

The Office for Legal Complaints

Annual report and accounts

For the year ending 31 March 2012



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

Foreword from our Chair, Elizabeth France

This is the Annual Report for the year 2011-2012, the Legal Ombudsman's first complete year of operation. It also includes our Chief Ombudsman's report, which sets out the year's performance and considers the lessons we have learned and how we will apply them in the future.

It was important for the Board that our successful start-up in October 2010 should translate into successful day-to-day operation. While operational experience has challenged some assumptions about how that would work – about the number of cases needing an Ombudsman decision, for example – the scheme is operating comfortably within its means (more than £2 million under budget) and its record against our Key Performance Indicators (KPIs) has been encouraging. Early results of our stakeholder and consumer satisfaction surveys demonstrate that our scheme is generally well regarded by its users.

We shall use all this knowledge to inform our new assumptions and set benchmarks to allow us to continue to measure our success as we refine our processes further. We are grateful for the continuing cooperation and support of our stakeholders, including their constructive feedback, which has allowed us to make these improvements. We must also have an eye to the future and be ready to respond, with stakeholders, to the new demands of a developing legal market and changes to the routes by which consumers access redress. We shall do that, mindful of the regulatory requirements that guide us.

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 18 June 2012. The report, included here in full, summarises the progress made up to 31 March 2012. It sets out all that the Legal Ombudsman has achieved in the last year, none of which could have happened without the ongoing dedication and hard work of the Legal Ombudsman's staff.

I have, throughout, enjoyed exceptional support from all board members. Five were appointed for a second term in February and we were joined by two new lay members. We were all saddened that Brian Woods-Scawen was not well enough to continue working with us and his death in June 2012 was a significant loss; he made a unique contribution to the development of the Legal Ombudsman.



Elizabeth France CBE
Chair

The Office for Legal Complaints (OLC) is the Board of the Legal Ombudsman, responsible for ensuring that there is an independent Ombudsman service to consider complaints about legal services provided in England and Wales. The purpose of the Ombudsman 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, in accordance with the regulatory objectives of the Legal Services Act (see Appendix 1).

Chief Ombudsman's report

In summary

This report covers the performance of the Legal Ombudsman over the year ending 31 March 2012, its first complete year of operation, while documenting wider observations of the legal services market.

In the first part, I examine what we have learned, how we have resolved our cases, how our performance has improved and why our early expectations and predictions were not always borne out in practice.

In the second part, I consider the overlapping issues of ethics, commoditisation and redress as the focus of a thematic report in which I speculate on what role the Legal Ombudsman will play in the future. We relate, through case studies, the lessons we have learned from more than eight thousand cases and go on to consider how those lessons will apply in a changing legal environment; in particular, what effect these changes will have on consumers, legal service providers and those bodies which, like us, provide redress for consumers.



Ethics

Building on our experience

One thing we have learned from last year is the importance of effective communication for lawyers, for consumers and for us. The key lesson is the importance of keeping things simple, both in how we resolve complaints and in what we strive for across the organisation. We work in a sphere that is in a state of continuous change. We see innovations and developments in the legal market and debates about the shape of legal regulation, as well as changes in the justice, consumer and advice landscapes.

In this context, we cannot yet be sure about the level of demand for our services. Nor can we be sure about our natural level of efficiency. Last year we received around 75,000 enquiries, which translated into around 8,400 cases for investigation. Most of those cases were resolved informally. But a significant number could not be resolved that way and required a formal Ombudsman's decision.

It is not yet clear why so many cases require an Ombudsman's decision and this fact serves to remind us that our central task – resolving complaints – remains 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. 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 to put right any harm they have suffered but also to restore their faith in the legal system. The fourth of the eight regulatory objectives to which we adhere is to protect and promote the interests of those consumers. As the legal services market becomes increasingly modernised, with new forms of products and services available in new and sometimes unfamiliar ways, access to that redress seems to be all the more important in ensuring that people feel they are able to seek help to put things right.

oditisation

Chief Ombudsman's report

Sharing our knowledge

The other part of our job is to seek 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. We began to do this in earnest in the past year. By doing this, we improve consumers' access to legal services but we also promote a strong and effective legal profession. For us, this is a key part of balancing our role – so while we aim to satisfy consumers, we are also aware of our ongoing responsibility to legal services providers. Just as it is our clear duty to make sure individuals who may have suffered from poor service have access to redress, we have to protect providers of legal services from unjustified complaints.

We said when we started out on this journey that we would learn from our experience – and we have certainly done that over the past year. What we have, I think, managed to achieve is to stay true to the idea that redress does not need to be formal or legalistic; we remain committed to an informal approach to resolving complaints while also ensuring that we are robust and taken seriously. It is this approach that will also help us live our values: open, independent, fair, effective and shrewd.

As an Ombudsman service, we are not consumer champions or protectors of the profession but independent and neutral. In order to help improve standards across the legal services market, and increasingly beyond, we have sought to act on what we see as our duty to provide feedback and advice. This annual report seeks to contribute to this aim. Here, I have considered the themes that have emerged to draw out lessons linked to the wider debate. We must all learn from complaints to drive improvement in the future.

An opportunity for reflection

It is hugely beneficial to be able to reflect on a full year of operation and to use that experience to help us grow and develop as an organisation. We're using the first hand experience of our customers – consumers and lawyers alike – as well as our employees, partners and suppliers to challenge ourselves to improve over time.

It stands as a huge tribute to the skills and hard work of all our employees and partners that we have had such a successful first year of operation. This success was entirely due to the expertise of our teams. We were also able to deliver our service under budget for this first full year; our total costs came to £17.3 million, significantly under the agreed running cost budget of £19.7 million. Given the climate in which we operate, and also acknowledging the history of our predecessor bodies, we are aware that one of our most important challenges is to show that the new scheme could operate efficiently as well as live up to customer expectations about the service we provide.

The results of these efforts can be understood from the detailed performance figures given later in this report. Overall, these show that the scheme works, meeting customer and stakeholder expectations, and, more importantly, continues to improve over time. Demand was affected by the broader context of the economic climate and the changing regulatory and consumer environment, meaning we had to re-evaluate many of our initial assumptions and adapt the way we work over the course of the year. This placed greater

demand than anticipated on our investigative resources and Ombudsmen in particular. However, the organisation was able to meet this challenge by employing more focused management techniques and tailoring our staffing requirements to ensure we adapted to the volumes of complaints we received.

A review of the year

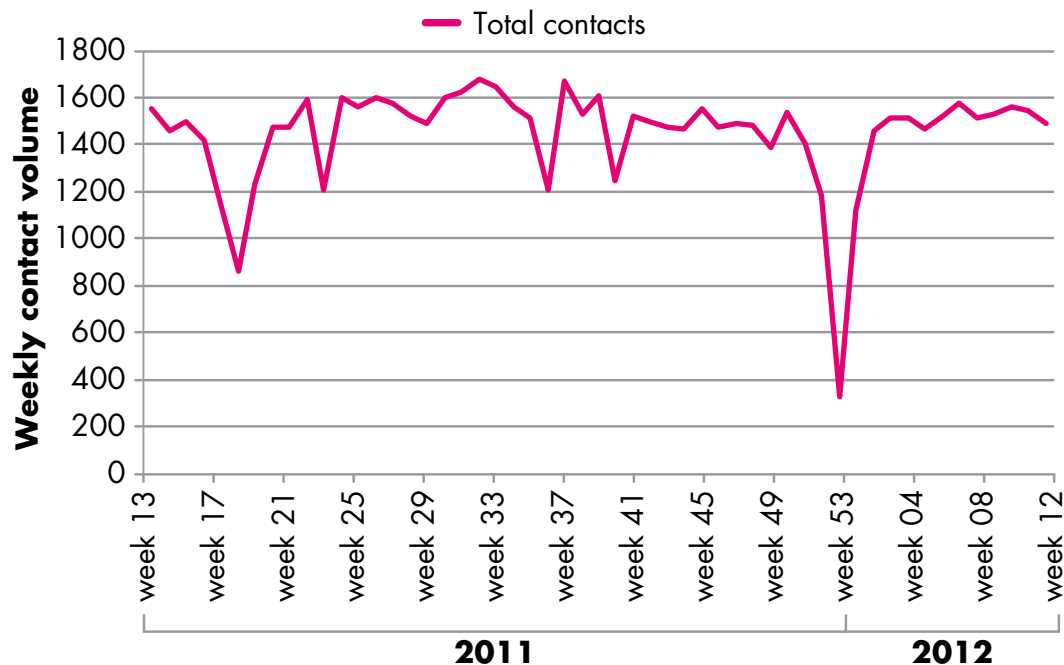
To a large degree, this performance information tells us that this new, single body for legal complaints is an effective model. While it is early days, particularly still in having sufficient data to model trends and assist in forecasting volumes for complaints, the year has been marked by some key successes, confirmed by our early customer satisfaction survey results. In addition, we continued to meet our aim of resolving the majority of complaints by informal agreement. I am also pleased that, as we anticipated, we continued to improve our efficiency as we refined our systems in light of experience. In 2011-12, 75,420 people contacted us by phone, email and letter. Not all of these contacts led to an investigation, for a number of reasons. Some were out of jurisdiction and were signposted to other agencies whereas some concerned problems that happened too long ago. Others were resolved swiftly by our assessors, with one or two phone calls. All together, we accepted 8,420 cases for investigation.

Year	Contacts	Cases accepted
2010/11*	38,155	3,768
2011/12	75,420	8,420

* Note: The Legal Ombudsman opened on 6 October 2010

The graph below illustrates the trends in people who contacted us each week in 2011-12. The number of contacts fluctuated – most obviously dropping down to about 300 over the Christmas week – but returned to about 1,500 each week. We continue to monitor the volumes of contacts and cases closely to see whether all the fluctuations are seasonal, coincide with media activity or come as a result of our general awareness raising.

Contact volume

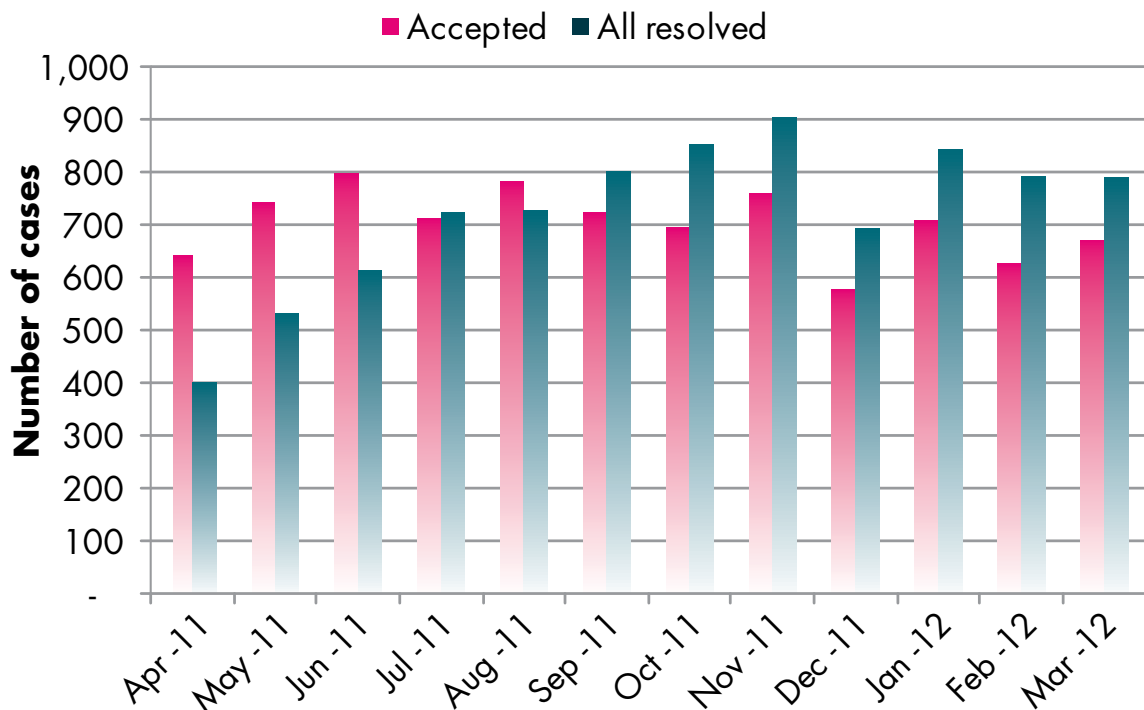


Chief Ombudsman's report

Number of cases we resolved

We resolved a total of 7,455 cases over the year. The number of cases we were able to resolve during the year was lower than we had planned because we received fewer complaints than we had expected. This was at least partly due to broader changes to the economic climate – for instance fewer people buying and selling houses.

