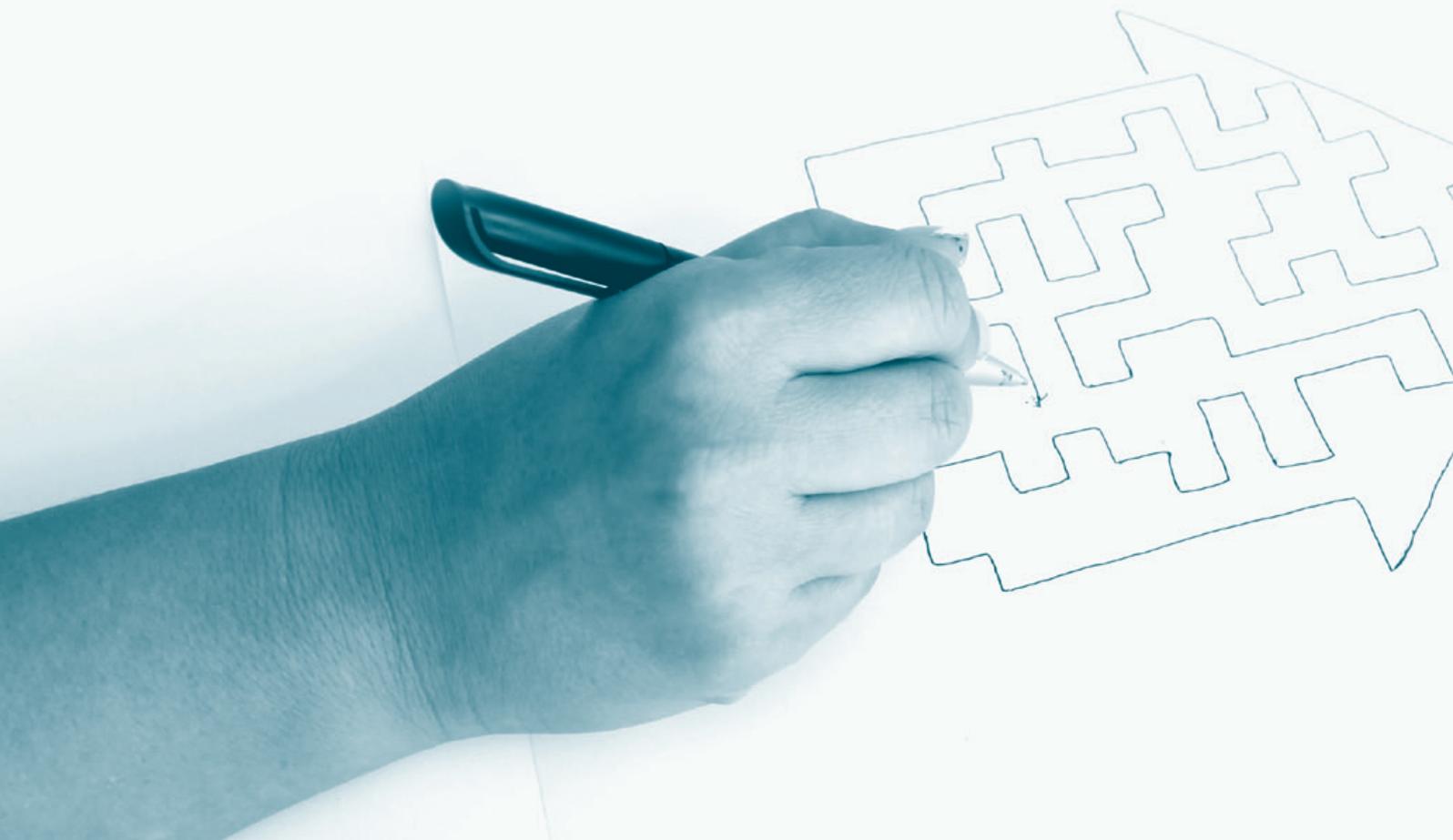
But they had originally told Mrs M she couldn't complain to the Legal Ombudsman. Being a corporation and not a firm of solicitors, they said, meant they were out of our jurisdiction. We disagreed and decided to continue with the investigation. The company eventually accepted our intervention and agreed to an informal resolution, resulting in the award of £1,500+ VAT in compensation.

# Chief Ombudsman's report

## A positive response

However important the issues involved, the sorts of cases we have reviewed in this report so far represent a small – albeit significant – minority of those we have considered. The vast majority of our work has been about committed, professional lawyers working to provide services to individuals who are grappling with very important issues in their lives. Where mistakes have been made – and in many cases our investigations uncover no such mistakes – both lawyers and complainants are responding quickly and positively to the possibility of informal resolution. Where this is not possible, our decisions have been clear and simple, with the remedies relatively modest in scope (in no case have we yet to order over £10,000 in compensation). Given the fact that most of the issues we have been asked to look at involve matters such as delay and overcharging, this is scarcely a surprise.

Some of our early cases did, nonetheless, involve more serious matters. Again, we have yet fully to test out the limits of the remedies we can order for the loss caused by poor service. Some complainants, such as Mr H quoted above, would want us to order remedies that are beyond our powers (in his case, assessing whether a criminal conviction is safe or should be overturned is for the Court of Appeal rather than the Legal Ombudsman). Other complainants want disciplinary action to be taken against the lawyer involved. In these cases, our role is to act as a referral route to the relevant regulators, who retain the responsibility for policing the conduct of those they regulate. Where the lawyer's behaviour is so difficult that it requires stronger action, we can use certain powers under the Act if we so choose. We have only had to do so in one case thus far:



**Mr and Mrs N** had taken on a solicitor to help with two separate matters - an employment tribunal and the other to do with their mortgage insurance. They were clearly not happy with aspects of his work and felt that the lawyer had not taken their concerns seriously. After trying to raise their concerns with him, they complained to us.

We first contacted the solicitor in October 2010. He repeatedly failed to respond to or comply with our requests for documents and information. Mr and Mrs N now saw the solicitor ignore the Ombudsman – and were again left waiting for an outcome to their complaint. Eventually, after seven months had gone by, we decided to take enforcement action against him as he had repeatedly failed to produce documents or provide information – even when he received a formal notice requiring him to. There were some eight prior letters, phone calls or emails from the Ombudsman, plus a formal notice and a letter from the Solicitors Regulation Authority, before proceedings were issued.

The court first dealt with the case in May, but the solicitor failed to attend the hearing and so the judge ordered his arrest. A few days later, the solicitor surrendered to the court and was brought before the judge, when he was released after a court date had been set.

At the formal court hearing, the solicitor promised the High Court that he would cooperate with an investigation into a complaint against him – or risk being punished by the court. The judge emphasised to the solicitor that it was “absolutely essential” he communicate with the Ombudsman and cooperate to a high professional standard. Failure, said the judge, was “likely to attract the sanction of the court”.

The lawyer gave an undertaking to the court that he would do everything he could to help find the files needed by the Ombudsman, to cooperate with the investigation into the complaint and any others against him, and keep the Ombudsman updated with his contact details. He was also ordered to pay the Ombudsman’s costs in the case so far of just over £11,000. At the time of writing, we are still waiting for the information we need to resolve this case – but there is another court date set, so, while it is disappointing to have had to go to these lengths, there is an end in sight for Mr and Mrs N.

At the same time as we were dealing with this case, which ended up in the High Court, we were having similar issues with another solicitor.

This one - a busy sole practitioner with a general practice - had failed to respond to our correspondence about Mr O’s complaint. So he was also served with a notice requiring him to produce the relevant documents and other information. When he ignored it, we reported him to the Solicitors Regulation Authority. When more time passed again without hearing from him, we also said that we had the power to ask the High Court to compel him to cooperate. At the last minute, when faced with having to explain his non-compliance to a judge, the lawyer reconsidered his position. He provided us with the information we needed, reconciled with Mr O and continued to represent him.

# Chief Ombudsman's report

We are grateful for the co-operation of the regulators in taking forward the matters we have referred on to them, and we look forward to hearing about the results of their considerations.

Finally, there is a class of remedies which include the possibility of the Legal Ombudsman ordering significant financial compensation from a lawyer. Some of these are the result of complaints which may have been the subject of claims for negligence but which the complainant has chosen to raise with us as an alternative way of resolving the matter. Relatively few complaints thus far have threatened to reach or breach the £30,000 limit for remedies that is embodied in our rules. But some have posed interesting issues nonetheless:

**Mr P** is a trustee of a social club. He and his fellow trustees employed a firm of lawyers to sell the club's premises and to distribute the payment of the proceeds of sale to all the members of the club – about 180 people. The club found buyers, the sale went through and the proceeds were paid to the law firm, as is normal practice. Part of the money was used to pay off the club's final bills and some loans, which the firm handled, leaving a substantial amount of around £180,000 to go to members. The firm also advised that there would be a delay in distributing the money to members for various administrative reasons. Not being an expert in conveyancing, Mr P was satisfied with this. After six months the firm got in contact to begin to sort out the payment to members... and then went silent.

Mr P tried to raise his concerns with the firm. He then came to the Ombudsman, as the firm had not explained what had happened to the money from the sale and the members had not yet received any cash. He also asked that the firm refund the fees the trustees had already paid them, as the work had not been carried out properly.

