

Minutes – Board Meeting

30 October 2023, 10.15am to 1.30pm, Exchange Tower

<p>Board attendees</p> <p>The Baroness Manzoor CBE, Chairman Shrinivas Honap, Director Ruth Leak, Director Sarah Lee, Director Bill Castell, Director Nigel Fretwell, Director</p>	<p>Executive attendees</p> <p>Abby Thomas, Chief Executive and Chief Ombudsman James Dipple-Johnstone, Deputy Chief Ombudsman Karl Khan, Chief Operating Officer Jenny Simmonds, Chief Finance and Risk Officer and Company Secretary Jane Cosgrove, Chief People Officer Yvette Bannister, General Counsel</p>
<p>Other Financial Ombudsman Service attendees</p> <p>Mark Sceeny, Head of Business Management Charles Prendergast, Company Secretary Assistant</p>	
<p>Apologies</p> <p>Jacob Abboud, Director</p>	

Introduction

1. The Chairman congratulated Sarah Lee on her reappointment as a director for a second term from January 2024.

Conflicts of interest

2. No conflicts of interest were declared.

Board and Sub-Committee meetings

3. The minutes of the Board Meeting on 27 September 2023 were agreed subject to minor amendments.
4. The draft ARAC minutes of 12 October 2023 will revert to the Board in November once approved by ARAC.

Chief Executive and Chief Ombudsman's Report

5. The Chief Executive and Chief Ombudsman's Report was noted by the Board.
6. The Board discussed performance, the quality matrix, and assurance. The Board noted progress on the new service standards with a good number of cases now being resolved within 3 to 6 months. However, the Financial Ombudsman Service still needed improved productivity and an increase in value for money to ensure customer satisfaction for complainants, firms and other stakeholders.
7. The Board requested inclusion of a report on all cases over 12 months and noted the reduction from over 30,000 in 2021/22 to ~ 9,700 at the end of October. Non-workable cases (due to litigation, etc.) have reduced to about 600.
8. The Chief Operating Officer updated the Board on the Digital Portal. Although remediation was on target, the programme was being reviewed and re-baselined. The original programme costs were estimated at £95,000 annually, but spending had increased to £35,000 a month due to additional run costs. Switching programme activities has reduced costs by £15,000, but the total costs were now estimated in the

region of £1.4m a year (excluding VAT). Without proven results, the Board was concerned about such costs but noted they may not be inherently unreasonable for a project of this size and nature when looking at comparable programmes in similar organisations. The Board asked the Executive to explore all options to ensure value for money together with good results. The goal was to launch the Digital Portal in 2024/25. The Board discussed options for investigating risks.

9. The Board requested a Lessons Learned paper on the Digital Portal by the January awayday. The independent report and recommendations on next steps will also be circulated by the Chief Operating Officer before the November Board Meeting.

Reference	Actions	Date	Owner
BC231030/21	Lessons Learned paper to the Board on Digital Portal	29 January 2024	Chief Operating Officer
BC231030/22	Circulate the independent report to the Board for assurance	27 November 2023	Chief Operating Officer

Q2 Performance and Reforecast

10. The Board noted the Q2 Performance and Reforecast Report.
11. The Chief Finance and Risk Officer presented the second financial reforecast of 2023/24 for noting and as a possible baseline for the draft 2024/25 budget consultation. The Chief Finance and Risk Officer made it clear that the original budget and targets stood – and this was just a progress report for predicting the likely actual results at the end of 2023/24 as circumstances evolved over the financial year.
12. The Chief Finance and Risk Officer reported that, at the end of Q2, the Financial Ombudsman Service was £5m net behind on income due to fewer resolutions than originally forecast. This negatively impacted operating costs due to a reduction in case fees. The resolution targets had not been met in the first half of the year due to embedding the new operating model and the complexity of several thousand cases that could not be resolved quickly as they were impacted by litigation, insolvency proceedings or regulatory action.
13. The Board requested that future board packs include performance data broken down by directorate so they could better understand the differing challenges posed by different product types and industry sectors.
14. The Board discussed exit rates and forecasting for 2024/25 and suggested that a range be given for hitting financial targets. The Board also advised the Executive to focus on controlling overhead costs.

2023/24 Bonus recommendation update

15. The Board approved the proposed bonus methodology to replace the Collective Reward Scheme for 2023/24.
16. The Board accepted that 2023/24 was a transitional year, including for the bonus reward scheme. They were assured by the Executive that underperformance would not be rewarded and, going forwards, high performance would be incentivised.
17. The Board and Executive agreed that challenging targets should be set and rewards only be given for reaching those original targets. Any incentive scheme should be fair but also ensure that talented individuals were retained.
18. The Board suggested that a recognition scheme for 2024/25 might include in-the-

moment recognition, such as personal thank-you letters, vouchers, time off in lieu, etc. The Board noted that a further discussion on future bonus schemes would take place at the Board Awayday in January 2024.

