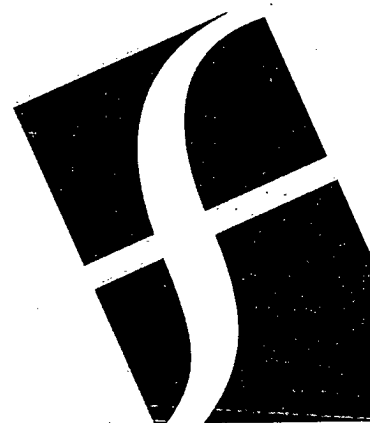


financial year 2013 | 2014

# ombudsman



Financial Ombudsman Service Limited

## **annual report and accounts for the year ended 31 March 2014**

HC 477

# **Financial Ombudsman Service Limited**

## **Annual Report and Accounts**

### **for the year ended 31 March 2014**

Presented to Parliament pursuant to paragraph 7A (3) of Schedule 17 of the Financial Services and Markets Act 2000, as amended by the Financial Services Act 2012.

Ordered by the House of Commons to be printed 10 July 2014

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# introduction

The Financial Ombudsman Service is the independent dispute-resolution service for consumers with complaints about financial businesses. Our job is to resolve disputes fairly, reasonably, quickly and informally.

We handle complaints about a wide range of financial and money-related matters – from insurance and mortgages to investments and credit. We are independent and impartial. When we consider a complaint, we look carefully at both sides of the story and weigh up the facts. If we decide a business has treated a consumer fairly, we explain why. But if we decide a business has acted wrongly – and that the consumer has lost out as a result – we can tell the business to put things right.

We are accountable to the public in a number of ways; for example, each year we consult openly on our plan and budget; our budget is subject to approval by the Financial Conduct Authority (FCA); and these accounts are laid before Parliament. Similarly, we are regularly called to give evidence to Parliamentary Committees, and we publish significant amounts of data about the Service.

It is not our role to write the rules for businesses providing financial services – or to fine them if they break the rules. That is the job of the regulator – the Financial Conduct Authority (FCA). But we do work closely with the FCA – and with representatives for the industry and for consumers – to share insights from the complaints we see and to help prevent problems in the future.

This year the demand for our services continued to grow from what were already record levels in 2012/2013. We handled a record number of frontline enquires and complaints from consumers (2,357,374) and more than doubled the number of cases we resolved (518,778 in 2013/2014). Our *annual review*, published on 20 May, provides a detailed picture of the work we have done during the year.

We remain committed to developing and improving our service to meet the needs of our customers – businesses and consumers alike – in a rapidly changing world. We have agreed a set of plans and priorities – set out in our document, *our plans for the year ahead* (available on our website) – that will help us ensure we can stay ahead, and stay true to our values, next year and beyond.

## chairman's statement

With half a million cases in, and another half a million resolved, the Financial Ombudsman Service has once again faced intense pressure during the year.

During 2013/2014 we received the two millionth case referred to us since our beginnings in 2000. What is remarkable about that is how relatively soon it came after we received our millionth case. In fact, it took a decade to have a million cases referred to us – but then less than three years to see a million more.

I see this as indicative not only of the sheer scale of the issues involved, but also – and more positively – of a greater awareness that our service offers a free and genuinely impartial route to getting a fair decision on complaints with financial providers. Continued outreach activity, to increase awareness and improve our engagement with communities across the United Kingdom, remains a high priority for us.

Yet again this year, complaints about the sale of payment protection insurance (PPI) have dominated our workload. Even though the torrent of incoming cases has slackened, we are still measuring our weekly intake of new PPI complaints in thousands. While we have resolved more PPI cases than ever before during the year – a record 389,730 in total – we still have a similar number to deal with.

However, it would be a mistake to let PPI cloud our vision of all the other complaints that we receive and classify as “general casework”. After all, there were over 110,000 of them during the year, and that word “general” conceals a wide diversity of cases – from current accounts to car insurance, pensions to payday loans.

While it would be good to think that the lessons of PPI have been learned, there is no room for complacency. And we are constantly on the lookout for trends which may indicate a cause for concern, and for possible action by the regulator. I am pleased to note the growing strength of our relationship with the FCA – now just over a year old – and the effectiveness of our cooperation with them.

One of the greatest challenges to the Financial Ombudsman Service is to be sure that we do not let the sheer volume of our current caseload prevent us from raising our eyes to the

horizon and thinking about the future. We are mindful that our operating model has remained essentially the same since we began.

And we recognise that the huge developments that have taken place – and are continuing to do so in technology, in particular – create an urgent need to look hard at how best we should be shaping our service to be responsive to the changing needs of consumers and businesses.

We are preparing ourselves to meet these challenges. This involves looking to shape our future round the different needs and expectations of our stakeholders – working with financial providers to help us become less process-driven, and with consumers to better understand what they want from us. This will build on the work of the latest of our three-yearly reviews – looking externally, the Future Foundation has given us insight into how the world is changing and how this is likely to affect the relationship between businesses and their customers over the next decade; and internally, an independent review of our board effectiveness has identified a small number of areas where we can enhance our governance.

I am confident that over the coming year, our dynamic and determined workforce will embrace the certainty of continuing change with their customary dedication and enthusiasm.

**Sir Nicholas Montagu KCB**

3 July 2014

## chief executive's report

During the year covered by this report – 2013/2014 – we have resolved a record number of cases. Over half a million people have received answers to their complaints.

This is a reassuring indication that the work we have put into scaling up our operation and adapting the way we work – to handle both the unprecedented volumes of complaints and the volatility in the types of cases we have been receiving – is paying off. In 2013/2014 it has been less a question of bracing ourselves for the challenges ahead; and more one of meeting them head-on.

Ours is a demand-led service. So although we consult widely on our plans and assumptions, forecasting and planning for demand is very difficult. We also see a high degree of volatility in the types of cases referred to us. So we have to work flexibly, and be ready to deal effectively with whatever we are called on to do.

The number of PPI cases we received during the year far exceeded our – and our stakeholders' – expectations. But the time and effort we have put into scaling up our operation over the last few years has begun to pay dividends. We began the year well placed to deal with growing demand. And we have made significant inroads into our caseload – resolving a record 389,730 PPI cases during the year.

But PPI isn't the whole story. During the year, for example, we have seen a substantial increase in cases about “packaged” bank accounts and significantly fewer cases about portfolio management. This means we need to be flexible in the way we manage our caseload, so that every case we deal with is handled professionally and to the highest standards.

To help maintain these standards we are fortunate to have a strong team of professional leaders – our ombudsmen. They make it possible for us to combine flexibility and rigour with pace and precision. With many new ombudsmen and adjudicators joining us – and with a high proportion of relatively new staff – training and development for *all* our staff has been a high priority for us during the year.

Having invested in the training and development of our staff, retention is also important to us. During the year we have been able to retain people as we had hoped to and grow as an organisation to meet the challenges described in this report. We were once again recognised as a “Top 100” organisation to work for in the *Sunday Times* Best Companies

survey and the four awards we received in relation to diversity (including as a *Leader in Diversity*) are testament to the importance we place on respecting our staff. Keeping an engaged and enthusiastic workforce helps us deliver the fair and consistent outcomes that our customers rely on.

We are funded by the businesses we cover, and we fully appreciate that they rightly expect value for money. In April 2013 we introduced new group-account funding arrangements for the four largest financial services groups – reflecting the fact that together they accounted for some 60% of our caseload.

This new arrangement helped ensure that we received our income in a timely and stable way during the year – enabling us to adjust our resources to respond to volatility in demand. The four groups involved welcomed the transparency of the new arrangements – and recognised that it brought lower administrative overheads and increased efficiency. We have now agreed to extend these arrangements to a further four financial groups for the 2014/2015 financial year.

In April 2012 we introduced a new charge designed to collect sufficient funds to manage the unprecedented costs of handling PPI cases over several years. We have continued to keep the need for the supplementary fee under review and with effect from April 2014 have decided to stop collecting the additional fee as we believe we have built sufficient reserves to deal with our PPI programme into the future.

During the year we have achieved our aim of handling the vast majority of cases electronically. We have introduced document scanning and electronic-file management across our entire casework operation scanning over 17 million pages on to our system. This enabled us, for example, to quickly sort out complaints from consumers whose problems had been caused by IT glitches at their bank during the year. Encouraging businesses to send their documents via a secure network also helps reduce the amount of paper we consume.

Over the coming year we will be working hard to identify more ways in which we can work differently and more efficiently – to provide value for money to the businesses who fund us, and better customer service for those whose complaints we handle. We will also be moving a short distance to a new building, which we have refurbished, working with the landlord, to create a space which helps to minimise our impact on the environment.

Although it's pleasing to see from surveys and research that businesses and consumers



are broadly satisfied with the service we provide, I recognise that our timeliness is something we need to improve. We know that people want their complaints resolved as quickly as possible, and many are still waiting far longer than we would like. We've scaled up our operations, introduced more streamlined ways of working and we're looking at other changes we can make to how we handle cases and so deliver the prompt and informal services people want. I am determined to improve our ability to resolve complaints more quickly – and just as effectively – over the coming year.

During the year, our stakeholders in financial businesses reported increasingly high levels of confidence in the ombudsman service. Three quarters of frontline complaints handlers across all businesses said the financial services sector could have confidence in us. And over the same period 70% of adults across the UK said they would trust us. 80% of people whose complaints we handled said they would recommend us to friends and family – even where we hadn't made a decision in their own favour. This is a positive sign that people recognise that we are giving fair and honest answers to their problems.

But we certainly can't afford to be complacent. We know there are many consumers out there who might need our services, but who are not getting in touch with us. During the year our research suggested – once again – that someone's age, socio-economic status and ethnic background can all affect how likely they are to use the ombudsman.

Mindful of this, we have put more time and effort than ever into getting out into local communities and working with particular groups of people – at “melas”, roadshows and other events. We've met people in cinema foyers, supermarkets and football grounds – to hear what they think about the ombudsman. We've worked with regional media and joined forces with local MPs and community leaders to get our messages out across the length and breadth of the UK – including some of the most geographically remote parts.

During the year we continued to put a lot of effort into building partnerships with frontline advice workers and charities – locally and nationally – to reach people who might need us. This has included inviting a wide range of charities and support organisations to meet our staff and talk about how we can help people with different needs – finding out how we can make ourselves easier to use and more approachable for people who might lack confidence in dealing with “institutions”.

We have also made far more use of social media – having conversations with people in the open and tweeting “real time” trends from our consumer helpline. This is another way of

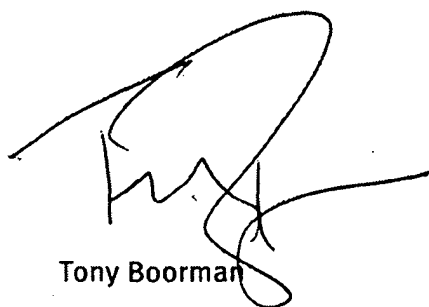
reaching people who might not otherwise be aware of us or comfortable engaging with us.

We continue to keep a close eye on who is and who isn't using the ombudsman. This will help us make the best use of our resources in the future – and continue to make ours a service for everyone.

The new regulator for the financial services sector, the Financial Conduct Authority (FCA), has now been up and running for over a year. We have maintained a close working relationship, keeping them abreast of emerging issues that we have come across, as well as where we have seen individual examples of poor practice.

We also worked with the Office of Fair Trading (OFT) on changes to the way that consumer credit is regulated. This involved the transfer of responsibility for the regulation of consumer credit from the OFT to the FCA from April 2014. And we have shared our insight into the activities of claims-management companies with the Ministry of Justice and the Legal Ombudsman. I am determined to make sure we find more ways of sharing our insight – and increasing its impact – over the coming year.

Looking back at 2013/2014, everyone at the ombudsman can be proud of the progress we have made. I am enormously grateful to my colleagues, and to the board, for their commitment and endless hard work. We still have a long way to go. But I'm confident that we are equipped to make even more progress over the coming year – not only in resolving record levels of cases, but also helping businesses and their customers re-establish the trust that underpins a successful financial services sector.

A handwritten signature in black ink, appearing to read 'Tony Boorman', with a large, stylized loop at the top.

3 July 2014

## our workload over the last decade

	Number of resolved cases	number of new cases
<i>2004</i>	76,704	97,901
<i>2005</i>	90,908	110,963
<i>2006</i>	119,432	112,923
<i>2007</i>	111,673	94,392
<i>2008</i>	99,699	123,089
<i>2009</i>	113,949	127,471
<i>2010</i>	166,321	163,012
<i>2011</i>	164,899	206,121
<i>2012</i>	222,333	264,375
<i>2013</i>	223,229	508,881
<i>2014</i>	518,778	512,167

# strategic report

This strategic report includes information about our objectives, our approach to managing risks, our performance, and other information about our organisation. This is in line with the recently-introduced requirements of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. The strategic report should be read together with the rest of this document.

The Financial Ombudsman Service was set up under the *Financial Services and Markets Act 2000* as the independent dispute-resolution service for consumers with complaints about financial businesses. We carry out our statutory functions on a not-for-profit basis.

## our commitments

We are committed to developing and strengthening our service – to meet the needs of our customers in a changing world and to respond to continuing volatility in demand for our service. Accordingly, our plans for the year ahead are underpinned by five key commitments.

- **commitment 1: to deliver a trusted, fair and easy-to-use service for everyone.**

We see the hardest-fought disputes – which financial businesses and consumers have failed to resolve themselves. We need to be – and be seen to be – fair and impartial. We need to be trusted and recognised as providing a high quality service. And we want to be open and accessible to everyone. We believe we can continue to do more to make our service easier to use – both for consumers and for businesses.

- **commitment 2: to put knowledge and expertise at the heart of everything we do.**

Professionalism is at the heart of everything we do – and depends on our people having the right knowledge and expertise to do their work consistently to the highest standards. We want our staff to continue learning and developing skills that help them deal with a wider variety and complexity of casework.

- **commitment 3: to be flexible, reliable and effective.**

The level of demand for our service is generally recognised as being particularly difficult to forecast with accuracy. However, the standard of our service must be

consistently high. This is why we continue to keep our operational model under review – to make sure we have the flexibility to respond efficiently and reliably to variable demand.

- **commitment 4: to run a “lean” and efficient organisation**

We will invest in our service where there are clear benefits in doing so. But we know how important it is to those who fund us that we keep our overall costs – and therefore fees - as low as possible. We recognise that using technology differently can bring longer-term benefits in terms of cost and efficiency. Our ongoing e-enablement programme is intended to deliver more cost-effective processes and lower transaction costs for users. But we are also committed to ensuring we remain accessible to customers who prefer to use more traditional channels.

- **commitment 5: To share our experience and insight – helping to prevent future problems**

Our work is about putting things right when they have gone wrong. But it is essential that lessons are learnt to stop similar things happening again. To help make this happen – and to show that we are consistent in our approach – we need to be clear and open about what we see and what we do. The information we publish includes details of our approach to the wide range of complaints we see most frequently, as well as complaints data about individual financial products and individual businesses.

## **risks to meeting our commitments**

We manage our service through a framework of governance, including a balanced scorecard, key priorities and risk registers. The Board, with support from the rest of the organisation, identifies and monitors potential risks to achieving our commitments, and sets out its expectations on our risk appetite. Each executive team member takes responsibility for ensuring we have appropriate responses in place to deal with identified risks. The latest assessment of the key risks and mitigating strategies are regularly reviewed and challenged by members of the executive team and board. The board also identifies risks for detailed review by the audit committee. There are supplementary risk registers in place for specific areas or key projects including property, the PPI programme and IT delivery. These are reviewed regularly and fed into the main register as appropriate.