We found that the firm had been a sole practice – but that the lawyer was no longer practising. This seemed to be why Mr P hadn't heard about the money from the sale of the club, though it was confusing as the solicitor occasionally got in touch. Mr P didn't know what to do, so had sought advice from a second firm of solicitors. They also tried to contact the first firm but had no reply. Mr P heard again briefly from his first lawyer to say that members would get their money soon... and then heard nothing again.

When we looked into this case, there was very little written down about what had happened. There was no client care letter, no written details about how the cash from the sale had been handled, or even about what money had been paid to clear debts and loans. What was clear was that there was some sort of problem in the law firm, and that the lawyer had tried to delay this matter. It was also clear that most of the money from the club was still in the solicitor's client account, even though the firm's records were very poor.

There had been no attempt to pay this money to the club members – but the money was the club's and should not have been kept for so long by the solicitor. It had been three years since Mr P and the other trustees put the club up for sale.

Our Ombudsman decided that there was around £180,000 outstanding and required the firm to re-pay this, with interest, to the club and its members. A formal Ombudsman's decision was required as the solicitor did not cooperate throughout our investigation. We also referred this and the outcome of this case to the regulator, the Solicitors Regulation Authority, for their help in getting the club's cash out of the solicitor's client account and returned to Mr P and the other members.

Since we have only been in operation for six months, and have therefore managed relatively few cases through the entire Ombudsman process, we don't yet have much experience of the difficulties of enforcing our decisions. However, given the fact that a significant proportion of complaints so far have been against firms which have been intervened in, are now closed or are in bankruptcy, this may be an issue which will become increasingly important in the coming year.

Happily, for some complainants, there are alternative routes to redress which we can help with by better understanding what the regulators can provide:

**Mrs Q** employed a firm of solicitors to deal with the purchase of a property on her behalf in 2009. She paid them a stamp duty fee of £2,360, but later discovered that the money had never been forwarded to the Land Registry. Meanwhile, the solicitors wrote to her confirming that there were no outstanding balances. Blissfully unaware of the true situation, Mrs Q thought that was the end of it and that the purchase had gone ahead as planned. It wasn't until she realised that the stamp duty hadn't been paid that she asked for her money back. But it was too late. The funds had been frozen and the firm closed down by the Solicitors Regulation Authority (SRA), following a spate of complaints from a host of other disgruntled customers. Adding insult to injury, HM Revenue and Customs started chasing Mrs Q for the stamp duty, which she thought she'd already paid.

Mrs Q took advice and complained to us, hoping to get her money back. She was not alone. We also took advice from the SRA about the best way for Mrs Q to seek to recover her money. The result of this was that we suggested that Mrs Q apply to the SRA Compensation Fund online – a client protection measure designed to help in this kind of situation and not dependent on the firm still being open. We explained that the SRA are very familiar with this problem. As long as her supporting documentation was in order, it should be a relatively straightforward process. We also encouraged her to contact HM Revenue and Customs straight away to explain what had happened to her (and so many others) and to let them know that she was applying to the SRA to recover her funds. Mrs Q agreed that we could formally close her complaint and that the SRA Compensation Fund was the best route for her to take.

# Chief Ombudsman's report

## Lots to learn, lots still to do

It has been an extremely busy and, we believe, successful year. There is much to be proud of: an organisation launched early and under budget; tens of thousands of enquiries dealt with quickly and efficiently; a growing number of investigations undertaken and complaints resolved. There are even some lessons beginning to emerge.

But we are not complacent. These achievements are not ours alone. We have had the active support of all those around us - key stakeholders, such as regulators and the MoJ, the profession, consumer groups, and individual lawyers and complainants. And we know that, in some ways, the easy bit is over. There is much more to do.

Nevertheless, our first six months of operation have taught us a great deal about how to do it. It is hugely reassuring that we are able to deal with the core of our work – resolving complaints about lawyers – in a way that, even in these early days, has lived up to at least some of the aspirations of Parliament, the mainstay of which was to create a single port of call to resolve legal complaints quickly and informally. It is now our job to pick up on the sorts of issues I have set out here, learn from them and improve the quality and reach of our service.

In another year's time, we will be much better placed to judge how well we have fulfilled other aspirations - not least, to bring more fairness and justice into the legal services market. In the meantime, I commend this year's report to you.



Adam Sampson  
*Chief Ombudsman*  
**Date:** 4 July 2011



Office for Legal Complaints

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# Annual review

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# Board members' report

## The Office for Legal Complaints

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Schedule 15.1 of the Legal Services Act 2007 requires that the Office for Legal Complaints (OLC) is to consist of a chairman and at least six but no more than eight other persons. It must have a lay majority and reflect the experience and knowledge set out in Schedule 15.4.

During the year to March 2011, the OLC has operated in a manner fully compliant with its governance arrangements and rules of procedure, including quorum and attendance requirements. Twelve OLC meetings took place and the following table records the attendance of OLC members during this period.

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Members	Meeting attendance 2010-11
Elizabeth France (Chair)	Attended 12 of 12
Rosemary Carter	Attended 11 of 12
Margaret Doyle	Attended 12 of 12
Tony Foster	Attended 12 of 12
Professor Mary Seneviratne	Attended 10 of 12
Brian Woods-Scawen CBE	Attended 11 of 12
David Thomas	Attended 11 of 12

All board members are non-executive. The Legal Ombudsman Executive Management Team attends OLC Board meetings, but are not board members. No Board members have resigned during the year.

The role of the OLC is to provide oversight to ensure the effective administration of the Ombudsman scheme. As we have watched the Legal Ombudsman transition from a start-up to a maturing organisation, our focus has changed over time, as you can see from our minutes, all of which are published on our website at:

[www.legalombudsman.org.uk/aboutus/board\\_and\\_committees.html](http://www.legalombudsman.org.uk/aboutus/board_and_committees.html)

Earlier in the year, our focus was on satisfying ourselves that the key components necessary to ensure an effective start on 6 October were in place. The work of the two Board committees has been vital in this, and you can read more of this focus in the following reports from each of them. As a whole Board, we have put in place mechanisms to ensure we oversee the approach to risk management and financial management as well as broader issues such as how equality and diversity priorities and objectives will become a mainstay of the work of the service.

We have also worked - and continue to work - with our partners to develop our key performance indicators. In the interim, we look monthly at performance both to inform development of these indicators and also to satisfy ourselves that the service is well-managed and well-organised to meet the likely future demands to be made of it. This links too, to our policy work. We have taken the opportunity to take up what we see as key policy issues, responding to consultations of other bodies, and looking to the future to see what changes might impact on the shape of the Ombudsman jurisdiction. The Chief Ombudsman's report touched on some of these emerging issues, and two of these, Alternative Business Structures and the interlinking of the Ombudsman jurisdiction with claims management regulation, have regularly featured on our agendas as we seek to ensure the Ombudsman is well prepared for the future.

In addition, we have also been considering the issue of publishing Legal Ombudsman decisions. In this area, our consultation continues, with us keen to work with consumer bodies and the profession to develop an evidence-based approach to this thorny subject.

In my foreword, I thanked my colleagues and the staff of the Legal Ombudsman for all their efforts and work that have made this new organisation an early success. It is not misplaced to thank them again here.

Elizabeth France CBE

*Chair of the Office for Legal Complaints*

**Date:** 20 June 2011

# Corporate governance

## The Board and its committees

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The Board has put in place quorum and attendance requirements for how it operates, as well as for the two Committees it has established. These are an Audit and Risk Committee and a Remuneration and Nomination Committee.

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The quorum for the OLC and for both committees is three. It should be noted that when the OLC or a committee is taking a formal decision, views from non-attendees may be accepted in writing or by telephone and, to ensure that any absent members are aware of the nuance of debate, a resolution is circulated to all members after a committee meeting and a decision taken by email. All OLC, Audit and Risk Committee and Remuneration and Nomination Committee meetings have followed this protocol and therefore have been quorate.

## Audit and Risk Committee

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The Audit and Risk Committee is responsible for reviewing the establishment and maintenance of an effective system of integrated management control of risk across the whole of the organisation's activities. During the year to March 2011 four Audit and Risk Committee meetings took place and the following table records the attendance of committee members during this period.

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Members	Meeting attendance 2010-11
Brian Woods - Scawen (Chair)	Attended 4 of 4
Tony Foster	Attended 4 of 4
Mary Seneviratne	Attended 4 of 4

## **Audit and Risk Committee report**

The Committee was set up in July 2009. During the last year the Committee agreed internal and external audit plans and received regular updates from both on the effectiveness of the organisation's internal control systems. Along with the OLC, we regularly reviewed the risk assurance framework and the process for identifying and managing major strategic risks associated with the operation of a non-departmental public body. The committee also fulfilled the important role of agreeing the statement on internal control, overseeing key financial and budgetary matters and draft and final statutory accounts prior to ratification by the OLC and the Legal Services Board.

Audit and Risk Committee members and attendees also completed a self-assessment review of its effectiveness based on the November 2009 National Audit Office publication "The Audit Committee Self Assessment Checklist".