2024/25 Draft Plan and Budget and draft Consultation

19. The Board approved the draft Plan and Budget for 2024/25.
20. The draft budget would be used for the 2024/25 Plan and Budget Consultation (to be published shortly). It will be refined during Q4 of 2023/24 following feedback from the Consultation before final approval from the Board and Financial Conduct Authority (FCA) in March 2024.
21. The Board noted that the reserve target for Financial Ombudsman Service continued to be 3 months and the forecast level of reserves significantly exceeded that level. However, the Executive were proposing to reduce case fees and levies in 2024/25, partially funded by efficiency savings already delivered and partially funded by 'handing back' £12m of reserves, in expectation of further efficiency savings to be delivered in year. The Board advised being more explicit in the Consultation about the fact that the Financial Ombudsman Service was returning reserves to the industry – savings which could be passed onto consumers – by lowering levies and case fees as well as absorbing inflationary costs.
22. The Board asked that the Consultation include a line on the 2025/26 budget too; and reiterated about giving a range for setting budget targets. The Board agreed to email the Chief Finance and Risk Officer with feedback on the draft Consultation. The Chief Finance and Risk Officer would take account of that feedback and return the draft Consultation to the Board by 10 November 2023. The Chief Finance and Risk Officer noted that the final deadline for the draft Consultation was 27 November 2023.

DECISION on Draft 2024/25 Plan and Budget and Consultation

- The Board **APPROVED** the draft Plan and Budget for 2024/25 and agreed to provide written feedback for consideration on the draft Consultation.

Zero-based budgeting update

23. The Board noted the paper, which provided an update on the progress of zero-based budgeting (ZBB). The Board discussed the potential savings identified on IT service costs (~20%) and property, and the possibility of engaging a third-party cost recovery specialist – and noted that focus was heavily on financial procurement and IT whereas it needed to look at the Financial Ombudsman Service services holistically.
24. The Board noted that the Financial Ombudsman Service expense ratio appeared to be 65% casework and 35% enabling functions. As casework is the core function, there was a discussion about whether it could or should be rebalanced to, for example, 80% casework and 20% enabling functions.
25. The Board accepted the suggestion from the ARAC meeting on 12 October 2023 that, rather than use a third-party consultant to lead on ZBB, there was already a member of staff with the requisite business and IT commercial expertise to lead on this.
26. The Board requested the paper return to Board when the 'cloud' data-retention issue has been decided (3 years being mooted as prudent but also reasonable from a costs perspective).

Reference	Actions	Date	Owner
BC231030/23	To review data-retention schedules and costs for zero based budgeting. The paper is to return to Board for noting.	29 January 2024	Chief Finance and Risk Officer

Charging fees to professional commercial representatives

27. The Board noted the paper and discussed the new statutory right for the Financial Ombudsman Service to charge fees to ‘other persons’ (save for complainants) such as Claims Management Companies (CMCs) and other professional commercial representatives, i.e. law firms under the Solicitors Regulation Authority which specialise in mass claims.
28. The Board noted that charging fees would still ensure that dispute resolution would be accessible and free to all “eligible complainants” (as defined in the FCA Handbook) whilst guarding against damaging behaviours by a few commercial representatives within the industry. A working group has been formed to focus on the consultation and new rules for charging fees.
29. The Board noted that secondary legislation would have to be laid before Parliament by HM Treasury before such fees could be implemented; and that, as a public authority, it was also necessary to carry out a consultation and equality assessment. This process had already begun so that implementation could be effected as soon as reasonably possible after the statutory instrument has been laid before Parliament.
30. The Board noted that there had been positive engagement with individual CMCs, trade bodies, and the FCA.
31. The Board agreed that, subject to consultation and secondary legislation, a charging regime for professional commercial representatives should be introduced and requested more information on this to be included in the Plan and Budget Consultation about level and timing of fees so far as reasonably possible at this stage.

Reference	Actions	Date	Owner
BC231030/24	Provide further detail on proposed charging fees for professional representatives within the 2024/25 Plan and Budget Consultation.	27 November 2023	Chief Finance and Risk Officer / Deputy Chief Ombudsman

Board Effectiveness Review

32. The Board noted the paper about the independent Board Effectiveness Review by Liz Cross of The Connectives. The review had found the Board to be effective with some examples of excellent or exemplary conduct. The Board noted that, since the review, all the suggestions had been put in place or were presently being explored.
33. On the suggestion of fewer board meetings per year, the Chairman noted that there were two months without a meeting already and it was necessary to have 10 a year whilst there was still lots to do.
34. The Board agreed with the suggestion that the effectiveness of the Board should be independently reviewed every three years with an internal review occurring annually.

AOB

35. There being no other business, the meeting ended at 1.30pm.
36. An optional session demonstrating the new casework tools to the Board was led by the

Chief Operating Officer at 2.00pm.

37. The next Board Meeting will take place in London on 27 November 2023.