
MINUTES

MINUTES of the meeting of the directors, held at South Quay Plaza, 183 Marsh Wall, London E14 9SR on Wednesday 16 March 2011 at 9.30am

Present	Chris Kelly	chairman
	Alan Cook	director
	Janet Gaymer	director
	Alan Jenkins	director
	Elaine Kempson	director
	Kate Lampard	director
	Julian Lee	director
	Maeve Sherlock	director
	Roger Sanders	director
	Pat Stafford	director
In attendance	Natalie Ceeneey	chief executive & chief ombudsman (CEO)
	Tony Boorman	decisions director
	Julia Cavanagh	performance & finance director
	Barbara Cheney	company secretary
	David Cresswell	director of communications & customer insight
	David Thomas	corporate director
	Caroline Wayman	legal director
	Jacquie Wiggett	HR & organisational development director

The chairman welcomed Janet Gaymer, Alan Jenkins and Pat Stafford to their first board meeting since being appointed as non-executive directors on 23 February.

1/1103 Apologies for absence

Apologies for absence were received from Simon Rouse.

2/1103 Minutes of meetings

- a) The minutes of the board meeting held on 1 February 2011 were approved as an accurate record of the meeting.
- b) The draft minutes of the technology group meeting that was held on 28 January 2011 were noted.
- c) The draft minutes of the audit committee meeting that was held on 1 February 2011 were noted.

3/1103 Matters arising

7/1102 – board committee membership

The chairman reported that he had invited Alan Jenkins to join the strategy group.

9/1102 – board evaluation

The chairman confirmed that he was considering possible options for carrying out an independent evaluation of the board.

4/1103 Executive update

a) Regulatory reform

Following the government's publication of further proposals for regulatory reform on 17 February, the decisions director reported that discussions were continuing with the Treasury and FSA about how the ombudsman service and the future Financial Conduct Authority would work together most effectively in the new regime.

b) Payment protection insurance (PPI)

The legal director reported that the judicial review judgment would be unlikely to be handed down until the week beginning 28 March at the earliest. It was noted that depending on timings an extra board meeting might be required at short notice to consider the implications of the judgment.

The decisions director confirmed that because of the behaviours of the litigant banks complaints about PPI continued to be received at the rate of about 5,000 cases per week.

c) Financial results

It was noted that a small surplus was generated in February. This masked a deficit in handling PPI cases (as a result of the added costs of non co-operation of litigant firms in handling PPI cases).

d) Awareness of the Service

The director of communications & customer insight reported an increase in unprompted awareness of the Service following outreach initiatives. The key objective of the outreach work was to ensure that everyone was aware of the Service at the time they might need to use it.

e) NAO review

It was confirmed that the forthcoming review by the NAO would focus on efficiency and the current initiatives to develop and improve the Service in future. Following a two week scoping visit in April, a proposal for the full review will be prepared for the board to consider in May or June.

f) Litigation

The board noted the litigation report and considered the format & content of future reports. It was agreed that

- the monthly report that is prepared for the ombudsman panel should also be submitted to the board, with a note of significant issues at the beginning of the report; and
- a review of outcomes and lessons learned should be presented to the board at least once a year.

Action The legal director will ensure that future reports are provided as agreed.

5/1103 2011/12 Priorities, budget and KPIs

The CEO introduced a paper about priorities for 2011/12, the budget and key performance indicators (KPIs). She confirmed that, following the discussion at the last meeting, some adjustments had been made to the priorities document and further work had been done on the KPIs and balanced scorecard for 2011/12. She went on to explain how the various documents will be used to provide assurance to the board and to ensure delivery by the executive.

a) Priorities 2011/12

The board discussed the extent to which KPIs measured delivery of business-as-usual and the priorities plan tracked progress against milestones and achievements. It was agreed that, the communication of these issues and how they inter-related would be challenging but they were important messages that needed to be conveyed to staff in a clear manner so that the concepts were thoroughly understood.

The board also considered the correct approach to target setting, and discussed the appropriate level of stretch required to deliver targets set. The CEO agreed that KPIs and priorities should be set so that, in the context of a normal operating environment, targets were stretching, but achievable. The board acknowledged it was inappropriate for the Service to be resourced to meet its plans in any circumstance and consequently flexibility was required in assessing performance in the event of unforeseen issues diverting attention from the plans.

b) Balanced scorecard

The board went on to consider the balanced scorecard for 2011/12 which was made up of four parts - operational, customer/quality, financial and people. The key measures that should be used to manage the Service and hold the executive to account were discussed. It was noted that it was appropriate for the Service to set itself objectives which represented continuous improvement, and targets would be challenged and re-set on an annual basis.