On a personal note, I would like to thank all those who have shown such commitment to the work of our Committee – committee members, the executive management, their teams and our internal and external audit partners.

Dr Brian Woods-Scawen

*Chair of Office for Legal Complaints Audit and Risk Committee*

**Date:** 21 April 2011

# Corporate governance

## Remuneration and Nomination Committee

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The Remuneration and Nomination Committee is responsible for the overall remuneration approach and policy relating to all members of staff working within the Legal Ombudsman scheme. During the year to March 2011, seven Remuneration and Nomination Committee meetings took place and the following table records the attendance of committee members during this period.

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Members	Meeting attendance 2010-11
Rosemary Carter (Chair)	Attended 7 of 7
Margaret Doyle	Attended 7 of 7
Tony Foster	Attended 7 of 7

## Remuneration and Nomination report

The Committee has made good progress in the year and through its activities has been able to provide reassurance to the OLC on important matters relating to the set up and go live of the organisation. Committee members have rigorously and appropriately challenged executive staff and external partners to ensure that data and governance processes are effective and transparent.

The main areas of business considered up to April 2011 were:

- further development of the organisation's resourcing strategy; and
- providing advice and guidance on the organisation's:
  - pay and reward framework;
  - performance management / competency framework;
  - fixed and flexible benefits structure; and
  - suite of HR policies.

The executive have experienced challenges during the year. However, the Committee have been re-assured by the approach taken to resolving these issues in a pragmatic manner. A review of progress on these issues will be a priority for the Committee in 2011/12.

Finally, the Committee extends its grateful thanks to Legal Ombudsman staff for their support of the work of the Committee.

Rosemary Carter

*Chair of the OLC Remuneration and Nomination Committee*

**Date:** 21 April 2011

# Corporate governance

## **Service Complaint Adjudicator's report**

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The service complaint adjudicator's role is to carry out a final review of the level of service provided by the Legal Ombudsman, on behalf of the OLC, in cases where a user of our service remains dissatisfied

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Under the terms of reference, the Service Complaint Adjudicator can consider complaints about our level of service and the behaviour of our staff, but the remit does not cover disagreements about the substance or merits of Ombudsman decisions. The Service Complaint Adjudicator is authorised to make findings and recommendations to the OLC for redress in cases where s/he believes it is justified.

At the time the Legal Ombudsman opened for new business on 6 October 2010, we had not appointed anyone to this post and so I took direct responsibility for independently reviewing any unresolved service complaints about the Legal Ombudsman's service.

I am pleased to report that, during the period 6 October 2010 to 31 March 2011, the Legal Ombudsman tells me it received just 27 service complaints, two of which were referred to me. Not surprisingly, perhaps, the first revealed what I considered to be a failure in the new process to ensure review at a sufficiently senior level where the issue had been that the matter complained of initially was not within jurisdiction. The Chief Ombudsman readily agreed a small change to procedures which, in this case, led to an acceptance of the case for investigation. The second complaint revolved around timeliness of responses, but I considered the apologies and explanations already provided were adequate.

As a complaint handling service, it is particularly important for the Legal Ombudsman to demonstrate that it upholds all of the principles the legal profession is asked to adhere to when dealing with concerns from their customers. This is why I am pleased to report that, with effect from April 2011, Walter Merricks CBE, the former Chief Financial Ombudsman, has taken the role of Service Complaint Adjudicator and will be the person who will consider unresolved complaints about the level of service provided by the Legal Ombudsman.

Walter has a thorough understanding of the Ombudsman approach to dispute resolution and has long been a respected member of the Ombudsman community. His commitment to fairness, combined with his firm knowledge of the legal sector, leaves me in no doubt that we have recruited the very best person for the job. I look forward to working with him to further improve the quality of the work of the Legal Ombudsman.

In future years, the Service Complaint Adjudicator's report will set out the complaints he has considered, the recommendations made and the response of the service to them. The report will provide examples of particularly interesting cases and discuss the emerging trends both in types and volumes of matters dealt with.

Elizabeth France CBE

*Chair*

**Date:** 20 June 2011

# Management commentary

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The key objectives of the OLC, which have been developed with due regard to the regulatory objectives of the Act, were to set up a scheme which stakeholders recognised as independent, impartial, accessible and, most importantly, value adding. Our ‘one-stop shop’ has simplified what was a convoluted process.

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## **Review of the business**

The new scheme commenced operation on 6 October 2010 with the OLC responsible for the oversight of the scheme. The purpose of the scheme is to provide a single gateway for consumers of legal services to channel their complaints while at the same time driving systemic improvement by feeding back to the profession information and methods to improve.

## **Future development, risks and uncertainties**

The key risks for the Legal Ombudsman are set out in the statement on internal control. The OLC has established an Audit and Risk Committee, the remit of which includes ensuring a consistent Board overview of the effectiveness of management action to identify and mitigate risk.

The risk management approach that has been adopted identifies and addresses risks in relation to all areas of the organisation. The future developments and uncertainties facing the OLC and the Legal Ombudsman are set out in detail in the 2011-14 Strategy and 2011-12 Business Plan, published in April 2011 and available at [www.legalombudsman.org.uk](http://www.legalombudsman.org.uk). The Strategy and Business Plan was subject to public consultation in its development and sets out the strategic objectives, key challenges and issues around jurisdictional limits expected to arise over the next three years.

## **Performance, position and resources**

The OLC was set a budget of £14.8 million to design and establish the Legal Ombudsman scheme – and the creation of the physical office and organisation, employees, infrastructure and IT systems needed. The initial implementation phase ran from the creation of the OLC on 1 July 2009 until the scheme opened on 6 October 2010. This implementation phase was followed by the first six month period of operation, ending on 31 March 2011.

We are pleased to have delivered the scheme on time and under budget, and also to have continued to deliver the scheme well within the budget set for the initial six month operational period. The table below summarises the costs incurred during both of these phases.

### Implementation phase (1 July 2009 to 5 October 2010)

	2009/10 £'m	2010/11 £'m	Total £'m
Revenue expenditure	2.9	5.4	8.3
Capital expenditure	0.4	4.4	4.8
Total implementation costs	3.3	9.8	13.1

### Operational period (6 October 2010 to 31 March 2011)

	2009/10 £'m	2010/11 £'m	Total £'m
Revenue expenditure	-	7.5	7.5
Capital expenditure	-	0.8	0.8
Total operating costs	-	8.3	8.3

### Combined implementation and operational costs (1 July 2009 to 31 March 2011)

	2009/10 £'m	2010/11 £'m	Total £'m
Total revenue expenditure to date	2.9	12.9	15.8
Total capital expenditure to date	0.4	5.2	5.6

The OLC has been financed throughout the period, from 1 July 2009 to 31 March 2011, by a combination of Grant in Aid from the Ministry of Justice, levy funding from Approved Regulators and a limited amount of case fees charged in this start up period.

Grant in Aid received in the year to 31 March 2011 was £9.75 million (2009-10: £3.45 million). The expenditure of the OLC is met from levy funds received from Approved Regulators on behalf of HM Treasury. An initial tranche of £5.1 million of levy funds in respect of the implementation costs was received in October 2010, with the balance of levy funds in respect of implementation costs being received in March 2011. Levy funds in respect of operational expenditure are collected annually in arrears in March of each year. Hence in March 2011 the OLC received a further £7.5 million of levy funds in respect of the operating period from October 2010 to March 2011.

As a result of these funding arrangements, the OLC has a cash balance at the end of the year of £11.96 million. However, because the OLC will not receive any further funding from Approved Regulators until March 2012, the OLC will require significant further Grant in Aid funding during 2011-12 in order to finance its 2011-12 budgeted expenditure of £19.7 million. Thereafter, subject to further capital expenditure requirements, the need for additional Grant in Aid is expected to be minimal. This is in line with our planning forecasts and framework agreed with the Ministry of Justice.

# Management commentary

## Key relationships

Although the funding for the Legal Ombudsman comes ultimately from the legal profession, it is routed through Government and is therefore classified as public spending. As a result, the OLC is accountable direct to the Ministry of Justice for its financial performance. However, along with our relationship with the MoJ, the OLC also has a responsibility to report our performance to the Legal Services Board, which also agrees our budget and performance targets.

Along with our formal governance relationships, the Legal Ombudsman has a broad range of external stakeholders encompassing regulators, other Ombudsman schemes and complaint handling bodies, professional associations, lawyers themselves, consumer groups/charities and Government/Judiciary bodies.

The success of the Legal Ombudsman hinges in large part on raising the awareness of customers – lawyers, consumers and the bodies that communicate with them. Our success is not simply to exist – people must know that we are here. The profession itself is the most important referral point into the Ombudsman service. Consumer support bodies are also a key point of referral, particularly for complainants who require support to prepare their complaint. These two groups are key audiences for explaining coming changes and the role of the Ombudsman scheme overall. A core part of our commitment is to make sure that the Legal Ombudsman is accessible to a diverse range of the population.

Gaining profile and exposure in professional circles is crucial – both for the reputation of the scheme and to prepare for the coming changes to the legal landscape. As a foundation for relationships with the regulators and the profession, the Legal Ombudsman has in place working arrangements set out in a series of memoranda of understanding (all available to view on the Legal Ombudsman website).

