

Financial Ombudsman Service Limited

Minutes

Minutes of the meeting of the Board, held on 22 February at 10.15am

Present	Baroness Zahida Manzoor CBE	Chair of the Board
	Bill Castell	Non-Executive Director
	Sarah Lee	Non-Executive Director
	Ruth Leak	Non-Executive Director
	Jacob Abboud	Non-Executive Director
	Nigel Fretwell	Non-Executive Director
	Shrinivas Honap	Non-Executive Director
In attendance	Nausicaa Delfas	Chief Executive & Chief Ombudsman
	Julia Cavanagh	Chief Financial Officer
	Caroline Nugent	Director of HR&OD
	Nicola Wadham	Chief Information Officer
	Simone Ferreira	Interim Chief of Staff
	Yvette Banister	General Counsel
	Paul Fleming	Head of CIO Operations
	Paul Mills	Head of Risk and Governance
	Kam Hill	Head of Strategy
Alison Hoyland	Board Secretary	
Apologies	Rae Stewart	Interim Director of Communications

1-2/0222 Board and committee meetings:

The Board agreed the minutes of the Board meeting on 25 January 2022. Matters arising were picked up in the substantive business before the Board.

In noting the action log, the Board noted that actions should not be marked as complete pre-emptively. Going forward, the Board asked for actions to be numbered for ease of reference and for the log to indicate any updated target dates.

The Board Secretary noted plans to streamline the action log, including to move 'on-going' actions and track them separately and to take off any actions that would be taken forward and tracked under the Transformation Programme (in the case of the latter, the Board Secretary would pick the transfer of the actions with the new Transformation Director, once in role).

The Board noted the:

- Minutes from the meeting of the Audit, Risk and Compliance Committee on 15 November
- Oral update of the meeting of the Audit, Risk and Compliance Committee on 4 February 2022.
- Oral update of the meeting of the Remuneration Committee on 21 February 2022.

For future meetings, the Board agreed that minutes of Board Sub-Committees would be sent to Board members once approved for noting, in place of inclusion in Board packs to facilitate earlier receipt and a reduced Board pack.

03/2202 Interim Chief Executive and Chief Ombudsman's report

The Interim Chief Executive and Chief Ombudsman presented her update to the Board which focussed on the key highlights since January, including internal and external stakeholder engagement, key issues on the radar and exception reporting.

In relation to key external engagement, the Board noted the update from the interim Chief Executive and Chief Ombudsman and the Chairman about their attendance on 9 February 2022 at the Treasury Select Committee on the 'Work of the Financial Ombudsman Service'. The session had explored a wide range of issues but had centred on the performance improvements needed to address the long waiting times and the Financial Ombudsman's Service's plans to take forward the recommendations from the Board commissioned independent review. The Committee heard how the Service's action plan would deliver an ambitious change agenda for ensuring it was fit for the future and could deliver operational excellence and value for money. The Chairman and interim Chief Executive had been clear about the Service's commitment to change and improve, which the Committee had welcomed, noting it would continue to scrutinise the Service's performance and its delivery against its plans.

The Board noted the plans to exit a floor at the Service's Friargate office, in line with its agreed property strategy. The exit would deliver £3.5m savings against the costs of the rest of the term of the lease. The decision to release took account of current and future space requirements and the desk capacity that hybrid working was providing.

The Board noted the Service performance position later on the agenda under the Executive Reports, but it noted under the interim Chief Executive and Chief Ombudsman's exception report that the Service was unlikely to be in a position to close the outstanding Amigo cases (around 16, 000 cases) this financial year, due to the ongoing issues in relation to a proposed Scheme of Arrangement. The Service was continuing to keep its position under review in relation to whether and when it might be able to close the cases as against the prevailing circumstances. While the cases remained open, they continued to impact the oldest case position.

In relation to another feature of the issues impacting the oldest cases, the Board noted the position in relation to cases that get delayed when subject to challenge on complex legal issues, which sometimes then go on to be subject to Judicial Review challenge. To aid its understanding of the issues in the context of the Service's decision-making, the Board asked for workshop on Judicial Review process and challenge.