During our first year of operation we moved from a position where we accepted more cases than we closed (which we expected as a consequence of start up) to a more sustainable position where we kept pace with the work, as shown by the graph below. This was partly due to our becoming more experienced as we matured as an organisation.



Number of cases accepted and resolved

It takes time to resolve a case. Depending on the issues, it can be more or less difficult to gather the facts we need. Sometimes, it takes time for us to hear back from people – because they live overseas or they're on holiday – and to talk through the issues. Sometimes, the right way to reach a fair resolution is to work carefully through all the stages of our process. We continue to learn about how all these different factors affect the time it takes us to resolve complaints.

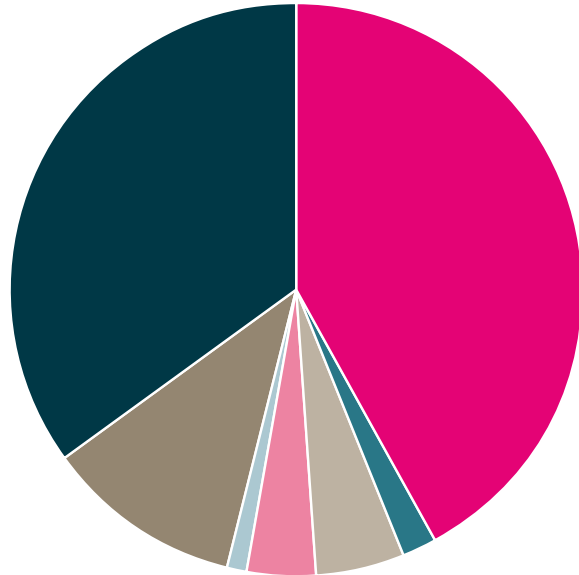
Our approach to cases

The approach we take to resolving complaints depends on the individual facts of a case and the level of formality required to resolve it. Where possible, we prefer to resolve complaints informally – getting both sides to agree with the views and analysis of our investigators to reach a resolution as swiftly as possible. In 2011-12, we resolved more cases by informal resolution than any other way, including by formal Ombudsman

decision. But in cases where it is simply not possible to get both sides to agree, a more formal approach is needed and, after detailed investigations, the cases are referred to an Ombudsman for a decision. We saw higher than anticipated volumes of cases requiring Ombudsman's decisions over the course of the year.

How we resolved cases

- Informal resolution, 42%
- Ombudsman decisions, 35%
- Complaint withdrawn, 11%
- Ombudsman's decision to dismiss/discontinue, 5%
- Complainant failure to respond, 4%
- Resolved without intervention, 2%
- Complainant unable to proceed, 1%

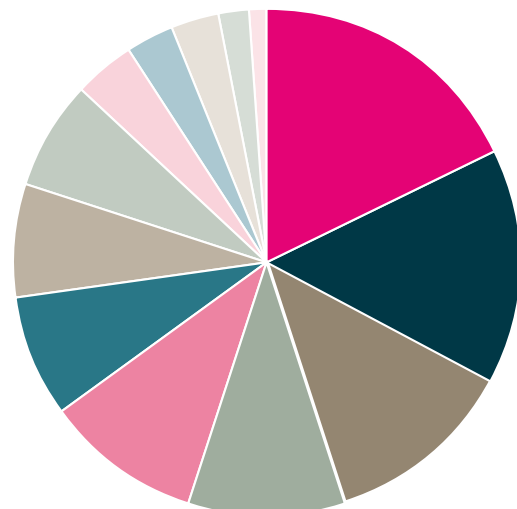


During 2011-12, the number of cases requiring a formal Ombudsman decision increased, with an average of 35% of cases over the year being resolved in this way. This increase in the number of cases where a complaint is pursued to an Ombudsman decision may reflect a trend experienced by other Ombudsman schemes and appears to be driven by complainants. More complaints relating to family law, residential conveyancing and wills and probate were referred to an Ombudsman for a final decision.

However, we must be careful not to draw premature conclusions; a substantial number of cases relating to personal injury, employment and crime also required an Ombudsman's decision. In the coming year we will study the reasons that consumers and lawyers give for not proceeding with informal resolution, and the reasons why, in cases that proceed to an Ombudsman's decision, that decision may be rejected.

Ombudsman decisions by area of law

- Family law, 18%
- Residential conveyancing, 15%
- Wills and probate, 12%
- Litigation, 10%
- Personal injury, 10%
- Employment, 8%
- Crime, 7%
- Other, 7%
- Immigration and asylum, 4%
- Property, 3%
- Social welfare, 3%
- Commercial conveyancing, 2%
- Commercial law, 1%



Chief Ombudsman's report

How we helped put things right

If we agree that a lawyer's service is unsatisfactory, we order them to take action to put things right for the consumer. What we do depends on the circumstances of the cases but can include requiring the lawyer to apologise, return documents, do remedial work, reduce or refund their fees or pay compensation if the complainant lost out or was badly treated. We can award up to £30,000, but in the final quarter of the year the most commonly ordered amount of compensation was £299 or less.

Where we find that a lawyer's service is satisfactory, we explain to the complainant why we believe the lawyer or law firm has not done anything wrong or has already done everything they could to put things right. We found satisfactory service in around 35% of all the cases we resolved.

Improving our service

Learning from our mistakes is a vital part of our commitment to providing a service that we can be proud of. This is why we have our own formal complaints procedure for people unhappy with the service we have provided.

Where we are unable to resolve a complaint about our service, it is referred to the service complaints adjudicator for a formal review. See [page 32](#) for the service complaint adjudicator's report.

compensation
apologise
satisfactory service

Key Performance Indicators (KPIs)

This is the first time we have been able to review our performance with key performance indicators in mind. Our Strategy 2011-2014 and 2011 Business Plan¹ established provisional indicators to track our performance last year. In short, the KPIs were:

- **Timeliness:** The proportion of cases resolved within three and six months of a consumer's first contact with us.
- **Quality:** We track against a mix of quality indicators that focus on the accuracy of our work and the quality of customer service provided.
- **Unit cost:** We track the unit cost of our work by reporting the annual cost of the organisation averaged according to the number of cases resolved.
- **Stakeholder satisfaction:** We have commissioned an external, independent measurement of satisfaction levels among customers (consumers and lawyers) and stakeholders on an annual basis.

While the measures were not in place for the 2011-2012 year, these KPIs informed our work and therefore form the basis of the following section. The Strategy 2012-2015 and Business Plan 2012-2013 has refined the KPIs (Stakeholder satisfaction has become Reputation), established measures, and added a fifth indicator: Impact. Our next annual report will be our first opportunity to report on all of these targets, in detail.

Timeliness

As a new organisation, which has taken time to work up to its full caseload capacity, our performance has also taken time to be where we would like it. However, our efficiency has increased and during the last quarter of 2011-2012 we resolved just over 50% of all complaints within three months and over 80% within six. More than half of complainants were satisfied with the speed of the investigation, with an encouraging number saying that it was quicker than they had expected.

We want to resolve complaints as quickly and fairly as possible. We measure how long it takes from the point at which the complainant agrees what it is that they want us to investigate until the point at which the complaint is resolved. The time it takes to resolve a complaint is determined to a large extent by the parties to the dispute themselves. If a case can be resolved informally, it takes less time than if a lengthier investigation or an Ombudsman's decision is needed. Reducing the time it takes us to settle cases remains a key priority for us in terms of improving our customer service.

Timeliness

¹ http://www.legalombudsman.org.uk/downloads/documents/publications/Business_plan_2011_12_v1.3_110408.pdf

Chief Ombudsman's report

Quality

Delivering a high-quality service is of fundamental importance to us. It is what matters most to our customers and stakeholders. We are committed to improving the quality and consistency of our work and put in place a quality framework that specifies and reinforces the standards that we set ourselves. It helps us monitor and evaluate our performance and identify areas where we can improve.

We monitor the three stages of the complaint:

- How well we managed our initial contact with the public and potential complainants in our Assessment Centre.
- How well our investigators managed the subsequent investigation and resolution of those complaints – whether informally or by Ombudsman's decision.
- How well the Ombudsmen reviewed the complaint and communicated their findings to the parties concerned.

At each of these stages we focused on:

- How responsive we were to the complainants and lawyers involved.
- Whether our communication was clear (including how well we managed the expectations of both parties).
- Whether the focus of our investigation and its outcome was appropriate and proportionate.
- Whether we complied with our own internal processes and guidance, ensuring that the outcomes were consistent.

Our current quality monitoring involves learning from closed cases but in the future we will continue to develop our IT and quality assurance systems to improve our ability to pick up and correct any issues that arise during an investigation. We will challenge all areas of the organisation to make quality and improvement a core value.

Cost

Our total expenditure last year was £17.3 million, against a projected expenditure of £19.7 million. We set our annual budget following public consultation and, taking into account expected demand forecasts, it compares favourably to the £32.5 million cost of the previous system. Our unit cost was £2,281. Our unit cost is calculated by dividing the total cost of operating the Ombudsman scheme by the number of cases we complete.

We are pleased that overall we were able to manage our budget prudently, despite variable demands. We made a commitment to ensuring value for money in the way we ran our service and hope this demonstrates to our stakeholders that we remain committed to ensuring proper financial accountability.

The costs of operating the Ombudsman scheme are met by an annual levy paid by lawyers in England and Wales and by case fees that we charge lawyers for resolving cases referred to us about them. In the financial year 2011/12 we did not charge lawyers case fees for the first two complaints involving them. Lawyers were charged case fees only for the third (and any subsequent) complaint during the year.

Stakeholder satisfaction

Last year saw us begin to carry out a programme of stakeholder and customer research to help us gain a better understanding of what our customers want, how they rate the service we provide, and where they think we could do things better. This programme includes:

- a quarterly customer satisfaction survey to record and measure how our customers (consumers and lawyers) rate the service we provide;
- consumer awareness monitoring, on an annual basis, to set an awareness baseline and to help with our work on accessibility – ensuring that everyone who needs to contact us knows where to find us and how to access our service; and
- an annual stakeholder satisfaction survey and impact report, enabling stakeholders such as consumer groups, professional bodies and regulators to give us feedback on how we have worked with them, including sharing information to help prevent complaints.

This programme is carried out by external, independent organisations. The first results have provided us with a baseline from which to measure our reputation in future years. We are using the insights we gained from this work to help us to develop and improve our processes and technology to better reflect the needs of our customers and to inform our awareness raising strategy.

Customer satisfaction

When asked, 72% of our customers said that they would speak highly or neutrally about the Legal Ombudsman. We are encouraged by these first results; we have learned that the Legal Ombudsman meets its consumers and stakeholders' needs. One consumer told us that it was refreshing to speak to someone who was impartial and had investigated their case fully. Another said that we couldn't have done anything better, the work was done quickly and efficiently. Lawyers have told us that they think our staff are well informed and deal with complaints professionally.

Importantly, these surveys have also identified areas to focus on help us to improve our processes. One early indication, for example, is that the signposting mechanism from lawyers to the Legal Ombudsman is not working as well as it could, with only 34.5% of surveyed complainants saying that they had been made aware of us by their lawyer. We will continue to monitor this, strengthen our awareness raising campaign among legal professionals and, if need be, pick it up with regulators and professional bodies to consider a targeted response to the issue.

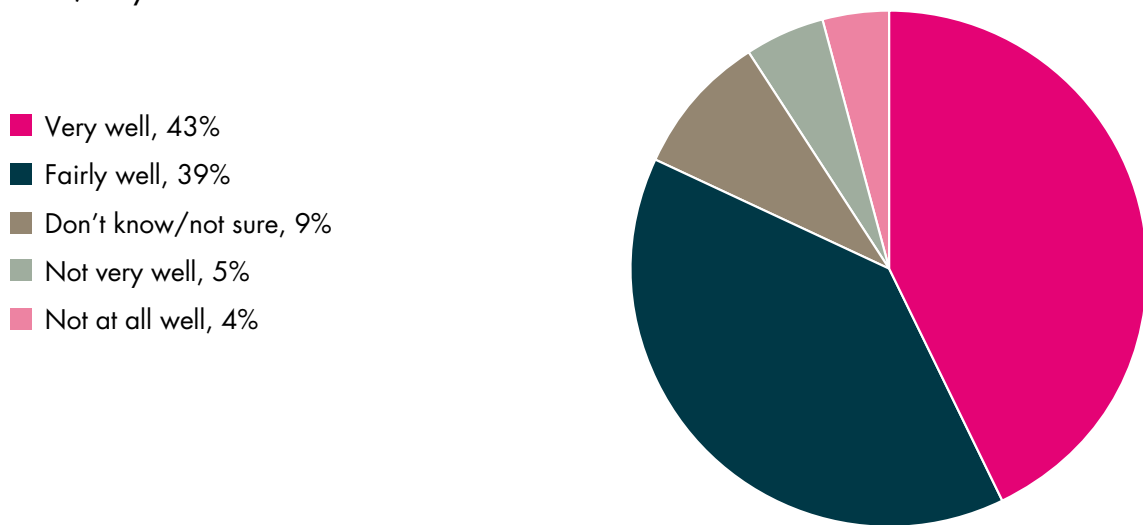


Chief Ombudsman's report

Stakeholder satisfaction

Overall, stakeholders are extremely positive. 82% of them tell us that we have engaged and worked well with them. This measure allows us to identify what stakeholders want from us and how we should improve our service to make sure that we work to support effective regulation, seek consumer feedback and listen to a diverse range of views when we consult on key issues. This initial research allows us to set a baseline and measure our future performance in relation to stakeholder satisfaction for future years.