In 2010 stakeholders were asked for their views on how the Legal Ombudsman should approach publishing its decisions. A discussion paper invited views from a wide range of interests, and independent research was conducted into stakeholder views on this question. Based on the feedback received, we are consulting on our proposed approach, and this debate will continue.

Part of the success of the new scheme is clearly attributable to the work and commitment of these partner bodies, who undoubtedly helped make sure there was a smooth transition and handover from the old arrangements. In particular, Deborah Evans and her team at the Legal Complaints Service closed down that operation with extraordinary grace and goodwill. This meant that everyone involved – consumers, lawyers and the OLC – benefited from being offered a clear path ahead, leaving the new service to focus on the future.

## Key performance indicators

As set out in more detail in the Chief Ombudsman's report, the Legal Ombudsman will report performance around the cost, timeliness of resolution, satisfaction and quality of our Ombudsman scheme. The service provision will be as cost effective and as efficient as possible.

We will be setting targets as soon as we have sufficient information to do so.

We have worked with the Legal Services Board and the Ministry of Justice to establish provisional indicators to track performance during the course of 2011-12, with a view to laying the basis for firm targets for the year 2012-13.

## The OLC's employees

A key part of our success as an Ombudsman scheme is to create a culture that supports excellent performance and encourages and motivates its people. We have focused on our employee engagement and internal communications throughout our implementation in the first six months, and in March 2011 received the results of our first staff survey. This told us that there is good morale and a positive attitude within the organisation. Colleagues support each other and genuinely appear to like coming to work.

One member of staff commented in a recent survey:

"I feel that we are making a real difference. I also feel that I am appreciated, and on the whole receive support from my team leader. There is generally a positive atmosphere. I think that the organisation works hard in ensuring that staff feel as if they are involved in decision making. My team is wonderful."

As previously noted in the Chief Ombudsman's report we conducted an operational review in our first six months of being open to help us identify and fix any glitches that inevitably arose during a start up. This is very much a bottom-up process, building on the direct experience employees have of delivering the service. Already a number of key innovations to improve processes have come from assessors and investigators working on the front line. Asked what they especially liked about working for the new scheme, one survey respondent said:

"The positive atmosphere and forward-thinking of the company. They also seem genuinely interested in staff feedback. Everyone, regardless of position/hierarchy, is completely approachable and friendly, which is a change from most companies."

As at 31 March the OLC had 263 employees (259 full time equivalent employees), of whom 248 are full time and 15 part time employees. Sixty-one percent of employees are female. The OLC's average sickness absence was 4.0 days per full time equivalent. In 2009/10 the OLC was recruiting its staff complement and so there is no comparable sickness absence information.

The OLC maintains a register of interests. No executive management or non-executive directors have any conflicts of interest.

# Management commentary

## **Environmental matters**

The OLC is committed to working with its suppliers and employees to ensure that it takes proper account of the impact of all of its activities on the environment. Our office design, location and infrastructure are designed to ensure sustainability. We have a city centre location, which means the majority of our employees use public transport – a conscious choice to promote green values as part of the ethos of the service. Our office is designed to be paperless. This is not only an efficient approach, but given the volumes of paper that lawyers and their clients can generate, it is also an acknowledgement that as our service grows and develops, we must take a responsible and ethical view of the use of resources. We also do the small but important things, such as actively encouraging recycling and minimisation of waste through any catering and facilities management.

## **Social and community issues**

The OLC and its employees strive to ensure that they have a positive impact on the local community, with increasing levels of involvement as our office and its culture develops. We are committed to meeting the different needs of both the legal community and the users of legal services, as well as our employees and suppliers. To this end, we have sought where possible to ensure that local and smaller businesses have access to our procurement processes (and on more than one occasion, have been successful) and we facilitate and encourage our employees' charitable fundraising initiatives as well building links into the broader West Midlands community.

## **Equal opportunities and employee involvement**

The Legal Ombudsman is committed to ensuring that dignity at work and mutual respect are enshrined in all its working practices and the ways in which its staff behave towards each other, potential employees and its customers.

We are committed to valuing diversity and promoting equality throughout the organisation, and to ensuring that our policies, procedures and practices are fair, objective, transparent and free from unlawful discrimination.

We are committed to ensuring that we have a representative workforce that has a wide range of expertise and experience from a variety of backgrounds that will enable us to provide excellent service delivery.

We welcome the greater legislative protection which has been enacted in the form of the Equality Act 2010 and we monitor the impact of our employment policies on all the protected characteristics covered by the Act. Monitoring takes place in all areas of employment, such as recruitment, retention, equal pay, flexible working, probation, promotions, grievances, training and so on. We will be transparent about our performance and will publish the results of our monitoring information.

We are committed to employee consultation and engagement and have a range of communication vehicles, such as appraisals, employee briefings, employee newsletters, suggestion box, and so on, that involve colleagues in the management of change.

Through these vehicles, we seek employee input into the development of policies that affect their employment and the overall performance of the organisation. In addition, we have recently established an elected Staff Council to support colleagues in communicating with and being consulted more effectively by the Legal Ombudsman on employment matters. We aim to create a safe and inclusive environment for our workforce and are in the process of identifying possible trade union representation and membership for staff.

Our Equality Priorities and Objectives have been consulted upon and were published in June 2011. This consultation was effective in engaging a broad range of stakeholders and looking to ensure practical application of these objectives across our service.

### **Payment of creditors**

The OLC is committed to paying supplier invoices by the due date or within 30 days of receipt if no due date has been agreed, and to dealing with payment queries promptly and ensuring any undue delay is notified to the supplier in a timely fashion. Ninety-one percent of invoices were paid within agreed terms and the number of days taken to pay creditors was 15.

### **Pensions**

The OLC has established a defined contribution group personal pension scheme to which the OLC makes fixed contributions but has no other liabilities. The OLC makes matching contributions of twice the amount contributed by individual employees up to a maximum of 10%.

### **Auditors**

KPMG LLP has been appointed to provide internal audit services to the OLC. During the year to 31 March 2011, KPMG has indicated that the cost of internal audit work performed amounts to £49,310 and this amount has been accrued for in the accounts.

The OLC's annual accounts are audited by the Comptroller and Auditor General (C&AG) in accordance with the Legal Services Act, Schedule 15 Section 26(5). For the year to 31 March 2011, the C&AG has estimated that the cost of work performed will be £35,000 and this amount has been provided for in the accounts. The audit services provided by C&AG staff relate only to statutory audit work.

So far as the Accounting Officer is aware, there is no relevant information of which the OLC's auditors are unaware. The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

### **Format of accounts**

The accounts have been prepared in a form directed by the Lord Chancellor and Secretary of State for Justice with approval of HM Treasury and in accordance with the Legal Services Act 2007.

Adam Sampson  
*Accounting Officer*

**Date:** 4 July 2011

# Remuneration report

The remuneration of the Chief Ombudsman and the Board members is shown in the tables below and has been subject to audit. There were no benefits in kind for Board members. The Chief Ombudsman's benefits are disclosed below. In accordance with the Government Financial Reporting Manual (FRoM) 5.2.6 d) only the Board members and the Chief Ombudsman are included in this report. Board members and the Chief Ombudsman are the individuals who influence the decisions of the OLC as whole rather than individual parts.

The Chair and other OLC members are remunerated by the Legal Services Board and their remuneration is also disclosed in the accounts of that body. The Chief Ombudsman is remunerated by the OLC.

	<b>Date appointed</b>	<b>Took up post</b>	<b>Term</b>
Elizabeth France (Chair)	31 Oct 2008	1 Nov 2008	3 years from date of appointment
Rosemary Carter*	1 Feb 2009	1 Jul 2009	3 years from date of appointment
Margaret Doyle*	1 Feb 2009	1 Jul 2009	3 years from date of appointment
Tony Foster*	1 Feb 2009	1 Jul 2009	3 years from date of appointment
Professor Mary Seneviratne	1 Feb 2009	1 Jul 2009	3 years from date of appointment
Brian Woods-Scawen CBE	1 Feb 2009	1 Jul 2009	3 years from date of appointment
David Thomas	1 Feb 2009	1 Jul 2009	3 years from date of appointment
Adam Sampson**	1 Jul 2009	1 Jul 2009	6 months notice on either side

\* - Members of the Remuneration and Nomination Committee

\*\* - Chief Ombudsman, Chief Executive and Accounting Officer

OLC members are appointed by the Legal Services Board. They may be appointed for a fixed term of up to five years and may then be re-appointed for one further fixed term of up to five years. OLC members may be removed by the Legal Services Board only under the circumstances set out in Schedule 15.8 (2) of the Legal Services Act 2007, and the Chair may only be removed with the agreement of the Lord Chancellor. If the Legal Services Board thinks there are circumstances that make it right for a person ceasing to hold office as chairman or another member to receive compensation, the OLC may pay that person such compensation as the Legal Services Board may determine.