Action

- Board workshop on the Judicial Review process to be set up.

04/0222 2022/23 Budget

The Board considered the latest view on the 2022/23 budget and funding approach, noting the position had been informed by the consultation feedback and the bottom up planning.

The budget included the investment costs in 2022/23 for taking forward the action plan in response to the periodic review, but as previously noted, the expected benefits had not been included. The scale and timing of the benefits were being scrutinised through the change programme, and while a new casework operating model and new technology, for example, would generate efficiencies and savings during the year, it was anticipated that the full impact would be realised in successive years, once the changes were in place and fully embedded.

The Board supported the underlying assumptions for the purposes of the Budget, including in relation to unit cost and productivity, and it accepted that more effective and efficient working in future would be enabled through the transformation programme and the structural and other changes it would put in place. It noted too that appreciable improvement would require a cultural shift as well. However, the Board challenged the Service to drive for a higher level of ambition in relation to the operational performance improvements it would seek to make in the meantime. The Board was clear that the Service should look for further opportunities to improve the backlogs throughout the customer journey and provide answers more quickly. The Board expected higher productivity, compared to the Budget assumptions, and for further savings and efficiencies to be made. The Service would continue to drive performance improvement and explore further initiatives to enable increased output.

Responses to the consultation had been largely supportive of the underlying assumptions and the funding proposals, except in relation to the plans to reduce the number of free cases (where respondents were concerned about the impact on smaller firms in particular). There had been some concerns expressed about an increase in the levy, but not to the same extent as the reduction in free cases.

In response to the feedback received, and the bottom up planning scrutiny that had been undertaken, the Service proposed to keep the new case volume assumptions unchanged, but lower the resolution assumptions by nearly 6,000 cases, based on the higher numbers of resolutions that were being achieved in the current financial year. It also proposed to take forward the funding proposals, noting the concerns raised about the reduction in free cases and the levy, but confident nevertheless that the proposals reflected the 'polluter pays' principle and continued to provide a safeguard for smaller firms. Importantly, the proposals would continue to re-balance the case fee to levy ratio and provide for greater financial stability.

The next steps included a review by the FCA Oversight Committee later in the week, before final agreement and approval would be sought at the Financial Ombudsman Service and FCA's respective March Board meetings.

Action

- Sensitivity analysis on volumes and inflation to form part of the final budget review in March.

05/0222 IT Managed Service and Digital Portal

In January, the Board had agreed in principle the total contract cost for an IT Managed Service and the value case for the support and other services that would be delivered under the contract in relation to the casework system, associated reporting and the external website. Final agreement would be given subject to a review of an updated business case for the digital portal and the fiscal benefits that would be realised.

Since the January Board, the updated digital portal business case had been subject to further scrutiny and challenge by the Audit, Risk and Compliance Committee (ARAC) – to test the methodology and presentation of the benefits. ARAC had subsequently agreed that the business case for submission and consideration by the Board.

The Board noted the basis of the digital portal business case, the fiscal benefits to be derived and the break-even position at year 4. It approved it for implementation and confirmed its final approval of the value case for the casework system, reporting and external website support and services and the total contract cost for all services over the full term for the new supplier. Consequently, it agreed that the Chairman could sign the procurement recommendation to select the winning supplier and in turn the contract documents, in due course.

As part of its due diligence, the Board was asked to note that the regulated tender and procurement approach the Service had taken had been endorsed both internally and externally. It noted too that the expression of the fiscal benefits in the digital portal business case established the approach for future business cases, ensuring consistency of presentation and scrutiny.

The implementation progress and benefits realisation would be tracked through the Transformation Committee and in reports to the Board, as appropriate.

06/0222 Periodic Review and Action Plan Update

The Board noted the update covering the progress being made in relation to the design options for the casework operating model, the call-handling pilot, the development of a 'storyboard' to provide the internal and external narrative to explain the change programme and the current view on the deliverables in the next 3, 6 and 12 months.