Stakeholders were asked: how well has the Legal Ombudsman engaged/worked with you and/or your team?



Awareness

As part of an awareness and understanding survey with the general public we asked: "Before today, had you heard of the Legal Ombudsman?" 60% of the 1,817 surveyed said that they had heard of the Legal Ombudsman. We are content with the result at this stage of our development, but we know that we have more work to do in raising general awareness of the service.

Our Business Improvement Board will consider how to best use the data to inform both our business processes and our approach to awareness raising.

Stakeholder satisfaction
development

Other areas of development

Of course, there is more to running a successful Ombudsman scheme than simply meeting performance targets. The last year has seen the Legal Ombudsman develop in a number of areas, which may be more difficult to measure than, for example, timeliness and unit cost, but which are nevertheless of great importance to our operation. We look at these areas next.

Learning and development

The skills and knowledge of our people and teams are key to ensuring high quality and consistency in our work. We dedicate significant resources to training and continuing professional development at all levels. Last year saw a focus on training activities as we equipped our new starters with the skills and knowledge to do their jobs. We followed this up with further training later in the year.

We ran 200 different training courses or workshops and, on average, each of our staff attended 9.5 courses or workshops. This figure does not include case clinics, on the job training, buddying, and e-learning, which are also part of our employee development but do not form part of our statistics. The topics covered include legal knowledge, evidence gathering, informal and formal resolution, and effective telephone call management.

We also continued to provide our staff with the skills to deal confidently and sensitively with a diverse range of customers, including those with different needs. The courses included MIND mental health awareness training, which tied in with our aim to better understand those obstacles that some of our complainants face when they contact us.

Knowledge and information

One of our key priorities is to put knowledge and expertise at the heart of everything we do. We rely on the skills, expertise and professionalism of our staff to resolve the complaints referred to us – and arrive at the right outcome in each case.

We share up-to-date guidance and information across the organisation, using the knowledge management section on our intranet. This helps us to deliver a consistent approach to individual cases.

This approach is supplemented with regular in-house clinics, briefings and seminars. Our 14 Special Interest Groups (in areas such as probate, commercial law and conveyancing) help us to develop the knowledge we need and to provide advice and guidance to colleagues across the organisation on a range of issues.

Feedback

We engaged with our consumers (including complainants and legal service providers) and other key stakeholders through a variety of media relations activity (using legal and consumer press and appropriate broadcast channels), social media such as Twitter and Wikipedia, our publications, and through our website. Key members of our staff also attended professional and consumer advice sector events to learn more about wider developments in the legal sector and ensure our knowledge is fed back where appropriate. Planned web developments for next year will see web awareness and accessibility increase.

Chief Ombudsman's report

Much of our media activity is delivered by reports, blogs, opinion pieces and general feeding back of trends, which are identified through the statistical analysis of complaints and through more qualitative measures, such as written case studies. We published a range of anonymous case studies on our website – both those that have gone to an Ombudsman's decision and those that were informally resolved – to help lawyers and consumers learn more about the kind of cases we deal with and the decisions reached.

As mentioned earlier, we carried out a programme of stakeholder and customer research to help us understand what our customers want, how they rate the service we provide and where they think we could do things better. This programme includes:

- Research into consumer experiences of first tier complaint handling and to understand the drivers for premature complaints.
- Research into who accesses our services and the issues they face. This work is informed by our own data collection, focus groups and qualitative research.
- Research into consumer confusion over our role and their routes to redress. This will inform our approach to Alternative Business Structures (ABS) and voluntary jurisdiction.

We are now using the insights we gained from this work to help us to better reflect the needs of our customers. We have also used these to develop our approach to feeding back to the profession and consumers and as part of our commitment to providing a tailored service.

Feedback to the profession

We have a duty to provide feedback and advice to the profession. Last year we worked closely with our stakeholders to discuss and tackle any systemic problems, to share our knowledge and expertise in the principles of good complaint handling, and to help the legal world understand how they can improve their services. This included:

- Publishing our first thematic report about costs complaints, and guides for lawyers and consumers.
- Raising awareness about the confusion facing consumers seeking to access redress within the changing legal services landscape.

We have tried to make sure that our engagement with external stakeholders is careful and considered and tied into our role as an Ombudsman. We made a commitment that we would, as our organisation evolved, continue to reflect our learning back to our stakeholders and other interested parties. This included:

- Agreeing memoranda of understanding with the Claims Management Regulator and the Office of the Immigration Services Commissioner and reviewing our existing agreements to make sure we share the right information and data to support effective regulation.
- Consulting on the principle of publishing named information about lawyers – and concluding that it was in the public interest to do this in certain circumstances. This policy commenced on 1 April 2012.

- We responded to external consultations where they affected or linked with our organisation in some way, or where we had useful evidence from our work to contribute to debate. Our responses are available on our website. Last year we responded to a number of consultations from selected bodies, including the Legal Services Board, the Solicitors Regulation Authority and the Department for Business, Innovation and Skills.
- We began working on revising our scheme rules to reflect areas where we could offer more recourse, for example in terms of timeframes or financial redress. This work kicked off with a round table in March 2012 where we invited key stakeholders to share their thoughts on our proposals. This project has developed into a formal consultation.

Stakeholder panel feedback

The panel was set up to provide a forum for independent, external feedback on the work of the Legal Ombudsman. The panel met on a number of occasions over the year, discussing key issues including accessibility, communications and consistency. Final reports on these themes commended the Ombudsman's progress in these areas and offered suggestions for development, which we will be taking forward over the next financial year.

Accessibility

We endeavour to ensure our services are accessible to everyone and to communicate with people according to their needs and preferences. For this reason – and to promote the LSB's regulatory objectives and our own core values – we have in place a policy explaining our approach to making reasonable adjustments for service users. It incorporates the following elements:

- an instant over-the-phone interpreting service to handle calls in languages other than English (used more than 60 times during March 2012);
- a translating service for translating letters and emails to and from languages other than English (used 44 times during March 2012);
- a textphone service for the deaf and those with hearing loss;
- information leaflets in 11 languages; and
- information in alternative formats such as large print, audio CD and easy to read text, on request.



Chief Ombudsman's report

Equality and diversity

It's important that we know our service is accessible and that everyone is aware of us. For that reason we gather information about who our users are, including their gender, race and ethnicity, religion and disabilities. This information is kept confidential but we use it to identify if there are parts of the population who aren't represented among our customers. We started capturing E&D data in April 2011: the process is voluntary and we currently hold data on around 36% of cases. Although we have a full 12 months' worth of data, we don't yet feel we know enough to draw concrete conclusions. However, rather than simply wait for the data to accumulate, we have used what we have as the basis for a community engagement project.

The project involved setting up workshops to engage with those groups that appear from our data to be under-represented, such as older women and young people. The workshops comprise a combination of people who are members of those communities, are experienced in providing advice on legal issues and have an interest in developing a longer term relationship with the Legal Ombudsman. We are grateful for the time these individuals have given us, and for the ideas and suggestions the workshops have generated which will help guide our outreach and awareness raising work.

Looking forward: ethics, commoditisation and redress

Part of the challenge for an Ombudsman, as for a regulator, is to try to anticipate changes to the market and ensure that we are ready to respond. In a market such as the legal services market, which is changing so rapidly, that is not an easy task. While the take up of the opportunity offered by ABS has not yet been extensive and the impact of the changes in the Legal Aid Sentencing and Punishment of Offenders Act will not be seen for some time, the continuing drive towards diversification of providers and commoditisation of services is transforming the way people provide and consume legal services.

I want to look at the following important questions: What will this mean for consumers? What sorts of problems will we see in legal services? What responses to those problems will be needed and how should a service such as ours seek to change what we do? What effect might all this have on lawyers' professional ethics?

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The starting point

The story of British legal services has so far been one of success. This success has been built not merely on the reputation for quality on which British lawyers have traditionally relied, but also on a reputation for probity. The ethical basis of law in this country is unrivalled. And that reputation is just: in all the complaints that I see and all the legal transactions I examine, in very few cases do I find evidence of deliberate dishonesty on the part of professionals. However, such cases do exist:

Mrs C engaged a solicitor to execute her late husband's will. The firm originally stated that they would charge 1% of the estate but two years later, when the will was executed and Mrs C collected the cheque, she found that she had been overcharged. The solicitor promised to send her a further cheque to cover the difference. This cheque was not forthcoming and the cheque for £65,000 that she had already received bounced.

Mrs C contacted the firm to complain but found that the lawyer had left the practice. One of the partners told her that he had run away and misappropriated client funds: there was nothing left in her client account. He also told her that the company's indemnity insurance had run out. It became clear that the Solicitors Regulation Authority (SRA) had intervened into the firm.

Mrs C wanted to receive compensation for the money that the lawyer had made off with, but the amount was far greater than the £30,000 we are allowed to award. However, because the case involved misconduct, we referred Mrs C to the SRA so that she could apply for compensation from their compensation fund.

But cases such as this are very much the minority. Where mistakes are made, and mistakes are inevitably made in some cases, they are much more often honest mistakes. Such cases form the vast majority of our caseload. Often, the lawyer tries to put the mistake right. If they do that, we'll usually say that they don't need to do anything more.

New ways of working

One of the arguments that has been advanced against the transformation of the legal services market is that it will lead to an erosion of the ethical underpinning of the relationship between lawyer and client. The intrusion into the legal market of new providers who are not steeped in the traditions and disciplines of the traditional legal structures will challenge the ethical basis of legal practice. Concepts such as handling a conflict of interest, maintenance of confidentiality, the wider duty to the courts and the public interest – these will be under threat from individuals who do not have an instinctive grasp of their importance.

There are some real issues here. The suggestion that accountants could begin to provide regulated legal services brings with it some very interesting questions about what advice should attract legal privilege and what should not, for example. But while there may be technical challenges with the extension of legal provision to non-lawyers, to suggest that that will inevitably lead to a decline in ethical standards is, in my view, misplaced.

Chief Ombudsman's report

Lawyers do not have a monopoly of high ethical standards (as a non-lawyer myself, I could scarcely argue otherwise) and concepts such as client confidentiality and overriding responsibility towards the public good underpin many other aspects of service provision. While it is clearly important that we do have fit and proper persons tests to ensure that new entrants coming into the legal services market do not have a record of unethical behaviour, in my view the threat to the reputation of the legal profession does not come from that quarter.

No – the danger to professional ethics doesn't lie there. It could be argued that the reputation of the profession for quality and customer (client) focus may be far more threatened by a growing commercial imperative which the changes are likely to bring, rather than the increasing role played in the provision of legal services by non-lawyers. There may already be signs that that imperative might have started to play out in a number of ways.

Money worries

First, there is no question that some lawyers are under financial pressure. The combination of the economic downturn – I cannot but reflect that there is a connection between the low proportion of complaints about conveyancing received by the Legal Ombudsman compared with that received by the Legal Complaints Service and the depression in the property market. For example – cut backs in legal aid and the relative oversupply of lawyers in the market have all served to put pressure on the economic model of some lawyers.

We are seeing signs with some lawyers of inappropriately aggressive behaviour when they are pursuing clients for money which they believe is owed to them:

Ms D employed a firm in a personal injury case on a 'no win, no fee' deal. Shortly before the trial, the firm reviewed the evidence (which they had had for a long time) and they decided the case was likely to fail. They dropped Ms D, leaving her alone to settle with the other side as best she could.