## Board remuneration

	<b>Annual rate £</b>	<b>Year to March 2011 £</b>	<b>Nine months from 1 July 2009 to 31 March 2010 £</b>
Elizabeth France (Chair)	70,000	70,000	52,500
Rosemary Carter	10,000	10,000	7,500
Margaret Doyle	10,000	10,000	7,500
Tony Foster	10,000	10,000	7,500
Professor Mary Seneviratne	10,000	10,000	7,500
Brian Woods-Scawen CBE	10,000	10,000	7,500
David Thomas	10,000	10,000	7,500

The Chair's remuneration reflects the significantly higher proportion of time which the Chair is contracted to spend on OLC matters. Details of expenses claimed by the Board are published and publicly available on the Legal Ombudsman website.

The Chief Ombudsman, Adam Sampson, was remunerated by the OLC as follows:

	<b>Salary £</b>	<b>Pension £</b>	<b>Other benefits £</b>	<b>Total £</b>
Year to 31 March 2011	136,500	13,650	11,095	161,245
Nine months to 31 March 2010	102,375	10,238	-	112,613

There is no compensation payable for loss of office for Board members.  
The Chief Ombudsman's contract provides for six months notice on either side.

# Remuneration report

During 2009-10 the OLC did not have a pension scheme. Employees' salaries during this period were enhanced to reflect employer's pension contributions which would have been paid into the pension scheme had such a pension scheme been in operation. The OLC established a pension scheme on the 1 April 2010 and employees' pay was reduced accordingly. All employees are eligible for interest free season ticket loans which are repayable over 10 months, or on leaving employment. During the year, the Chief Ombudsman received a season ticket loan of £13,168. As at 31 March, this loan had been repaid in full in accordance with OLC's season ticket loan terms.

All employees have an element of their remuneration allocated for a flexible benefits scheme and certain individuals have other specific benefits arrangements that form part of their total compensation. Included within the Chief Ombudsman's benefits is a Travel Remuneration Supplement allowance of £7,000, the balance of £4,095 being in respect of the Chief Ombudsman's flexible benefit entitlement. In 2010-11 these flexible benefits were paid in cash as the organisation had not yet procured an appropriate suite of benefits for its employees. This is planned to be implemented during 2011-12.

All employees are subject to the organisation's pay policy. Under this policy, Ombudsman and Chief Executive remuneration is set by the OLC board. Promotion or appointment of employees is approved by the Executive Management Team and appointment or promotion of senior management roles approved by the Chief Executive Officer. Promotion or appointment of executive directors is reviewed and approved by the remuneration committee. Proposed performance related pay changes and any revalorisation of pay for senior managers and for the OLC as a whole is reviewed and approved by the remuneration committee. Bonuses are not paid under the terms of the current pay policy. High performance is instead recognised and rewarded through the organisation's pay increase and progression model. No performance related payments have yet been made by the OLC or to members of the OLC.

Adam Sampson  
*Accounting Officer*

**Date:** 4 July 2011

# Accounting Officer's responsibilities

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Under the Legal Services Act 2007, the Lord Chancellor and the Secretary of State for Justice, with the approval of the HM Treasury, in accordance with the OLC's financial memorandum, has directed the Office for Legal Complaints to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Office for Legal Complaints and of its net expenditure, changes in taxpayers' equity and cash flows for the financial year.

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In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by the Lord Chancellor, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgments and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

The Ministry of Justice has appointed the Chief Executive as Accounting Officer of the Office for Legal Complaints. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Office for Legal Complaints' assets, are set out in the Accounting Officer Memorandum issued by the HM Treasury (published in *Managing Public Money*).

# Statement on internal control

## Scope of responsibility

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As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Office for Legal Complaints's policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

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During the year I have been supported by both the Legal Services Board (LSB) and the Ministry of Justice (MOJ). The MOJ sponsor team has provided support, advice and guidance on a range of issues, including assurance on procurement, compliance issues, commencement orders and value for money. We are in the process of finalising a Framework Document that consolidates the previous Management Statement and Financial Memorandum and will define the governance arrangements with the MOJ in the future. A trilateral meeting occurs monthly between the three organisations. The Chief Executive of the LSB attends the Audit and Risk Committee meetings in order to receive assurance on the development of the risk and control framework.

This statement is also supported by a self-evaluation of the systems of risk and control which has been endorsed by the senior management team and reviewed by the Audit and Risk Committee, external and internal auditors.

## The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Office for Legal Complaints for the period of 12 months ended 31 March 2011 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

The Office for Legal Complaints went live on the 6 October 2010. The first six months of the year were spent in set-up/project mode and the second in go-live. As a new organisation, the levels and development of controls during the year have been appropriate to the evolution that has occurred. Risk continues to be managed at both a strategic and operational level within the Office for Legal Complaints. A summary of current risks, an assessment of their impact and likelihood and the trends of those risks is reviewed every six weeks by the risk management group and at each Audit and Risk Committee meeting. The Audit and Risk Committee work focuses on the framework of risk, control and related assurances that underpin the delivery of the Office for Legal Complaints objectives.

## Capacity to handle risk

In the build-up to October 2010 (in time for go live), the risk management arrangements were reviewed; a corporate risk register was established and a risk management group created at senior management level. Membership of the group allows for all areas of the organisation to be represented and for risks to be collected from across the workforce. The system is yet to be fully embedded and there is a need to refine the risk register and risk action plan.

As the organisation has progressed to its planned levels of employment, it has been able to mitigate risk. The recruitment of the finance team has allowed for increased segregation of duties and the recruitment of General Counsel has increased the capacity to manage legal risk. Staff induction is thorough and extensive and covers information security, fraud and other high risk areas. However, as mentioned, there is still some work to do to embed our approach to risk management and we are putting plans in place to ensure that the process is clear, accurate and followed properly.

## The risk and control framework

The risk and control framework has been developed during the year to effectively manage risk at a strategic and operational level. As the organisation has progressed from start up through to 'go-live', its tolerance of risk has developed with controls being adapted to ensure they remain proportionate. Throughout the year, the Office for Legal Complaints Board has maintained strategic oversight and review of internal control, project and then operational governance and the related risk management arrangements through regular reports by the Executive Management Team on their areas of responsibility and through specific papers for discussion at Board meetings.

The Audit and Risk Committee also regularly review the risk assurance framework and the process of identifying and managing strategic risks. The Audit and Risk Committee, which meets on a quarterly basis, has considered:

- individual internal audit reports and management responses;
- the internal auditors' annual report and opinion on the adequacy of our internal control system;
- National Audit Office audit reports and recommendations;
- development of the Office for Legal Complaints approach to risk management; and
- a review of management action on all areas identified in internal audit reports.

The major risks identified for 2010/11 were:

- the conclusion of the premises and IT set-ups;
- the recruitment and induction of staff;
- the matching of organisational capacity with actual demand;
- developing an appropriate risk and control framework for the 'steady state' entity; and
- business continuity and disaster recovery planning.

# Statement on internal control

The results achieved and progress made in these areas can provide assurance on the capacity and capability of the organisation. During the year the aggressive approach taken to recognising risk resulted in further areas of risk being identified in the delivery of HR controls and systems.

Actions are in place to address these issues which have been reviewed by the Remuneration Committee and Audit and Risk Committee as appropriate.

Controls rely upon a range of measures including:

- corporate governance;
- internal audit;
- financial management; and
- data handling.

Corporate governance arrangements have been implemented to ensure that a meaningful statement on internal control can be prepared and that accurate assurances can be reliably made. The systems have been developed to ensure they are proportionate to the organisational size and the level of the risk.

Our information assurance policies and systems have been reviewed and accredited in accordance with the HMG Security Policy Framework commensurate to information level 2 (the appropriate level agreed with MOJ) by an external CESG approved CLAS consultant.

There have been six incidents of data security breaches during the year. All of these have been fully investigated and appropriate follow-up action undertaken. All incidents were of a minor nature and no material loss has been suffered.

Business continuity and disaster recovery plans have been developed during the year. A separate site is in place and has been tested. Further work is required to put in place the plans and emergency cascade system.

As the organisation moves to a steady state operation it has identified a new series of internal risks to manage and external risks to monitor and influence. These are:

Internal:

- continuing to deliver and maintaining the same level of focus as during start-up;
- the accuracy of volume and efficiency predictions on which the business model was created;
- nature of the Office of the Legal Services Ombudsman work;
- case fee collection; and
- first judicial review.

External:

- expansion of our jurisdiction;
- introduction of alternative business structures;
- Ministry of Justice cuts – legal aid and court restructuring;
- relations with approved regulators – conduct and enforcement practices;
- building relationships and common views with other Ombudsman schemes in the context of alternative business structures; and
- 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; and
- call and case volumes exceed planned levels resulting in the need to increase headcount to respond to increased demand.

## Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Office for Legal Complaints who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit and Risk Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Internal audit (KPMG) have reviewed the finance systems (good), procurement (satisfactory), data migration (good) and payroll and HR (weak) in the period to 31 March 2011. Subsequently reviews have been undertaken on governance and risk management (satisfactory) and data security (weak). As a consequence of the progress made in implementing the recommendations in those areas reported on as weak, KPMG are satisfied that the internal control environment has improved in these areas since their onsite visits. KPMG are also satisfied that sufficient internal audit work and management action has been undertaken to allow them to draw a reasonable conclusion as to the adequacy and effectiveness of the Office for Legal Complaints internal control and governance processes in the areas audited. KPMG do not believe there to be a conflict between the Statement on Internal Control (SIC), the supporting submissions, and the findings and observations from their internal audit work in the period.