- operational

It was noted that the target for non-PPI cases was to resolve at least 50% of complaints within three months. The decisions director explained that co-operation from financial businesses was needed to achieve this objective. It was noted that the target to eliminate cases over 18 months old was a challenging but important objective. Due to complexity or the specific circumstances of the complaint, there were always likely to be isolated, exceptional cases that would take longer. Nevertheless it was agreed that it was right to target the elimination of cases taking over 18 months, rather than set a percentage target. As with all the KPI at the end of the period the board would be in the position to judge the cause and significance of any performance shortfall.

- customer/quality

The following customer/quality measures were proposed

- getting the basics right
- customer satisfaction
- getting to grips with the case & getting to the heart of the issue

There was a discussion about the appropriate target for customer satisfaction. It was noted that, in every case, one of the parties was likely to be dissatisfied. The CEO confirmed that the content and number of questions asked in consumer surveys together with the frequency and format were all being reviewed by the head of customer insight & experience. Financial businesses were more difficult to survey but work was under way to establish the appropriate level of staff to which relevant questions should be addressed.

- financial

It was agreed that the key financial objective was to break even. It was noted that cashflow was included as part of the supporting MI pack.

- people

The HR director confirmed that there were a number of measures below the scorecard indicator and that the extent to which values were fully embedded throughout the Service would be important. Other indicators such as attrition, diversity and sick leave would also be measured. There was a request for details about leavers and where they had gone and the HR director confirmed that this would be provided in the MI pack.

The board discussed how best to measure the Service's accessibility, and whether it would be appropriate to add a fifth section to the scorecard to specifically target accessibility. The director of communications & customer insight explained that this could be challenging (as there was no single measure) but agreed to explore the issue and report back.

The board agreed that

- the objective will be to achieve 100% of the priorities but if an unexpected and significant event occurred, it would be reported to the board, and the priorities reassessed.
- reports should be submitted to the board on a quarterly basis
- that fewer KPIs were preferable: they provoked discussion
- more development work was needed in respect of firm satisfaction and it was noted that this was already under way.

c) The budget

The director of finance and performance noted that work had been undertaken during the period to determine the budget by cost centre. It was noted that despite some movement between cost centres there had only been a minor change in the overall budget since the draft published for consultation in January 2011. The board noted that formal approval of the budget was a requirement of the next agenda item.

The board approved

- key priorities for 2011/12
- the balanced scorecard 2011/12
- the internal allocation of the budget 2011/12 – subject to a decision about reserves later in the meeting.

Action The executive will develop the scorecard as discussed

6/1103 2011/12 Budget & fees instrument FOS 2011/2

The decisions director introduced a paper which set out the budget for 2011/12, a case for additional reserves with a governance mechanism and the fees instrument.

The finance & performance director pointed out that the risks arising from the volatility and uncertainty about PPI cases were such that the expected existing reserves of about £6m were unlikely to be adequate. She added that this could lead to technical insolvency and she reminded board members of their liabilities as directors under the Companies Act 2006. The board considered the level of reserves that could be required.

It was noted that PPI and other case volatility could give rise to two types of financial risk for the Service –

- a) increased costs - which might arise because of reduced cooperation by some businesses; and
- b) stranded costs - where case volumes reduced more rapidly than the Service could reduce costs. The risks of increased costs in particular could be very material. The board noted a number of scenarios where financial losses could amount to over £25m.

The board also noted that there could be no guarantee that sufficient income to meet the Service's operational needs during 2011/12 could be secured through case fee income (given the inherent volatility of that source of income and the particular nature of the risks the Service faces in 2011/12). It was also noted that some scenarios resulted in a sustained shortfall in income without an associated reduction in cost (as a result of higher costs per case than the case fee) resulting in an absolute increase in costs that could not be recovered by case fee income in subsequent years. In consequence they could not simply be considered cashflow matters to be handled by borrowings.

The board discussed the governance mechanisms that should be put in place. It was keen to ensure transparent governance of the additional reserves. In particular the board wished to be assured that decisions about releasing funds from the reserve to the operational budget were controlled by the board and not used for the purpose of funding "business as usual" operational issues. In summary if exceptional events appeared to justify a call on reserves, the board would consider a revised financial plan for the forthcoming period, including forecasts and variance analyses, before deciding whether to allow calls on the reserve. The methodology for determining the draw down would be subject to approval by the audit committee and review by the auditors. Confirmation of the review would be provided by the auditors in their opinion statement included in the annual accounts.