The key risks to meeting our commitments can be grouped into the following areas:

<i><b>risk category</b></i>	<i><b>challenge</b></i>	<i><b>approach</b></i>
strategic	We need to continue to manage the PPI caseload in the most effective operational manner in an environment where stakeholders are increasingly disengaged with the remaining challenges.	<p>PPI programme management with clear executive focus and board oversight.</p> <p>Our long-term aims are supported by annual priorities agreed with the board and included within our plan and budget. Consultation feedback from the 2014/2015 budget process was supportive of further investment to deal with PPI.</p>
operational	Our caseload remains volatile but we need to ensure we are still able to provide a good customer service to both	Our performance scorecard is produced monthly and tracks key performance indicators at all levels within the service. Operational

	<p>consumers and businesses.</p> <p>We need to retain our staff, who are crucial to helping us meet our commitments.</p> <p>We also need to ensure that we mitigate internal risks such as to health and safety, and safeguard the data that we hold.</p>	<p>performance is reviewed monthly by members of the executive, and any matters for attention are raised with the board. Operational plans and financial targets are reviewed and re-forecast as required on a quarterly basis without losing sight of original budget commitments. Performance against our key priorities is considered on a quarterly basis and reported to the board.</p> <p>The executive team meets monthly to discuss all aspects of our people strategy, including how to address staff retention risks.</p> <p>Where significant, internal risks have associated working groups drawn from across the service who lead actions to reduce risk.</p>
external	<p>We need to respond to changes in the external environment that could affect our ability to carry out our role effectively. This includes potential political, legal or regulatory impacts.</p>	<p>Ongoing horizon-scanning of areas that could affect our policy approach, regulatory or legislative environment, approach to casework, or how we interact with consumers and businesses to identify issues early. Maintaining effective relationships and communication with our wide range of external stakeholders. Continuing to develop our service to meet the changing needs of our</p>

		customers.
financial	Our ability to set fees for our casework over the next few years to ensure we have appropriate resources to manage our caseload. We need to manage our reserves prudently to ensure we can cover our backlog of PPI complaints from existing funds.	<p>Regular operational reviews together with monthly financial analysis.</p> <p>Our approach to supplementary case fees and group fees in recent years has helped us manage our finances to meet this challenge. In 2014/15 we have agreed to end the supplementary case fee. We are also putting in place a new investment strategy to ensure our reserves are safeguarded.</p>
project	We are continually making improvements to our ways of working but we need to ensure this does not have an adverse impact on our “business as usual” work. Our project work needs to be well-planned, risk-assessed and coordinated to achieve value for money and intended outcomes.	We have created a project oversight board with responsibility for overseeing our project portfolio and assessing and monitoring risks to delivery. This is supported by a project management framework that sets out clear requirements for new projects to follow.

## complaints we received

Following our record year in 2012/2013 demand for our services began to stabilise in 2013/2014 – but it still grew. We handled 2,357,374 initial enquiries and complaints from consumers – around 8,000 every working day. This was an increase of 9% on the previous year.



Over half a million enquiries – 512,167 – went on to become formal disputes requiring the involvement of our adjudicators and ombudsmen. This represented an increase of just under 1% on last year's figure. We have now taken on over a million formal complaints in the last two years – the same number as we took on between 2000 and 2010.

78% of these cases – 399,939 disputes – related to payment protection insurance (PPI). By the end of March 2014 PPI complaints accounted for 46% of our total workload since we were set up in 2000.

Just under two thirds – or 63% – of the complaints we received related to four financial services groups – all of which are major banking groups. In contrast, some 4,500 businesses accounted for just 3% of our caseload.

There is more information about the complaints we dealt with – and what and who they involved – in our *annual review*, which we publish separately and which is available on our website.

## **complaints we resolved**

At the start of the year we set a target to resolve 385,000 cases. This would have been an increase of more than 50% on the previous year's performance. In the event we were able to settle 518,778 cases – more than twice the number we resolved last year and the highest number in any year since the ombudsman was set up. For the first time in four years, we also resolved more cases than we received.

Since we began our work in 2000, 2,458,142 cases have been referred to us – of which over 60% have involved just three issues: mortgage endowments, bank and credit-card charges, and PPI. The significant volatility in workload relating to these three issues – and the way financial businesses have themselves managed the volumes of complaints – have presented us with major operational challenges over the last decade.

We try to resolve complaints informally where possible – encouraging both sides to agree at an early stage to the views or informal settlements that our adjudicators suggest. But more complex or sensitive disputes may require detailed investigations and lengthy reviews, including an appeal to one of our panel of ombudsmen for a final decision.

6% of the cases we settled during the year required an ombudsman to make a final decision (11% in the previous year, and 9% in the year before that). This lower proportion reflects the fact that relatively few PPI cases currently require an ombudsman's decision – although more are likely to do so in future years as PPI complaints become increasingly complex and entrenched.

In total we upheld 58% of the complaints we settled during the year, compared with 49% of cases in the previous year. However, within these overall numbers there are significant variations – for example, we upheld 65% of PPI complaints but only 34% of pension complaints. There is more information about the complaints we resolved in our *annual review*.

## **developing our response to PPI**

When we consulted in January 2013 on our plans for 2013/2014, we assumed that we would receive around 250,000 new PPI cases. In fact, by the end of the year we had formally taken on nearly 400,000. In total we have received over a million PPI cases, of which more than two thirds have been in the last 18 months. To prepare ourselves for this challenge, we have continued to invest significantly in recruitment, process management, IT and the capability of our staff. But in spite of the record number of complaints we resolved, by June 2014 we still had a stock of 380,000 PPI cases awaiting attention.

However, these statistics disguise what may have been a turning point in our PPI work. There have been times over the last two years where we have received over 12,000 PPI cases per week. This is no longer the case. Numbers have now fallen to around 5,000 cases per week.

Forecasting future demand is difficult, particularly because factors beyond our control – such as a change in approach to dealing with complaints by financial businesses, or resurgence in activity by claims managers – could affect our future caseload. But as part of our consultation process we have talked to the industry and regulators and we are hopeful that the current trend we are seeing will continue in 2014/2015. Nevertheless we have increased our original forecasts for 2014/2015 from 150,000 to 200,000 new PPI cases in light of responses to our consultation.

We believe we have now built an appropriately-sized and resourced PPI operation (taking care to provide the necessary professional and technical leadership to manage the quality of our casework) and so we do not anticipate further large-scale recruitment. However, we will keep the position under review, particularly in the event of any material changes to our planning assumptions and in the context of a strengthening job market that poses a real and increasing challenge for staff retention and replacement.

Whilst the future path of the PPI journey remains uncertain we expect the challenge will take years – not weeks or months – to resolve. PPI cases vary significantly in their complexity. Many can be resolved easily and relatively quickly, but there are a significant number of cases that are more complex or harder-fought, and these by necessity take a lot longer. Whilst we have made good progress, it is vital we continue to manage the situation effectively in the future.

The financial implications of the continuing PPI workload – and how we are meeting the costs of our operational response – are set out later in this report where we describe our funding arrangements.

## **working with the regulator**

The regulator has a number of responsibilities in relation to the ombudsman service, including:

- Appointing directors to our board.
- Making the rules that determine the scope of our compulsory jurisdiction.
- Approving our annual budget.

The primary regulator for financial services is the Financial Conduct Authority (FCA). On 1 April 2014 the FCA assumed responsibility for consumer credit regulation from the Office of Fair Trading (OFT). The Claims Management Regulator is responsible for regulating the behaviour of claims management companies. We have open and collaborative relationships with each of these regulators.

The relationship between the ombudsman and the FCA is described in a formal

memorandum of understanding, which is available on our website – [www.financial-ombudsman.org.uk/about/other\\_bodies.html](http://www.financial-ombudsman.org.uk/about/other_bodies.html)).

We meet regularly with regulators to share our insight from the complaints we see. Meetings take place between our chairmen, chief executives and other members of staff at varying levels within the service. We are also members of the joint co-ordination committee, which meets regularly to discuss matters of mutual interest – including complaint trends and emerging risks.

The Financial Services Act 2012 gave additional responsibilities to the ombudsman – for example, a requirement to publish the final decisions made by ombudsmen. We are working closely with the FCA to ensure these are being effectively fulfilled.

## **external review**

As part of our regular cycle of three-yearly external reviews, our board invited the Future Foundation to help us understand how consumers' expectations of brands and services are likely to change over the next ten years.

In particular, we wanted to understand more about current and future changes in areas such as technology, consumer expectations and brand management in various different sectors – to inform our thinking about the future of the ombudsman service. The board would like to thank everyone who gave their time so generously and willingly.

The full report is available at [www.resolution2025.com](http://www.resolution2025.com).

## **our financial performance**

### **Overview**

Our revenue and cost base have grown over the year as a result of the continuing volume of PPI cases. Our gross revenue of £343m – of which £10m has been deferred at the end of the year and will be released in future periods - was almost 20% above budget and 36% higher than the previous year. Our cost base has increased in line with our revenue, but is lower than budget due to changes in the phasing of recruitment and finalisation of the terms of our temporary property expansion.

The scale and volatility of the PPI challenge has meant we have needed to keep our funding structure under continual review. In 2012/2013 we introduced a supplementary fee for PPI cases which was charged on receipt of a case. Over the last two years we have raised approximately £159m to fund our initial, and ongoing investment in PPI – of which almost 70% has been from the four major retail banking groups. Whilst there remains considerable uncertainty about the detailed future path for PPI we believe we now have sufficient reserves built up to be able to tackle the rest of the PPI challenge –so we have stopped collecting the supplementary fee on new cases from 1 April 2014.

We have also taken the opportunity to amend the charging mechanism for the larger firms – introducing a group account fee that determines the annual charge on the basis of an overall proportion of expected work from each group. For the 2013/2014 financial year we received approximately 60% of our total operating revenue funding through this mechanism, and on the basis of its success we have expanded the number of group account firms from four to eight with effect from 1 April 2014.

The level of our reserves has been the subject of discussion and debate over the past year. Whilst we have no desire to retain reserves at their present levels indefinitely, we consider significant uncertainty remains over the route and timescales for a return to a more stable work flow. We plan to utilise the reserves to fund the operating deficits we anticipate to incur over the next few years, as the PPI programme moves into its next and more complex stages and we start to incur the costs of winding down our PPI operation. By using these reserves we will seek to minimise volatility in pricing over the period. Further detail is provided below.

## **budget process**

Following our annual public consultation on our proposed plan and budget for the next financial year, and having taken account of our stakeholders' comments and feedback, we ask our board to set a final budget for submission to the regulator for final approval in March each year. As a not-for-profit organisation we aim to break even financially through the combination of levy, case fee and group fee income, taking into account the reserves position set and the context of our caseload.

However we are currently in the midst of an exceptional period resulting from PPI, and so our budgets for 2013/2014 and 2014/2015 were not set to break even. We consider it will be a number of years before we return to a more stable and "regular" budget. Our budget for 2014/2015 is £319m, of which £67m will be released from previously obtained funding. The net charge to industry of £252m represents a 27% reduction compared to 2013/2014.

We used the 2013/2014 budget and consultation process to introduce a number of changes to our funding. We increased the standard case fee to £550, but also increased the number of "free" cases for businesses from three to 25. And whilst we maintained the supplementary case fee of £350 for PPI cases, which was charged at the point we took the case on as a formal dispute, this was only applied to the 26<sup>th</sup> and subsequent cases.

We also introduced, as planned, a new "group fee" for the four businesses that provide the majority of our caseload – Barclays, HSBC, Lloyds and RBS. We calculate group fees in advance based on a published formula which covers new PPI cases and any cases we resolve in year across both general casework and PPI. The formula includes a cap and collar which allows us to vary fees on a group by group basis if the volume of new PPI cases exceeds budget and if general casework resolutions are outside the 15% tolerance identified. As well as reducing the administrative burden on both the service and these businesses, the group fee helped us mitigate the financial risks brought about by the increasingly volatile demand for our services that has occurred in recent years.

With effect from 1 April 2014 we have stopped the supplementary case fee (in all but a small range of scenarios), and increased the number of groups in the "group fee" arrangement from four to eight.

<b>income</b>	<b>2013/2014</b>	<b>2013/2014</b>	<b>2012/2013</b>
	<i>actual</i>	<i>budget</i>	<i>(restated)</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
case fees	82.4	62.8	102.8
supplementary case fees	29.7	21.1	129.3
group fees	205.1	177.1	0.0
levy	25.8	24.8	20.8
<b>total operating revenue</b>	<b>343.0</b>	<b>285.8</b>	<b>252.9</b>
Net movement in deferred income	(10.0)	(2.3)	(114.2)
<b>revenue</b>	<b>333.0</b>	<b>283.5</b>	<b>138.7</b>
other income	0.5	0.1	0.5
<b>total income</b>	<b>333.5</b>	<b>283.6</b>	<b>139.2</b>

The service is funded by a combination of levies and case fees paid by the financial businesses it covers, and group account arrangements paid by the larger firms.

The majority of our funding comes from fees arising from casework – 92% in 2013/2014.

The level of PPI complaints we took on exceeded our – and our stakeholders’ – expectations, reaching nearly 400,000. Most of the new PPI cases in 2013/2014 related to the big four banks. Our budget group fee income was £28m more than our original budget as a result of significantly higher than expected new case volumes.

Historically we have maintained a simple approach to recognising revenue - with income from levies recognised in year, and from case fees on closure of the case. However the introduction of the supplementary case fee in 2012/2013 and the group fee in 2013/2014, together with the continuing volatility and uncertainty surrounding PPI, has led us to consider whether this approach remains appropriate. With effect from 2013/2014 we have amended our revenue recognition policy to take these factors into account.

The new accounting policy recognises the different characteristics of these revenue streams. We have restated our 2012/2013 figures and prepared this year's financial statements to take account of this change, which we consider more accurately reflects the reality of our current circumstances. The policy, and an analysis setting out the impact of the changes on the figures for the prior year, are contained in notes 2 and 20 to the accounts respectively.

expenditure	2013/2014	2013/2014	2012/2013
	<i>actual</i>	<i>budget</i>	<i>(restated)</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
staff and related costs	188.3	198.4	137.5
other costs	26.3	60.8	20.7
depreciation	6.4	7.7	4.4
<b>total costs</b>	<b>221.0</b>	<b>266.9</b>	<b>162.6</b>

In 2013/2014 we continued to invest heavily in our staff who are by far our most important resource. We rely on their skills, expertise, intellect and professionalism to resolve disputes in ways that are, and are seen to be, fair and reasonable in the unique circumstances of each case.



During the year we continued to recruit more ombudsmen both from within the organisation and from outside. This has helped us address the rising number of disputes that are being “appealed” to ombudsmen, and further strengthen the professional leadership function that ombudsmen carry out. By the end of the year the ombudsman panel stood at 162 full time equivalents (compared to 116 in 2012/2013). We also had an additional 57 ombudsmen working under more flexible arrangements and being paid a daily rate to help cope with fluctuations in workload.

