

<b>Meeting</b>	OLC Board Meeting	<b>Agenda Item No.</b>	4
		<b>Paper No.</b>	144.3
<b>Date of meeting</b>	28 January 2026	<b>Time required</b>	30 Minutes

<b>Title</b>	<b>Interim Chief Executives' Report</b>
<b>Sponsor</b>	David Peckham / Steven Pearson, Interim Chief Executive
<b>Status</b>	OFFICIAL
<b>To be communicated to:</b>	Members and those in attendance

<b>Executive summary</b>
<p>In Quarter 3 of 2025/26 LeO saw demand for its service rise at a significant rate (quarter 3 alone saw a 37% increase in the number of new complaints received), meaning that early trajectories for 2025/26 and beyond have needed to be reviewed. LeO now expects 2025/26 to show record levels of demand with an expectation of around 14,000 new customer complaints being received across the year.</p> <p>The adverse impact of these demand increases has been exacerbated by the lingering impacts of the delay in budgetary approval, which meant that recruitment and process improvement initiatives needed to be delayed. All of this has meant that operational delivery for Quarter 3 fell very slightly below expected levels. Significant work took place across Quarter 3 to mitigate these impacts and to ensure that LeO is best placed to recover the small deficit in performance outputs as we move into Quarter 4 – confidence remains high that, despite the challenges outlined in the paper, LeO will still be able to meet expectations in terms of the number of complaints resolved across 2025/26. However, increased levels of demand will mean that the number of customers awaiting an investigation is likely to increase.</p> <p>All of these factors have influenced the conclusions reached by LeO's Executive in quarter 3 that wide ranging and radical reform of LeO's Scheme and operating model is needed to ensure that LeO remains relevant and fit for purpose in the future. These changes will be supported by the work that has already taken place to integrate automation and AI into LeO's processes. This has shaped LeO's approach to the development of its budget for 2026/27 which will include a commitment to working with an external consultancy to identify and develop a programme of transformation.</p> <p>LeO's commitment and focus towards its second, impact objective remains unabated. Significant work has been undertaken to maintain the momentum generated in quarters 1 and 2, through amongst other things, the publication of further spotlights and case studies and the continued development of LeO's Model Complaints Resolution Procedure. LeO has continued to work collaboratively with key stakeholders to drive change in the sector and to ensure that it</p>

is best placed to deal with developments like motor finance commission complaints should they become a reality.

Significant work was undertaken in quarter 3 to pursue LeO's commitment to its people and the development of a high trust - high performance culture. It is pleasing to see that the work undertaken over the year to date has reflected in an improved performance in the Civil Service People Survey. Whilst levels of attrition dropped in quarter 3, there was a slight increase in sickness levels and this will be monitored moving forwards to ensure that staff are appropriately supported.

LeO's budget is under constant scrutiny to ensure that the risk of underspend is mitigated. At the end of quarter 3 forecast outturn was with tolerance but plans and controls are in place to ensure that any variance from that position can be mitigated.

**Recommendation / action required**

Board is asked to **Note** the report

**Equality Diversity and Inclusion**

<b>EDI implications</b>	<b>Yes</b>
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This report provides a summary of activity and performance across all areas of LeO's strategic and operational focus, including in relation to LeO's customers and people and specifically updating on LeO's EDI activity. The report, therefore, covers a wide range of areas with overarching relevance to LeO's EDI focus and the potential for EDI-related impacts. These are considered routinely across business areas as appropriate.

**Freedom of Information Act 2000 (Fol)**

<b>Paragraph reference</b>	<b>Fol exemption and summary</b>
N/A	N/A

**Value for Money (VfM)**

**Economy:** LeO is actively managing its budget to ensure that funds are spent prudently and in areas where we believe we can derive best return on that investment. The deployment of automation across different areas of the business reflects LeO's commitment to looking at different, innovative ways of spending its budget to maximise impact.

**Efficiency:** Work continues to ensure that LeO is driving efficiency wherever possible. The focus on Early Resolution plus, whilst in its early phases is showing great potential to add further efficiencies to LeO's processes. The continued focus on quality and standards also ensures that levels of rework and failure demand are kept to a minimum and that customers are satisfied with the service LeO provides.

