

Minutes – Board Meeting on 4 November 2024

<p>Board attendees</p> <p>The Baroness Manzoor CBE, Chairman Jacob Abboud, Director Warren Buckley, Director Bill Castell, Director Nigel Fretwell, Director Shrinivas Honap, Director Sarah Lee, Director</p>	<p>Executive attendees</p> <p>Abby Thomas, CEO/Chief Ombudsman James Dipple-Johnstone, Deputy Chief Ombudsman Jenny Simmonds, Chief Finance & Risk Officer and Company Secretary Jane Cosgrove, Chief People Officer</p>
<p>Other attendees</p> <p>Kaushik Bhattacharya, Director of Operational Planning & Performance ('DOPP') Mark Sceeny, Head of Private Office</p>	
<p>Apologies</p> <p>Karl Khan, Chief Operating Officer</p>	

1. Introduction and approval of agenda

- 1.1. The meeting was called to order at 10.15am by The Lady Manzoor, Chairman.
- 1.2. The agenda was approved as presented.
- 1.3. The Chairman welcomed Warren Buckley, the Board's new Non-Executive Director.

2. Conflicts of interest

- 2.1. Nobody declared any conflict of interest.

3. Approval of board minutes

- 3.1. The Board reviewed and **approved** the minutes of the previous Board Meeting held on 24 September 2024.

4. Actions log

- 4.1. The Board **approved** the Actions Log.

5. Noting of sub-committee minutes

- 5.1. The following Sub-Committee minutes were **noted** by the Board:
 - Transformation Committee ('TransCo') minutes of 9 September 2024; and
 - Audit, Risk & Compliance Committee ('ARAC') minutes of 11 October 2024.
- 5.2. The Chair of ARAC noted that the laying of the 2023/24 Annual Report & Accounts had been delayed due to resourcing issues at the National Audit Office, so recommended a follow-up letter to the Comptroller General in light of last year's assurances.

6. CEO/Chief Ombudsman's report

6.1. The Board **noted** the CEO/Chief Ombudsman's Report. The past month had been very busy – and there were three key themes to report, as follows:

- **The impact of litigation:** the judicial review on discretionary Motor Finance Commission ('MFC') cases had been heard but judgment not yet delivered. Whereas the Court of Appeal's judgment on three non-discretionary MFC cases had found in favour of consumers but might end up being escalated to the Supreme Court. This could mean that all MFC cases – whether discretionary or non-discretionary commission agreements – would have to remain on hold at the final-decision stage, albeit they were being investigated and assessed as far as possible.
- **The impact of regulatory reforms:** the Executive Team ('Executive') have been working with the Financial Conduct Authority ('FCA') and HM Treasury ('HMT') on our ways of working, considering our case-handling approach and how we work in alignment with the FCA, while recognising our independent roles
- **The impact of increasing demand:** there has been significant progress with recruiting new staff to deal with the rising demand. However, despite increased productivity and resolutions (both up by c.20% compared with the first half of 2023/24), overall stock was still higher due to the impact of increased demand (c.60% increase YoY) and the time it takes to onboard and train new caseworkers to full competence. While we have been successful in doubling the number of people we can recruit and onboard each month in H1, a constraint still remains. In addition, new joiners inevitably take time to reach full competence, which partially counteracts the increased productivity across the team.

6.2. The Board stressed the importance of assessing the impact of FOS investigations and to consider the impact of any policy decisions on volumes of cases coming to FOS. The Board requested that data on uphold rates and trend analysis on casework issues and compensation levels should be included in papers. **Action: CEO/CO and COO/DOPP.**

6.3. The Board requested a paper further explaining the dynamics of how productivity is tracked as part of the resolutions forecast, e.g. new starters compared with experienced investigators so there is enough data to work out whether overall productivity is moving in the right direction. This can build on the Productivity Explainer for noting in this month's Board Pack. **Action: COO/DOPP by 25 November 2024.**

6.4. The Chairman asked whether we have information on the levels of compensation we award and uphold rates (including substantive awards and awards on distress or inconvenience) and whether this redress data draws out themes and trends showing the impact we have and not just activity. The CEO/CO confirmed that this data was readily available.