In the last year we recruited significant numbers of adjudicators including another 1,000 to deal with the unprecedented volume of incoming PPI cases. These new adjudicators are now accredited, having completed our initial training programme, and helped us resolve more cases than ever in 2013/2014.

unit cost	2013/2014	2013/2014	2012/2013
	<i>actual</i>	<i>budget</i>	<i>actual</i>
Cases resolved	518,778	385,000	223,229
Unit cost	£430	£690	£724

We calculate the “unit cost” of resolving a complaint by dividing our total running costs – not including financing costs and bad debts – by the total number of cases we resolve in the year. While we regularly report on our unit cost, it remains an imprecise measure of our efficiency – being impacted by factors both inside our control (such as efficiencies of scale in PPI) and outside our control such as customer behaviour (for example the work we have undertaken with the major banks to resolve large numbers of similar cases in one go). This year, the significant increase in cases resolved in PPI has meant that the unit cost has now decreased considerably to £430 – a fall of over 40% compared with 2012/2013.

However, we expect our unit costs to increase again in 2014/2015. Aside from general inflationary and other cost pressures, we will be dealing with more complex cases remaining in our PPI stock – which may be more likely to progress to our final stage, an ombudsman’s decision. We are however mindful of the need to continue to deliver a value

for money service, and will be looking at ways to further measure and increase our efficiency as we continue towards a world of reduced PPI.

### **significant contracts**

Our contracts are procured using frameworks and processes in line with guidance provided for public sector procurement. Although the Randstad “contingent labour” contract remains our most significant contract in terms of value at £25m, we have invested approximately £7m in a range of IT equipment with Computacenter as part of the continued expansion and evolution of the PPI operating solution.

### **reserves**

We maintain a level of reserves that is appropriate to support the continued operation of the service. In a period of relative stability we consider that level should equate to approximately 3 months of operating costs. However, we are not operating in a stable environment at present – PPI new case volumes have ranged from 6,000 to 12,000 per week. To deal with the enormity of the PPI challenge we have invested heavily in new staff and infrastructure to create an organisation capable of delivering the scale and complexity of resolutions that will be required over the coming years.

To fund the investment in the PPI infrastructure we introduced the supplementary case fee, which as explained above was chargeable on acceptance of a case. We have used the income from the supplementary fee, approximately £159m over the past two years, to pay for the initial investment in PPI. We have also used it to build our reserves to provide a basis for dealing with the significant number of existing PPI disputes that we are yet to resolve, which by June 2014 stood at almost 380,000. We will incur costs in winding down our PPI operations in future years.

We therefore held significant reserves of £266m at the year-end (including £126m of deferred income) – but we are not looking to maintain these in the long term. In fact our plans allow for a reduction in revenue arising from reduced new PPI case volumes and the decision to stop charging the supplementary case fee. We anticipate operating at an increasing loss as we deal with more complex cases that take longer to resolve and begin to wind down our PPI operation. We plan to use the reserves we have currently accumulated to bridge the gap rather than increasing the cost of cases to fund the deficit, before returning to our more normal reserves policy detailed above in the longer term.

We highlighted the levels of our reserves and our proposed approach to future funding in our public consultation for the 2014/2015 plan, asking for feedback on whether funds should be returned to the industry at this stage in our PPI programme. We noted that if we returned some of our supplementary case fees now – before we have more certainty about how we will deal with our existing PPI caseload – there was a greater risk of needing to increase charges again in future to cover our costs. This might also mean these charges end up being applied more widely, including businesses that were not responsible for the PPI caseload. This approach was welcomed in responses to the consultation. But we will continue to keep our reserves under review.

### **cash management**

Cash management is important to any well-run organisation and we review our balances daily. Future cash requirements are reviewed as part of the quarterly re-forecast process and balances are placed on deposit, generally overnight.

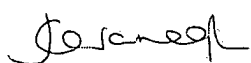
Due to the higher than expected level of PPI disputes in both 2012/2013 and 2013/2014, our levels of revenue have significantly exceeded forecasts and accordingly our cash balances have increased from £85m to £231m – an increase of £146m in the year. We currently do not make use of a loan facility or overdraft.

The executive team, with the support of the audit committee, reviews our banking facilities each year. After this year's review they decided that our current banking arrangements should change. We are currently updating our investment approach to ensure our funds are safeguarded while obtaining a reasonable rate of return.

### **creditors' payment terms**

The Financial Ombudsman Service has a policy to pay creditors within agreed terms.

### **by order of the board**



company secretary

3 July 2014

## directors' report

### environmental policy

We are committed to reducing our impact on the environment, and our staff identified this as an important priority in their staff survey responses. In June 2013 we agreed a plan with the Carbon Trust to reduce our carbon footprint by 30% over five years. This year our environmental committee led campaigns to raise awareness, for example during national recycling week, and implemented changes such as provision of more cycling facilities and reducing the use of paper cups. These helped reduce our day-to-day emissions, and built on existing practices such as the use of energy saving devices on our IT equipment and provision of extensive recycling facilities for staff. For example we recycled 73,188 kilogrammes of paper during 2013, and used 1,300 bottles of tap water in meetings rather than bottled water.

We have also continued to work on reducing the amount of paper we receive and produce. Our e-filing system is now being put in place across the service. So far we have scanned over 17 million pages onto our system. We also encourage businesses to send their documents via a secure network, preventing 166,000 paper files containing 1.2 million documents being sent through the post. This reduces carbon emissions from paper usage and transportation, while also improving our operational efficiency.

We are relocating our head office over the course of 2014. We have worked with the landlord to ensure the design of the new space will help minimise our impact on the environment. We will also be able to collect improved sustainability data to help us monitor and improve our environmental performance, particularly in support of our Carbon Trust commitment.

### equality and diversity

When we were set up by Parliament, the intention was to make sure that *every* consumer in the UK has access to a free ombudsman service. We continually review how we work to make sure no aspect of anyone's personal circumstances prevents them from being able to

reach us. And when they *do* reach us, we want to be certain that there are no barriers to their complaint being decided fairly and impartially.

We also think it is important that the people who work for us reflect the diversity of our customers and stakeholders. Our equality and diversity strategy is set and monitored by our board and executive team – and we publish it on our website.

During the year we received four independently-assessed awards in recognition of our positive approach to diversity. We are now:

- Accredited *Leaders in Diversity* – and we were the first national organization to receive this recognition.
- *Investors in Diversity*, stage one and two.
- For the third year running, a gold standard “diversity assured” organisation.

We have continued to work with a range of external partners who specialise in inclusion, such as Stonewall, the Employers’ Network for Equality and Inclusion, the National Centre for Diversity, and other disability, mental health and wellbeing charities. We have also continued with our “omb|assadors” activities. omb|assadors are employees who volunteer to help raise awareness of the ombudsman in their own communities – outside work. This helps us reach local groups who are less likely to know about and use our service.

### **equality of the workforce**

Across our workforce, 45% are male and 55% are female (2013 - 46% and 54% respectively). 37% of our employees are from non-white ethnic backgrounds. In our voluntary survey 2% of our staff described themselves as disabled. At the end of the year, women accounted for half of our board, 57% of our executive team and 47% of our panel of ombudsmen.

51% of people working at the organisation at the end of the year were aged between 25 and 34 – with 4% of our workforce older than 55. The age of our employees ranged from 17 to 67 years.

Throughout our recruitment process we make every effort to accommodate candidates with disabilities. If an existing employee's needs change, we work hard to make sure that their employment continues – and we provide specialised training where it's needed.

## **learning and development**

The people who work at the ombudsman service make important – often life changing – decisions about the complaints that consumers refer to us. So it's very important that we maintain high levels of quality and consistency.

### **professional leadership**

Our ombudsmen are our professional leaders, setting the tone for our work and our approach to the different types of disputes we see. This year, we have invested heavily in the development of our ombudsmen in their capacity as the professional leaders in our organisation. Our continuing professional development programme helps them keep their knowledge and skills up to date, and they support our adjudicators through mentoring and by sharing their knowledge. New ombudsmen go through a rigorous induction programme – during which an experienced colleague mentors them on every aspect of their role.

### **sharing knowledge and information**

To make sure we approach cases consistently, people's knowledge must be up to date. We share casework news and information across the organisation using a variety of methods. We supplement this with regular in-house clinics, mentoring sessions, briefings and seminars – which help us share knowledge, learn and improve. We also use internal discussion forums so that staff can share their comments, questions and views about casework issues.

We are also committed to sharing our knowledge with the outside world. Making more information available about our approach, informed by the cases we have seen, makes it easier for consumers and financial businesses to resolve more complaints themselves.

We have published more technical notes on our website, as well as data on both the volume and types of complaints we see. By the end of March 2014 we had published nearly 23,000 ombudsman decisions on our website.

## **training**

To deliver high quality services, we must train people properly – from the moment they join the organisation and throughout their time with us. We provide a wide variety of learning opportunities, including manager-led “how to” workshops, lunch and learn sessions, speaker programmes and leadership networking events. On average over the year our staff each undertook over seven days of in-house training, including subjects such as management skills, leadership, business influencing, and technical training.

And we have continued to use an “academy-style” approach for our induction programme to develop new adjudicators over a 9-12 week period. This training is a blend of taught modules, mentor support and on-the-job training and supervision, covering technical product knowledge and core case-handling skills.

We actively support and mentor new adjudicators as they take on “live” cases, and provide feedback on both the quality of their case assessment and on their customer service standards. We continue to assess essential technical skills as adjudicators develop and work towards being accredited at key tasks. Where adjudicators have the potential to progress quickly we support this through an internship scheme which offers more challenging work assignments and time with members of the executive team. We offer programmes for adjudicators aspiring to move into line management, and have piloted a similar approach for those with the potential to be senior managers. Through our “aspiring” programmes we provide development for middle and senior managers who have leadership potential.

We have reviewed our adjudicator development programme and plan to pilot a new programme aimed at different levels of adjudicator experience. This will incorporate some of the bespoke work developed for us by Queen Margaret University and will use our ombudsmen expertise to set the programme into context.

## employee engagement

We know that people give their best when they believe in what they are doing, and understand the full context of their work. Strong employee engagement is vital to delivering good customer service. Our staff employee engagement team work hard to engage our staff fully in the work of the ombudsman service, including through:

- our employee newsletters, *connect* and *on the go*
- “ask the executive” question times
- forums, bulletin boards and chat-rooms on our intranet
- the chief executive’s blog – with comments and postings from staff
- *60seconds* interviews on the intranet, introducing new staff and projects informally
- divisional staff engagement by managers throughout the organisation
- formal cascade mechanisms

Our information and consultation committee (ICC) is our more formal mechanism for exchanging information and consulting with employee representatives. A regular programme of meetings has been set up with the ICC to consult on a wide range of topics. These include organisational plans and performance, potential organisational changes, working conditions, and staffing and training issues.

In February 2014 the *Sunday Times* Best Companies survey confirmed once again that we are a “Top 100” organisation to work for. Research suggests that the most motivated and enthusiastic staff provide the best customer service – and taking part in the survey helps us measure how we are doing in this area.



## health and safety

We are committed to protecting the health, safety and wellbeing of everyone who works for us and with us, and we have a dedicated health and safety team. An external audit in 2011 made recommendations and we put together a plan to act on them – with annual milestones to measure our progress. We finished the year ahead of the targets we had set ourselves and during the past 12 months have introduced:

- new systems for recording incidents;
- integrated IT systems for managing desk assessments and the assessments of risks across the whole organization;
- e-learning as part of the mix of training modules for health and safety – increasing accessibility to training in a simple and efficient way.

The engagement of staff through health and safety committee meetings has helped in the raising of staff awareness. We continue to review performance and set new targets as part of the improvement plan.

During the year, the following health and safety matters were reported by our employees:

- work related accidents – 25
- there were no RIDDOR incidents (reporting of injuries, diseases and dangerous occurrences)
- ill health requiring first aid attention – 75

## **corporate social responsibility**

Many of our employees tell us they chose to work here because of our values – and because our work in resolving people’s complaints has a positive impact. We do as much as we can to maximise this impact. For example, through our outreach programme, we provide frontline complaints training to hundreds of community and advice workers across the UK each year – empowering them to sort out problems as trusted intermediaries in their local communities.

Our relationship with the East London Business Alliance has enabled us to develop a range of volunteering opportunities for our staff. This includes providing CV and interview skills for young people within the borough of Tower Hamlets; befriending support through Age UK; practical support to local groups to improve their environments; and weekly literacy and numeracy classes to a local school. We also encourage our employees to play an active part in their own communities.

Our staff also vote for our charity of the year. In 2013/2014 we raised over £47,000 for our chosen charity, Macmillan Cancer Care, through a number of fundraising activities. We also developed a strong engagement relationship with Macmillan, increasing our employees’ understanding of the impact of dealing with financial issues that cancer can bring. We hope to build on this approach with our chosen charity for 2014/2015, the Alzheimer’s Society.

## **managing our information**

Our organisation holds personal information about a large number of people. Some of this is sensitive personal data that isn't in the public domain, such as financial information or health records. We also hold personal data about our own staff. We have a legal duty to protect the personal data that we hold under the Data Protection Act 1998.

The increasing number of complaints we have received means that we now hold more personal data than ever before, and in response we are further strengthening how we look after it. In 2013/2014 we set up a group of senior staff drawn from across the service to take responsibility for data protection issues, identifying areas of potential risk and making sure they were dealt with. We train all our employees in how to handle data during their induction and throughout their time with us.

## **freedom of information**

We became subject to the Freedom of Information Act 2000 in November 2011. Since then, we have received more than 710 requests for information. These requests have tended to cover three broad areas: individual cases, corporate information, and requests for more detailed information about complaints than we currently publish every six months on our website. We now also publish the decisions made by our ombudsmen as part of our commitment to working openly.

# **governance statement**

## **our board of non-executive directors**

### **Sir Nicholas Montagu KCB (chairman)**

Nick Montagu was appointed chairman of the board on 1 February 2012. He is also chairman of the nomination and remuneration committee.

Nick is chair of the Queen Mary & Westfield Foundation and also chair of the Council, Queen Mary, University of London.

Previously, Nick was chairman of the Aviva UK Life With-Profits Committee, a director of the Pension Corporation and a Director of Xafinity. He is also a former chairman of the board of Inland Revenue. Nick Montagu's term of office is currently due to end on 31 January 2015.

### **Gwyn Burr**

Gwyn Burr was appointed to the board on 1 October 2011. She is a member of the nomination and remuneration committee.

Gwyn is a non-executive director of Sainsbury's Bank, Just-Eat plc, Wembley National Stadium Limited and Hammerson Plc. Until very recently, Gwyn was a member of the Operating board at J Sainsbury plc where she was the Customer Service and Colleague Director. This included responsibility for Human Resources, Customer Service, Corporate Responsibility and Corporate Communications, as well as sponsorship schemes including the Paralympic Games Programme.

She has over 25 years' business experience, including five years with Nestle Rowntree and over 13 years with ASDA/WalMart where she held various board-level positions. Before joining Sainsbury's, Gwyn founded her own marketing consultancy.

Gwyn Burr's term of office is currently due to end on 1 October 2014.

## **Alan Jenkins**

Alan Jenkins was appointed to the board on 23 February 2011. He is a member of the audit committee and the nomination and remuneration committee.

Alan is a non-executive director of UK Trade & Investment, the Crown Prosecution Service, and the Pension Protection Fund; and a director of Gross Hill Properties Ltd, Sydney and London Properties Ltd, Northcourt Ltd, GPS Associates and GPS Malta Ltd.