**Effectiveness:** LeO continues to focus on using the insights derived from its casework to drive improvements in service and complaint handling across the sector. The positive feedback from initiatives like the Model Complaints Resolution Procedure show that LeO's endeavours can

have a very positive impact on the sector – which in turn will help reduce overall demand for LeO's service and improve value for money.

# Performance against LeO’s strategic objectives

## 1. Strategic objective for LeO’s service: LeO resolves complaints fairly and effectively, providing an excellent customer experience

Relevant strategic risks and issues	<ul style="list-style-type: none"><li>▪ Strategic Issue 01: Backlog</li><li>▪ Strategic Issue 02: Sector-led demand</li><li>▪ Strategic Risk 01: Performance trajectory</li><li>▪ Strategic Risk 03: Budget variance</li><li>▪ Strategic Risk 06: Overall attrition</li><li>▪ Strategic Risk 07: Operational Strain from Transformation Demands</li></ul>
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### LeO’s Performance

Quarter 3 has mirrored the trends established in Quarter 2, with exponential growth in demand persisting through the period. Operations have continued to recover from earlier delays in budget approval, with operational responses and resource planning evolving to keep pace and address these ongoing pressures. Despite these challenges, efforts remain firmly focused on sustaining performance and mitigating the impact to ensure service delivery objectives are maintained.

### Demand Growth

New customer complaints volumes have sustained an accelerating and unprecedented upward trajectory in Quarter 3 with a 37% increase, this follows 21% and 30% increases respectively for Quarter 1 and 2, with volumes continuing to exceed expectations and historical norms. Consequently, the annual demand forecast has been revised to over 14,000 new customer complaints. This persistent growth in demand is indicative of the trends reportedly seen in similar organisations.

Sector-led demand continues to influence our ability to significantly reduce the general enquiries backlog. However, despite this increased pressure, the number of Unallocated Investigations remained consistently low throughout Quarter 3—holding at around 2,700 cases within a range of 2,191 to 2,915—and the general enquiries backlog has remained stable even as demand accelerates.

The Enquiries team has been operating under resource constraints, but these pressures have now eased. We will continue to support the team throughout Quarter 4 through the mitigation initiatives outlined below.

## **Operational Performance**

As expected, Operations experienced a reduced performance output in Quarter 3 as a direct result of the recruitment delays experienced in Quarter 2. Resolved cases were outside of business plan ranges for the first time, 1,991 cases closed against an expectation of 2,034 - 2,223. Year to date current performance is outside of the ranges, 6,038 versus a range of 6,065 – 6,620.

This marginal shortfall remains attributable to persistent challenges at the initial stages of the process coupled with delays in recruitment. These factors have constrained the timely transfer of cases from Enquiries to Early Resolution, thereby impacting throughput.

The effect of these pressures is evident in investigator productivity, which reduced to an average 5.4 cases per fte per month, against a target of 6, predominantly driven by a marked reduction in Early Resolution outputs.

Investigations and Enquiries teams demonstrated considerable commitment throughout the quarter, undertaking large-scale recruitment to ensure resources are appropriately positioned to meet future operational requirements and support LeO's performance trajectory.

## **Mitigation Measures**

To address the above challenges, Operations have initiated several mitigations.

Targeted recruitment has been completed to restore Enquiries capacity both in the short and long term. A streamlined induction with an increased curve to competency, focussing on one workstream, has been implemented amongst those new starters to support their development and balance the progression of cases through to Early Resolutions in Quarter 4.

Digital solutions continue to feature as an important lever in supporting continued efficiency gains, with planned integration of emails from outlook into CMS, providing the opportunity to redirect resource, with increased agility, to where required.

Lean Phase 3 pilot performance has been continually reviewed since inception, and as a result of high confidence levels Operations have expanded the pilot, welcoming additional teams into the pilot earlier than anticipated. This will ensure that there is

sufficient capacity to deal with additional cases progressed from Enquiries over Quarter 4 and early in 2026/27.

These measures will support and stabilise front-end operations and reduce that backlog over the coming quarters.