The firm then said she had misled them about her claim. Ignoring their 'no win, no fee' deal, they tried to bill her for all their work on the case, around £15,000. Ms D complained to them, then us. We investigated. Once we had the facts we thought the firm had behaved badly and rang them to discuss our provisional view. They asked us to read the original file, now with Ms D's new solicitors, before we came to any final conclusions. We agreed.

While we were waiting for that file the firm started a court claim for their full bill against Ms D. They even tried to charge her interest.

The original file arrived and did not change our view. An Ombudsman decided that the firm should waive its fees. Ms D accepted the Ombudsman's decision, making it binding on the firm.

The firm threatened to bring a judicial review case to overturn the Ombudsman's decision but we demonstrated to the firm (and their barrister) why they were bound to lose.

We then wrote to tell the judge hearing the firm's claim against Ms D about the Ombudsman's decision. The firm then had to abandon their claim against her and repay to Ms D her expenses in defending it.

So, because of their intransigence and aggression the firm wasted a lot of their time and money by failing to keep on top of the evidence in the personal injury case, by unfairly blaming and billing their client when things went wrong, by running an unsustainable case against her (ending up having to pay her costs), and by trying to prepare an unrealistic challenge to our decision.

A more open mind about complaints would have saved them tens of thousands of pounds.

At the Legal Ombudsman, we are alive to the possibility that some complainants may be coming to us in an attempt to delay, or even escape, the payment of bills which they have knowingly incurred. In those circumstances, we have no difficulty in lawyers taking proper action to enforce payment. But where, as in the case above, the lawyer has been unreasonable or unnecessarily aggressive in enforcing payment, or where the bill itself is inflated, we will be strong in ensuring that the matter is put right.

service
confidentiality
responsibility

Chief Ombudsman's report

Enforcing redress

The economic pressure some lawyers are under also creates difficulties for us in enforcing our decisions. If an Ombudsman's decision is accepted by the complainant (it does not have to be accepted by the lawyer) it becomes binding on both parties and can be enforced through the courts. However, we are seeing an increasing number of cases where we are handling cases against firms or individuals who do not have the resources to meet their legal obligations. In some cases, we are able to help complainants obtain redress through insurance or Approved Regulator compensation schemes. However, that route is not always easy:

Mr E instructed a firm of solicitors to assist in the sale of his property. The sale went through and Mr E received a statement from the solicitor, which included information stating that the estate agent's fees had been deducted from the proceeds of the sale.

A little while after the sale of the property, Mr E received a letter from the estate agent saying that the fees were still outstanding. When Mr E tried to raise this with his solicitor he found that the firm had gone out of business.

We investigated the complaint and found that the solicitor hadn't paid the estate agent. We decided that Mr E was owed almost £2,000 to compensate for the outstanding fees owed to the estate agent and that he should receive an additional £200 to compensate him for the shock of learning that he owed the estate agent money.

Because the solicitor had gone out of business we, with permission from Mr E, sent his information to the solicitor's indemnity insurers. Mr E went on to liaise directly with the insurers to obtain his compensation.

In some cases, however, redress by insurance or compensation schemes is not possible. In those cases, we are left in the position either of acting ourselves to obtain payment or leaving it to the complainant. Both options are expensive and neither is satisfactory. It is imperative that regulators put in place and maintain comprehensive insurance and compensation structures to ensure that customers are not left disadvantaged when firms collapse and ensure that firms and individual lawyers whose economic models are unsustainable are identified early.

Greater competition

The economic pressure felt by some lawyers plays into the second way in which the commercial imperative risks challenging the reputation of the profession: competition on price.

Such competition is not necessarily a bad thing. Legal services are costly and out of some consumers' financial reach. Anything which creates downward pressure on pricing is likely to make law more accessible. In addition, as I argued in the costs report produced in March², there is an urgent need for greater transparency in lawyers' pricing. The arrival in the market of providers with a greater degree of experience in customer-friendly pricing structures can only improve the position of consumers of legal services.

However, there are some risks to price competition. As I have said, transparency of pricing is a key issue. But fixed pricing in legal services is not always possible and there are signs that some lawyers are seeking to promise price certainty that they are then unable to deliver:

Mr F and three of his neighbours engaged a solicitor to assist them in a planning matter. The work would be done for a fixed fee. After the matter was concluded, they received a final bill from the solicitor and saw that it was for £400 more than had been agreed. Mr F was unwilling to pay the additional amount and complained. The firm offered to reduce the bill by £100. Mr F declined and the firm threatened court action to recover the extra money.

Mr F brought his complaint to us. We found that the terms and conditions with the engagement letter included a paragraph explaining that where a fixed fee was agreed, but further work was required, clients should allow between one and two hours for further correspondence.

However, Mr F provided correspondence with the firm that showed that the firm knew that the group were reluctant for costs to escalate, which was why they had asked for a fixed fee. The firm had agreed to inform Mr F before doing any additional work and although they had at one point informed him that they would like to do extra work, Mr F hadn't agreed to it. The Ombudsman found that since Mr F had not given permission for the extra work, the fixed fee agreement should stand and the additional charges should be waived. Mr F and his neighbours accepted the Ombudsman's decision.

² 'Costs and customer service in a changing legal services market', available at http://www.legalombudsman.org.uk/downloads/documents/publications/costs_report_final_120305.pdf

Chief Ombudsman's report

There are also instances where what appears to be transparent, customer-friendly pricing fails to give real clarity about the true cost to the consumer:

Following the death of **Mrs G's** husband, a potential creditor made a claim against his estate. Mrs G went to the firm to help her defend against the claim. The firm started work on the case, reading the relevant papers, researching the law and speaking to other parties.

The following month, Mrs G spoke to someone at the firm over the phone. They told her that all the work would cost no more than £1,000. The next day Mrs G had a meeting with the firm and was told their costs to date had been £750, and the meeting would cost £350.

Mrs G complained saying that they had not given her enough information about costs. The firm offered to write off £250, but felt overall that their service had been reasonable. Mrs G did not feel the firm had addressed all of her issues, and so she brought her complaint to us.

We decided that the firm's estimate of £1,000 was unrealistic because they knew that the work that they had done before the meeting had pushed their costs past that level. In addition, they hadn't made Mrs G aware that they had already incurred those costs before the meeting. We therefore decided that the firm should write off £600 of their bill.

Cutting corners

There is a second risk associated with pricing: that price competition leads to a diminution of quality. There is no doubt that there is room to challenge the argument that the high price of some legal services is intrinsically linked to the high quality of the services being provided. Seeing, as we do, a vast range of legal services provided by a vast range of providers for a wide continuum of prices, it is difficult always to understand the link between cost and quality. We see excellent service being provided for minimal cost and appalling service being provided at excessive prices.

Trying to understand why a service is said to cost the price it does is not easy. This creates a real difficulty when, as often happens, we are asked to assess whether the service provided is worth the money which has been charged. Since there are no easy price comparisons or quality indicators that we can use, in cases such as this we can only make broad judgements about what was promised at what price and whether those promises were fulfilled.

Whatever the connection between quality and price, it is clear that there are some providers who, in their desire to compete, are promising services which they cannot realistically hope to deliver for the price indicated or who are routinely falling below the minimum standard of quality that a consumer has a right to expect. Sometimes we receive large numbers of complaints about one firm and it becomes clear that they have taken on more work than they can manage. This is a typical case study from one of these firms:

Ms H engaged a firm of solicitors to transfer the equity of her property. She was impressed by their promise to complete the work in six to eight weeks.

To begin with, communication between Ms H and her lawyer was good but it soon deteriorated and Ms H found herself chasing the lawyer for updates because she wasn't kept informed. Eventually, after four months, Ms H's solicitor admitted to her that she was struggling with her workload. When Ms H informally complained to the firm she was assured that the work would be completed and the bill would be reduced. Ms H just wanted the work done.

Six months after she had employed the firm, Ms H made a formal complaint. The work was finally finished two months later. We found that the firm had failed to complete the transfer within the timescales they promised, as well as failing to provide Ms H with proper updates and detailed invoices. The investigator recommended that the firm should limit their fees.

Both the firm and Ms H agreed to this and the case was informally resolved on that basis.

Price competition is, as I have said, something to be encouraged and it is a gross simplification to aver that competition necessarily begets unethical behaviour. But a careful watch must be kept in case cheap and cheerful tend into cheap and shoddy. The issues involved in legal services are too important to allow quality to degrade.

Legal service or legal product?

One of the mechanisms by which pricing is being driven down is commoditisation. The transformation of the legal services market has commoditisation at its heart, with legal services being increasingly broken down into a series of individual transactions many of which can be undertaken not by expensive lawyers but by less qualified individuals or, in many cases, computerised systems. New providers of services such as will writing and conveyancing often have such systems at the heart of their business processes.

Again, it would be wrong to argue against such developments, which have huge potential benefits for consumers. However, commoditisation carries with it a degree of risk. First, if commoditised services are to rely upon the use of automated computer systems, they have to ensure that the systems on which they are relying are truly error-free. Sadly, our experience is that this is not always the case.

Chief Ombudsman's report

Second, commoditised processes take as their principle that the work they do is replicable time after time. For many legal services transactions, that may be a reasonable assumption: one conveyance usually looks much like another. However, commoditised systems have to be developed in such a way as to be able to identify where individual cases depart from the norm. That is not always the case:

Mrs I purchased an off-the-shelf divorce package from a firm over the phone. Shortly afterwards a case manager from the firm called her and went through a questionnaire with her. The case manager told her that because she was estranged from her husband, and didn't have a forwarding address for him, the case might not be straightforward and there was no guarantee the standard divorce petition she had paid for would work.

Mrs I was understandably concerned by this. She felt that if she had known about it earlier she wouldn't have purchased the package.

Mrs I didn't hear from the firm for the next two weeks and she decided to ask for a refund, after several attempts to get in touch. The firm said that they would contact her to discuss the refund, but they didn't. Mrs I chased them again. The firm didn't respond and so Mrs I complained to us.

We recommended that the firm refund Mrs I the money she paid for the package. Both she and the firm accepted this and an informal remedy was agreed.

Third, commoditised systems allow lower cost services by limiting the direct involvement of expensive, qualified lawyers to those areas where their knowledge and expertise are required. For the most part, therefore, legal service customers are dealing either with computerised systems or relatively unqualified staff. That creates the risk that at key points the service they receive falls short of what they could reasonably expect:

Mr J and his wife approached a firm of will writers and estate planners to prepare wills and trust documents for them. He paid them nearly £3,000 for the work. When he received the documents, Mr J saw that they were incomplete, poorly typed and contained inaccuracies. Mr J complained. The firm offered him compensation but would not return his money. It was then he learned that the firm he employed had outsourced the work to another firm. Mr J duly complained to that firm and then to us.

At first it looked as though we might be able to help Mr J but it became clear that his case was outside our jurisdiction: even though both firms provided 'legal services' no lawyers were actually involved. The second firm did employ a solicitor but he hadn't worked on or even supervised Mr J's documents. They had been drafted by an administrator using the information Mr J provided and legal software produced by yet another related company.

Regrettably, there was nothing we could do for Mr J. All that we could suggest was that he pursue a complaint with the trade association the first firm belonged to and consider taking the compensation that they had offered him.

Mr J's case illustrates the difficulties that consumers face, not only when business structures and computerisation mean that there is no one obviously responsible for service failings but also when there is no transparent and effective means of redress.

Paying for it all

So, economic pressure, price competition and commoditisation all present risks to the reputation of legal services in England and Wales. Of, perhaps, more immediate concern to the consumer is how they will be able to pay for their legal services. One effect of the new Legal Aid Sentencing and Punishment of Offenders Act may be to limit access to sources of funding which have for many years allowed consumers to take legal action that they would otherwise have been unable to afford. It is expected that 'before the event' legal expenses insurance will fill any gaps.

The results of a YouGov survey we commissioned to find out how much people knew about legal expenses insurance are concerning. Of those we surveyed, at least 40% of had some type of legal insurance cover. However, of those people with legal insurance, nearly three quarters (74%) were unsure or didn't know what financial cover their policy provided and only 11% of them knew which legal services were excluded under the terms and conditions. So, many people don't know what their insurer will pay for: they may not even realise that their lawyer will be reporting to someone else apart from them.

This degree of confusion notwithstanding, legal expenses insurance is beneficial for the simple reason that it'll continue to allow people to take legal action when they would not otherwise have been able to afford it. But it can limit choice when the relationship goes wrong and the lawyer prejudices the view the insurer will take:

Mr K used his legal expenses insurance to obtain an injunction against his neighbour, who was trespassing on his property. His insurers appointed a 'panel' solicitor to take on the case on his behalf.