Alan currently is also chairman of the board of trustees of Mencap Trust Company Ltd and Lattitude Global Volunteering and a trustee of the London Middle East Institute at the School of Oriental and African Studies.

During his career, he has been a vice chairman of the International Institute for Environment & Development, managing partner of Frere Cholmeley Bischoff, a partner and chairman at Eversheds LLP, and an independent non-executive at PKF (UK) LLP.

Alan Jenkins' term of office is currently due to end on 22 February 2017.

## **Julian Lee**

Julian Lee was appointed to the board on 23 February 2005. He is chairman of the audit committee and also a member of the nomination and remuneration committee.

Julian is currently chairman of the Brighton & Sussex University Hospitals Trust. He runs a strategy and risk consultancy and he is also a Justice of the Peace on the Northern Sussex Bench.

Julian has been a Commissioner of the Legal Services Commission, the Maritime & Coastguard Agency and member of the Department for Transport's Maritime Advisory Board, chairman of NHS Surrey and of NHS Brighton & Hove and a non-executive director of South East Coast Ambulance Service. During his career he was chairman of Allied Carpets plc, chief executive of Bricom Group plc, managing director of British & Commonwealth Holdings plc, International chief operating officer of Phibro Solomon Inc

and a partner in Arthur Andersen & Co.

Julian Lee's term of office is due to end on 22 February 2015.

### **Baroness (Maeve) Sherlock OBE**

Maeve Sherlock was appointed to the board on 23 February 2008. She is the senior independent director and a member of the nomination and remuneration committee.

Maeve was a member of the audit committee until 31 May 2013.

Maeve is a member of the House of Lords and is a shadow Minister for Work and Pensions. She is also currently undertaking research for a doctorate at Durham University and chairs Chapel St, a charitable enterprise that delivers education, health and family services.

Previously, she has worked as chief executive of the Refugee Council and of the charity One Parent Families. She spent three years as a full-time member of the Council of Economic Advisers in HM Treasury. She served as a commissioner at the Equality and Human Rights Commission and a non-executive director of the Child Maintenance and Enforcement Commission and was chair of the National Student Forum.

Maeve Sherlock's term of office is currently due to end on 22 February 2017.

### **Pat Stafford**

Pat Stafford was appointed to the Board on 22 February 2011 and is a member of the nomination and remuneration committee and the audit committee.

Pat is vice chair of Guide Dogs and supports a number of other charities as a mentor and business adviser. She has an extensive portfolio of previous NED roles including at HMRC, the Princes Trust and the National College for Teaching and Leadership. Her Executive career includes Group Marketing Director at BUPA, Brand Director at British Airways and Managing Director at Corporate Positioning Services.

Pat Stafford's term of office is currently due to end on 22 February 2017.

**company secretary**

The company secretary, with the help of the board secretary, supports the board, its committees and the executive team and ensures all relevant procedures are followed.

The company secretary is available to provide independent advice to directors on issues relating to their responsibilities.

Julia Cavanagh, finance and performance director, is the company secretary.

## the role of the board

The *Companies Act 2006* requires directors to act in a way that they consider would be most likely to promote the success of their company. Directors are also expected to exercise reasonable care, skill and diligence.

The role of the board of the Financial Ombudsman Service is to:

- ensure that the service is properly resourced and able to carry out its work effectively and independently;
- appoint the panel of ombudsmen under paragraphs 4 and 5 of schedule 17 of the *Financial Services and Markets Act 2000* (FSMA 2000) (which the board has delegated to the chairman);
- appoint the independent assessor – who deals with complaints about the level of service we provide in our work resolving consumers' complaints;
- approve the draft budget each year for recommendation to the regulator (the Financial Conduct Authority (FCA) and the Financial Services Authority (FSA) before 1 April 2013;
- approve (with the regulator) appropriate rules in the Dispute Resolution: Complaints (DISP) section of the regulator's Handbook;
- prepare and approve an annual plan that sets out how resources will be used;  
*and*
- prepare and approve the annual review – an overview of the work of the ombudsman service.

The board is wholly comprised of non-executive directors. Certain members of the executive team are invited to attend board meetings, and the board operates by combining executive and non-executive insight to govern the organisation effectively.

The chairman and chief executive meet regularly to discuss the operation and development of the organisation. Their responsibilities are distinct and clearly defined. The chairman ensures that the organisation has a clear strategy and direction – with effective management for its current and future needs. He ensures the board is operating effectively in its decision making and its support for the executive – and that the chief ombudsman and chief executive has effective line management. In doing this he has regular meetings with executive team members on a one to one basis.



The chairman also has an important role as an ambassador for the organisation.

The chief executive is responsible for leading the development of strategy within the organisation – and overseeing its delivery. He also leads the executive in making and implementing operational decisions, and ensuring that the board has clear, timely and accurate information about performance and operations. The chief executive is also responsible for appointing members of the executive, maintaining key external relationships and managing risks.

### **appointment of directors**

Under the articles of association, the board must consist of a minimum of three directors. On 31 March 2014, the board consisted of six directors, all of whom were non-executive.

Under Schedule 17 of the Financial Services and Markets Act 2000 “the chairman and other members of the board must be persons appointed, and liable to removal from office” by the regulator (the FCA, and previously the FSA). The Act also says that the appointment of the chairman must be approved by HM Treasury.

The FCA oversees the recruitment of the chairman. All appointments to the board follow an open recruitment process, which includes advertising in the national press.

The recruitment process for non-executive directors to the organisation is overseen by the board’s nomination and remuneration committee (see pages 48 and 49). The committee nominates suitable candidates to the regulator’s board for approval.

When the FCA appoints a non-executive director, it sends them a letter of appointment – which includes details of their terms and remuneration. Details of remuneration paid to non-executive directors can be found in the remuneration report on pages 54 to 56.

All non-executive directors go through an extensive induction programme to introduce them to the organisation. This includes meeting each member of the executive team, being guided through the “end-to-end” complaints process, and receiving a directors’ handbook of information about the organisation.

At the beginning and end of board meetings, non-executive directors have the opportunity to discuss general matters that are affecting the organisation – and throughout the year, undertake a number of activities to maintain and enhance their knowledge of the service and its activities.

#### **changes to the board during the year**

There have been no appointments to the board in the financial year. The FCA approved the reappointment of Julian Lee for a final year to February 2015, and the re-appointments of Maeve Sherlock, Alan Jenkins and Pat Stafford to February 2017.

## board meetings

The board met ten times during the financial year 2013/2014. Attendance at board and committee meetings is recorded below:

	board meetings	audit committee	nomination & remuneration committee
Sir Nicholas Montagu, chairman	10/10	-	4/4
Gwyn Burr	8/10	-	4/4
Alan Jenkins	9/10	5/5	4/4
Julian Lee	10/10	5/5	4/4
Maeve Sherlock	10/10	-	2/3
Pat Stafford	10/10	5/5	3/3

The chairman leads the board and ensures that it meets its statutory and corporate responsibilities. The chairman and the chief executive/chief ombudsman set agendas in advance, ensuring that there is enough time for important issues to be discussed, from both an assurance and a strategic perspective. There is also an assurance framework which is reviewed annually and ensures all key assurance matters are reviewed as appropriate during the year.

In the last year, a broad spectrum of assurance matters have come before the board – ranging from quarterly operational performance reviews on health and safety and sustainability, to detailed discussions about the ombudsman's management of key corporate risks and its approach to its litigation work. Discussion on key strategic issues has included managing the service's PPI caseload and making sure it stays relevant and able to meet its customers' needs in a changing world.

Minutes of board meetings are available on our website – [www.financial-ombudsman.org.uk/about/minutes.html](http://www.financial-ombudsman.org.uk/about/minutes.html)

### **independence of the board**

Independence and impartiality are central to the ombudsman service – and these principles are enshrined in the relevant legislation.

The FCA appoints the non-executive directors to the board on terms that ensure their independence from the FCA. The chairman's appointment must also be approved by HM Treasury.

*Non-executive directors are members of the board of the “scheme operator” that “administers” the service. These non-executive directors are the only members of the company called the Financial Ombudsman Service Limited – which is limited by guarantee and has no share capital. The company exercises its right under the Companies Act 2006 not to hold annual general meetings.*

The non-executive directors are not involved in considering individual complaints. Their job is to take a strategic overview, ensuring the service is properly resourced and able to carry out its work effectively and independently.

On average, the chairman spends two days each week working on ombudsman service business. The other non-executive directors work around two days each month for the organisation. The executive team is grateful to the directors for the additional time they give to support a range of projects and initiatives linked to the strategic development of the organisation.

The senior independent director acts as an alternative point of contact to the chairman, and meets annually with directors excluding the chairman to discuss the performance of the board and the chairman.

## **conflicts of interest**

Under the Companies Act 2006, the board can authorise any potential conflicts of interest that may arise – and impose whatever limits or conditions it considers appropriate. A register of conflicts is maintained – and reviewed regularly to keep all the details up to date. Before a new non-executive director is appointed, they must seek appropriate authorisation for any potential conflicts of interest. Existing non-executive directors must seek authorisation as and when potential conflicts arise.

## **tenure policy**

Directors are appointed for an initial period of no more than three years – or no more than five years in the case of the chairman. Unless a director resigns before the end of their term of office, their period of office finishes at the end of the term.

A non-executive director may be reappointed by the FCA. In the case of the chairman, the reappointment has to be approved by HM Treasury. Any non-executive director can be reappointed, but they cannot serve for more than a total of ten years. In the case of the chairman, this ten-year period includes any time during which they acted as a non-executive director.

A non-executive director who wants to resign before their term of office would otherwise be due to end must give at least three months' notice in writing both to the chairman and the FCA.

## **performance evaluation**

Each year the Board carries out a formal evaluation of its own performance, and that of its committees and individual non-executive directors. In this evaluation, the Board considers the balance of its skills, experience and knowledge of the organisation, its diversity (including gender), how it works together as a unit, and other factors that influence its effectiveness.

For 2013/2014, the exercise was carried out by an external reviewer, in keeping with best

practice which recommends an independent evaluation every three years. Following a tender exercise, the Board appointed Judy Delaforce, of FSTP Global, to undertake the review. This took the form of a confidential questionnaire on the Board and each of the subcommittees; 1:1 conversations between the reviewer and the non-executive directors and the executive team; and consultation with the FCA.

The Board welcomed the review findings which acknowledged a well-functioning and effective Board overseeing a well-run organisation. It found we had solid governance in place and recognised the strength of the chair and his non-executive directors, and acknowledged an able senior management team. The Board accepted the need to address the areas of improvement identified in the report. Broadly, these were aimed at getting a better balance between the board's assurance role and its strategic role, and distinguishing better between the respective Board and executive management responsibilities. Other recommendations touched on some more routine operational enhancements, for example, around the early circulation of draft agendas and minutes.

### **indemnity of directors**

To the extent permitted by law and by the company's articles of association, the company indemnifies each non-executive director in relation to liabilities which may attach to them in their capacity as directors.

Directors' and officers' liability insurance cover is in place for the non-executive directors. Subject to the provisions of UK legislation, the company's articles of association provide an indemnity for non-executive directors in relation to costs that they may incur in defending any proceedings brought against them arising out of their positions as non-executive directors – where they are acquitted or where the court gives judgment in their favour.

### **corporate governance**

As a company limited by guarantee, the Financial Ombudsman Service is not obliged to comply with the UK Corporate Governance Code. However, the organisation does aim to maintain the highest standards of corporate governance, and to comply with the Code as

far as possible.

In 2013/2014, following changes introduced in the Financial Services Act 2012, the Comptroller and Auditor General assumed responsibility for the audit of the ombudsman service's annual accounts. The service does not have to produce accounts in line with usual HM Treasury guidance for government departments ("managing public money" and the financial reporting manual). However, in common with other members of the regulatory family the ombudsman service is disclosing a greater range of information in its accounts this year, including detail on exit packages for staff and the Hutton fair pay ratio.

The board is committed to set the company's strategic goals while providing the leadership to oversee its delivery.

The company does not have any shareholders – and does not hold an annual general meeting – so non-executive directors are not submitted for re-election, and are not able to maintain dialogue with shareholders. The service engages with a wide range of people who have an interest in our work – including financial businesses and trade bodies, consumer groups, claims managers, the media and parliamentarians, regulators and government.

There is more information in our *annual review* about our outreach and external liaison activities.

### **appointment of ombudsmen**

It is the board's responsibility to appoint ombudsmen on terms that guarantee their independence. As at March 2014, the ombudsman panel is led by Tony Boorman, as chief executive and chief ombudsman (interim) – supported by one principal ombudsman, six lead ombudsmen, two managing ombudsmen and 163 other ombudsmen. Each member of the panel is appointed by the board under paragraphs 4 and 5 to schedule 17 of the Financial Services and Markets Act 2000.

Our ombudsmen's professional, academic and technical qualifications cover every area that is relevant to our work. Each one is an expert in their own field – and their

specialisms include the law and professional services, banking and credit, mortgages, insurance, and investment and pensions.

There is more information about our panel of ombudsman on our website –  
[www.financial-ombudsman.org.uk/about/panel-ombudsmen.html](http://www.financial-ombudsman.org.uk/about/panel-ombudsmen.html)



## board committees

### the audit committee

The audit committee met five times during the year. Members of the audit committee were:

- Julian Lee (chair)
- Alan Jenkins
- Maeve Sherlock (until May 2013)
- Pat Stafford (from June 2013)

The board is satisfied that the combined knowledge and experience of the audit committee members ensures that it is able to fulfil its responsibilities effectively. Julian Lee, chair of the audit committee, has significant financial experience: he is a fellow of the Institute of Chartered Accountants in England and Wales, has been a partner in a global accounting firm, held chief operating officer and chief executive officer positions in large listed companies in the UK, worked in investment and corporate banking and with large private equity organisations, and has served on audit committees in six different organisations.

All members of the audit committee receive any support they need to carry out their role effectively.

The audit committee's main terms of reference are:

- *financial reporting*  
To review and challenge accounting policies adopted and accounting practices used for unusual or significant transactions; and to assess whether appropriate standards have been followed.
- *internal controls and risk-management systems*  
To keep under review the adequacy and effectiveness of internal financial control, and internal control and risk management systems.

- *compliance, whistleblowing and fraud*

To review how adequate our arrangements are for employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

- *internal audit*

To monitor and review how effective our internal audit function is, in the context of the overall risk management and independent assurance – and to approve the appointment and removal of the internal auditor.

- *external audit*

To oversee the relationship with the external auditors. The NAO were appointed as the as the service's external auditors under the Financial Services Act 2012, replacing Baker Tilly. The NAO has direct access to the chairman to discuss financial reporting matters and is invited to all audit committee meetings.

During the year, the committee considered matters including the valuation of the defined benefit pension scheme, the revenue recognition policy and the accounting approach in relation to the ombudsman service's property portfolio. The committee also kept progress against the annual internal audit plan under review, considered all completed internal audits in the year, and checked progress against any outstanding actions. It noted the corporate risk register at each meeting and the actions being taken to manage risks appropriately. Its programme of periodic "deep dive" reviews included a look at the potential risks for the service in publishing ombudsman decisions, a new statutory requirement for 2012/2013 onwards. The committee also attended a detailed briefing on the service's pension schemes, run by Aon Hewitt (who provide actuarial services) to enable them to fully consider the triennial valuation of the defined benefit pension scheme and the FRS 17 valuation assumptions.