### **Delivering further efficiencies**

Quarter 3 has been defined by the initiation and rapid development of the Early resolution Plus (Lean Phase 3) pilot. Significant strides were made in scoping the pilot, culminating in the onboarding of a dedicated team of new starters into the 'review and conclude' stage. Reflecting the positive early outcomes, an additional team has since been introduced to the scoping phase, further strengthening the capacity to progress cases. Looking ahead, March will see a new cohort of Investigators forming an additional 'review and conclude' team, thereby reinforcing our operational capability.

Throughout the pilot, the Business Intelligence team has worked collaboratively to ensure robust oversight, producing a Pilot Dashboard. This tool has enabled close and timely monitoring of performance, supporting data driven decision-making as the pilot evolves.

It is expected that these mitigations coupled with a redeployment of investigators from in-depth investigations to early resolutions, will ensure that both Quarter 4 and 2025/26 annual performance will finish within business plan ranges. It is also expected that an almost doubling of early resolution capacity will significantly drive Quarter 1 2026/27.

### **LeO's customers' experience**

#### **Customer journey time**

Customer journey performance in Quarter 3 remained broadly stable across the Investigations space. There is continued operational focus on progressing aged cases whilst sustaining adequate throughput. Combined customer journey performance for all investigation complexities stood at 256 days, demonstrating the impact of the operational activities above.

#### **Quality and Service**

Performance against quality standards remained strong in quarter 3. The results of the significant efforts of LeO's quality and operations team to support quality across the investigations cohort is being reflected in improved performance against external KPIs for both outcome and service reviews. More work is required to bring the standards of

service provided to customers back to the levels that customers are entitled to expect but the positive trajectory is very encouraging.

Levels of overall customer satisfaction, particularly for those customers who are satisfied with the outcome of their complaint, remains consistently high. Complainants commented on the professionalism of LeO’s staff, their standard of communication and clear explanation of our processes, with service providers reflecting on our staff’s ability to understand the views and arguments being put forward as well as the facts of the case. There remains work to be done ensure that complaints are dealt with as quickly as possible as complaints and providers alike reflected on our wait times.

Work progressed in this quarter on the review of LeO’s approach to customer satisfaction surveys all of which is intended to enable us to derive better insights from customer feedback and increase levels of satisfaction irrespective of whether the customer is satisfied with the outcome of LeO’s investigation.

LeO launched its revised approach to customer service complaints in quarter 3 alongside the use of AI to deliver proportionate, accessible and consistent reports on investigations into those complaints. The initial outputs of that review are positive in terms of early complaint resolution and we will continue to monitor this moving forwards.

## **2. Strategic objective for LeO’s impact: LeO’s independent voice and experience lead to improvements in legal services**

Relevant strategic risks and issues	<ul style="list-style-type: none"><li>▪ Strategic Issue 02: Sector-led demand</li><li>▪ Strategic Risk 04: Impact objective</li></ul>
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In the third quarter of 2025/26 LeO continued to build on the momentum established throughout the year in support of its impact objective, progressing key areas of insight and engagement work while further strengthening its capability to interrogate data and surface insight.

Key outputs this quarter included launching the OLC’s draft 2026/27 Business Plan and Budget consultation for LeO, the publication of the fourth *Spotlight* article, a workshop with consumer groups on demand and complaint handling, and communications for the announcement of the new Chief Ombudsman.

The sections below give more detail on our work to deliver the three key aims of our strategic impact objective.

## **Building LeO's profile and impact**

### Business Plan and Budget consultation

The Business Plan and Budget consultation was launched on 4 November and ran for six weeks, providing stakeholders with the opportunity to review and comment on the OLC's proposed priorities and resourcing for LeO during 2026/27. As part of the consultation, a dedicated stakeholder engagement event was held in November, which generated valuable questions, reflections, and sector insight on the proposals.

In total, nine formal responses were received from a range of organisations across the sector. The responses are summarised separately in the 2026/27 Budget, Business Plan and Budget Acceptance Criteria (BAC) paper, and have been used to shape LeO's final BAC submission. A streamlined summary can also be found in Criterion 6 of the BAC.

### Conferences

During the quarter, LeO contributed to a range of sector conferences and professional events to share (and gather) insight, maintain visibility and connect with a broad cross-section of the legal profession.