The firm told him that he needed a surveyor's report to prove where the boundary separating his land from his neighbours' actually lay. Unfortunately, the firm decided not to obtain a surveyor's report on the assumption that the insurers would not pay for it. This meant Mr K's case wasn't strong enough and so the firm closed its file. Mr K paid for a surveyor himself, who produced a report three months later. The report was encouraging and at that point the firm agreed to take on his case again.

Mr K complained to the firm and then to us. We found that the firm should not have assumed that the insurance provider would not pay for the report. The firm should have asked the insurance company, and informed Mr K that they were doing so.

Mr K was annoyed that he couldn't pursue his case for three months, even though he had a legal insurance policy to cover it.

Chief Ombudsman's report

He felt that the firm had wasted his time: he had no confidence in them anymore. We ordered the firm to apologise and pay Mr K £200 in compensation for the inconvenience he had suffered and Mr K took his business to another solicitor.

This case highlights the potential for both lawyers and consumers to become confused over what legal expenses insurance actually covers. It also shows how aspects of a legal service may be circumscribed, meaning not all costs are necessarily covered by a legal insurance policy.

It is possible, if not likely, that the reliance on legal expenses insurance may further confuse the consumer and further confuse their means to redress. In Mr K's case the fault lay with the lawyer but it will not always be clear to the consumer who it was who decided to discontinue their case that they feel, rightly or wrongly, was a foregone conclusion.

The future and the Ombudsman

So, to return to one of my original questions, what effect could all these developments have on lawyers' professional ethics? In truth, it is too early to say. However, the experience in New South Wales may hold some instructive lessons for the future for ABS, at least. Multidisciplinary and incorporated practices were introduced there by the Legal Profession Act 2004. The experience of their Legal Services Commissioner is that there is no danger to professional ethics from either the structure of an ABS or its non-lawyer partners. The success in NSW is due, in part, to the efforts of the Legal Services Commissioner, who oversaw the transition.

The Ombudsman cannot involve itself to the extent that the Legal Services Commissioner did, but like them we do have an important part to play in monitoring trends and feeding back on the changes. Complaints are an excellent source of knowledge; knowledge that we will share with the broadening legal world, to help them understand how they can improve the services they provide with regulators and policymakers, to help them keep pace with a dynamic market and consumers so that they can make increasingly informed choices. The most important thing is for consumers to have access to legal services in which they have confidence and means of redress upon which they can rely.



Adam Sampson
Chief Ombudsman

Date: 26 June 2012

Office for Legal Complaints

Annual review

Annual review

Board members' report

The 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 Chair or another member to receive compensation, the OLC may pay that person such compensation as the Legal Services Board may determine. Board membership together with their terms of appointment are set out in the remuneration report.

The OLC is supported by an Executive Management Team led by the Chief Ombudsman. The OLC has delegated relevant day to day authority to the Executive Management team, whose role is to deliver day to day operation of the Legal Ombudsman scheme. Further information about governance arrangements, including the report of the Remuneration committee, is set out in the Governance Statement.

Service complaint adjudicator's report

In 12 months I have so far dealt with 18 substantive service complaints, all of which were made by consumers. The subject matter of the original lawyer complaints has ranged across all the usual legal service areas and the lawyers complained of were all solicitors. In some I simply asked the Chief Ombudsman to apologise; in the others, in addition to recommending an apology, I recommended monetary redress. In one, the recommended redress amounted to £600, representing compensation for a lost opportunity to recover money from the lawyer. In all the others the amounts were between £100 and £200.

Working methods

The service complaint process is that a person unhappy with a service issue is referred to that person's manager who then investigates the complaint, known as stage one. Thereafter, if the person remains dissatisfied the matter is reviewed at stage two by a more senior manager – normally an operations manager. I represent stage three. This process is overseen and administered by the compliance team. The compliance team refers cases to me when a person is dissatisfied after a stage two review. Under the present process, service users do not have direct access to me.

My practice is to read through the complete lawyer complaint file and to summarise in my report the key events in the life of the case; and then to review how the service complaint was handled, taking into account points made by the dissatisfied person before making my observations and conclusions. I then send my completed report to the Compliance

Team, which then sends it on. I rarely if ever correspond directly with the dissatisfied person or with those involved at the Ombudsman service, as I see my task as undertaking an objective and independent external review. On some occasions where I think that the Chief Ombudsman may need time to consider my recommendation, I send him a draft. I aim to complete reports in 20 working days from the time the dissatisfied person states the wish for me to review the case.

The question has arisen as to whether complainants should be able to have a more direct route of access to me. I think it is important that the compliance team remains aware of what is happening and I would not welcome being on the receiving end of communications or complaints that have not been examined and responded to internally, or are evidently not within my terms of reference. In these terms of reference it is clear that I will normally only review a case when the lawyer complaint has been decided by an Ombudsman, and that I look at service issues, not at the merits of decisions.

However it is possible that distressed and dissatisfied complainants might overlook these limitations. That might involve me in fruitless correspondence and work that would fall as a cost on the Ombudsman service. Against this, it could be said that the present process depends on the compliance team performing its function properly and it is possible that it could err. And ultimately it should be for me, rather than the compliance team, to determine whether cases are within my terms of reference or not. I have asked the Compliance Team always to alert me when someone notifies them that they wish to refer a matter to me, whether the compliance team believe it is within my terms of reference or not.

Remedies and redress

Contrary to the expectation of some people, the mere fact that service has been poor and complaints about service failings are valid, does not in itself mean that financial compensation should follow. I will often note instances of service failings that I do not regard as sufficiently serious, or not having had a sufficiently serious impact on the relevant person. Sometimes apologies are quite enough, and if they have already been tendered appropriately, compensation is not appropriate.

I also place these matters in the context of the background complaint against the lawyer. While the Ombudsman service is open to a client to make any kind of complaint against a lawyer, it is only right that the investigative effort, time and priority devoted should be proportionate to the seriousness of the allegations and the dispute about them. Some of the cases I have seen involve allegations against lawyers involving financial loss, a potential miscarriage of justice, or poor service by a lawyer to a client over a prolonged period, and these rightly demand time and priority. On the other hand some of the matters referred to me had as their background complaints against lawyers involving disputes about single incidents in lawyer engagements of far less consequence. One complainant had complained about a brief service lapse from lawyers he had approached with a view to instructing them, but who did not in the end accept instructions. It was hardly top priority.

Expectation management

More than one case gave me cause to reflect on the limitations of what the Legal Ombudsman can offer and how far these have been grasped by those who use its service. The website is rightly welcoming and accessible, and the staff who assess and

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document complaints at the initial stage to check that they are within the rules do not offer any views about the merits of complaints. Cases are then passed to investigators, and complainants frequently see the investigators as advocates and agents for them, only to be shattered when the investigator tells them that the complaint is unlikely to be upheld – or even worse, that it is out of time.

Some consumers expect the Ombudsman to issue reprimands or award punitive damages, which is not what the Ombudsman can do. The service is largely confined to remedying identified over-charging or financial loss, or awarding relatively small sums for the inconvenience caused by poor service. But of course it can and should when appropriate be critical of how lawyers have behaved and use its authoritative position to do so.

Four cases involved a change of case handler mid way through the investigation. None was particularly well handled in terms of communication, and in some it was very poor. In none were apologies tendered for the disruption. In one case both the investigator and the team leader had both disappeared from the scene when the complainant called and a staff member in the Assessment Centre had to discover who now owned the file. When a case handler ceases to be responsible for cases – and that can be for a variety of reasons, sometimes planned, sometimes unexpected – there is an important role for management in minimising the disruption and communicating with service users. It also obviously represents a risk to service quality that ought to command the close attention of managers.

Investigation process

Most service users will not be familiar with making a complaint to an Ombudsman and so will not quite know what to expect in terms of process. Nor is it easy to be clear about this since an investigation can be quite swift or quite prolonged. But one ever-present feature is that it is for the Ombudsman service (usually in the person of the investigator) to drive the case forward, and that invariably means setting deadlines for responses to views expressed, to Recommendation Reports, or finally to Ombudsman decisions. Complainants may feel under unaccustomed pressure, particularly if they are responding to views they violently disagree with. These deadlines can then become sources of heated controversy in themselves and can generate service complaints with demands for extensions.

I also considered the extent to which the Ombudsman should, in a final decision, respond to representations made by a consumer in response to an adverse Recommendation Report. Recommendation Reports are often quite detailed (and rightly so) so inevitably an aggrieved consumer will identify points of dispute. How far should the Ombudsman go in responding to these? Clearly not every point deserves an answer, but an Ombudsman's determination is required to give reasons for the decision, and this may require more than a reference to the Recommendation Report. It is not my role to address the merits of Ombudsman decisions, the reasons given for them or whether I would agree with them or not. Otherwise I would become a further level of appeal.

However the service complaint procedure explicitly states that “failing to explain things properly” is a ground for a service complaint. By and large “things” in this context refers to the process by which matters will be considered, rather than the reasons for any view on the merits of a complaint.

Internal service reviews

On the whole the internal service reviews that precede my involvement had been professionally and well handled by the compliance team, and if they have not satisfied the complainants, they have served to narrow down the issues that came to me. Naturally in the cases where I upheld complaints, I had to conclude that the service reviews were deficient.

I have also had the opportunity to examine a sample of internal service reviews that I selected at random. These were cases where the service complaints had not gone further than stages one or two. While I am not a quality auditor, I can report that this was a useful exercise for me and revealed nothing to concern me.

Conclusion

As all those who hold similar roles tend to say, the tiny number of cases I have seen is not representative of the much larger number handled by the service. And as all Ombudsman services say, we see our roles as not merely disposing of cases, but as feeding back lessons from what we see. In some of my reviews I have explicitly pointed to process issues and how they might be better addressed. In this way I can I hope add value beyond the mere disposal and determination of service complaints.

In a different approach to increasing value, I proposed to colleagues who hold similar roles at other Ombudsman schemes that we informally link up to discuss our functions and how we discharge them with a view to learning from each other and enhancing the service we provide. This is already proving valuable.

Walter Merricks

Service Complaint Adjudicator

12 April 2012

Annual review

Management commentary

The purpose of the Legal Ombudsman 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 information and methods to improve back to the profession.

Review of the business

2011-12 was the first full year of operation of the scheme. The Legal Ombudsman received just under 76,000 contacts, started some 8,400 investigations and resolved just under 7,500 of these cases for the parties concerned. Activity levels are lower than were anticipated, both in terms of the absolute numbers of people complaining about the legal services which they received and in the proportion of those complaints which then resulted in an investigation.

The strategic approach to the implementation of the scheme allowed the OLC and management team to recruit additional staff from a relatively low base when the scheme went live in 2010, to a position where resources matched actual productivity and volumes of work experienced in our initial 18 month period. This has enabled the OLC to deliver the service significantly under the budget for 2011-12, and leaves the OLC in a strong position to continue to develop and deliver further improvements and efficiencies throughout 2012-13.

Future development, risks and uncertainties

While the wider economy and in particular the housing market remains depressed, the OLC anticipates only a modest increase in the volume of people contacting us to complain about legal services that they have received. For 2012-13 this increase is primarily expected to occur as a result of the increasing awareness of the scheme over time.

The OLC will consult on its scheme rules in 2012-13 in order to ensure that the jurisdiction of the scheme is refined and improved. The OLC is also exploring additional voluntary jurisdictions, particularly in those areas which, while not formally reserved activities, are generally perceived by consumers as being a "legal service". It is unlikely, at this stage, that these changes will have a significant impact on the organisation until 2013.

The principal risks and uncertainties facing the organisation, together with how these are managed, are set out within the Governance Statement below.

Performance, position and resources

The OLC budget for 2011-12 was £19.7m. We have managed our resources prudently in response to lower than anticipated activity levels. As a result of this our actual expenditure for 2011-12 was £17.3m, some £2.4m below budget.

The OLC was financed throughout the year ending 31 March 2012 by a combination of Grant-in-Aid from the Ministry of Justice, levy funding from Approved Regulators and case fees charged to law firms.

The expenditure of the OLC is met from levy funds received from Approved Regulators on behalf of HM Treasury. Levy funds are collected annually in arrears in March of each year. Levy funds received in March 2011 provided funding for the OLC's first six months of operations from October 2010 to March 2011. Grant-in-Aid of £4.55m (2010-11: £9.75m) was received in the year to 31 March 2012 to provide the OLC with working capital required until 2011-12 levy funds were received towards the end of March 2012.

In March 2012 the OLC received £16.67m in levy funding relating to the financial year 2011-12. As a result, the OLC does not anticipate any further need for Grant-in-Aid during 2012-13.