The chief executive and chief ombudsman, director of finance and performance, head of risk and governance and head of strategic analysis are invited to attend all audit committee meetings. The external and internal auditors are also invited to attend the meetings.

The committee's full terms of reference are available on our website – [www.financial-ombudsman.org.uk/about/audit\\_committee.pdf](http://www.financial-ombudsman.org.uk/about/audit_committee.pdf)

### **the nomination and remuneration committee**

Chaired by Nick Montagu, the nomination and remuneration committee met four times during the year. Starting from May 2013, all members of the board are on the nomination and remuneration committee.

The nomination and remuneration committee's main terms of reference are:

- *remuneration strategy*  
To oversee the remuneration strategy for executive and other senior posts. To consider and agree proposals from the chief executive/chief ombudsman concerning remuneration of senior executive staff and ombudsmen, levels of remuneration for all employees, and major changes to employee reward structures.
- *board structure*  
To review on a regular basis the structure, size and composition of the board – including the required skills, knowledge and experience of the non-executive directors. To make recommendations to the regulator about appointments and re-appointments of board members.
- *succession planning*  
To make recommendations to the board about the appointment of the chief executive/chief ombudsman and to ensure succession planning for the post.  
To review on a six-monthly basis – with the chief executive/chief ombudsman – the overall performance and potential of the ombudsman service's senior team, and the succession and recruitment risks for critical senior posts. To ensure succession planning for non-executive directors on the board. To assess the skills and experience required to fill the post – taking into account the existing skills and experience already represented on the board.

During the year, the committee made recommendations to the FCA board on the re-appointment of four of the non-executive directors: Julian Lee, Maeve Sherlock, Alan Jenkins and Pat Stafford. In each instance where an appointment was considered the non-executive director concerned left the discussion. They have also been involved in the preparations for the 2014/2015 recruitment of a new non-executive director and a chief executive and chief ombudsman. They continue to take an active role in reviewing succession planning and the organisational talent programmes more generally.

The chief executive and the director of human resources and organisational development are invited to attend all committee meetings. However, they didn't attend when their own performance was discussed.

The committee's full terms of reference are available on our website – [www.financial-ombudsman.org.uk/about/remuneration\\_committee.pdf](http://www.financial-ombudsman.org.uk/about/remuneration_committee.pdf)

## the executive

The board is supported by the executive team, who are responsible for the day-to-day management of the organisation. After four years in the role, during which time she led the service from dealing with 150,000 complaints a year to over half a million, Natalie Ceeney stepped down as chief ombudsman and chief executive. Tony Boorman, as Natalie's deputy, was appointed chief ombudsman and chief executive on an interim basis while the board started the process to identify and appoint a successor.

The following people served on the executive team during the year:

- Tony Boorman  
*chief executive and chief ombudsman (interim) appointed on 13 December 2013  
(previously as deputy chief executive)*
- Natalie Ceeney  
*chief executive and chief ombudsman - stepped down on 13 December 2013*
- Liz Brackley  
*strategic service development director – joined the service and the executive team on 2 April 2013*
- Julia Cavanagh  
*finance and performance director/company secretary*
- David Cresswell  
*communications and insight director*
- Chris McDermott  
*operations director*
- Caroline Wayman  
*principal ombudsman/legal director*

- Jacquie Wiggett  
*HR and organisational development director*

Led by Tony Boorman, the interim chief executive/chief ombudsman, the executive team:

- propose and manage the budget, and approve major expenditure;
- plan, prioritise and oversee the delivery of the organisation's strategy and commitments;
- ensure the organisation is running effectively and efficiently; *and*
- manage risks.

## **internal audit**

We have engaged PricewaterhouseCoopers UK LLP (PwC) as internal auditors under a directed outsourced arrangement. As our internal auditors they agree with us an annual programme of audits based on our combined assessment of the service's objectives, the risks to achieving those objectives, and other relevant factors such as regulatory or legislative requirements. This programme is agreed with the audit committee, and the internal auditors attend audit committee meetings to report on the audit findings. The external auditors also receive copies of the reports and are able to participate in discussions at the audit committee as appropriate. The chairman of the audit committee is available to discuss any relevant matters with the internal auditors at any time.

The programme in 2013/2014 included audits of operational, financial, and information technology processes, as well as reviews of our compliance with legislative requirements. Some of the main audits focused on the way we quality assure our casework approach; our key financial and information technology controls; and how we identify and administer refunds to businesses. These internal audits helped to identify a number of actions to further strengthen our control environment which we have incorporated into an action log to record progress against all recommendations. Updates were provided at each audit committee meeting.

PwC's contract to provide internal audit services will end in 2014/2015 and we will be running a formal tender process to identify the best provider to take this relationship forward for the next three years.

## **risk management and internal control**

We have continued to enhance the service's approach to risk management and internal controls. We have significantly increased the capacity of our risk and governance function with dedicated resource to support the audit committee and the internal audit process, and also to provide more proactive support to the service in improving its risk management approach and governance at all levels.

The focus on improving the governance framework without becoming bureaucratic was one of the key priorities for the service over the year, and will remain an area of focus as we head into 2014/2015.

As in previous years we reviewed our internal governance arrangements at a senior level, in particular the operation of the executive committee and its sub-committees. This included consideration of supporting mechanisms for senior decision making, risk management, communication and looking at how we ensure our decision making is well informed. We continued to develop the committee structure, in particular by adding a new oversight board for project work taking place in the service. This reduces the risk of projects failing or being duplicated, and will help us gain the most value out of the various projects we are looking to run.

The board and executive undertake an annual strategic review of the risks facing the organisation, and use this as the basis for rolling monthly reviews of corporate risks for the year ahead. This review focuses on how we deal with current risks, progress with mitigating actions, or changes in our environment that might mean we are subject to new or different risks. The updated corporate risk register is provided to each board and audit committee meeting, and audit committee identifies key risks for "deep dive" reviews. We also maintain a risk register for major or high risk change programmes and in 2014/2015 will be working to develop our risk management approach across the service.

We have a clear whistleblowing policy in our staff handbook with appropriate contact details for staff members and guidance on how to escalate any concerns they may have if necessary.

Our Business Continuity Plans have been updated with each main department creating their own plans and an agreement on a programme of exercising these plans. A review of

these plans will be carried out on a bi-annual basis going forward.

The key organisational risks are set out on pages 11-13.

### **the independent assessor**

The independent assessor is appointed by the board and has her own official terms of reference. She can consider complaints from consumers and businesses about the level of service provided by the Financial Ombudsman Service. More information about the work of the independent assessor can be found at [www.independent-assessor.org.uk](http://www.independent-assessor.org.uk).

The independent assessor's remit does not cover disagreements about the merits of individual cases – that is, whether the service was right to uphold or reject a complaint about a business.

The independent assessor meets with members of the executive team and the board on a formal basis quarterly, and at other times as appropriate. During these meetings the independent assessor's feedback and recommendations are discussed, as well as any underlying themes in the complaints she has received – and the action that is being taken to address them. She has also met with the board members who have been involved in looking at our quality arrangements in their role as critical friends, both with and without the executive team.

The independent assessor, Amerdeep Somal, was appointed by the board on 3 June 2013, following a rigorous recruitment process. Her first annual report for the board, setting the findings and recommendations she has made during the year, is on pages 89 to 92. The board has accepted the independent assessor's report and her recommendations in full and would like to thank her for her contribution to helping us improve the service we offer.



## remuneration report

The board consists entirely of non-executive directors who do not participate in the reward, pension or benefit schemes that we run for our employees. The fees paid to directors are not specifically related to individual or collective performance, and directors are not entitled to compensation for loss of office.

Non-executive directors' fees are set annually by the regulator and adopted by the board. The nomination and remuneration committee considers and approves executive remuneration.

During 2013/2014 the chairman received an annual fee of £74,970. A fee of £24,500 was paid to each of the other non-executive directors, and an additional fee of £5,000 was paid to those directors who chaired the audit committee and the quality committee. The senior independent director also received a fee equivalent to that paid to committee chairs.

All fees paid to non-executive directors will remain unchanged for the 2014/2015 financial year.

Within this report the disclosures on board fees, remuneration and benefits for the executive team, Hutton fair pay ratio and exit packages have been audited; other disclosures have not been audited.

	<i>note</i>	<b>total fees for year ended 31/3/14</b>	<b>total fees for year ended 31/3/13</b>
		<b>£</b>	<b>£</b>
Sir Nicholas Montagu		<b>74,970</b>	<b>74,970</b>
Gwyn Burr		<b>24,500</b>	<b>24,500</b>
Alan Jenkins	<b>1</b>	<b>24,500</b>	<b>29,500</b>
Julian Lee	<b>2</b>	<b>29,500</b>	<b>29,500</b>
Maeve Sherlock	<b>3</b>	<b>29,500</b>	<b>29,500</b>
Pat Stafford		<b>24,500</b>	<b>24,500</b>
Janet Gaymer	<b>4</b>	<b>-</b>	<b>20,417</b>
Elaine Kempson	<b>4</b>	<b>-</b>	<b>22,458</b>
Roger Sanders	<b>4</b>	<b>-</b>	<b>22,458</b>
<b>total</b>		<b>207,470</b>	<b>277,803</b>

#### **notes**

- 1 Alan Jenkins' fee for 2012-13 includes an additional fee for chairing the quality committee.
- 2 Julian Lee's fee includes an additional fee for chairing the audit committee.
- 3 Maeve Sherlock's fee includes an additional fee as the senior independent director.
- 4 Janet Gaymer, Elaine Kempson and Roger Sanders all left during 2012/2013.

During the year, the independent assessor, Amerdeep Somal, received a salary of £79,286 for 4 days a week, pension contributions of £11,040 and other benefits amounting to £3,028. Amerdeep Somal became the independent assessor in June 2013 – following Linda Costelloe Baker who stepped down as independent assessor at the end of her term in May 2013 (Linda received a salary of £15,046, pension contributions of £2,561 and other benefits £720 in the year).

#### **expenses incurred by board members**

In line with the memorandum of association, the directors are entitled to be paid travel, hotel and other expenses, which are reasonable and have been properly incurred. The directors' expenses policy is available on our website. The expenses incurred by, or on behalf of, the directors during the 2013/2014 financial year are shown in the following table.

	<i>travel</i>	<i>accommodation</i>	<i>entertaining</i>	<i>total</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Sir Nicholas Montagu	6		292	298
Gwyn Burr	1,177	175	135	1,487
Alan Jenkins	30		115	145
Julian Lee	2,350	590	269	3,209
Maeve Sherlock	1,895	1,217	154	3,266
Pat Stafford	2,822	175	122	3,119
<b>total</b>	<b>8,280</b>	<b>2,157</b>	<b>1,087</b>	<b>11,524</b>

## **executive remuneration**

Remuneration packages for members of the executive team comprise a salary, a reward scheme, pension benefits and other benefits including healthcare benefits

### **salary**

Salaries for members of the executive team are reviewed annually. Any increases reflect changes in responsibility, inflation, market movements and individual performance. Salaries for the chief executive, deputy chief executive and the principal ombudsman also take account of the judicial salary-scales.

### **reward scheme**

In line with the recommendations of the Hutton Review into Fair Pay in the Public Sector (March 2011) all members of the executive team have their remuneration structured so that an element of their salary is “at risk”. 15% of their salary is held back until the end of the year – and is paid only if the organisation’s performance is agreed by the board to be satisfactory.

The level of payment is determined by the nomination and remuneration committee who can also award up to an additional 5% of salary to individual executives for exceptional performance.

### **pension**

Members of the executive team are eligible to join the non-contributory defined-contribution pension scheme, which is open to all employees except non-executive directors. The organisation makes a core contribution as a percentage of salary linked to age. In addition, the service matches individual flexible contributions to the scheme up to 3% of salary.

### **other benefits**

Members of the executive team are eligible to take part in the flexible benefit arrangements, which are open to all employees except non-executive directors. These arrangements provide life assurance (up to four times of salary), permanent health cover, critical illness cover (from 1 July 2013), personal accident insurance and a healthcare plan (to 31 December 2013). All employees – including the executive team - receive a cash benefit allowance of £600 a year they can spend on other benefits available under the flexible benefit plan.

**remuneration and benefits for the executive team**

	<i>note</i>	<i>salary*</i>	<i>pension</i>	<i>other benefits**</i>	<i>total for year ended 31/3/14</i>	<i>total for year ended 31/3/13</i>
		<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Tony Boorman	1,2	235,964	24,010	33,432	293,406	255,205
Natalie Ceeney	3	230,097	22,600	6,053	258,750	256,064
Liz Brackley	4	149,167	16,535	6,177	171,879	-
Julia Cavanagh		173,728	22,638	9,382	205,748	197,529
David Cresswell		137,784	17,574	6,348	161,706	157,256
Chris McDermott		195,800	20,790	8,742	225,332	209,631
Caroline Wayman		195,800	24,450	6,770	227,020	209,944
Jacque Wiggett		137,784	17,574	6,117	161,475	157,134
<b>total</b>		<b>1,456,124</b>	<b>166,171</b>	<b>83,021</b>	<b>1,705,316</b>	<b>1,422,763</b>

\* Salary cost represents base salary including salary at risk.

\*\* Other benefits are the cost of providing core benefits, other than pension, through the flexible benefits scheme. Benefits provided include personal accident insurance, life assurance, private medical insurance and income protection. In addition the cost of the flex allowance which can be used to acquire other voluntary benefits is also included under other benefits.

## notes

- 1 Pension contributions shown for Tony Boorman were paid as cash in lieu of participation in the pension scheme.
- 2 Tony Boorman had the benefit of a flat which was leased by the service in London Docklands until 31 May 2013. The cost of the benefit (including associated tax) together with a lump sum payment towards his relocation to London amounted to £25,227 and is included in “other benefits” (2012/13 £44,475). He has received an enhanced salary from December 2013 since taking the role of interim chief executive and chief ombudsman following the departure of Natalie Ceeney.
- 3 Natalie Ceeney left the service on 13 December 2013. Included in “salary” is a payment of £71,924 of which £51,924 relates to pay in lieu of notice.
- 4 Liz Brackley joined the service on 2 April 2013.

## expenses incurred by, or on behalf of, members of the executive team

	<i>note</i>	<i>travel</i>	<i>accommodation &amp; subsistence</i>	<i>entertaining</i>	<i>prof subs</i>	<i>total for the year ended 31/3/14</i>
		<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Tony Boorman		408	444	662		1,514
Natalie Ceeney		938	25	374		1,337
Liz Brackley		386	627	55		1,068
Julia Cavanagh		31	461	8	420	920
David Cresswell	1	2,143	2,887	50		5,080
Chris McDermott		73	451			524
Caroline Wayman	2	5,692	733	83		6,508
Jacquie Wiggett			70		138	208
<b>total</b>		<b>9,671</b>	<b>5,698</b>	<b>1,232</b>	<b>558</b>	<b>17,159</b>

## notes

1. David Cresswell's travel, accommodation and subsistence expenses include various visits for our outreach work.
2. Caroline Wayman's travel includes a flight to attend an educational programme on *Leading Change and Organisational Renewal* at Stanford University, California.