The substantive discussion on the design options for the casework operating model was coming to the March Board, the starting point for which was the recommendation from the periodic review that the casework teams should be arranged by verticals for different financial products and services and complaint types. In discussing the high-level principles ahead of the substantive discussion, and to inform the design work, the Board observed that the verticals did not necessarily need to be equally sized, spans of control should be larger, compared to current spans, the balance between management and case-handling responsibilities should form part of the Board scrutiny in March, and in the final model there should be clear expectations about output and delivery as between split responsibilities.

In reviewing the initial 'narrative' version of the draft 'storyboard', the Board suggested that it needed more of a sense of pace and ambition and should be simplified and focus succinctly on the key anticipated actions and deliverables from the transformation programme and change initiatives. While there should be one high-level 'storyboard' for all, it may prove helpful to produce some further differentiated 'storyboards' to capture the different nuances and what is important to different stakeholders and/or populations of staff. The next iteration would build on the Board feedback with the help of the new Transformation Director and would be tested with staff. 'Audience' testing would include presenting the narrative in different formats, including with the use of visuals.

More generally, it would be important to continue to engage staff on the transformation and change programme, ensuring they could provide input and help shape the change, where appropriate, and understand the 'why', 'what', 'how; and 'when'. The general principle of sharing key decisions as soon as possible, including those made at Board level, should be observed.

The Board noted the current view of the anticipated deliverables over the next 3, 6 and 12 months and that further deliverables would be added as the respective business cases matured. Future updates and status reports should set out what had already been delivered, as well as the anticipated deliverables and their timescales and be presented as part of the integrated plan so the Board could scrutinise progress against key milestones across the full change portfolio. Under the Transformation Director, and with the necessary programme office expertise in place, more structured programme management disciplines would be adopted and evident in Transformation Committee and Board reports.

Actions:

- Casework operating model design options to reflect the Board feedback
- Next iteration of the 'storyboard' to reflect the Board feedback
- Transformation and Board reports on the change programme to clearly set out what has been delivered to date, the key deliverables and their timescales and the key milestones, as part of an integrated plan of the full change portfolio.

07/0202 2022/23 Strategic Measures

The Board provided input in January on the draft strategic measures for 2022/23 (these 'Level 1' measures would be published and were the key success criteria for which the Service would be accountable to external stakeholders). Since the January Board meeting, further input from a number of individual Non-Executive Directors had been received to help test and develop the measures and associated targets further, including those at the next level down, 'Level 2', which were more granular and would allow for more detailed internal scrutiny of performance.

While a good number of strategic 'Level 1' measures and associated targets were largely unchanged, work was ongoing to test if any further measures could be introduced for the start of 2022/23 as well as what measures it would be helpful to track internally during the year as 'shadow' measures. This approach would allow the Service to check the availability of data, its validity and whether the measures would help drive performance improvements and/or provide a meaningful account of delivery against the Service's strategic priorities. 'Shadow' measures would be elevated to the externally reported 'Level 1' measures if they stood up to scrutiny.

The Board noted that the Remuneration Committee had met the day before the Board and had reviewed the 'people' measures at 'Level 1' and 'Level 2'.

The Board discussed the proposed 'Level 1' measures and targets and suggested some further refinements, including to introduce further efficiency measures, in addition to the cost per case measure, to introduce targets for the 3, 6 and 12 month timeliness measure, moving the median resolution measure to 'Level 2', and to introduce other measures for checking against technology performance. The Board also questioned the level of ambition in some of the draft targets and suggested some needed to be more challenging. More broadly, it would be important for all measures and targets to be set against clear criteria and definitions and using a clear methodology for calculating them.

The Board would be asked to give final approval for the 'Level 1' strategic measures and targets at its March meeting. To inform the final decision, the Board wanted to take a holistic view across the 'Level 1' strategic measures and associated targets, the draft 'Level 1' shadow measures and the draft 'Level 2' performance measures.

Action

- 'Level 1' measures to be updated in line with the Board feedback.
- March paper to include a holistic view across the full measures' framework and the relevant definitions and methodology.

08/0222 Executive reports

The Board noted the Executive updates, and discussed the issues arising, in relation to:

- Casework
- Finance
- Technology
- People
- Legal
- Policy and Strategy
- Communications