LeO staff took part in panel discussions, breakout sessions and 'market stall'-style opportunities at a range of events. These included the SRA's Compliance Conference, the Association of Costs Lawyers' Annual Conference in London, the Legal Futures *Claims Futures* Conference, and the Collaboration Network's Complaints Conference. We also supported the Bar Council's complaint handling webinar, delivering a dedicated session on key principles for effective complaint resolution.

## **Using LeO's experience to help legal service providers improve their complaints handling**

### MCRP Consumer Group Workshop

In November, we held a dedicated consumer workshop as part of our wider programme to strengthen engagement with organisations representing people who use legal services. The session brought together a broad range of consumer bodies representing different consumer groups to help inform the development of the Model Complaints Resolution Procedure (MCRP). It focused on understanding the drivers of rising complaints, the barriers consumers experience when attempting to raise concerns, and the support they need to navigate complaint processes effectively.

The session provided valuable intelligence on emerging trends affecting consumers, including the impact of AI-enabled legal services, persistent challenges around communication and transparency, and the digital barriers faced by some groups. Participants also offered clear feedback on the importance of accessible, consistent guidance to help consumers understand their rights and what to expect when pursuing a complaint. This insight is now being incorporated into the next phase of our work on the MCRP and will support our wider efforts to promote better, more consistent complaint handling across the sector.

### MCRP Pilot

During the quarter, we completed the analysis of the Model Complaints Resolution Procedure (MCRP) pilot, which tested the proposed approach with a range of service providers of different sizes and operating models. Feedback from pilot participants identified some minor refinements to strengthen the accompanying guidance and tools, but the pilot has confirmed that the model is robust, practical, and capable of delivering improved outcomes in first tier complaint handling.

With the pilot now concluded, we are moving into the next phase of engagement. This will include a formal call for input on the proposed MCRP, inviting views from regulators, representative bodies, consumer organisations, and providers. The purpose of this phase is to ensure the final procedure is informed by the widest possible range of perspectives, reflects the realities of frontline complaint handling, and is supported by clear, accessible guidance and templates.

### **Sharing learning and insight to improve legal services and help prevent complaints**

#### Annual and quarterly data publications

In November, LeO published its annual complaints overview for 2024/25, along with its first quarterly complaints data reports covering the first and second quarters of the 2025/26 financial year. These new quarterly reports offer more timely insights into the patterns and key themes found in the complaints that LeO resolves.

#### Spotlight

In December, LeO published the fourth article in its *Spotlight* insight series, focusing on wills and probate – the second highest driver of complaints in 2024/25. The article explored key challenges in complaints from beneficiaries, aiming to clarify frequent misconceptions and encourage more transparent, consistent handling of beneficiary related complaints.

The first 2026 edition of *Spotlight* focuses on early resolution, and was published on 19 January.

### Case studies

LeO published fourteen case studies during the quarter. Eleven were included in the annual and quarterly complaints reports, and another three accompanied the *Spotlight* on wills and probate. These real-world complaint examples serve as practical resources for service providers, and are among the most frequently-viewed resources on our website.

Each case study was developed after analysing patterns and trends, focusing on recurring themes in the complaints LeO receives. The studies showcase both effective complaint handling and areas needing improvement, offering a balanced perspective that helps promote positive changes across the sector.

### Public Interest Decisions

The third round of Public Interest Decisions were approved by PIDCo – these will again provide consumers and providers alike with insights into poor service and complaint handling across a range of different areas of practice. To deal with some last minute objections to publication and to avoid the risk of the decisions being overlooked as a result of the festive period, the Q3 decisions will be published at the end of January.

### Data analysis and insights

In line with the commitment in our business plan to improve our systems to enhance the intelligence we capture, LeO teams have worked collaboratively to develop an 'early insights dashboard' to provide quicker and more comprehensive data on drivers of demand. Having built the dashboard and successfully run the first report, we plan to use it to generate more timely insights into demand drivers and to shape the learning and insight work we do to address those drivers.

### Motor finance

The early insights dashboard will improve our ability to track emerging issues of potential concern, including those with the potential to generate high volumes of complaints to LeO. One example is complaints relating to motor finance, which LeO has been monitoring closely. We have created an internal working group to develop LeO's approach to motor finance complaints, and have added motor finance as a specific option on our complaint form to make these complaints easier to identify (and then track through our dashboard). This has enabled us to provide quick insights to organisations such as the SRA, FCA and LSB.