## Hutton fair pay ratio

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

The remuneration\* of the highest-paid director\*\* in the Financial Ombudsman Service in the financial year 2013/2014 was £293,406 (2012/2013: £228,152). This was 9.77 times the median remuneration of the workforce, which was £30,040. No employee received remuneration in excess of the highest paid director. This is the first year the Financial Ombudsman Service has been required to make this disclosure and as such we are not able to make a prior year comparison between the remuneration of the highest-paid director and the median pay of the workforce. However, if the calculation is amended to include employees only (rather than total workforce), the ratio between the highest paid director and the median pay of employees in 2013/2014 was 9.96 times, compared to 7.77 in 2012/2013. Amounts included within the highest paid director's remuneration in 2013/2014 include a cash allowance in lieu of a contribution to the service pension scheme and a one off payment to assist with relocation costs. Excluding the non-recurring element of these items brings the ratio down to 8.13 (7.77 in 2012/2013).

\*Remuneration includes salary, salary at risk, and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

\*\* For the purpose of this note, director refers to both non-executive directors and members of the executive team.

## exit packages

	2013-14	2012-13
<i>exit packages by cost band</i>	<i>total number of exit packages by cost band</i>	<i>total number of exit packages by cost band</i>
Less than £2,000	92	62
£2,001 to £10,000	22	16
£10,001 to £25,000	3	6
£25,001 to £50,000	3	2
£50,001 to £100,000	1	3
<i>Total number of exit packages</i>	<i>121</i>	<i>89</i>
<i>Total payments (£)</i>	<i>492,489</i>	<i>508,723</i>

We have disclosed the exit payments above on a cash paid rather than accruals basis. Included within the financial statements for 2013/2014 is £456,751 relating to exit packages (2012/2013: £281,843). The highest payout during the year was £71,924 (2012/2013: £99,165). 92 packages were for less than £2,000 (2012/2013: 62). Due to our high levels of recruitment we had a number of individuals who were dismissed during training due to their not meeting our strict performance criteria. Our policy is that if an adjudicator does not successfully complete their training they are released from their contract immediately and paid one month's pay in lieu of notice as there is no value to be derived from their continuing their training. There were no provisions held at the end of the year (2012/2013: £34,036).

There were no exit packages related to compulsory redundancies in 2013/2014 (2012/2013: nil).



This table shows the salary bands in place at 31 March 2014.

job family	number of staff (FTE)*	range of salary earned **
executive	7	£117,875 to £205,000
ombudsmen, lead ombudsmen and managing ombudsmen	160	£59,373 to £113,348
heads of department and senior managers	72	£51,429 to £120,000
managers	322	£29,236 to £70,623
adjudicators	2,200	£22,000 to £58,985
helpline staff	108	£22,000 to £34,159
casework administration staff	350	£16,125 to £41,426
support staff (including finance, IT, facilities, communications and HR	260	£17,173 to £80,800

\*full time equivalents

\*\* not including salary at risk

### **pension scheme**

The organisation participates in the FSA pension plan – a voluntary, money purchase, non-contributory scheme. This pension scheme is open to employees except for the non-executive directors.

The ombudsman service pays contributions on behalf of employees at the rates in the table below. In addition, employees may make extra contributions from their flexible benefit account – up to a maximum of 40% of their salary. For employees who choose to do this, the organisation makes a matched contribution up to 3% of pensionable salary.

age	contribution rate
16 to 24	6% of pensionable salary
25 to 29	8% of pensionable salary
30 to 34	10% of pensionable salary
35 and over	12% of pensionable salary

There are further details about the cost of the pension scheme in the notes to the accounts.

## **statement of directors' responsibility**

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company, and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial accounts; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that:

- are sufficient to show and explain the company's transactions;
- disclose with reasonable accuracy, at any time, the financial position of the company; *and*
- enable them to ensure that the financial statements comply with the Companies Act 2006 and are in accordance with the accounts direction given by HM Treasury under paragraph 7(5) of schedule 17 to the Financial Services and Markets Act 2000.

The directors have general responsibility for taking whatever steps are reasonably open to them, to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

### **going concern**

The directors are satisfied that the Financial Ombudsman Service is in a position to meet its obligations as they fall due, and is therefore a going concern. The financial statements have accordingly been prepared under the going concern accounting convention.

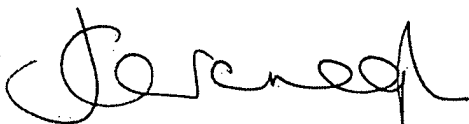
### **statement of disclosure of information to auditor**

Each director confirms that:

- to the best of their knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and
- they have taken all steps a director might reasonably be expected to have taken, to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation on other jurisdictions.

**by order of the board**



Julia Cavanagh

company secretary

3 July 2014

## **THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT**

I certify that I have audited the financial statements of the Financial Ombudsman Service Limited for the year ended 31 March 2014 under the Financial Services and Markets Act 2000. The financial statements comprise: the Income and Expenditure account, Balance Sheet, Statement of Total Recognised Gains and Losses, the Reconciliation of Movement in Reserves, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### **Respective responsibilities of the directors and the auditor**

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with the Financial Services and Markets Act 2000. Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Financial Ombudsman Service's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Financial Ombudsman Service; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Chairman's Statement, Chief Executive's Report, Strategic Report, Governance Statement, and Director's Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on regularity**

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### **Opinion on financial statements**

In my opinion

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2014 and of the company's surplus for the year then ended;

- the financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the Companies Act 2006; and
- the financial statements have been properly prepared in accordance with the Financial Services and Markets Act 2000 and HM Treasury's directions issued thereunder.

#### **Opinion on other matters**

##### **In my opinion**

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Financial Services and Markets Act 2000; and
- the information given in the Chairman's Statement, Chief Executive's Report, Strategic Report, Corporate Governance Report, and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### **Matters on which I report by exception**

I have nothing to report in respect of the following matters where the Companies Act 2006 requires me to report to you if, in my opinion:

- adequate accounting records have not been kept by the Financial Ombudsman Service; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit.

#### **Report**

- I have no observations to make on these financial statements.

**Sir Amyas C E Morse**  
**Comptroller and Auditor General**

**8 July 2014**

National Audit Office  
 157-197 Buckingham Palace Road  
 Victoria  
 London SW1W 9SP

# corporate information

**name**

Financial Ombudsman Service Limited

**registered office**

South Quay Plaza 2  
183 Marsh Wall  
London  
E14 9SR

**bankers**

Lloyds Bank plc  
25 Gresham Street  
London  
EC2V 7AE

**auditors**

*(from 1/4/13)*

The Comptroller and Auditor General  
157 – 197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

*(to 31/3/13)*

Baker Tilly UK Audit LLP  
Registered Auditor  
St Philips Point  
Birmingham  
B2 5AF

**internal auditors**

PricewaterhouseCoopers UK LLP  
7 More London Riverside  
London  
SE1 2RT

**website**

[www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk)

**registered no. 03725015**

England and Wales  
company limited by guarantee

# Income and expenditure account for the year ended 31 March 2014

	Notes	2014 £'000	2013* £'000
<b>Continuing operations</b>			
Revenue	3/20	332,968	138,734
Other operating income	4	222	326
		333,190	139,060
Administrative costs	5	(220,957)	(162,566)
<b>Operating surplus / (deficit)</b>		<b>112,233</b>	<b>(23,506)</b>
Interest receivable and similar income	6	350	130
<b>Surplus / (deficit) on ordinary activities before taxation</b>		<b>112,583</b>	<b>(23,376)</b>
Tax charge on surplus / (deficit) on ordinary activities	7	(84)	(55)
<b>Surplus / (deficit) on ordinary activities after taxation</b>		<b>112,499</b>	<b>(23,431)</b>

## Balance sheet as at 31 March 2014

	Notes	2014 £'000	2013* £'000
<b>Fixed assets</b>			
Tangible assets	11/20	13,337	7,918
Intangible assets	11/20	2,561	2,252
		15,898	10,170
<b>Current assets</b>			
Debtors	12/20	58,121	80,467
Cash at bank and in hand		230,558	84,563
		288,679	165,030
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	13/20	(117,602)	(94,815)
<b>Net current assets</b>		<b>171,077</b>	<b>70,215</b>
<b>Total assets less current liabilities</b>		<b>186,975</b>	<b>80,385</b>
<b>Non-current liabilities</b>			
Provisions for liabilities	15	(595)	(2,971)
Creditors: amounts falling due after one year	16/20	(40,248)	(43,527)
Net pension liability	22(d)	(5,888)	(4,445)
		(46,731)	(50,943)
<b>Net assets</b>		<b>140,244</b>	<b>29,442</b>
<b>Capital and reserves</b>	20/21	<b>140,244</b>	<b>29,442</b>

\*2013 revenue figures have been restated to reflect a change in the policy for recognising income in respect of standard case fees and supplementary case fees. 2013 balance sheet figures have been restated to reflect changed classification of fixed assets, current assets, current liabilities and non-current liabilities and the change in the policy for recognising income in respect of standard case fees and supplementary case fees. See note 20 for details.

The financial statements on pages 69 to 88 were approved and authorised for issue by the board of directors on 3 July 2014, and are signed on behalf of the board of directors by:



Sir Nicholas Montagu, chairman  
3 July 2014  
Company number: 03725015



**Statement of total recognised gains and losses  
for the 12 months ended 31 March 2014**

	<b>Notes</b>	<b>2014 £'000</b>	<b>2013* £'000</b>
<b>Surplus / (deficit) for the period</b>		<b>112,499</b>	<b>(23,431)</b>
Actuarial losses on pension scheme	22 (i)	(1,697)	(446)
<b>Total recognised gains / (losses) for the period</b>		<b>110,802</b>	<b>(23,877)</b>

**Reconciliation of movements in reserves  
for the 12 months ended 31 March 2014**

	<b>Notes</b>	<b>2014 £'000</b>	<b>2013* £'000</b>
Total recognised gains / (losses) for the period	20	110,802	(23,877)
Accumulated surplus at 1 April	20	29,442	53,319
<b>Accumulated surplus at 31 March</b>	<b>20/21</b>	<b>140,244</b>	<b>29,442</b>

\*2013 revenue figures have been restated to reflect a change in the policy for recognising income in respect of standard case fees and supplementary case fees. 2013 balance sheet figures have been restated to reflect changed classification of fixed assets, current assets, current liabilities and non-current liabilities and the change in the policy for recognising income in respect of standard case fees and supplementary case fees. See note 20 for details.

**Cash flow statement  
for the 12 months ended 31 March 2014**

	Notes	2014 £'000	2013 £'000
<b>Net cash inflow from operating activities</b>	i	<b>157,962</b>	<b>40,669</b>
Returns on investments	6	369	136
Taxation (UK corporation tax paid less repaid)		(53)	(45)
Capital expenditure and financial investment			
(payments to acquire tangible fixed assets)	11	(10,767)	(5,760)
(payments to acquire intangible fixed assets)	11	(1,516)	(961)
<b>Net cash inflow before financing</b>		<b>145,995</b>	<b>34,039</b>
<i>Financing</i>			
Movement in long term borrowings	14	0	0
<b>Increase in cash in the period</b>		<b>145,995</b>	<b>34,039</b>
<b>Cash at 1 April</b>		<b>84,563</b>	<b>50,524</b>
<b>Cash at 31 March</b>		<b>230,558</b>	<b>84,563</b>

**Notes to the cash flow statement  
for the 12 months ended 31 March 2014**

**(i) Reconciliation of operating surplus / (deficit) to net cash inflow from operating activities**

		2014 £'000	2013* £'000
Operating surplus / (deficit) for the period		<b>112,233</b>	(23,506)
Depreciation	11	6,387	4,364
Loss on disposal of fixed assets	11	168	4
Decrease / (increase) in debtors		22,348	(61,552)
Increase in creditors: due within 12 months		22,754	80,259
Decrease in provision for liabilities		(2,376)	0
(Decrease) / increase in creditors: due after 12 months		(3,279)	41,373
		<b>158,235</b>	<b>40,942</b>
<b>Defined benefit pension costs</b>			
Deficit reduction contributions		(273)	(273)
<b>Net cash inflow from operating activities</b>		<b>157,962</b>	<b>40,669</b>

\*2013 revenue figures have been restated to reflect a change in the policy for recognising income in respect of standard case fees and supplementary case fees. 2013 balance sheet figures have been restated to reflect changed classification of fixed assets, current assets, current liabilities and non-current liabilities and the change in the policy for recognising income in respect of standard case fees and supplementary case fees. See note 20 for details.

## Notes to the financial statements – for the 12 months ended 31 March 2014

### 1. Status of the company

Financial Ombudsman Service Limited is a company limited by guarantee and registered in England and Wales (company registration no: 03725015). The liability of each of the members is limited to the amount of £1 guaranteed in the Memorandum of Association.

### 2. Principal accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom company law and accounting standards.

The financial statements are also prepared in accordance with provisions of any applicable HM Treasury Accounts Direction under paragraph 7(5) of Schedule 17 to the Financial Services and Markets Act 2000.

A summary of the principal accounting policies is set out below:

#### Revenue recognition

The intent underpinning the design of the Service's funding regime is to charge on a basis that is transparent and fair, where firms pay broadly in proportion to their share of the Service's workload. Group fees and case fees are designed to achieve that aim. Standard case fees and supplementary case fees are charged on a fixed basis irrespective of the time and other costs incurred relating to the specific case. Costs directly incurred in dealing with cases are expensed as incurred.

#### Sources of revenue

The principal sources of revenue are:

- Annual levy

Each business that comes within the jurisdiction of the Financial Ombudsman Service is required to pay an annual levy based on the permissions given to that firm by one of:

- the Financial Conduct Authority (Financial Services Authority prior to 1 April 2013) (for the Compulsory Jurisdiction);
- the Financial Ombudsman Service (for the Voluntary Jurisdiction); or
- the Office of Fair Trading (for the Consumer Credit Jurisdiction).

Businesses in the Compulsory and Voluntary Jurisdictions pay an annual levy, whilst those in the Consumer Credit Jurisdiction pay a levy every five years. With effect from 1 April 2014, the Consumer Credit Jurisdiction has been rolled into the Compulsory Jurisdiction.

- Standard case fees

Businesses that fall outside our group fee arrangement are required to pay a case fee upon closure of the twenty sixth chargeable complaint referred for investigation to the Financial Ombudsman Service and each subsequent complaint in any one financial year (this was applied for the fourth and subsequent complaints for the year 1 April 2012 to 31 March 2013)

- Supplementary case fees

The supplementary case fee is designed to collect sufficient funds to manage the costs associated with handling the unprecedented high volumes of PPI cases over multiple years. Businesses that fall outside our group fee arrangement and have chargeable PPI complaints referred to the Financial Ombudsman Service are required to pay a supplementary case fee for the twenty sixth and all subsequent complaints formally taken on for investigation in the financial year. The supplementary case fee was in place for the two years 1 April 2012 to 31 March 2014 and the fee will not be charged from 1 April 2014.

- **Group fees**

From 1 April 2013, group fees were introduced for the four largest banking groups – Lloyds Banking Group, Royal Bank of Scotland Group, Barclays Banking Group and HSBC Group. Group fees are calculated as an annual charge for each group on the basis of their estimated proportion of the total work by the Service. The group fee mechanism makes provision for a year end adjustment if new PPI case volumes exceed the original budget estimate by more than 15% and if general casework resolution activity varies more than 15% from the original estimate.

## **Recognition bases**

- **Levy Income**

For both the Compulsory and Voluntary Jurisdictions, levy income is recognised in the period to which the levy relates.