Key relationships

The OLC is directly accountable to the Ministry of Justice for its financial performance. This is because while the funding for the Legal Ombudsman comes ultimately from the legal profession, it is routed through Government and is therefore classified as public spending. However, along with our relationship with the MoJ, the OLC must also 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 Ombudsmen and complaint handling bodies, professional associations, lawyers themselves, consumer groups/charities and Government and judicial 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 continues to be essential – both for the reputation of the scheme and to enable the scheme to prepare for the coming changes to the legal landscape. The Legal Ombudsman has in place working arrangements with all of the Approved Regulators of legal services. These are set out in a series of memoranda of understanding (all available to view on the Legal Ombudsman website).

Key Performance Indicators

As set out in more detail in the Chief Ombudsman's report, the Legal Ombudsman measures performance around 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 have worked with Legal Services Board and 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. These are set out in the Chief Ombudsman's report.

Annual review

Employees and social community issues

The OLC and its employees strive to ensure that it has a positive impact on the local community, with increasing levels of involvement as our office and its culture develop. 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 as building links into the broader West Midlands community.

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 is designed to ensure sustainability. We have a city centre location, which means the majority of our employees use public transport. 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, is also an acknowledgement that as our service grows and develops, we must take a responsible and ethical view to the use of resources. We also do the small but important things such as encouraging recycling and minimising waste through catering and facilities management.

Sustainability reporting

During 2011 the Cabinet Office confirmed that the OLC is not a Non Departmental Government Body. As a result the OLC is exempt from sustainability reporting requirements.

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 both towards each other, potential employees and its customers.

We value diversity and promote equality throughout the organisation and ensure that our policies, procedures and practices are fair and objective, promote diversity and challenge discrimination. We are committed to ensuring we have a representative workforce that has a wide range of expertise and experience from a variety of backgrounds to enable us to provide excellent service delivery. We have recently introduced flexible working and are pleased with the take-up.

We welcome the greater legislative protection provided by 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 and training. We collect information on our workforce in terms of gender, race and ethnicity, religion, disability and other protected characteristics, and we monitor and analyse this so we can understand if our recruitment and other policies are effective at delivering the diversity we strive for. 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 and newsletters 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. We have 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.

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. 95% of invoices were paid within agreed terms and the average number of days taken to pay creditors was 13.

Pensions

The OLC has established a defined contribution group personal pension scheme to which the OLC makes fixed contributions but has no other liabilities. During the year the OLC allowed employees to elect to sacrifice a proportion of their basic pay in return for correspondingly increased contributions to their pension scheme. The OLC makes matching contributions of twice the amount contributed by individual employees up to a maximum of 10%. Reductions in Employer National Insurance contributions resulting from this salary sacrifice arrangement are also contributed into the employee pension scheme as part of this arrangement.

Auditors

KPMG LLP has been appointed to provide Internal Audit services to the OLC. During the year to 31 March 2012 KPMG has indicated that the cost of internal audit work performed amounts to £67,520 (2010-11: £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 2012 the C&AG has estimated that the cost of work performed will be £32,000 (2010-11: £35,000) and this amount has been provided for in the accounts. The audit services provided by C&AG staff relates 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.

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 Board 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.

Member	Appointments 2008/09		Appointments 2011/12	
	Appointed	Terminates	Appointed	Terminates
Elizabeth France (lay)	1 Nov 2008	31 Oct 2011	1 Nov 2011	31 Mar 2014
Margaret Doyle (lay)	1 Feb 2009	31 Jan 2012	1 Feb 2012	31 Mar 2014
Mary Seneviratne	1 Feb 2009	31 Jan 2012	1 Feb 2012	31 Mar 2014
Rosemary Carter	1 Feb 2009	31 Jan 2012	1 Feb 2012	31 Mar 2015
Tony Foster (lay)	1 Feb 2009	31 Jan 2012	1 Feb 2012	31 Mar 2015
David Thomas	1 Feb 2009	31 Jan 2012	1 Feb 2012	31 Mar 2015
Brian Woods-Scawen (lay)	1 Feb 2009	31 Jan 2012	-	-
Karen Silcock (lay)	-	-	1 Feb 2012	31 Mar 2015
Maureen Vevers (lay)	-	-	1 Feb 2012	31 Mar 2015

Board remuneration

	Annual rate £	Year to March 2012 £	Year to March 2011 £
Elizabeth France (Chair)	70,000	70,000	70,000
Rosemary Carter	10,000	10,000	10,000
Margaret Doyle	10,000	10,000	10,000
Tony Foster	10,000	10,000	10,000
Professor Mary Seneviratne	10,000	10,000	10,000
Brian Woods-Scawen CBE	10,000	8,333	10,000
David Thomas	10,000	10,000	10,000
Karen Silcock	10,000	1,667	-
Maureen Vevers	10,000	1,667	-

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:

	Salary £	Pension £	Other benefits £	Total £
Year to 31 March 2012	131,071	19,828	11,095	161,994
Year to 31 March 2011	136,500	13,650	11,095	161,245

During the year the OLC allowed employees to elect to sacrifice a proportion of their basic pay in return for correspondingly increased contributions to their pension scheme. As a result of this change the Chief Ombudsman's basic salary was reduced in return for enhanced employer pension contributions. 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.

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid individual in their organisation (excluding pension contributions) and the median remuneration of the organisation's workforce.

The annualised remuneration of the highest-paid individual in the Legal Ombudsman in the financial year 2011-12 was £147,595 (2010-11, £147,595). This was 5.3 times (2010-11: 5.7) the median remuneration of the workforce, which was £27,810 (2010-11: £25,750).

In 2011-12, no employees received remuneration in excess of the highest-paid director (2010-11, none). Remuneration ranged from £16,490 to £147,595 (2010-11 £17,530 to £147,595).

Remuneration report

Total remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions. 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 did not receive a season ticket loan (2010-11: £13,932).

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. The Chief Ombudsman's benefits comprises a Travel Remuneration Supplement allowance of £7,000 and a flexible benefit allowance of £4,095.

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 by the Chief Executive Officer. Promotion or appointment of 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 Board.

Adam Sampson
Accounting Officer

Date: 26 June 2012

OLC and Accounting Officer's responsibilities

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, recognised gains and losses and cash flows for the financial year.

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 judgements 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*).

Governance Statement

The OLC's governance framework

The governance statement sets out the basis on which the Office for Legal Complaints (OLC) is governed and managed; and how it is accountable for what it does; it identifies the risk management processes, major risks and the effectiveness of the governance and risk arrangements.

Role of the OLC

The Office for Legal Complaints (OLC) was established by the Legal Services Act 2007 (the Act) to ensure that consumers of legal services can have access to an independent and impartial Ombudsman scheme to resolve complaints involving their lawyer while at the same time driving systemic improvement by feeding back to the profession information and methods to improve. The OLC established a new Ombudsman scheme which is called the Legal Ombudsman (LeO); it went live on the 6 October 2010, on time and under budget.

LeO's remit is to provide a service where disputes are resolved quickly and with the minimum of formality by an independent person. It has adopted principles which represent the best practice of those who administer Ombudsman schemes as it is required to do under the Act. The organisation has introduced a new way of resolving complaints about the legal profession, providing the first one stop shop for consumers of legal services seeking redress. LeO has striven to ensure it achieves its objectives of delivering consumer benefit, raising standards in the legal services market, and ensuring value for money.

Accountability of the OLC

The OLC is a statutory body accountable to both the Ministry of Justice (MoJ) and the Legal Services Board (LSB).

Following discussions between OLC and the MoJ on the exact status of the OLC the Cabinet Office have confirmed that the OLC is not a Non Departmental Public Body. This statement seeks to provide additional clarity on the governance arrangements in place particularly with the LSB. The LSB has a number of responsibilities in respect of the Office for Legal Complaints (OLC):

- With the consent of the Lord Chancellor, appoint and if necessary remove the OLC Chair.
- After consultation with the Chair, appoint and if necessary remove the other members of the Board.
- Remunerate the OLC Chair and members of the Board.
- Give consent to scheme rules made by the OLC, and where necessary, direct the OLC to take steps to modify its scheme rules.
- Make rules in consultation with the OLC providing for the imposition of a levy on leviable bodies.
- Set performance targets for the OLC or directing such targets to be set.
- Approve the annual budget of the OLC, and any subsequent variations to it.

The relationship between the LSB and OLC is governed by a memorandum of understanding, which reflects the respective bodies' independent and separate functions, and facilitates constructive communication, co-operation and co-ordination in the performance of the bodies' respective responsibilities. The memorandum of understanding, which is publicly available on both the LSB and OLC websites, details the core principles underpinning the relationship, and the detailed arrangements for:

- Budget management.
- Scheme rules.
- Performance monitoring and reporting.
- Information exchange.
- Communication.

In respect of the annual budget approval, the OLC provides a budget submission to the LSB with the Accounting Officer, Director of Finance and Business Services and Chair attending LSB meetings to provide any reasonable assurances on the appropriateness of the budget.

The scheme rules and any changes to them must be approved by the OLC and then the LSB. In order to provide assurance that any rules are appropriate and provide a framework for the scheme to operate fairly, impartially and reasonably and to adhere to good practice of Ombudsman schemes the OLC undertakes consultation with key stakeholders including the legal profession and consumers groups.

The OLC and LSB have formed a sub-group of executive and non-executive staff who meet quarterly to review LeO performance and the setting of key performance indicators and targets.

Information exchange and communication is facilitated by the executive teams of both bodies. This is augmented by the Chairs and Chief Executives of the LSB and OLC meeting on a regular basis to discuss issues of common interest and to ensure that the LSB can secure assurances during the course of the year as to the discharge of the OLC's duties. The Chairs of the bodies' respective Audit and Risk Committees also meet regularly to discuss areas of mutual risk and relevant mitigations. Both the LSB and OLC Boards meet jointly on a regular basis.

As an independent organisation sponsored by the Ministry of Justice, the OLC also has responsibilities directly to the Department. Both the LSB and the OLC's Framework Documents make reference to these so that there is no confusion over where responsibility for ongoing financial oversight (the MoJ) or OLC performance (the LSB) lies.

Members of the OLC are required to abide by key elements of the LSB's Governance Manual, including the Code of Practice, and policies on expenses, gifts and hospitality and interests.

Governance Statement

Appointment of OLC members

During 2011-12 there were a number of amendments to the OLC membership as follows;

Following open competition, Chartered Accountant Karen Silcock, and IT consultant Maureen Vevers, were appointed to the OLC by the Legal Services Board (LSB) for a period of three years in the first instance, commencing from 1 February 2012.

Elizabeth France was appointed by the LSB as OLC Chair for a second term to 31 March 2014.

Margaret Doyle and Mary Seneviratne were appointed by the LSB as OLC members for a second term to 31 March 2014.

Rosemary Carter, Tony Foster, and David Thomas were appointed by the LSB as OLC members for a second term to 31 March 2015.

Due to ill health, Brian Woods-Scawen, was not reappointed for a second term on this occasion.

Board performance and corporate governance

Schedule 15.1 of the Legal Services Act 2007 requires that the 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.

Due to the ill health of Brian Woods-Scawen during the period April 2011 to March 2012, there was not a lay majority of members present at eight OLC meetings. However, in accordance with OLC procedure, papers were still sent for his consideration and comment.

In all other respects OLC meetings were fully compliant with the other requirements of its governance arrangements and rules of procedure. Twelve OLC meetings took place during 2011-12 and the following table records the attendance of OLC members during this period.

Members' attendance at OLC meetings 2011-12

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 12 of 12
David Thomas	Attended 11 of 12
Brian Woods-Scawen CBE	Attended 2 of 10
Karen Silcock	Attended 2 of 2
Maureen Vevers	Attended 1 of 2

Members of the OLC have self-assessed their roles and performance in year, both collectively and through individual discussions with the Chair. This activity will be ongoing to allow members to enhance their future contribution to the stewardship of the OLC.

The OLC is duty bound to comply with the Corporate Governance in central government departments Code of Good Practice 2011. As a statutory body the OLC complies with the Code where it is deemed practical and relevant to its circumstances. There are currently three areas of non-compliance, all of which the OLC will address in 2012/13. They are:

- The OLC does not have an operating framework detailing Board members' roles and responsibilities. These will be formally recorded and communicated.
- To date there has been no independent input into a review of the effectiveness of the OLC. The MoJ have undertaken a tri-annual review of the OLC that will be published in July 2012.
- To date the OLC has not provided a clear steer on its risk appetite. The September Board away day will feature risk workshops that will result in the risk appetite of the OLC being set and recorded.

Other committees

The OLC is supported in its stewardship by two sub-committees.