7. Update on regulatory reforms (DCO)

7.1. The DCO presented the Board with an information-only update on a package of measures currently being discussed with the FCA and HMT in preparation for potential inclusion in the Chancellor's Mansion House Speech on 14 November. There are four parts to the package, as follows:

- A **Call for Input** on how the redress system could be modernised, with a particular focus on mass claims;

- An updated **Memorandum of Understanding** ('MoU') between FOS and the FCA explaining publicly how the two organisations work together on key policy decisions and regulatory rules/guidance;
- Updated terms of reference for the **Wider Implications Framework** that links it to the statutory practitioner and consumer panels so that stakeholders have more say in deliberations on issues having a broader market impact; and
- The **Feedback Statement** on the consultation about charging fees to CMCs and other professional representatives.

7.2. The DCO reported that FOS would need a project team to take forward the Call for Input and subsequent consultation on potential reforms. The Board noted the importance of protecting FOS's independence and impartiality; and maintaining the 'fair and reasonable' jurisdiction, which was key to resolving complaints "quickly and with minimum formality"; and to protecting consumers whilst also maintaining confidence in the financial services industry.

7.3. The Board noted that the revised MoU was not a legally binding agreement, so delegated its final sign-off to the Executive for them to bring back to the next Board Meeting for noting only. **Action: CEO/DCO by 25 November 2024.**

8. Draft instruments updating the FCA Handbook (DCO)

8.1. The Board **approved** the following instruments, to be jointly agreed with the FCA Board, amending the FCA Handbook:

- Long-Term Investment Funds ('LTIF')
- Pensions Dashboard

8.2. The Board noted that it would be helpful to have a cover paper next time that explained legal documents of this nature in terms which are clearer to laypersons.

9. Location strategy (CPO)

9.1. The Board **approved** the CPO's paper on the location strategy (subject to an amendment on office attendance). The approved strategy covers three key matters:

- **Proposed locations:** Six permanent locations in Belfast, Cardiff, Coventry, Edinburgh, London, and Manchester. (Final confirmation of Belfast is subject to the success of the current pilot in that location.) All locations will be subject to periodic review based on service-demand factors or changes in labour-market conditions;
- **Structure per location:** Each location will comprise a mix of casework and enabling teams, drawing on local professional expertise, with a minimum of 70 colleagues in each location; and
- **Attendance requirement:** The current four days a fortnight/40% in office attendance approach will be maintained for London and Coventry team members, as well as for senior management. In other locations where staff are employed on fixed term contracts, rather than in a permanent position, the requirement may be set at one day per week. However in every case the attendance requirement would be subject to business need and would be subject to review over time.

9.2. The Board discussed the advantages of a single harmonised approach versus reflecting different requirements and starting positions in London and Coventry compared with the other locations – on the basis that the employment contracts

were different (i.e. permanent in London and Coventry but four-year fixed-term-contracts elsewhere, save for managers). The Board noted that the Executive did not have to harmonise the offering across all locations if they had good, data-backed reasons not to, so long as there were clear communications on why and when people needed to come into offices and what meaningful things they would be doing there, e.g. team building, coaching, collaboration, mentoring junior colleagues, etc. The Board emphasised the need to have appropriate flexibility for permanent office spaces in case incoming complaint volumes rose or fell more than anticipated in the Three-Year Plan (to which the location strategy is aligned) and the current budget – for example, if Buy-Now-Pay-Later products were brought within FOS’s jurisdiction by HMT and the FCA earlier than currently forecast. On balance, the Board recommended the approval as summarised in paragraph 9.1 above.

- 9.3. The Board noted that a paper they had previously requested specifically on the details of outsourcing to help meet rising demand was now overdue. The CFRO agreed to bring an update on outsourcing to the next Board Meeting. **Action: CFRO by 25 November 2024.**
- 9.4. The Board requested a paper on the skills element of the workforce strategy – e.g. the breakdown between casework and enabling functions – set against additional demand scenarios. It also needed to show how FOS would respond using a range of resourcing options, so that it was clear the plans had been stress-tested sufficiently on dimensions of (i) flexibility to scale up and down in a timely manner, and (ii) value for money bearing in mind the need to retain flexibility. The Executive agreed to bring this to the January strategy awayday. **Action: CEO/CO and CFRO by 27 January 2025.**