The Audit and Risk Committee have reviewed management responses and actions in response to the audits. The internal audit work performed and the KPMG annual report and opinion provide adequate assurance that sufficient and effective controls are either in place or being implemented to address the current level of activity. It is recognised that the implementation of a new organisation and the transition to 'business as usual' provides challenges in ensuring the controls are both appropriate and effective. The development of the control framework has been ongoing throughout the year and will continue to be an ongoing feature for the next 12 months and beyond to ensure it remains appropriate to the organisation as it evolves.

Adam Sampson  
*Accounting Officer*

**Date:** 4 July 2011

# The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

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I certify that I have audited the financial statements of the Office for Legal Complaints for the year ended 31 March 2011 under the Legal Services Act 2007. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

---

## **Respective responsibilities of the Accounting Officer and auditor**

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Legal Services Act 2007. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the Audit of the Financial Statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Office for Legal Complaints' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Office for Legal Complaints; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

## Opinion on Regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

## Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Office for Legal Complaints' affairs as at 31 March 2011 and of its operating result for the year then ended; and
- the financial statements have been properly prepared in accordance with the Legal Services Act 2007 and the directions issued thereunder by the Lord Chancellor with the approval of HM Treasury.

## Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with directions issued under the Legal Services Act 2007 by the Lord Chancellor with the approval of HM Treasury; and
- the information given in the OLC Board Members' Report and the Management Commentary sections of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

## Report

I have no observations to make on these financial statements.

Amyas C E Morse

*Comptroller and Auditor General*

**Date:** 7 July 2011

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

# Financial statements

## Statement of comprehensive net expenditure

For the year ended 31 March 2011

Expenditure	Note	2010-11 £'000	2009-10 £'000 restated
Staff costs	4	6,323	1,131
Depreciation and amortisation	5	981	5
Other expenditures	5	5,594	1,784
<b>Total</b>		<b>12,898</b>	<b>2,920</b>
<b>Income</b>			
Income from operating activities	6	12,847	2,919
Other income	6	46	-
<b>Total</b>		<b>12,893</b>	<b>2,919</b>
<b>Net expenditure</b>		<b>(5)</b>	<b>(1)</b>
Interest receivable		6	1
Taxation		(1)	-
<b>Net expenditure after interest and taxation</b>		<b>-</b>	<b>-</b>

All expenditure is derived from continuing activities. There has been no comprehensive expenditure in the year.

## Statement of financial position

As at 31 March 2011

<b>Non-current assets:</b>	<b>Note</b>	<b>2011 £'000</b>	<b>2010 £'000 restated</b>
Property, plant and equipment	7	1,866	83
Intangible assets	8	2,726	300
<b>Total non-current assets</b>		<b>4,592</b>	<b>383</b>
<b>Current assets:</b>			
Trade and other receivables	10	334	3,131
Cash and cash equivalents	11	11,964	1,286
<b>Total current assets</b>		<b>12,298</b>	<b>4,417</b>
<b>Total assets</b>		<b>16,890</b>	<b>4,800</b>
<b>Current liabilities</b>			
Trade and other payables	12	1,051	692
Other liabilities	12	2,292	657
<b>Total current liabilities</b>		<b>3,343</b>	<b>1,349</b>
<b>Non-current assets plus net current assets</b>		<b>13,547</b>	<b>3,451</b>
<b>Non-current liabilities</b>			
Provisions	13	80	-
Financial liabilities	12	266	-
<b>Total non-current liabilities</b>		<b>346</b>	<b>-</b>
<b>Assets less liabilities</b>		<b>13,201</b>	<b>3,451</b>
<b>Reserves</b>			
General reserve		13,201	3,451
<b>Total</b>		<b>13,201</b>	<b>3,451</b>

Adam Sampson  
*Accounting Officer*

**Date:** 4 July 2011

**The notes on pages 62 to 78 are part of these financial statements.**

# Financial statements

## Statement of cash flows

For the year ending 31 March 2011

Cash flows from operating activities	Note	2010-11 £'000	2009-10 £'000 restated
Net surplus after interest		-	-
(Increase)/decrease in trade and other receivables	10	2,797	(3,131)
Increase/(decrease) in trade payables	12	2,260	1,349
Use of provisions	13	80	-
Add back depreciation charge	5	341	5
Add back amortisation charge	5	640	1
Write off of assets	5	-	9
<b>Net cash outflow from operating activities</b>		<b>6,118</b>	<b>(1,767)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	7	(2,124)	(97)
Purchase of intangible assets	8	(3,066)	(301)
<b>Net cash outflow from investing activities</b>		<b>(5,190)</b>	<b>(398)</b>
<b>Cash flows from financing activities</b>			
Grants from parent department		9,750	3,451
<b>Net financing</b>		<b>9,750</b>	<b>3,451</b>
<b>Net increase/(decrease) in cash and cash equivalents in the year</b>		<b>10,678</b>	<b>1,286</b>
<b>Cash and cash equivalents at the beginning of the year</b>	11	<b>1,286</b>	-
<b>Cash and cash equivalents at the end of the year</b>	11	<b>11,964</b>	<b>1,286</b>

The notes on pages 62 to 78 are part of these financial statements.

## Statement of changes in taxpayer's equity

For the year ending 31 March 2011

	Note	General reserve restated £'000	Total reserves restated £'000
<b>Balance at 1 July 2009</b>		-	-
Non-cash charges – cost of capital		37	37
Retained surplus/deficit		-	-
<b>Total recognised income and expense for 2009-10</b>		<b>37</b>	<b>37</b>
Grant from Ministry of Justice		3,451	3,451
<b>Balance at 31 March 2010</b>		<b>3,488</b>	<b>3,488</b>
Adjustment re change in accounting policy	2	(37)	(37)
<b>Balance at 31 March 2010 restated</b>		<b>3,451</b>	<b>3,451</b>
Retained surplus/deficit		-	-
Total recognised income and expense for 2010-11		-	-
Grant from Ministry of Justice		9,750	3,451
<b>Balance at 31 March 2011</b>		<b>13,201</b>	<b>3,451</b>

The notes on pages 62 to 78 are part of these financial statements.

# Notes to the Office for Legal Complaints accounts

## **1. Statement of accounting policies**

These financial statements have been prepared in accordance with the 2010-11 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Office for Legal Complaints for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Office for Legal Complaints are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

### **1.1 Accounting convention**

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment, intangible assets and inventories.

### **1.2 Going concern**

The OLC is a statutory body established by the Legal Services Act 2007. Under the Legal Services Act 2007, the OLC is funded by a levy upon the legal profession. The Ministry of Justice provides Grant in Aid to meet the net cash needs of the OLC. The OLC has assurances from the Ministry of Justice that Grant in Aid will continue to be provided to meet the cash needs of the organisation and the OLC continues to have the support of Ministers and the legal profession. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

### **1.3 Income**

The Office for Legal Complaints is funded by a levy on the legal profession which is collected from the legal profession's Approved Regulators. Amounts due in respect of the levy are recognised as income in the year to which related expenditure is recognised in the statement of comprehensive net expenditure.

The Legal Services Act 2007 requires the Legal Ombudsman to set charges for complaints we accept. A Case fee is due on closure of the case where we have already closed two other chargeable cases during the year ending 31 March. Where a complaint is resolved "in favour of the lawyer", and an Ombudsman is satisfied that the lawyer took all reasonable steps to try to resolve the complaint under their own procedure, the case will not be treated as chargeable. Case fee income is therefore recognised in the year that the chargeable case is closed and the fee becomes chargeable. Amounts charged in respect of case fees correspondingly reduce amounts due in respect of the levy due from Approved Regulators.

#### **1.4 OLSO income and expenditure**

During the year the Office for Legal Complaints agreed to provide resources to support the Office of the Legal Services Ombudsman ("OLSO"), a body which, prior to the establishment of the Legal Ombudsman scheme, provided an appeal service for consumers who were unhappy with the findings of the complaint handling bodies which the Legal Ombudsman scheme supersedes. Direct costs incurred by the Office for Legal Complaints in providing these resources to the OLSO are re-charged to the OLSO. Amounts due in respect of this activity are recognised as income in the year to which the related expenditure is incurred.

#### **1.5 Government grants**

The net cash needs of the OLC are financed by the Ministry of Justice through the Grant in Aid regime. Grant in Aid is not shown as income, but in line with FReM guidance, is shown as financing in the General Reserve.

#### **1.6 Property, plant and equipment**

The Office for Legal Complaints recognises property plant and equipment under IAS16 and writes off in the year of acquisition any individual expenditure of less than £1,000 on capital equipment and furnishings. Capital assets with a purchase cost of at least £1,000 are depreciated down to residual value over their useful economic life by equal monthly instalments, the first instalments being charged in the month of bringing the asset into use and no charge being made in the month of disposal.