### 3. Updates on strategic enablers and supporting strategies

#### 3.1 People and culture

<b>Relevant strategic risks and issues</b>	Strategic Issue 3: Key Person (single point of failure) Strategic Risk 02: Leadership resilience Strategic Risk 06: Overall attrition Relevant
<b>Relevant Strategies</b>	Strategies People Strategy and EDI Strategy

#### People Performance

##### Staff attrition

Quarter 3 saw a further fall in attrition figures from 2.0% in quarter 2 to 1.6%. This was further reflected in the rolling year to date figures with an 11.0% attrition rate recorded for December 2025 (a reduction of 1.7%-points on the same point last year). Investigator attrition has fallen by 0.8%-points to 2.1% for the quarter, which is also reflected in the rolling-year figures which have seen rates fall from 13.5% to 12.7% in December 2025. Of note is the substantial fall in attrition for corporate services from 18.3% to 13.1% for the year.

##### Sickness absence

Sickness absence levels have seen a slight increase to 12.21 days absence per employee in the rolling year to date – a 3.58-day improvement on the same time in 2024 where figures stood at 15.79 days. Whilst recording a fall on quarter 2 (48.2%), mental health remains the most prominent reason for absence, representing 39.5% of all sickness absence. However, this quarter has seen a substantial rise in the number of days absence related to mental health from 394 days in quarter 2 to 519 days. We will continue to closely monitor sickness absence levels across LeO.

We continue to monitor sickness absence closely across LeO, taking appropriate steps to manage absences and support colleagues in managing their health and returning to work.

#### Delivery of the People Strategy

##### Approach to People & Culture

Following approval of the approach to People & Culture at LeO and our drive for a culture of high-trust / high-performance, we have now identified the activities that will start to bring this to life:

- Defining a culture of high-trust / high-performance and aligning values and behaviours with this.
- Establishing Leadership and Management Frameworks and associated development programmes.
- Developing a workforce plan to 2030 and beyond.
- Reviewing our Reward Framework, ensuring principles of VFM, equity and competitiveness are met (Launched January 2026)
- Establishing a Performance Framework, with a focus on the whole talent journey: onboarding and induction, performance reviews, and team effectiveness.
- Developing an approach to agile learning.
- Evolving the employee experience focusing on engagement, wellbeing and inclusion.
- Establishing a Resolution Framework.

### **Pay & Grading Review**

At the beginning of January 2026, we launched our review of Pay & Grading. The purpose of the review is to ensure LeO's approach to reward is fair, transparent, and fit for the future - aligned with our transformation agenda and cultural aspirations. By reviewing how roles are evaluated and rewarded, we aim to:

- Strengthen trust and organisational effectiveness.
- Support career development and progression.
- Reinforce our high-trust, high-performance culture.
- Demonstrate our commitment to equity, inclusion, and continuous improvement.

We have identified 5 phases to the project with the initial phase of job description review and workshopping with colleagues underway:

- Phase 1: Job Description Review (January to Mid-May 2026)
- Phase 2: Exploring Structure Options (January to March 2025)
- Phase 3: Framework and Pay Band Design and Modelling (Mid-May to Mid-June 2026)
- Phase 4: Engagement and Consultation (Mid-June to July 2026)
- Phase 5: Implementation (April 2027, or earlier if feasible)

## Engagement with LeO's People

### Staff Council

The Staff Council met for its second bi-monthly meeting under the interim leadership arrangements. Discussions centred around the Budget and Business Planning process, as well as the launch of the Pay & Grading review.

The Staff Council continues to play a vital role in shaping business decisions, providing valuable insight and feedback that helps ensure our planning and priorities reflect the needs and experiences of colleagues across LeO.

### Civil Service People Survey

Since our last report, we have now received the results from the 2025 Civil Service People Survey.

The Survey shows steady overall engagement at **60%**, with record-high scores across most engagement statements and a significant improvement in organisational advocacy. Colleagues' willingness to recommend LeO as a great place to work increased by 10%-points, reflecting an uplift in organisational pride and confidence.