Audit and Risk Committee

The Audit and Risk Committee was established in July 2009 and 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 period April 2011 to March 2012 five Audit and Risk Committee meetings took place and the following table records the attendance of committee members during this period.

Members	Meeting attendance 2011-12
Brian Woods - Scawen ³ (Chair)	Attended 2 of 5
Tony Foster ⁴ (Chair)	Attended 5 of 5
Mary Seneviratne	Attended 5 of 5

³ Chair to May 2011

⁴ Chair from June 2011

Governance Statement

Audit and Risk Committee report

During this financial 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 an arm's length body. The committee also fulfilled the important role of agreeing the annual Governance Statement, 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 January 2012 National Audit Office publication "The Audit Committee Self Assessment Checklist".

Due to the ill health of the Chair during 2011-12, the Audit and Risk Committee has not always been able to operate in a manner to meet the required quorum detailed in the terms of reference. Where this requirement was not met, formal decisions were referred to the OLC Board for ratification.

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. In particular, I would like to pay tribute to the committee's first Chair; Dr Brian Woods-Scawen. Unfortunately he was not well enough to continue providing his support and guidance to the committee or the OLC for a significant part of this financial year.

Tony Foster

Chair of Office for Legal Complaints Audit and Risk Committee

Date: 9 May 2012

Remuneration and Nomination Committee

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 period April 2011 to March 2012 three Remuneration and Nomination Committee meetings took place and the following table records the attendance of committee members during this period.

Members	Meeting attendance 2011-12
Rosemary Carter (Chair)	Attended 3 of 3
Margaret Doyle	Attended 3 of 3
Tony Foster	Attended 3 of 3

Remuneration and Nomination Committee report

During the year the work of the committee has focused on embedding the human resource policies and procedures, in particular the reward and benefits structure, and also ensuring that appropriate improvements were introduced following recommendations made by our internal auditors, KPMG. In addition, the committee has worked with the executive to create a three-year human resources strategy which focuses on developing and enhancing the Legal Ombudsman's HR framework in respect of recruitment, reward and recognition, learning and development, leadership and employee engagement through to the end of 2014.

The main areas of business considered up to end of March 2012 were:

- monitoring progress in embedding the reward and benefits strategy across the organisation and any associated trends, notably the introduction of the flexible benefits package in September 2011 and the Professional Development Review (PDR) process and its implications
- considering internal audit reports undertaken by KPMG and monitoring areas highlighted for improvement against set plans
- providing advice and guidance on the organisation's;
 - o pay and reward framework;
 - o performance management / competency framework;
 - o fixed and flexible benefits structure;
 - o suite of corporate HR policies
- providing advice and guidance on the creation of a three-year HR strategy and a recruitment strategy
- advising on the development of a flexible working policy and reviewing its take-up among staff
- considering staff turnover trends, exit reports and the equality and diversity of the workforce and employment practices
- monitoring employment law matters and progress with individual tribunal cases

The year has been one of consolidation and refinement as LeO has begun to deal with business as usual HR issues and put into practice the policies and procedures set up for the organisation last year. It is evident the HR team have become more self-sufficient, and this has substantially reduced the requirement for external support and the additional resources required to undertake set-up activities. RemCo has been delighted with the progress of the team and its contribution to the organisation. The positive KPMG audit report in December is testimony to the progress made in the year.

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 external partners.

Rosemary Carter

Chair of Office for Legal Complaints Remuneration Committee

Date: 9 May 2012

Governance Statement

OLC oversight of LeO

The OLC meets 12 times a year, with the executive management team. Meetings are held in an open, consultative way and the executive are transparent about the organisational issues with which they are dealing and with the performance of the organisation. The OLC is briefed on matters of strategic importance and materiality and asked to verify or make decisions in these areas. The executive have a good record of accountability and of delivering actions agreed by the OLC.

The OLC receives monthly reports on organisational performance and financial performance and quarterly updates on key issues for the business such as risk, human resources and legal challenges. During the year the OLC has approved a suite of externally reportable KPIs which will provide stakeholders with an effective overview of LeO performance.

Any changes to organisational design are discussed with the OLC with the nature and scope of the Ombudsman role coming under scrutiny during the year. During the year the percentage of cases requiring an Ombudsman decision rose to around 40%, creating a temporary delay in Ombudsman decisions. Additional resources were deployed to manage the issue, additional management information was produced and analysed and the OLC considered the response and were updated monthly on the impact of the measures being taken.

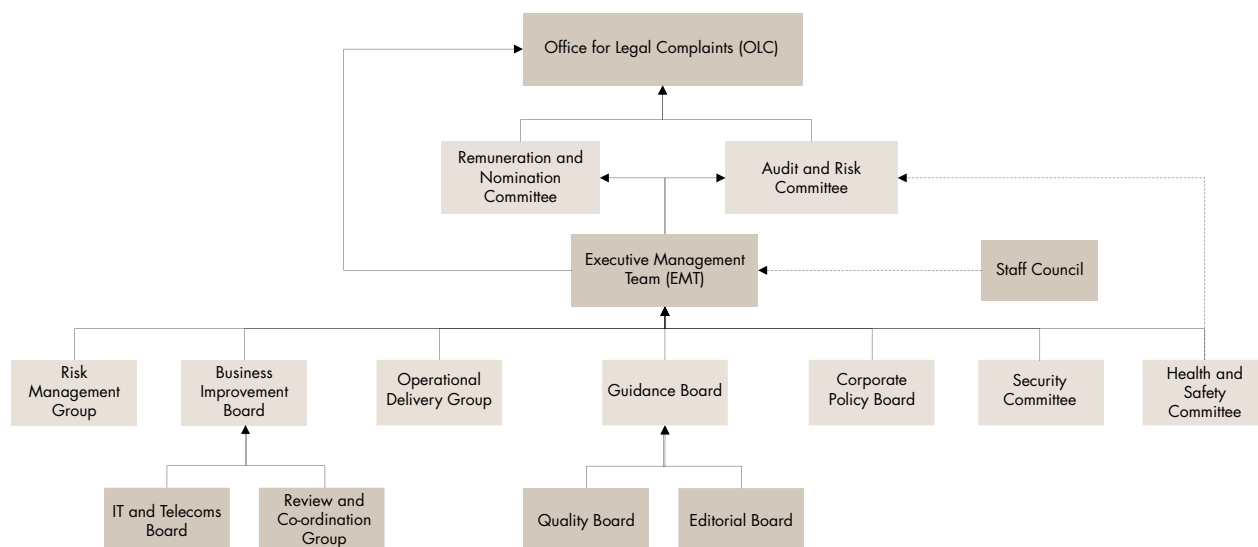
Shadowing arrangements whereby OLC members shadow the executive in key areas and form links with relevant LSB members have proved fruitful in areas such as KPI development and research. In 2012/13 the OLC will increase its level of input into risk management by becoming actively involved in setting the organisational risk appetite.

Executive management of LeO

Executive management of LeO is delegated to the CEO who is also the Chief Ombudsman. He is supported by an executive management team (EMT) comprising the Director of Finance and Business Services, the Director of Operations, the Head of Policy and Communications and the Deputy Chief Ombudsman. The EMT meets fortnightly to jointly discuss strategic and operational issues and performance and take relevant decisions. They are supported by a senior management team (SMT) comprising heads of functions, operational managers and Ombudsmen who provide support with business planning and the delivery of the operational plan.

LeO encourages cross-functional working and numerous sub-groups and committees exist to ensure a broad range of skill sets contribute to operational management, decisions and projects. The structure is depicted on the following page:

Legal Ombudsman Governance Structure 2012/13



Operationally each area of the business ensures effective communication is maintained through a variety of meetings, forums and one to one sessions. Communication across the organisation is further facilitated by monthly all staff presentations, a daily updated intranet hub and the use of audio visual displays around the office. LeO has a performance management culture and a comprehensive performance management system is in place including monthly meetings, 6 and 12 monthly reviews.

Risk management and key risks

The risk management system within LeO has been strengthened during the year. A revised risk management framework has been approved by EMT, and the Audit and Risk Committee regularly review the risk system and the risk register. The OLC reviews risks quarterly and KPMG have given the system a satisfactory rating upon review.

The OLC is confident that it has robust systems in place to recognise and mitigate risk. All staff are encouraged to report risks for inclusion on functional risk registers. A risk management group considers these, mitigating actions and corporate risks monthly. The EMT review the corporate risk register monthly whilst the ARC and OLC review risks quarterly. In September 2012 the OLC will undertake a risk awareness workshop and spend time deciding the corporate risk appetite. This work will strengthen the strategic management of risk in line with KPMG findings ensuring that at both an operational and strategic level the systems are adequate.

Corporate risks are analysed by their nature; financial, reputational, operational delivery, governance and legal, compliance and cultural. Risks are scored based on their likelihood and impact (1 to 5) and colour coded. The OLC does not currently have any red risks (risks scoring 20-25) however it is monitoring the management of two live issues with high risk ratings:

- A delay in cases receiving an Ombudsman decision. A plan to reduce the Ombudsman delay is in place and being monitored. Additional resources have been deployed to help reduce the delay and a longer term review of the Ombudsman resource requirement is underway.

Governance Statement

- A second change of address within six months due to the scanning supplier moving premises. The change of address has been widely publicised to both the profession and the public. Notices have been placed in a variety of media to increase awareness of the new address. A re-direct from the old address has also been put in place.

The key risks to the delivery of the financial plan were communicated as part of the budget setting process. They focus on the potential impact of the following issues:

- Investigator efficiency is not as high as planned leading to the need to recruit additional Investigators to prevent a backlog of cases from developing
- Call and case volumes exceed planned levels resulting in the need to increase headcount to respond to increased demand
- Judicial reviews result in high and unpredictable legal costs
- Staff turnover is not in line with budgeted plans

The OLC is updated monthly on all these issues within the KPI pack that it receives and discusses with the executive.

LeO has in place strong information assurance systems and there have been no material breaches of information security during the year.

Performance

The Accounting Officer has responsibility for reviewing the effectiveness of the system of internal control. He believes the governance and management structures in place have served LeO well during 2011/12. His 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 LeO 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. The Accounting Officer has been advised on the implications of the result of the review of the effectiveness of the system of internal control by the Board, the Audit and Risk Committee and the plan to address weaknesses and ensure continuous improvement of the system is in place.

KPMG comment in their review of internal controls that they have delivered eight of the nine planned reviews for 2011/12 to date and the remaining review on Health and Safety was deferred by management and was completed in April 2012.

The Audit Committee agreed to an input of 60 days in total, all of these days will be delivered. KPMG say that management responses to reports issued this year have been positive. Implementation dates have been agreed for all recommendations as part of the reporting protocol. In addition, management report on a regular basis to the Audit Committee with regards to progress on the implementation of recommended improvements. KPMG have issued the following assurance opinion for 2011/12 to the OLC:

“We have reviewed the Office for Legal Complaints’ systems in accordance with the 2011/12 Internal Audit plan. We are satisfied that we can provide reasonable assurance as to the adequacy and effectiveness of the Office for Legal Complaints’ internal control and governance processes within the areas of Corporate Governance, Financial Systems, Complaints Handling, Payroll and HR, Business Continuity, IT Infrastructure, Fraud Risk Management and Data Security.

In giving this opinion, it should be noted that assurance can never be absolute and can only address those risks related to which Internal Audit work has been performed during 2011/12. Notwithstanding our overall opinion, our work identified a number of opportunities for improving controls and procedures which management has responded to positively. We are satisfied that management is adequately monitoring and tracking these opportunities.”

The Audit and Risk Committee has reviewed the 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 ensure it remains appropriate for the organisation.

Adam Sampson
Accounting Officer

Date: 26 June 2012

The Certificate and report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Office for Legal Complaints for the year ended 31 March 2012 under the Legal Services Act 2007. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, 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 Office for Legal Complaints, Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Office for Legal Complaints and the Accounting Officer are 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.

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

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements 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 2012 and of the net expenditure after interest and taxation 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 made 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 returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement 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: 2 July 2012

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 2012

Expenditure	Note	2011-12 £'000	2010-11 £'000
Staff costs	3	10,999	6,323
Depreciation and amortisation	4	1,797	981
Other expenditures	4	4,508	5,594
Total		17,304	12,898
Income			
Income from operating activities	5	17,012	12,847
Other income	5	282	46
Total		17,294	12,893
Net expenditure		(10)	(5)
Interest receivable		12	6
Taxation		(2)	(1)
Net expenditure after interest and taxation		-	-

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

Statement of financial position

As at 31 March 2012

Non-current assets:	Note	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Property, plant and equipment	6	1,418		1,866	
Intangible assets	7	1,671		2,726	
Total non-current assets			3,089		4,592
Current assets:					
Trade and other receivables	9	310		334	
Cash and cash equivalents	10	16,684		11,964	
Total current assets			16,994		12,298
Total assets			20,083		16,890
Current liabilities					
Trade and other payables	11	317		1,051	
Other liabilities	11	1,670		2,292	
Total current liabilities			1,987		3,343
Non-current assets plus net current assets			18,096		13,547
Non-current liabilities					
Provisions	12	195		80	
Financial liabilities	11,14.2	150		266	
Total non-current liabilities			345		346
Assets less liabilities			17,751		13,201
Reserves					
General reserve		17,751		13,201	
Total			17,751		13,201

Adam Sampson
Accounting Officer

Date: 26 June 2012

The notes on pages 60 to 74 are part of these financial statements.