10. Three-Year Plan and 2025/26 Plan & Budget (CFRO)

- 10.1. The Board **noted** the updated Three-Year Plan as a reasonable basis for the draft 2025/26 Plan & Budget. Going forward, the Board requested a view on efficacy, to illustrate the impact that FOS has. The Board requested an executive report that assessed upheld decisions and the trends these showed in terms of what impact transformation spending and new ways of working were having. **Action: COO/DOPP/Director of Communications by 28 January 2025.**
- 10.2. The Board **noted** the draft Budget (plus the annexed draft FEES instrument) and will review and approve the revised version (at the 25 November Board Meeting) for inclusion in the public consultation following feedback from the FCA’s Oversight Committee on 19 November 2024. The consultation will enable FOS to gain further inputs available to enhance the accuracy of the demand forecast before finalising the 2025/26 Budget. The Board noted that, due to the timing of Board Papers, the current draft did not include provision for HMT’s recently announced rise in National Insurance (‘NI’) paid by employers, nor the rise in the minimum living wage. This will add about £3m a year to FOS’s costs. In the 2025/26 budget, this was proposed by the CFRO to be absorbed by making other cost choices. The Board also suggested consideration should be made to the inflation assumption of 3% currently included, noting that a rate of 2.25% is under consideration in some organisations.
- 10.3. The Board also noted that the Budget made no provision for the admission of Buy-Now-Pay-Later to FOS’s jurisdiction, as the timing was still uncertain and, further, it was unlikely to have an impact on complaint volumes during 2025/26. However, scenario and dependencies planning would start well in advance, including the need to implement a more flexible billing system (which would be necessary if it were later decided that different fees should be charged for different types of casework, e.g. by complexity, quantum, product types, etc). The Board agreed that the Executive

should accelerate the implementation of a new billing system in the investment plans.

10.4. Members of the Board posed some questions for the Executive to work through to help inform the 2025/26 budget to be used for consultation. These included the following:

- Are the reducing demand projections too conservative and is FOS ambitious enough on resolutions targets for 2025/26? Guidance was to specify which complaints are progressable (rather than held behind litigation, for example) and ensure it is as low as is practicable.
- Should more investment be included in the budget to reduce technical debt?
- Ensuring in the consultation document FOS is clear on the principles of how it aims to price (e.g. polluter pays, cost reflective), noting that to achieve this in the future, case fee differentiation may be required and that this has data and billing system dependencies. It was commented that in any future event of being able to reduce pricing further, a case fee that is too low might incentivise 'polluters' to send too many cases, so we need to get the balance appropriate between the annual levy and the case fee levels.
- How can overhead costs be brought down or remain static more quickly than currently showing in the Three-Year Plan?

10.5. The Board suggested that the Call for Input (see above) includes a question about whether cases held up by litigation (or other legitimate reasons beyond control, such as MFC) should be ring-fenced from FOS's service standards and forecasting. This would avoid distorting the real picture of workable cases so as to ensure the right budgeting to achieve an appropriate and flexible balance of permanent, contingent and outsourced staff (and other resources/overheads).

11. Update on CMC charging and billing (DCO)

11.1. The Board **noted** the update paper on charging fees to CMCs (etc), including a revised target start date for billing of 1 April 2025. This was partly due to delays in the passing of secondary legislation and FCA approval caused by the General Election.

11.2. The Board were informed there was a problem with the billing system, which meant that FOS was not in a position to start charging from 1 January 2025 as had been indicated previously. The Board urgently requested that the Executive Team proceed with enhancing the current delivery team with required resources. The Board **approved** a guided incremental £0.4m to fund this, with details to be submitted at the next Transformation Committee.

12. Papers for noting

12.1. The Board **noted** the following monthly functional reports and other papers:

- Monthly Operational Performance (COO)
- Monthly Transformation Report (COO)
- Monthly Finance Report (CFRO)
- Monthly Report on casework issues and litigation (DCO)
- Monthly HR Report (CPO)

- An 'explainer' on how transformation drives service standards (COO)
- An 'explainer' on productivity (COO)
- Update on the new case summarisation tool (COO) – the Board requested that it would be helpful for them to see a live presentation of this new tool at or after the next Board Meeting. **Action: COO by 25 November 2024.**

13. AOB and next meeting

13.1. There was no other business.

13.2. The next Board Meeting is scheduled for **25 November 2024**.

14. Adjournment

14.1. The meeting was adjourned at 2.10pm.