Strengths continue to centre on:

- Exceptional clarity of organisational purpose (94%)
- Quality and interest of day-to-day work (83%)
- Strong team cohesion (80%)
- Improvements in perceived workload manageability (78%)

These indicators suggest that core cultural foundations are strengthening. However, three areas remain strategic risks:

#### 1. Reward

Despite a 10%-point improvement, Pay & Benefits remains the lowest scoring theme (36%) and the dominant driver of attrition. Colleague expectations around pay fairness and benchmarking are increasing, and this theme is also reflected heavily in the free text feedback.

#### 2. Development & Progression

Whilst Learning & Development only decreased by 1%-point to 55%, colleagues report inconsistent access to structured training, unclear progression routes, and insufficient career pathways. This remains a systemic constraint on capability, engagement, and internal mobility.

### **3. Leadership & Managing Change**

Leadership & Managing Change increased to 59%, showing steady year-on-year improvements, but underlying questions show colleagues still feel insufficiently involved in decision-making and experience inconsistent communication and change management.

Overall, the 2025 results show that LeO is making genuine progress, with strong foundations and strengthening cultural pillars. But they also highlight material gaps and inconsistencies that must be addressed to ensure colleagues' experiences are fair, supportive, and aligned - regardless of role, identity, or background.

The priorities set out for 2026/2027 (see Approach to People & Culture above) align well with what colleagues have told us. These include defining a high trust / high-performance culture, strengthening leadership and management frameworks, reviewing reward, improving Learning & Development, clarifying career pathways, and evolving the employee experience with a stronger focus on inclusion, wellbeing and fair treatment. The planned introduction of pulse surveys will further enhance continuous listening and responsiveness.

Delivering the planned strategy with pace, transparency, and meaningful engagement will be essential to improving trust, capability, equity, and organisational performance in the year ahead.

### **Equality, Diversity and Inclusion (EDI)**

During quarter 3, the EDI function continued to make strong progress against the EDI action plan, with a particular focus on staff engagement, governance, and race and disability inclusion. In October, the quarterly EDI Steering Group met to review progress against key priorities, including the Managing Unacceptable Behaviour Policy, Transitioning at Work Policy, and the Men's Health and Wellbeing Network. During this period, the EDI team formally transitioned into the People and Culture team, strengthening alignment with workforce strategy and embedding EDI further into people-related decision-making.

In November, several important milestones were delivered. We launched a new EDI Glossary of Terms, designed to support colleagues with clear, accessible and inclusive language for use in internal and external communications. New Executive Sponsors were also appointed for the REACH, Disability and Carers, Men's Health and Wellbeing, and LGBTQ+ networks, reinforcing senior ownership and governance. The Men's Health and Wellbeing Network delivered a powerful event during Men's Mental Health Month, including a lived-experience testimony from one of the co-chairs. The event received a colleague satisfaction score of 92%, highlighting the positive impact

of authentic, network-led engagement. The EDI team also attended the national D&I Leaders Race at Work Summit to gather best practice insights to inform our ongoing race inclusion work.

In December, we completed a full review of LeO's progress against the Race at Work Charter. The review confirmed meaningful progress across all seven Charter commitments, reflecting improvements in governance, data maturity, leadership capability and inclusive culture. We also marked Disability History Month through a programme of staff-led activity coordinated by the Disability and Carers Network. This included intranet blogs, contributions to News in Brief, and a well-attended awareness event where colleagues shared lived experiences. The event achieved a colleague satisfaction score of 98%, demonstrating strong engagement and the value of lived experience learning in building understanding and inclusion.

Overall, Q3 activity demonstrates continued momentum in embedding EDI across LeO, strengthening staff voice through networks, and aligning delivery with People and Culture priorities.

### 3.2 Relationships and collaboration

Relevant strategic risks and issues	<ul style="list-style-type: none"><li>▪ Strategic Issue 02: Sector-led demand</li><li>▪ Strategic Risk 04: Impact objective</li></ul>
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Throughout Quarter 3, LeO continued to engage proactively with key stakeholders across the legal services landscape, building on earlier activity to strengthen collaboration and deepen shared understanding of sector challenges.