Financial statements

Statement of cash flows

For the year ending 31 March 2012

Cash flows from operating activities	Note	2011-12 £'000	2010-11 £'000
Net surplus after interest		-	-
Decrease in trade and other receivables	9	24	2,797
Increase/(decrease) in trade payables	11,14.2	(1,544)	2,260
Movement in provisions	12	115	80
Add back depreciation charge	4	567	341
Add back amortisation charge	4	1,230	640
Net cash outflow from operating activities		392	6,118
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(108)	(2,124)
Purchase of intangible assets	7	(114)	(3,066)
Net cash outflow from investing activities		(222)	(5,190)
Cash flows from financing activities			
Grants from parent department		4,550	9,750
Net financing		4,550	9,750
Net increase/(decrease) in cash and cash equivalents in the year		4,720	10,678
Cash and cash equivalents at the beginning of the year	10	11,964	1,286
Cash and cash equivalents at the end of the year	10	16,684	11,964

The notes on pages 60 to 74 are part of these financial statements.

Statement of changes in taxpayers' equity

For the year ending 31 March 2012

	General reserve £'000	Total reserves £'000
Balance at 31 March 2010	3,451	3,451
Changes in taxpayers' equity for 2010-11		
Retained surplus/deficit	-	-
Net expenditure for the year	-	-
Grant from Ministry of Justice	9,750	9,750
Balance at 31 March 2011	13,201	13,201
Changes in taxpayers' equity for 2011-12		
Retained surplus/deficit	-	-
Net expenditure for the year	-	-
Grant from Ministry of Justice	4,550	4,550
Balance at 31 March 2012	17,751	17,751

The notes on pages 60 to 74 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 2011-12 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. Levy funding is provided by the Approved Regulators annually in arrears. As at 31 March 2012, the OLC has sufficient cash resources to meet anticipated expenditure for financial year ending 31 March 2013. The Ministry of Justice also provides Grant-in-Aid where required to meet the net cash needs of the OLC. The OLC has assurances from the Ministry of Justice that, in the unlikely event that this is necessary, Grant-in-Aid will continue to be provided to meet the cash needs of the organisation. 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 licences: in equal monthly instalments over three years; and
- Information Technology: in equal monthly instalments over the residual life of the contract.

Notes to the Office for Legal Complaints accounts

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.

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 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. 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 2011-12 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	17,012	282	17,294
Income	17,012	282	17,294
Net expenditure	-	-	-
Total assets	20,083	-	20,083

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

3. Staff numbers and related costs

The remuneration of the OLC Board is borne by the Legal Services Board. The Chief Ombudsman is remunerated by the Legal Ombudsman scheme and is included within the staff costs below.

Staff costs comprise:

	Total 2011-12 £'000	Permanent staff 2011-12 £'000	Other staff 2011-12 £'000	Total 2010-11 £'000	Permanent staff 2010-11 £'000	Other staff 2010-11 £'000
Wages and salaries	9,437	8,719	718	5,509	4,714	795
Social security costs	938	894	44	517	507	10
Other pension costs	624	624	-	297	297	0
Sub total	10,999	10,237	762	6,323	5,518	805
Less recoveries in respect of outward secondments	(237)	(237)	-	(27)	(27)	-
Total net costs	10,762	10,000	762	6,296	5,491	805

Average number of persons employed

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

	Total 2011-12 No.	Permanent staff 2011-12 No.	Other staff 2011-12 No.	Total 2010-11 No.	Permanent staff 2010-11 No.	Other staff 2010-11 No.
Directly employed	276	258	18	185	142	43
Not directly employed	2	0	2	5	-	5
Total	278	258	20	190	142	48

4. Other expenditure

	Note	2011-12 £'000	2010-11 £'000
OLC set up costs		-	873
Travel and subsistence		40	52
Consultancy		361	-
Training		434	851
IT and telecoms		1,175	1,197
Premises costs		678	675
Facilities services		471	173
Rentals under operating leases		483	568
Legal and professional fees		235	(93)
Recruitment costs		212	1,077
Other running costs		67	36
External communications		187	101
Uncollectible debts		65	-
Audit fees		32	35
Internal audit fees		68	49
Total cash items		4,508	5,594
Depreciation	6	567	341
Amortisation	7	1,230	640
Total non cash items		1,797	981
Total		6,305	6,575

Uncollectible debts includes amounts provided for and written off during the year.

Notes to the Office for Legal Complaints accounts

5. Income

	2011-12 £'000	2010-11 £'000
Levy income from the Legal Ombudsman Scheme	16,671	12,826
Case fee income	341	21
Sub total	17,012	12,847
Support services to the Office of the Legal Services Ombudsman	282	46
Total	17,294	12,893

Levy income represents amounts due in respect of the annual levy due for Approved Regulators (see note 1.3). Case fee income represents amounts due in respect of case fees chargeable in respect of cases closed in 2011-12 (see note 1.3). Support services to the Office of the Legal Services Ombudsman ("OLSO") represents 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.

This service was completed in December 2011. No further income is expected from this activity in future years.

6. Property, plant and equipment

2011-12	Information technology £'000	Leasehold improvements £'000	Furniture and fittings £'000	Payments on account and assets under construction £'000	Total £'000
Cost or valuation					
At 1 April 2011	637	701	874	-	2,212
Additions	81	27	-	11	119
Disposals	-	-	-	-	-
At 31 March 2012	718	728	874	11	2,331
Depreciation					
At 1 April 2011	139	95	112	-	346
Charged in year	230	162	175	-	567
Disposals	-	-	-	-	-
At 31 March 2012	369	257	287	-	913
Net book value at 31 March 2012	349	471	587	11	1,418
Net book value at 31 March 2011	498	606	762	-	1,866

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

No property, plant and equipment has been purchased under finance lease arrangements. Additions include accrued costs of £11,000 relating to assets currently under construction (2010-11:£Nil).

Notes to the Office for Legal Complaints accounts

7. Intangible assets

2011-12	Information technology £'000	Software licenses £'000	Payments on account and assets under construction £'000	Total £'000
Cost or valuation				
At 1 April 2011	2,500	867	-	3,367
Additions	65	49	61	175
Disposals	-	-	-	-
Transfers	-	-	-	-
At 31 March 2012	2,565	916	61	3,542
Amortisation				
At 1 April 2011	479	162	-	641
Charged in year	831	399	-	1,230
Disposals	-	-	-	-
At 31 March 2012	1,310	561	-	1,871
Net book value at 31 March 2012	1,255	355	61	1,671
Net book value at 31 March 2011	2,021	705	-	2,726

Additions include accrued costs of £61,000 relating to assets currently under construction (2010-11: £Nil).

2010-11	Information technology £'000	Software licenses £'000	Payments on account and assets under construction £'000	Total £'000
Cost or valuation				
At 1 April 2010	6	-	295	301
Additions	2199	867	-	3,066
Disposals	-	-	-	-
Transfers	295	-	(295)	-
At 31 March 2011	2,500	867	-	3,367
Amortisation				
At 1 April 2010	1	-	-	1
Charged in year	478	162	-	640
Disposals	-	-	-	-
At 31 March 2011	479	162	-	641
Net book value at 31 March 2011	2,021	705	-	2,726
Net book value at 31 March 2010	5	-	295	300

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 licences with a cost of £508,000 have been purchased on terms which amount to a finance lease.

Notes to the Office for Legal Complaints accounts

8. Impairments

No impairments have been made during the year to 31 March 2012 (2011: Nil).

9. Trade receivables and other current assets

Amounts falling due within one year:	As at 31 March 2012 £'000	As at 31 March 2011 £'000
Case fee receivables	72	11
Deposits and advances	17	9
Due from the Office of the Legal Services Ombudsman	-	46
Other receivables	-	11
Prepayments and accrued income	221	257
Total	310	334

Included within prepayments and accrued income is £54,800 of accrued income relating to unbilled case fees (2010-11: £11,600).

10. Cash and cash equivalents

	As at 31 March 2012 £'000	As at 31 March 2011 £'000
Opening balance	11,964	1,286
Net change in cash and cash equivalent balances	4,720	10,678
Closing balance	16,684	11,964
The following balances at 31 March were held at		
Government Banking Services	16,684	11,964
Short term investments	-	-
Balance at 31 March 2012	16,684	11,964

11. Trade payables and other current liabilities

Amounts falling due within one year	Note	As at 31 March 2012 £'000	As at 31 March 2011 £'000
Trade payables		235	951
Other payables		82	100
Trade and other payables		317	1,051
Intra-government balances – other taxation and social security		256	291
Intra-government balances – Ministry of Justice		-	382
Current part of finance lease	14.2	123	120
Accruals and deferred Income		1,291	1,499
Other liabilities		1,670	2,292
Total		1,987	3,343
Amounts falling due after more than one year			
Finance leases	14.2	150	266
Total		150	266

Accruals and deferred income includes £72,000 in respect of capital additions (2010-11: £Nil).

Notes to the Office for Legal Complaints accounts

12. Provisions for liabilities and charges

	Other £'000	Leasehold dilapidation £'000	Total Provisions £'000
Balance as at 1 April 2011	-	80	80
Provided in the year	115	-	115
Provisions not required written back	-	-	-
Provisions utilised in the year	-	-	-
Balance as at 31 March 2012	115	80	195
Expected timing of cash flows			
Not later than one year	115	-	115
Later than one year and not later than five years	-	80	80
later than five years	-	-	-
Balance as at 31 March 2012	115	80	195

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. Other provisions relate to amounts provided in respect of legal challenges.

13. Capital commitments

Contracted capital commitments at 31 March 2012 not otherwise included in these financial statements amounted to £Nil (2010-11: £85,000).

14. Commitments under leases

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

14.1 Operating leases

Obligations under operating leases for the following periods comprise	2011-12 £'000	2010-11 £'000
Buildings		
Not later than one year	524	524
Later than one year and not later than five years	1,493	2,147
Balance at 31 March 2012	2,017	2,671

14.2 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 IFRS 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	2011-12 £'000	2010-11 £'000
Not later than one year	123	120
Later than one year and not later than five years	150	266
Balance at 31 March	273	386

The present value of obligations under finance leases for the following periods comprise	2011-12 £'000	2010-11 £'000
Not later than one year	123	120
Later than one year and not later than five years	148	247
Balance at 31 March	271	367

15. Contingent liabilities disclosed under IAS 37

Given the nature of what we do it is inevitable that we will be challenged on some of our Ombudsman's decisions. The Office for Legal Complaints has a small number of ongoing challenges to decisions where Judicial Review proceedings have been started. These challenges are at an early stage in proceedings and management does not currently believe that these have a realistic prospect of success.

Notes to the Office for Legal Complaints accounts

16. 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.

17. 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 £144,176 (2010-11: £157,803). The payments for salaries for the OLC Members for 2011-12 were £131,667 (2010-11: £130,000).

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 2012 the Ministry of Justice provided Grant-in-Aid of £4.55 million (2010-11: £9.75 million). All balances due to the Ministry of Justice in respect of set up costs incurred prior to the establishment of the OLC were repaid during the year to 31 March 2012.

During the year the OLC provided staff resources and facilities 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 £282,000 to the OLSO for the provision of these staff resource and facilities (2010-11: £46,000).

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

18. 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.

Appendix 1: Regulatory objectives

Section 1(1) of the Legal Services Act 2007 refers to eight regulatory objectives:

- (a) protecting and promoting the public interest;
- (b) supporting the constitutional principle of the rule of law;
- (c) improving access to justice;
- (d) protecting and promoting the interests of consumers;
- (e) promoting competition in the provision of services within subsection (2) [defined as services such as are provided by authorised persons (including services which do not involve the carrying on of activities which are reserved legal activities)];
- (f) encouraging an independent, strong, diverse and effective legal profession;
- (g) increasing public understanding of the citizen's legal rights and duties;
- (h) promoting and maintaining adherence to the professional principles.