For the Consumer Credit jurisdiction, the levy income is recognised in the period in which new licences, renewals and refunds are processed.

- Businesses in the Consumer Credit Jurisdiction buy a five year licence. For the five years from 1 April 2007 to 31 March 2012, in order to spread the income over the period of the licence, income was recognised based on the number of cases that were closed in the year. The balance of income not taken to the income & expenditure account over the five year period was shown in the deferred income account at 31 March 2012.
- For the year ended 31 March 2013 licence income was recognised in the period in which new licences, renewals and refunds were processed. An amount was released to income to recognise the difference between the costs incurred in dealing with cases and the income received for the year.
- In the year ended 31 March 2014 licence income was recognised in the period in which new licences, renewals and refunds were processed, there was no further release from deferred income. The jurisdiction was merged into the compulsory jurisdiction with effect from 1 April 2014. Due to transitional funding arrangements, no levy income will be due for the first two years and accordingly the remaining deferred income balance at 31 March 2014 will be released evenly to income in the two years from 1 April 2014.

- **Case fee income**

Standard case fee income is billed in the month a case is closed for all firms outside the group fee arrangement.

General casework – for cases that do not form part of the group fee arrangement, revenue is recognised when certain stages of completion have been reached through our casework process. For those cases in progress at the end of the year an adjustment is made to revenue to reflect the overall assessment of stages of completion.

PPI casework - given the prevailing uncertainties relating to PPI, the Service does not consider it is able to reliably estimate the stage of completion of cases. We have therefore adopted a policy to recognise the revenue associated with a case only when a point of certainty is reached, when the case is closed. This is applicable for all PPI cases outside the group fee arrangement.

- **Supplementary case fee income**

As noted above, the prevailing uncertainties relating to PPI prevent the Service from being able to reliably estimate the stage of completion of cases. Our approach to recognising income in relation to these cases therefore needs to reflect this. We have adopted a policy to defer the supplementary case fee until a point of certainty is reached. It is the view of the directors that, given the uncertainty, this is only reached when the case is resolved. As such the supplementary case fee is released in the month in which the case is closed.

- **Group fees**

Group fees are calculated as an annual charge on the basis of the estimated proportion of the total work by the Financial Ombudsman Service that is attributable to each group. The component of the fee relating to resolved general casework and resolved PPI activity is recognised in the period charged as it represents a fee for work conducted within the year, and is not directly connected with individual case resolution.

The supplementary fee component of the group fee remains more closely associated with individual cases. As such we have applied the same approach taken for non-group supplementary case fees, with the income being released in the month in which the case is resolved.

## **Fixed assets**

Depreciation is calculated so as to write off the cost of tangible and intangible assets on a straight-line basis over the expected useful economic life of the asset concerned.

### **Tangible assets**

Leasehold improvements	Over remaining period of the lease
Premises fees and stamp duty	Over remaining period of the lease
Computer hardware	Over three years
Office furniture and equipment	Over three to five years *
Fixtures and fittings	Over remaining period of the lease
Motor vehicles	Over four years

### **Intangible assets**

Computer systems development and fees	Over three to five years *
Computer software	Over five years

\* According to expected useful economic life of the asset concerned.

The carrying values of tangible and intangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

## **Retirement benefits**

During the year the company operated a defined contribution (money purchase) scheme. As at 31 March 2014, 3,706 employees (March 2013: 2,543) were active members of the defined contribution scheme. Previously the company also operated a defined benefit (final salary) scheme which was closed with effect from 1 April 2010. All employees who were building up defined benefits before this date became deferred members and were given the option to earn future benefits under the defined contribution scheme.

The costs of the contributions to the defined contribution scheme are charged to the income and expenditure account as incurred.

The defined benefit scheme is accounted for in accordance with FRS 17. A charge equal to the expected increase in the present value of the scheme liabilities (because the benefits are now closer to settlement) less a sum equal to the equivalent value of the long-term expected return on the defined benefit scheme's assets (based on the market value of those assets at the start of the year), are included in the income and expenditure account in "interest receivable".

The difference between the market value of the assets of the scheme and the present value of accrued pension liabilities is shown as a net liability on the balance sheet.

Any difference between the expected return on assets and that actually achieved is recognised in the statement of total recognised gains and losses, along with differences which arise from experience or assumption changes relating to liabilities.

### Operating lease commitments

The annual rentals of operating leases are charged to the income and expenditure account on a "straight line" basis over the lease term.

### Taxation

The tax charge represents the sum of tax currently payable on activities not directly related to the company's statutory obligations.

### Provision for dilapidations

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the company will be required to settle the obligation, and a reliable estimate can be made of the obligation.

The company is required to perform dilapidation repairs under a number of its leases prior to the properties being vacated at the end of their lease term.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

<b>3. Revenue</b>	<b>2014</b>	<b>2013*</b>
	<b>£'000</b>	<b>£'000</b>
Annual levy	25,755	20,823
Standard case fees		
Gross fees	82,987	102,759
Movement in credit note provision	(133)	(161)
Movement in general casework stock	(493)	260
Supplementary case fees		
Gross fees	29,730	129,263
Transfer to deferred income	(29,730)	(129,263)
Release from deferred income	77,247	15,053
Group fees		
Gross fees	205,084	0
Transfer to deferred income	(85,522)	0
Release from deferred income	28,043	0
	<b>332,968</b>	<b>138,734</b>

\*2013 revenue figures have been restated to reflect a change in the policy for recognising income in respect of standard case fees and supplementary case fees. 2013 balance sheet figures have been restated to reflect changed classification of fixed assets, current assets, current liabilities and non-current liabilities and the change in the policy for recognising income in respect of standard case fees and supplementary case fees. See note 20 for details.

<b>4. Other operating income</b>	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Publications	189	289
Conferences	23	35
Miscellaneous	10	2
	<b>222</b>	<b>326</b>

<b>5. Administrative costs</b>	<b>Notes</b>	<b>2014</b>	<b>2013</b>
		<b>£'000</b>	<b>£'000</b>
Staff payroll costs	8	141,081	99,433
Contractor and temporary staff costs		34,943	27,234
Other staff costs		5,489	7,029
Consultancy and other professional costs		6,746	3,853
Operating lease rentals: premises		7,700	4,484
Operating lease rentals: other		349	338
Other premises costs		4,079	5,582
IT running costs		7,308	4,159
Depreciation	11	6,387	4,364
Loss on disposal of fixed assets	11	168	4
Bad debts written off		383	769
External audit fee	10	110	109
Other costs		6,214	5,208
		<b>220,957</b>	<b>162,566</b>

<b>6. Interest receivable and similar income</b>	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Bank interest	369	136
Interest cost on pension plan liabilities	(1,114)	(1,035)
Expected return on pension plan assets	1,095	1,029
	<b>350</b>	<b>130</b>

<b>7. Tax charge on surplus / (deficit) on ordinary activities</b>	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
<i>Analysis of tax charge on ordinary activities</i>		
United Kingdom corporation tax at 20% (2013:20%) for the year	(85)	(54)
Adjustments in respect of prior years	1	(1)
Current tax charge for the current year	(84)	(55)

*Factors affecting tax charge for the current year*

The tax assessed for the year is lower than that resulting from applying the small profits rate of corporation tax in the UK: 20% (2013:20%).

The differences are explained below:

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Surplus / (deficit) on ordinary activities before taxation	112,583	(23,376)
Tax at 20% (2012: 20%) thereon	(22,517)	(4,675)
Effects of:		
Non taxable income and expenditure	22,432	4,621
Prior period adjustments	1	(1)
Current tax charge for year	(84)	(55)

Corporation tax is only payable on the surplus generated from the company's activities not directly related to its statutory obligations.

<b>8. Staff costs</b>	<b>Notes</b>	<b>2014 £'000</b>	<b>2013 £'000</b>
Salary costs		111,763	78,581
Social security costs		12,295	8,967
Employer's pension costs - money purchase scheme		10,903	7,585
Flexible benefit costs		6,120	4,300
	5	141,081	99,433
Employer's pension costs			
Included in interest receivable		19	6
Included in statement of total recognised gains & losses		1,697	446
<b>Total employment costs</b>		<b>142,797</b>	<b>99,885</b>

The average number of employees during the year in the United Kingdom was as follows:

	<b>2014 No.</b>	<b>2013 No.</b>
Ombudsmen	150	100
Case-handlers	2,171	1,470
Other	1,068	718
	<b>3,389</b>	<b>2,288</b>

#### **9. Directors' remuneration**

Directors' remuneration payable during the period amounted to £207,470 (2013: £277,803). The chairman, who is also the highest paid director, was paid at a rate of £74,970 per annum (2013: £74,970), the senior independent director and the audit committee chairman were paid at a rate of £29,500 per annum (2013: £29,500) and the other directors were paid at a rate of £24,500 per annum (2013: £24,500). Further details are provided in the remuneration report on pages 54 to 56.

No payments were made on behalf of any of the above directors in respect of pension scheme contributions and no directors are accruing any benefits within the pension scheme.

<b>10. Auditor's remuneration</b>		<b>2014 £'000</b>	<b>2013 £'000</b>
Audit		110	109
Tax		21	14
		<b>131</b>	<b>123</b>
Analysed as:			
Baker Tilly	Audit	34	109
	Tax	21	14
		<b>55</b>	<b>123</b>
National Audit Office	Audit	76	0
		<b>76</b>	<b>0</b>

All fees payable to the auditor are stated inclusive of VAT where applicable, as VAT is not generally recoverable by the Financial Ombudsman Service.



## 11. Fixed Assets

<b>Tangible assets</b>	<b>Leasehold Improvements and Premises fees</b>	<b>Computer equipment</b>	<b>Furniture and equipment</b>	<b>Motor Vehicle</b>	<b>Total</b>
	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>					
At 1 April 2013	4,882	8,774	8,102	9	21,767
Additions	0	5,589	5,178	0	10,767
Disposals/scrap	0	(46)	(32)	0	(78)
<b>At 31 March 2014</b>	<b>4,882</b>	<b>14,317</b>	<b>13,248</b>	<b>9</b>	<b>32,456</b>
<b>Depreciation</b>					
At 1 April 2013	4,841	4,508	4,491	9	13,849
Charge for year	32	2,800	2,519	0	5,351
Disposals/scrap	0	(49)	(32)	0	(81)
<b>At 31 March 2014</b>	<b>4,873</b>	<b>7,259</b>	<b>6,978</b>	<b>9</b>	<b>19,119</b>
<b>Net book value at 31 March 2014</b>	<b>9</b>	<b>7,058</b>	<b>6,270</b>	<b>0</b>	<b>13,337</b>
At 31 March 2013*	41	4,266	3,611	0	7,918

\*2013 revenue figures have been restated to reflect a change in the policy for recognising income in respect of standard case fees and supplementary case fees. 2013 balance sheet figures have been restated to reflect changed classification of fixed assets, current assets, current liabilities and non-current liabilities and the change in the policy for recognising income in respect of standard case fees and supplementary case fees. See note 20 for details.

<b>Intangible assets</b>	<b>Computer software</b>	<b>Total</b>
	£'000	£'000
<b>Cost</b>		
At 1 April 2013	4,672	4,672
Additions	1,516	1,516
Disposals/scrap	(1,970)	(1,970)
<b>At 31 March 2014</b>	<b>4,218</b>	<b>4,218</b>
<b>Amortisation</b>		
At 1 April 2013	2,420	2,420
Charge for year	1,036	1,036
Disposals/scrap	(1,799)	(1,799)
<b>At 31 March 2014</b>	<b>1,657</b>	<b>1,657</b>
<b>Net book value at 31 March 2014</b>	<b>2,561</b>	<b>2,561</b>
At 31 March 2013*	2,252	2,252

\*2013 revenue figures have been restated to reflect a change in the policy for recognising income in respect of standard case fees and supplementary case fees. 2013 balance sheet figures have been restated to reflect changed classification of fixed assets, current assets, current liabilities and non-current liabilities and the change in the policy for recognising income in respect of standard case fees and supplementary case fees. See note 20 for details.

	Leasehold improvements and premises fees	Computer equipment and software	Furniture and equipment	Motor Vehicle	Total
	£'000	£'000	£'000	£'000	£'000
<b>Depreciation and amortisation</b>					
<b>Charge for year</b>	<b>32</b>	<b>3,836</b>	<b>2,519</b>	<b>0</b>	<b>6,387</b>
<b>Disposals</b>					
Cost	0	2,016	32	0	2,048
Depreciation	0	(1,848)	(32)	0	(1,880)
<b>Loss on Disposals</b>	<b>0</b>	<b>168</b>	<b>0</b>	<b>0</b>	<b>168</b>

	2014 £'000	2013* £'000
<b>12. Debtors</b>		
Trade debtors	13,774	42,307
Less; Provision for bad debts	(259)	(675)
Less; Provision for credit notes	(496)	(363)
	<b>13,019</b>	<b>41,269</b>
Other debtors	1,504	2,096
Prepayments and accrued income	43,598	37,102
	<b>58,121</b>	<b>80,467</b>

\*2013 revenue figures have been restated to reflect a change in the policy for recognising income in respect of standard case fees and supplementary case fees. 2013 balance sheet figures have been restated to reflect changed classification of fixed assets, current assets, current liabilities and non-current liabilities and the change in the policy for recognising income in respect of standard case fees and supplementary case fees. See note 20 for details.

	2014 £'000	2013* £'000
<b>13. Creditors: amounts falling due within one year</b>		
Trade creditors	4,961	1,250
Other taxes & social security	3,204	2,464
Deferred income		
Supplementary case fees	44,228	72,543
Group fees	41,455	0
CJ levy billed in advance	22	1,174
CCJ levy	844	0
Other creditors	1,492	704
Accruals	21,311	16,626
UK corporation tax	85	54
	<b>117,602</b>	<b>94,815</b>

\*2013 revenue figures have been restated to reflect a change in the policy for recognising income in respect of standard case fees and supplementary case fees. 2013 balance sheet figures have been restated to reflect changed classification of fixed assets, current assets, current liabilities and non-current liabilities and the change in the policy for recognising income in respect of standard case fees and supplementary case fees. See note 20 for details.

#### 14. Bank facilities

The company took out a revolving loan facility of £15m dated 24 January 2003 which ended in January 2013. There was no draw down of the account during 2012/13.

Following the expiry of the loan facility, the bank provided an unsecured overdraft facility of £15m available until 31 May 2013. There was no use of this facility during 2012/13 and the facility was not renewed beyond 31 May 2013.

#### 15. Provision for liabilities

	2014	2013
	£'000	£'000
Provision brought forward at 1 April	2,971	2,971
Release in the year	(2,643)	0
New provision in the year	267	0
Provision carried forward at 31 March	595	2,971

The provision for dilapidations at 31 March 2014 and 31 March 2013 reflects the recommendations made following property reviews undertaken by an external consultant. Provisions exist for Exchange Tower and SQP3, but have been released during the year for SQP2 following discussions regarding the exit from SQP2 during the summer of 2014.

#### 16. Creditors: amounts falling due after one year

	2014	2013*
	£'000	£'000
Deferred income		
Supplementary case fees	22,465	41,666
Group fees	16,024	0
CCJ levy	845	1,689
Accruals	914	172
	40,248	43,527

\*2013 revenue figures have been restated to reflect a change in the policy for recognising income in respect of standard case fees and supplementary case fees. 2013 balance sheet figures have been restated to reflect changed classification of fixed assets, current assets, current liabilities and non-current liabilities and the change in the policy for recognising income in respect of standard case fees and supplementary case fees. See note 20 for details.