Engagement this quarter was centred around the publication of the draft 2026/27 Business Plan and Budget, and focused on issues including rising demand, understanding challenges within the sector to help target learning and insight, and tracking areas of potential high-volume claims such as motor finance. The latter included operational and strategic discussions with the SRA and the Financial Ombudsman Service to understand how motor finance complaints are being managed and dealt with.

The Interim Joint Chief Executives attended the Law Society's Regulatory Processes Committee meeting to provide updates on demand trends, the Business Plan and Budget consultation, and the forthcoming consultation on the Model Complaints Resolution Procedure. Other engagements included meeting with the Legal Services Consumer Panel to explore shared priorities around transparency and consistency of complaint processes.

Looking ahead, LeO is exploring the possibility of engaging with the Bar Council’s Regulation Panel – a similar panel to the Law Society’s Regulatory Processes Committee. We would like to meet with the panel to explore opportunities in which we can collaborate to support Bar Council members and continue to strengthen our engagement.

### 3.3 Systems and intelligence

Relevant strategic risks and issues	Strategic Risk 7: Operational Strain from Transformation Demands
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#### **Copilot Adoption, Governance, and Opportunity Review**

A review of pilot Copilot usage was completed, ensuring that AI expansion aligns with robust governance standards. Version 2.0 of the AI Governance Policy was approved during the quarter, strengthening ethical and safe adoption standards. Assurance activities also progressed, including cyber readiness checks, output validation, and strengthened controls to support wider Copilot rollout planned for later in the year.

#### **AI Transformation Analyst Onboarding**

Following recruitment delays earlier in the year, the AI Transformation Analyst joined LeO in mid-Quarter 3. This role is now focused on developing modular, safe-to-scale AI capabilities—particularly using the ‘small agent’ approach—and supporting the development of operationally embedded AI skills.

#### **Cyber and Data Resilience Enhancements**

Quarter 3 delivered substantial improvements to LeO’s security. The updated cyber incident response plan was finalised and published, immutable backup implementation progressed, and Red Team testing insights were fed into assurance activity. Work also continued secure by Design principles for AI and strategic projects, reinforcing the organisation’s commitment to safe digital adoption.

#### **Emerging Opportunities: AI Agents and Evidence Bundling**

External developments presented new opportunities, with Microsoft announcing a strategic shift toward enterprise AI agents. LeO responded by adopting a modular ‘small agent’ model and successfully delivered a minimal viable proof of concept for evidence bundling in late Quarter 3. While scaled back from the original full-service design, the solution establishes a sustainable pathway for incremental automation using in-house capability.

## Microsoft Purview and Data Protection Readiness

Microsoft Purview workshops and high-level design work were completed, preparing the organisation for deployment during Quarter 4. This will strengthen data governance, loss prevention, and regulatory compliance, aligned with National Cyber Security Centre and Cyber Assessment Framework expectations.

### 3.4 Value for Money, resources and governance

Relevant strategic risks and issues	SR02 (Budget Variance) SR03 (Accommodation – GPA hub)
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#### Strategic risks and internal audit

After the December OLC Board meeting, it was decided to escalate the issue of not meeting business plan targets for customer experience, based on the supporting evidence and how it relates to other operational challenges. As a result, by the end of quarter three, we now have four strategic issues that are outside acceptable limits. On a positive note, staff attrition has continued to improve and is now considered 'optimal'; ongoing management will continue throughout the rest of the financial year. The risk around leadership resilience has lessened since the new CO began, with interim measures in place until the end of March. With the executive team now fully staffed, our resilience and operational continuity have been enhanced, and temporary backfills are covering roles as needed during the transition.

The accommodation risk remains unchanged, with no new updates from GPA. This risk is being closely watched by the project team, who are collaborating with MoJ and have started initial planning for after the lease term ends in October 2029.

As year-end approaches, GIAA has completed their second audit, Casework Quality, which received a moderate rating and the final report was issued in December. Remaining audits for recruitment and vetting, and payroll, have also begun and remain on track to be completed by the end of quarter 4.

#### Budget Variance Outturn Forecast update as of 31 December 2025

The outturn forecast showed an underspend of £199,927, representing 1% of the 2025/26 budget. It has returned to within the tolerance level compared to the position reported in Quarter 2. However, there are still challenges that require constant monitoring to ensure delivery on commitments and prevent further variance. The Executive remains focused on maximising the use of available funds for priority

initiatives that will ease budgetary pressures in 2026/27 and support research and exploratory work for the Scheme transformation project.