Accordingly the board agreed

- the level and nature of the risks the ombudsman service faces are such that it would present an unacceptable level of risk to depend mainly on the availability of overdraft facilities alone;
- an additional reserve of £25m is prudent and necessary to manage these risks;

- this additional reserve should (subject to the decision of the FSA board) be funded through an increase in the Compulsory Jurisdiction levy;
- the level of reserves should be reviewed again as part of the process of setting the budget for 2012/13 and
- that the proposed mechanism for governing the reserves should be adopted.

On that basis the board adopted the budget for 2011/12, and approved the request for the additional £25m levy, and recommended that it be submitted to the FSA for final approval.

The board adopted Fees Manual (Financial Ombudsman Service Case Fees 2011/2012) Instrument 2011, subject to the final approval of the FSA.

Action The finance & performance director will discuss the audit of the governance mechanism of the additional reserves with the internal and external auditors to establish who will be responsible for this.

7/1103 Plan & Budget feedback

The board received a paper that included feedback from the plan & budget 2011/12 consultation and a draft feedback statement. The decisions director explained that the latter could not be finalised until after the FSA board had approved the budget at its meeting on 24 March. He added that the judgment following the PPI judicial review could have an impact on the final version.

In addition to some unease about increasing reserves and suggested alternatives, there had also been some requests from industry stakeholders for a review of the funding model. It was noted that the draft feedback statement confirmed that the board would ensure there would be transparent governance of the additional reserves. It was suggested that the process for doing so should be explained.

The board agreed that a feedback statement should be published after the budget position is finalised.

Action The decisions director will ensure that an explanation of the governance process for the additional reserves is added to the feedback statement.

8/1103 *Our plans for a changing world*

The director of communications & customer insight presented a near final version of the document entitled *our plans for a changing world*, which included comments from board members. He said that the purpose of the document was to explain how the plans and expenditure for the year fitted with the Service's values, priorities, and KPIs.

Subject to the FSA's approval of the level of reserves and completion of the section about risk and reserves on page 14, the board approved the document for publication.

9/1103 Decisions, ombudsmen and related functions

A paper about the management of the ombudsman panel, plans for dealing with demand, use of ombudsman resource and future plans was presented by the decisions director and the legal director. They explained the assumptions that had been made, the challenges of managing a large panel of over 70 ombudsmen, achieving the right balance between deciding cases, advising adjudicators, learning & development and preventing complaints arising in the first place. They confirmed that more ombudsmen were being recruited on a range of flexible terms, including secondments and fee-paid arrangements.

The board discussed the proportion of cases that were referred to ombudsmen and those that were over turned by ombudsmen as well as the benefits of ombudsmen spending more time providing support to adjudicators. As adjudicators were likely to gain more confidence from the initiatives that were already under way to provide them with more intensive training, it was thought that this could help to reduce referrals to ombudsmen.

Productivity and prioritisation of cases were also considered. It was explained that cases might be given priority if, for example, a decision was needed about a 'lead' issue that would have an impact on many other similar complaints.

10/1103 Employee engagement survey

The HR director presented the results of the Service's participation in the 'Sunday Times' top 100 employers' employee engagement survey. She explained that this was the first time that the Service had taken part in this particular survey. Although only 60% of staff needed to take part for it to be statistically accurate, all staff had been encouraged to participate so that everyone could express their views. Although not accredited, the Service came close to being 'one to watch'.

She went on to explain the action being taken as a result of the survey. Team results had been published internally and managers were discussing the outcome with their teams. Lessons were being learned from teams that had high engagement results to help less engaged teams become more motivated. It was noted that the Service was committed to running the survey again in October/November so that the results could be benchmarked to track progress.

11/1103 Risk register

The board noted that, once the priorities and budget had been approved, the executive would be undertaking a comprehensive review of the risk register. The revised risk register would therefore form part of the agenda for the board meeting on 13 April.

12/1103 Any other business

The chairman suggested that board members should attend the next 'ask the executive' event when staff will have an opportunity to ask questions about any issues. There were likely to be questions about the employee engagement survey.

Action The secretary will confirm the date of the next 'ask the executive' event as soon as it has been finalised.

There being no other business, the meeting ended at 12.50 pm