The following rates of depreciation are applied on a straight line basis over the following periods:

- Leasehold improvements: over the residual life of lease.
- Furniture and equipment: over five years
- Computer hardware: three years

#### **1.7 Intangible assets**

Expenditure on major information technology projects is capitalised. This includes expenditure on software, and the costs of design consultancy, and the up front development and configuration costs incurred in establishing and developing the OLC's outsourced IT infrastructure. The following rates of depreciation are applied on a straight line basis over the following periods:

- Software Licenses: in equal monthly instalments over three years; and
- Information Technology: in equal monthly instalments over the residual life of the contract.

#### **1.8 Impairment and revaluation policy on non-current assets**

Impairment is required to ensure that assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through the use or sale of the assets. An impairment reflects a permanent diminution in the value of an asset as a result of a clear consumption of economic benefit or service potential.

The OLC has undertaken an impairment review. Depreciated historical cost is used as a proxy for fair value as this realistically reflects the consumption of the assets as allowed by the FReM para. 6.2.8(h). Revaluation would not cause a material difference.

# Notes to the Office for Legal Complaints accounts

## **1.9 Leases**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

## **1.10 Finance leases**

The OLC treats contracts which transfer substantially all the risks and rewards incidental to Ownership to the OLC in accordance with IAS 17.

## **1.11 Value Added Tax**

The Office for Legal Complaints is registered for VAT because the provision of services to the OLSO falls within the scope of VAT. VAT incurred on direct costs incurred in the provision of these services is recoverable. The OLC is unable to recover VAT on expenditure relating to its primary operation of providing complaint handling services and therefore all expenditure and the capitalised value of non-current assets includes this irrecoverable VAT.

## **1.12 Pensions**

The OLC has established a defined contribution group personal pension scheme to which the OLC makes contributions but has no other liabilities. The OLC makes matching contributions of twice the amount contributed by employees up to a maximum of 10% of the employee's salary.

## **1.13 Corporation Tax**

The OLC earns interest on cash deposits held with the Government Banking Service. This interest is subject to corporation tax in the normal manner.

## **1.14 Provisions**

The OLC recognises provides for financial liabilities in the statement of financial position in accordance with IAS 37 where there is an legal, constructive or contractual obligation as a result of a past event, where it is probable that financial resources will be required to settle the obligation, and where a reasonable estimate can be made of the amount of the obligation.

## **1.15 Impending application of newly issued accounting standards not yet effective**

There is no anticipated material impact to the OLC of International Financial Reporting Standards (IFRSs) that have been issued by the International Accounting Standards Board but are not yet effective at the end of the reporting period.

## 2. Prior year adjustments: notional capital charges

In 2009-10 a cost of capital charge was calculated at the real rate (3.5 percent) set by HM Treasury on the average carrying amount of all assets less liabilities, except for cash balances with the Government Banking Service (GBS), where the charge is £nil. For 2010-11, in accordance with HM Treasury guidance, the policy of making capital charges has been changed and a nil charge is included in 2010-11 in the Statement of Comprehensive Net Expenditure. The prior year figures have been restated accordingly.

	£'000
<b>Taxpayers' equity at 31 March 2010</b>	<b>3,488</b>
<b>Adjustments for:</b>	
Cost of capital	(37)
<b>Taxpayers' equity at 1 April 2010</b>	<b>3,451</b>
<b>Net expenditure for 2009-10</b>	<b>36</b>
<b>Adjustments for:</b>	
Reduction to Levy income	(37)
<b>Net expenditure for 2009-10</b>	<b>(1)</b>

## 3. Analysis of net expenditure by segment

The Office for Legal Complaints principal operation is the provision of independent and impartial Ombudsman schemes to resolve consumers' disputes involving their lawyer. During 2010-11 the Office for Legal Complaints also provided operational support to the Office for the Legal Services Ombudsman (OLSO).

	Operation of the Legal Ombudsman scheme £'000	Support to the Office for the Legal Services Ombudsman £'000	Total £'000
Gross expenditure	12,847	46	12,893
Income	12,847	46	12,893
<b>Net expenditure</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total assets</b>	<b>16,760</b>	<b>-</b>	<b>16,760</b>

# Notes to the Office for Legal Complaints accounts

## 4. Staff numbers and related costs

Staff costs comprise:

	2010-11 Total £'000	Permanently employed staff £'000	Others £'000
Wages and salaries	5,509	4,714	795
Social security costs	517	507	10
Other pension costs	297	297	0
<b>Sub Total</b>	<b>6,323</b>	<b>5,518</b>	<b>805</b>
Less recoveries in respect of outward secondments	(27)	(27)	-
<b>Total net costs</b>	<b>6,296</b>	<b>5,491</b>	<b>805</b>

	2009-10 Total £'000	Permanently employed staff £'000	Others £'000
Wages and salaries	1,088	267	821
Social security costs	43	32	11
Other pension costs	-	-	-
<b>Sub Total</b>	<b>1,131</b>	<b>299</b>	<b>832</b>
Less recoveries in respect of outward secondments	-	-	-
<b>Total net costs</b>	<b>1,131</b>	<b>299</b>	<b>832</b>

### Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows.

<b>Number:</b>	<b>2010-11 Total no.</b>	<b>Permanently employed staff no.</b>	<b>Others no.</b>
Directly employed	185	142	43
Other	5	-	5
<b>Total</b>	<b>190</b>	<b>142</b>	<b>48</b>

<b>Number:</b>	<b>2009-10 Total no.</b>	<b>Permanently employed staff no.</b>	<b>Others no.</b>
Directly employed	6	4	2
Other	4	-	4
<b>Total</b>	<b>10</b>	<b>4</b>	<b>6</b>

# Notes to the Office for Legal Complaints accounts

## 5. Other expenditure

	Note	2010-11 £'000	2009-10 restated £'000
OLC set up costs		873	1,039
Travel and subsistence		52	-
Training		851	-
IT and telecoms		1,197	-
Premises costs		675	-
Facilities services		173	-
Rentals under operating leases		568	46
Legal and professional fees		(93)	228
Recruitment costs		1,077	183
Other running costs		36	170
External communications		101	80
Audit fees		35	23
Internal audit fees		49	5
<b>Total non-cash items</b>		<b>5,594</b>	<b>1,774</b>
Depreciation	7	341	5
Amortisation	8	640	1
Loss on disposal of property, plant and equipment		-	9
<b>Total</b>		<b>6,575</b>	<b>1,789</b>

In 2009-10 the Law Society challenged the basis upon which the OLC planned to recruit its employees. The Law Society claimed that TUPE undertakings should apply to the set-up of the OLC and that the employment rights of employees of the Legal Complaints Service should transfer to the OLC automatically. The OLC successfully defended this challenge. The OLC had accrued in full for the legal costs of defending this challenge as no award or agreement as to recoverability of costs had been made at that time. During 2010-11, the Law Society agreed to pay the OLC's costs. Legal fees for 2010-11 have been reduced as a result of the recovery of costs incurred during 2009-10.

OLC set-up costs represents the professional and other costs dedicated wholly to the planning and creation of the organisation. Other expenditure incurred during the implementation period from 1 July 2009 to 6 October 2010 have been analysed separately. OLC set-up costs in 2009-10 include £382,000, which was incurred by the Ministry of Justice prior to the OLC coming into formal existence on 1 July 2009. These costs, which represent leviable expenditure under Section 173 of the Legal Services Act, and the corresponding levy income, have therefore been recognised in these financial statements.

## 6. Income

Income from each of these activities is set out below:

	2010-11 £'000	2009-10 restated £'000
Levy income from the Legal Ombudsman Scheme	12,826	2,919
Case fee income	21	-
Income from support services to the Office of the Legal Services Ombudsman	46	-
<b>Total</b>	<b>12,893</b>	<b>2,919</b>

Levy income represents amounts due in respect of the annual levy due for Approved Regulators (see note 1). Case fee income represents amounts due in respect of case fees chargeable in respect of cases closed in 2010-11 (see note 1). Support services to the OLSO represent the provision of staff and the use of existing IT systems and associated office space to assist the OLSO with the clearance of outstanding case files.

No assets of the OLSO have been used or transferred to the OLC as part of the provision of this service. No OLC assets are dedicated to the provision of these services.

# Notes to the Office for Legal Complaints accounts

## 7. Property, plant and equipment

2010 -11	Information technology £'000	Leasehold improvements £'000	Furniture and fittings £'000	Total £'000
<b>Cost or valuation</b>				
At 1 April 2010	87	-	1	88
Additions	550	701	873	2,124
Disposals	-	-	-	-
<b>At 31 March 2011</b>	<b>637</b>	<b>701</b>	<b>874</b>	<b>2,212</b>
<b>Depreciation</b>				
At 1 April 2010	5	-	-	5
Charged in year	134	95	112	341
Disposals	-	-	-	-
<b>At 31 March 2011</b>	<b>139</b>	<b>95</b>	<b>112</b>	<b>346</b>
<b>Net book value at 31 March 2011</b>	<b>498</b>	<b>606</b>	<b>762</b>	<b>1,866</b>
<b>Net book value at 31 March 2010</b>	<b>82</b>	<b>-</b>	<b>1</b>	<b>83</b>

No property, plant and equipment has been purchased under finance lease arrangements.