## **2026/27 Budget Setting Assurance**

The Executive confirms that the final 2026-27 budget proposal fully complies with the three budget-setting principles agreed by ARAC. This statement provides assurance that the Executive has taken all necessary steps to ensure adherence to these principles throughout the budget development process.

### **Context: Unprecedented Demand and Impact on Budget Options**

Throughout the consultation period, the Executive has carefully reviewed assumptions underpinning the 2026/27 budget. Demand for LeO's services has continued to rise at levels never experienced before in the organisation's history, exceeding worst-case projections and accelerating beyond sector norms.

This surge rendered all original budget options consulted upon obsolete and unsuitable for managing the increased demand. In response, the Executive undertook a feasibility review to identify approaches that could:

- Deliver a reasonable level of service.
- Limit deterioration in customer waiting times.
- Minimise backlog growth by year-end.

The review considered the Legal Services Act constraints, resource limitations, and operational capacity in technology and workforce. Consultation feedback reinforced the need for a fundamental review of LeO's operating model to ensure resilience and sustainability.

### **Mapping to ARAC Principles**

#### **Principle 1: Assumptions Consider Risks, Sensitivity Analysis, and Interdependencies**

- **Sensitivity Analysis:** Forecasting model widened ranges for demand, incorporating the new levels experienced after going to consultation, attrition, and sickness to reflect volatility
- **Risk Consideration:** The Executive has continued to review both strategic and operational risks and providing updates to ARAC and the Board. Mitigation plans are embedded in governance processes.
- **Interdependencies:** Assumptions used on the 2026-27 budget proposals link demand growth, investigator productivity, attrition, and operational capacity to performance trajectories.
- **External Factors:** Demand forecasts incorporate sector risks such as motor finance mass claims and generative AI impacts alongside economic and

political factors and the expectation for LeO to maintain modest budget requests despite unprecedented increases in demand.

## **Principle 2: Budget Model Incorporates Scenario Planning**

- **Scenario Planning:** The final budget proposal has two refined budget options modelled against outputs, backlog volumes, and customer journey times
  - a) **Option 1**

To prepare for LeO's full transformation in 2026/27, operational capacity will increase by 11.1% (£2.23m) compared to 2025/26. This expansion aims to absorb rising demand, boost outputs to 9,331-10,057 cases, and reduce unallocated investigations to 2,954-4,608. The plan includes recruiting and onboarding 26 FTE operational staff, with non-discretionary costs accounting for 39.5% of the increase.
  - b) **Option 2**

Minimum Operating Budget – 6.5% Increase (£1.31m) on 2025/26  
This option relies solely on efficiency gains, predominantly digital, with no additional resolution centre staff. Outputs would rise to 8,897–9,611 cases, but unallocated volumes would increase to 3,816–5,458, extending customer journey times. Of the budget increase, 72.2% covers non-discretionary costs, while 10.7% strengthens IT capacity to enhance technology and support future scheme transformation. These changes aim to drive productivity and improve organisational capability.
- **Performance Trajectories:** Forecasts for 2026/27 and 2027/28 mapped by quarter under different budget scenarios.
- **Medium-Term Planning:** Monthly updates on year-to-date budget variances and outturn forecasts submitted to MoJ, in accordance with the agreed acceptance criteria and the tripartite protocol.
- **Scheme Transformation:** The budget proposal acknowledges the necessity for LeO to transform its Scheme and operating model as the most cost-effective approach to managing the sustained growth in demand. It incorporates provisions for ongoing scheme improvements while LeO undertakes an externally led review aimed at future-proofing the operating model.

## **Principle 3: Consultation is Thorough and Key Points Reflected in Final Budget**

- **Stakeholder Engagement:** Six-week consultation held; feedback reinforced need for operating model change and informed the final budget recommendations.
- **Governance:** Budget development overseen by Executive and Programme Management & Assurance Team; supported by OLC Board at the December workshop.

- **Integration of Feedback:** Final proposals reflect stakeholder concerns about demand pressures and operational resilience.