<b>2009-10</b>	<b>Information technology £'000</b>	<b>Leasehold improvements £'000</b>	<b>Furniture and fittings £'000</b>	<b>Total £'000</b>
<b>Cost or valuation</b>				
At 1 July 2009	-	-	-	-
Additions	96	-	1	97
Disposals	(9)	-	-	(9)
<b>At 31 March 2010</b>	<b>87</b>	<b>-</b>	<b>1</b>	<b>88</b>
<b>Depreciation</b>				
At 1 July 2009	-	-	-	-
Charged in year	5	-	-	5
Disposals	-	-	-	-
<b>At 31 March 2010</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>5</b>
<b>Net book value at 31 March 2010</b>	<b>82</b>	<b>-</b>	<b>1</b>	<b>83</b>
<b>Net book value at 1 July 2009</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

# Notes to the Office for Legal Complaints accounts

## 8. Intangible assets

2010-11	Information technology £'000	Software licenses £'000	Payments on account and assets under construction £'000	Total £'000
<b>Cost or valuation</b>				
At 1 April 2010	6	-	295	301
Additions	2,199	867	-	3,066
Disposals	-	-	-	-
Transfers	295	-	(295)	-
<b>At 31 March 2011</b>	<b>2,500</b>	<b>867</b>	<b>-</b>	<b>3,367</b>
<b>Amortisation</b>				
At 1 April 2010	1	-	-	1
Charged in year	478	162	-	640
Disposals	-	-	-	-
<b>At 31 March 2011</b>	<b>479</b>	<b>162</b>	<b>-</b>	<b>641</b>
<b>Net book value at 31 March 2011</b>	<b>2,021</b>	<b>705</b>	<b>-</b>	<b>2,726</b>
<b>Net book value at 31 March 2010</b>	<b>5</b>	<b>-</b>	<b>295</b>	<b>300</b>

Information technology includes the costs of design consultancy, and the up front development and configuration costs incurred in establishing and developing the OLC's outsourced IT infrastructure. Software licenses with a cost of £508,000 have been purchased on terms which amount to a finance lease.

<b>2009-10</b>	<b>Information technology £'000</b>	<b>Software licenses £'000</b>	<b>Payments on account and assets under construction £'000</b>	<b>Total £'000</b>
<b>Cost or valuation</b>				
At 1 July 2009	-	-	-	-
Additions	6	-	295	301
Disposals	-	-	-	-
<b>At 31 March 2010</b>	<b>6</b>	<b>-</b>	<b>295</b>	<b>301</b>
<b>Amortisation</b>				
At 1 July 2009	-	-	-	-
Charged in year	1	-	-	1
Disposals	-	-	-	-
<b>At 31 March 2010</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>
<b>Net book value at 31 March 2010</b>	<b>5</b>	<b>-</b>	<b>295</b>	<b>300</b>
<b>Net book value at 1 July 2009</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

# Notes to the Office for Legal Complaints accounts

## 9. Impairments

No Impairments have been made during the year to 31 March 2011 (2010: Nil).

## 10. Trade receivables and other current assets

Amounts falling due within one year:	As at 31 March 2011 £'000	As at 31 March 2010 restated £'000
Levy amounts due	-	2,919
Case fee receivables	11	-
Deposits and advances	9	23
Due from the Office of the Legal Services Ombudsman	46	-
Other receivables	11	125
Prepayments and accrued Income	257	64
<b>Balance at 31 March</b>	<b>334</b>	<b>3,131</b>

All of the balances above, except the amounts due from the Office of the Legal Services Ombudsman, are with bodies external to government. As set out in Note 5, levy amounts due in 2009-10 includes £382,000 in respect of expenditure incurred by the Ministry of Justice in connection with the establishment of the OLC prior to 1 July 2009 and £2,537,000 (restated) in respect of the 9 month period from 1 July 2009 to 31 March 2010.

## 11. Cash and cash equivalents

	As at 31 March 2011 £'000	As at 31 March 2010 £'000
Opening balance	1,286	-
Net change in cash and cash equivalent balances	10,678	1,286
<b>Closing balance</b>	<b>11,964</b>	<b>1,286</b>
<b>The following balances at 31 March were held at:</b>		
Commercial banks and cash in hand	11,964	1,286
Short term investments	-	-
<b>Balance at 31 March</b>	<b>11,964</b>	<b>1,286</b>

Cash held by OLC is held with Government Banking Services.

## 12. Trade payables and other current liabilities

Amounts falling due within one year	Note	As at 31 March 2011 £'000	As at 31 March 2010 £'000
Trade payables		951	646
Other payables		100	46
<b>Trade and other payables</b>		<b>1,051</b>	<b>692</b>
Intra-government balances – other taxation and social security		291	-
Intra-government balances – Ministry of Justice		382	382
Current part of finance lease	15.2	120	-
Accruals and deferred Income		1,499	275
<b>Other liabilities</b>		<b>2,292</b>	<b>657</b>
<b>Balance at 31 March</b>		<b>3,343</b>	<b>1,349</b>
<b>Amounts falling due after more than one year</b>			
Finance leases		266	-
<b>Balance at 31 March</b>		<b>266</b>	<b>-</b>

# Notes to the Office for Legal Complaints accounts

## 13. Provisions for liabilities and charges

	Leasehold dilapidation £'000	Total Provisions £'000
Balance as at 1 April 2010	-	-
Provided in the year	80	80
Provisions not required written back	-	-
Provisions utilised in the year	-	-
<b>Balance at 31 March</b>	<b>80</b>	<b>80</b>

Provisions are in respect of anticipated costs required to reinstate the OLC's office premises at the end of the leasehold, which have been determined by obtaining an estimate of anticipated costs from the contractor who performed the initial fit-out of our office premises.

## 14. Capital commitments

Contracted capital commitments at 31 March 2011 not otherwise included in these financial statements amounted to £85,000 (2009-10: £335,650). These capital commitments related to committed expenditure on improving our IT infrastructure and office facilities.

## 15. Commitments under leases

The future minimum lease payments under operating leases are given in the table below for each of the following periods:

### 15.1 Operating leases

Obligations under operating leases for the following periods comprise	2010-11 £'000	2009-10 £'000
Buildings		
Not later than one year	524	171
Later than one year and not later than five years	2,147	2,606
<b>Balance at 31 March</b>	<b>2,671</b>	<b>2,777</b>

On 3 March 2010 the Office for Legal Complaints entered a lease for its main premises at Baskerville House in Birmingham. The lease is for a ten year period with a break option after five years. The OLC has entered into no PFI contracts.

## 15.2 Finance leases

The OLC has a contract for the provision of software licenses over five years payable in annual instalments. The nature of this agreement transfers substantially all of the risks and rewards of these software licenses to the OLC and therefore this has been accounted for as a finance lease under IAS 17. The future minimum lease payments under finance leases are given in the table below for each of the following periods:

Obligations under finance leases for the following periods comprise	2010-11 £'000	2009-10 £'000
Other		
Not Later than one year	120	-
Later than one year and not later than five years	266	-
<b>Balance at 31 March</b>	<b>386</b>	<b>-</b>

The present value of obligations under finance leases for the following periods comprise	2010-11 £'000	2009-10 £'000
Other		
Not later than one year	120	-
Later than one year and not later than five years	247	-
<b>Balance at 31 March</b>	<b>367</b>	<b>-</b>

## 16. Contingent liabilities disclosed under IAS 37

The Office for Legal Complaints has no contingent liabilities.

## 17. Financial instruments

As the cash requirements of the Office for Legal Complaints are met through Grant-in-Aid provided by the Ministry of Justice, through levy funding provided by Approved Regulators of the legal profession, and through case fees charged to individual law firms, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The OLC is therefore currently exposed to little credit, liquidity or market risk.

# Notes to the Office for Legal Complaints accounts

## **18. Related-party transactions**

The Office for Legal Complaints has a direct relationship with the Legal Services Board. Under the Legal Services Act 2007 the LSB is responsible for appointing and paying the salaries and expenses of OLC members, which for the whole reporting period amounted to £157,803. The payments for fees for the OLC Members for 2010/11 were £130,000 (£97,500 for the 7 months to 31 March 2010).

The Ministry of Justice is the OLC's parent body and provides working capital financing to the OLC under the Grant in Aid scheme. During the year to 31 March 2011 the Ministry of Justice provided Grant in Aid of £9.75 million (2009-10: £3.45 million). At 31 March 2011 OLC had outstanding balances due to the Ministry of Justice of £382,000 in respect of set up costs incurred prior to the establishment of the OLC. This amount is non interest bearing and repayable on demand.

During the year the OLC provided staff resources and facilities for to the Office of the Legal Services Ombudsman (OLSO). These resources have been provided to assist the OLSO with the clearance of outstanding cases which fall within its jurisdiction. During the reporting period the OLC recharged £46,000 to the OLSO for the set up and provision of these staff resource and facilities.

No Board member, key manager or other related parties has undertaken any material transactions with the Office for Legal Complaints during the year.

## **19. Events after the reporting period**

In accordance with IAS10 (Events after the Reporting Period) events after the reporting period are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General. There are no events after the reporting period to report.