#### 17. Financial commitments

As at 31 March 2014, there were no capital commitments contracted for but not provided (2013: £2,646,000). The capital commitment at 31 March 2013 was in relation to a contract for work at Exchange Tower and represented work contracted for but not carried out as at 31 March 2013.

## 18. Operating lease commitments

As at 31 March 2014, the company was committed to making the following payments during the next year, in respect of operating leases:

	Premises 2014 £'000	Other 2014 £'000	Premises 2013 £'000	Other 2013 £'000
Leases which expire:				
Within 1 yr	2,901	300	0	0
Between 2 & 5 yrs	2,831	0	6,348	352
After 5 yrs	2,699	0	2,283	0
<b>Total</b>	<b>8,431</b>	<b>300</b>	<b>8,631</b>	<b>352</b>

Details of the terms of the leases of the premises are as follows:

Floor	Start of current lease	Future break clauses	End of lease
<b>SQP 2*</b>			
1 – 4	November 1999		September 2014*
6	July 2001		September 2014*
7	December 2008		September 2014*
9	September 2008		September 2014*
<b>SQP 3</b>			
3	January 2013	June 2015**	June 2020
8	December 2011		November 2014
12	March 2011		November 2014
13	March 2011		November 2014
14	July 2011		November 2014
<b>Independent House</b>			
	December 2011		February 2015
<b>Exchange Tower</b>			
Various	Various between March 2013 and September 2014	Various	Various between August 2014 and August 2029

\*The original lease expiry date for SQP2 is 1 November 2014. We have signed an early surrender agreement under which we will vacate the premises by 14 September 2014 whilst retaining an option to stay until 31 December 2014 if due notice of intent is provided.

\*\* This break clause has now been activated.

## 19. Related party transactions

- a) The Financial Ombudsman Service, together with the Financial Services Authority, was created as part of the Government's legislation for the financial services market and derives its statutory authority from the Financial Services and Markets Act 2000. From 1 April 2013, the Financial Services Authority changed its name to the Financial Conduct Authority. The Financial Conduct Authority has to ensure that the terms of appointment of the directors secure their operational independence from the Financial Conduct Authority. Accordingly, the Financial Ombudsman Service is not controlled by the Financial Conduct Authority but considers the Financial Conduct Authority a related party.
- b) The Financial Ombudsman Service entered into an agency agreement with the Financial Conduct Authority whereby, with effect from 1 April 2004, the Financial Conduct Authority collected tariff data, issued levy invoices and collected levy monies on behalf of the Financial Ombudsman Service, at a net cost of £84,000 for the period ended 31 March 2014 (2013: £84,000).
- c) The Financial Conduct Authority bill the Financial Ombudsman Service administration charges in respect of the pension scheme. The charge for the period ended 31 March 2014 was £185,259 (2013: £114,077).
- d) At 1 April 2013 a balance of £1,135,335 was due from the Financial Conduct Authority. Total levies billed by the Financial Conduct Authority in the year were £22,286,066 and £23,248,000 was paid to the Financial Ombudsman Service. Amounts agreed to be written off were £21,230 leaving a balance due to the Financial Ombudsman Service at 31 March 2014 of £152,171. This balance is included in 'Other debtors' (see Note 12).
- e) The Financial Conduct Authority is a party to the lease agreement for four floors at South Quay Plaza 2 as guarantor of performance of the lease in the sum of £1,089,798 per annum. The Financial Conduct Authority is a party to the lease agreements for Exchange Tower as guarantor of performance from 1 September 2014 for a lease term of 15 years.
- f) A member of the board, Gwyn Burr, is a non-executive director of Sainsbury's Bank, a firm covered under the Compulsory Jurisdiction. Gwyn received fees from the Financial Ombudsman Service in the year of £24,500 (2013-13 £24,500). Further details are provided in the Governance Statement (page 33) and Remuneration Report (page 55).

Other than disclosed above, there were no related party transactions during the year (2013: £Nil).

## 20. Restatement of prior year figures

	As previously reported at 31 March 2013	Prior year adjustment	Restated at 31 March 2013
<b>Income and Expenditure Account</b>			
<b>Revenue</b>			
Annual levy	20,823	0	20,823
Standard case fees			
Gross fees	102,759	0	102,759
Movement in credit note provision	(161)	0	(161)
Movement in general casework stock	0	260	260
Supplementary case fees			
Gross fees	129,263	0	129,263
Transfer to deferred income	(97,870)	(31,393)	(129,263)
Release from deferred income	11,397	3,656	15,053
Movement in credit note provision	(3,283)	3,283	0
Group fees			
Gross fees	0	0	0
Transfer to deferred income	0	0	0
Release from deferred income	0	0	0
	<b>162,928</b>	<b>(24,194)</b>	<b>138,734</b>

	As previously reported at 31 March 2013	Prior year adjustment	Restated at 31 March 2013
<b>Balance Sheet</b>			
<b>Fixed Assets</b>			
Tangible assets	10,170	(2,252)	7,918
Intangible assets	0	2,252	2,252
	<b>10,170</b>	<b>0</b>	<b>10,170</b>
<b>Debtors</b>			
Trade debtors	71,271	(28,964)	42,307
Less: Provision for credit notes	(13,879)	13,516	(363)
Less: Provision for bad debts	(675)	0	(675)
	56,717	(15,448)	41,269
Other debtors	2,096	0	2,096
Prepayments and accrued income	3,629	33,473	37,102
	<b>62,442</b>	<b>18,025</b>	<b>80,467</b>
<b>Creditors: amounts falling due within one year</b>			
Trade creditors	1,250	0	1,250
Other taxes and social security	2,464	0	2,464
Deferred income			
Supplementary case fees	0	72,543	72,543
CJ levy billed in advance	0	1,174	1,174
Other creditors	704	0	704
Accruals	0	16,626	16,626
UK Corporation Tax	54	0	54
	<b>4,472</b>	<b>90,343</b>	<b>94,815</b>
<b>Creditors: amounts falling due after one year</b>			
Deferred income			
Supplementary case fees	0	41,666	41,666
CCJ levy	0	1,689	1,689
Accruals	0	172	172
	<b>0</b>	<b>43,527</b>	<b>43,527</b>
<b>Accruals and deferred income</b>			
CJ levy billed in advance	1,174	(1,174)	0
Supplementary case fees	76,239	(76,239)	0
CCJ levy	1,689	(1,689)	0
Accruals	16,798	(16,798)	0
	<b>95,900</b>	<b>(95,900)</b>	<b>0</b>

	As previously reported at 31 March 2013	Prior year adjustment	Restated at 31 March 2013
<b>Capital and reserves</b>			
Accumulated surplus at 1 April 2012	49,070	4,249	53,319
Total recognised gains / (losses) for 2012-13	317	(24,194)	(23,877)
Accumulated surplus at 31 March 2013	<b>49,387</b>	<b>(19,945)</b>	<b>29,442</b>
Accumulated surplus at 1 April 2013	49,387	(19,945)	29,442
Total recognised gains for 2013-14	110,802	0	110,802
Accumulated surplus at 31 March 2014	<b>160,189</b>	<b>(19,945)</b>	<b>140,244</b>

The prior year adjustment comprises a number of items, as follows:

- Change to basis of recognising income on supplementary case fees. The net amount, after allowing for movements in the credit note provision, is £24.2m which is reflected in a reduction in revenue and an increase in creditors for the year. This has also resulted in both debtors and creditors being grossed up by £13.5m in respect of the supplementary credit note provision.
- Change to basis of recognising income for non-group general casework stock. We have recognised accrued revenue of £4.2m at 31 March 2012 and also a movement of £0.3m in the year resulting in an increase in debtors of £4.5m at 31 March 2013.
- Allocation of accruals and deferred income balances totaling £95.9m at 31 March 2013 between creditors: amounts falling due within 12 months and creditors: amounts falling due after 12 months.
- Reallocation of computer software assets with net book value of £2.3m from tangible assets to intangible assets.
- Reallocation of £29.0m accrued income balances from trade debtors to prepayments and accrued income.

	2014 £'000	2013* £'000
<b>21. Accumulated surplus</b>		
Accumulated surplus before net pension liability	146,132	33,887
Net pension liability	(5,888)	(4,445)
Accumulated surplus after net pension liability	<b>140,244</b>	<b>29,442</b>

\*2013 revenue figures have been restated to reflect a change in the policy for recognising income in respect of standard case fees and supplementary case fees. 2013 balance sheet figures have been restated to reflect changed classification of fixed assets, current assets, current liabilities and non-current liabilities and the change in the policy for recognising income in respect of standard case fees and supplementary case fees. See note 20 for details.

## 22. Pension costs

The Financial Ombudsman Service is part of the Financial Services Authority's (FSA) HM Revenue & Customs-approved pension plan open to permanent employees. The pension plan was established on 1 April 1998 and has both a defined benefit (final salary) and defined contribution (money purchase) section. Since 1 April 2000, all employees joining the Financial Ombudsman Service have been eligible only for the defined contribution section of the plan. On 1 April 2010 the defined benefit section of the plan closed and those members who were previously earning final salary benefits had the option to earn future benefits under the defined contribution section.

### *Defined contribution scheme*

The Financial Ombudsman Service's core contributions (ranging from 6% - 12% of the employee's pensionable salary) to the defined contribution section depend on the employee's age. The defined contribution section is part of a flexible benefits programme and members can, within limits, select the amount of their overall benefits allowance that is directed to the pension plan. The Financial Ombudsman Service will pay matching contributions up to a maximum of 3% of the employee's pensionable salary.

### *Defined benefit scheme*

The latest full actuarial valuation of the FSA pension plan was carried out as at 1 April 2013 by an independent actuary using the current unit method. Independent actuarial advice has been obtained in order to calculate the share of the assets and liabilities of the FSA scheme relating to those present and past employees of the Financial Ombudsman Service.

The figures below relate solely to the obligations of the Financial Ombudsman Service in respect of the defined benefit section of the FSA pension plan.

The principal assumptions agreed by the board and used by the independent qualified actuaries in updating this valuation for FRS 17 purposes are shown below together with additional information:

#### **(a) Main financial assumptions**

	<b>31 March 2014</b>	<b>31 March 2013</b>	<b>31 March 2012</b>
	<b>% pa</b>	<b>% pa</b>	<b>% pa</b>
RPI inflation	<b>3.5</b>	3.5	3.4
Pension increases (RPI maximum 5%)	<b>3.2</b>	3.2	3.1
Pension increases (RPI maximum 3%)	<b>2.5</b>	2.5	2.4
Discount rate for plan liabilities	<b>4.3</b>	4.6	4.8

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**(b) Mortality assumptions**

**Life expectancy at age 60**

		31 March 2014	31 March 2013	31 March 2012
		years	years	years
Age 60, at the balance sheet date	Males	28.7	28.9	28.8
	Females	30.0	30.2	30.1
Age 60, 20 years after the balance sheet date	Males	30.6	30.8	30.7
	Females	32.0	32.2	32.2

**(c) Fair value of assets by class and expected return on assets**

at 31 March 2014			at 31 March 2013		at 31 March 2012	
Long-term rate of return expected % pa	Value £'000		Long-term rate of return expected % pa	Value £'000	Long-term rate of return expected % pa	Value £'000
Equities	7.3	10,300	7.3	9,656	7.6	7,967
Property	6.6	1,295	6.6	1,211	6.6	1,359
Corporate bonds	4.3	8,840	3.9	7,969	4.3	7,996
Other	0.8	170	0.8	1,088	1.0	178
Combined*	5.9	20,605	5.5	19,924	5.9	17,500

\* The overall expected rate of return on plan assets is a weighted average of the individual expected rates of return on each asset class.

The Financial Ombudsman Service employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the plan at 31 March 2014.

**(d) Reconciliation of funded status to balance sheet**

	Value at 31 March 2014 £'000	Value at 31 March 2013 £'000	Value at 31 March 2012 £'000
Fair value of plan assets (see 22 (c))	20,605	19,924	17,500
Present value of funded defined benefit obligations (see 22 (f))	(26,493)	(24,369)	(21,766)
Gross pension liability recognised on the balance sheet	(5,888)	(4,445)	(4,266)
Related deferred tax	0	0	0
Net pension liability	(5,888)	(4,445)	(4,266)

**(e) Analysis of income and expenditure account charge**

	2014 £'000	2013 £'000
Interest cost	1,114	1,035
Expected return on assets	(1,095)	(1,029)
Charge recognised in income and expenditure account	19	6

**(f) Changes to the present value of the defined benefit obligation during the period**

	2014 £'000	2013 £'000
Opening defined benefit obligation	24,369	21,766
Interest cost	1,114	1,035
Actuarial losses on liabilities*	1,308	1,961
Net benefits paid out	(298)	(393)
Closing defined benefit obligation	26,493	24,369

\* includes changes to the actuarial assumptions.

**(g) Changes to the fair value of the plan assets during the year**

	2014 £'000	2013 £'000
Opening fair value of assets	19,924	17,500
Expected return on assets	1,095	1,029
Actuarial (losses) / gains on assets	(389)	1,515
Contributions by the employer	273	273
Net benefits paid out	(298)	(393)
Closing fair value of plan assets	20,605	19,924

**(h) Actual return on plan assets**

	2014 £'000	2013 £'000
Expected return on assets	1,095	1,029
Actuarial (losses) / gains on assets	(389)	1,515
Actual return on assets	706	2,544

**(i) Analysis of amount recognised in statement of total recognised gains and losses (STRGL)**

	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Total actuarial (losses)/gains	(1,697)	(446)	(2,863)	1,452	(694)
Cumulative amounts of (losses)/gains recognised in STRGL	(10,891)	(9,194)	(8,748)	(5,885)	(7,337)

**(j) History of asset values, defined benefit obligation and surplus/deficit in the plan**

	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Fair value of assets*	20,605	19,924	17,500	16,610	16,092
Defined benefit obligation	(26,493)	(24,369)	(21,766)	(18,423)	(19,470)
(Deficit) in plan	(5,888)	(4,445)	(4,266)	(1,813)	(3,378)

\* The asset values use the bid value of assets.

**(k) History of experience gains and losses**

	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Experience (losses) / gains on assets	(389)	1,515	(79)	(250)	3,162
Experience gains / (losses) on plan liabilities**	18	(87)	(397)	137	635

\*\* This item consists of gains / (losses) in respect of liability experience only and excludes any change in liabilities in respect of changes to the actuarial assumptions used.

**(l) Contributions**

*Defined benefit scheme*

With effect from 1 April 2010, the defined benefit scheme was closed resulting in a cessation of all future accrual and the associated regular contribution payments. Payments instead were made to the defined contribution scheme (detailed below). Regular payments were made during the year towards the administration costs of the plan.

With effect from 1 April 2011, the service has agreed to make annual contributions of £273,000 over the next ten years to fund the deficit. Amounts paid in the year to 31 March 2014 were £273,000 (2013: 273,000). From 1 April 2014, the service has agreed to increase this annual contribution to £343,000 over the next 10 years.

*Defined contribution scheme*

The Financial Ombudsman Service made normal contributions totalling £10,983,516 (2013: £7,585,331) to the defined contribution scheme.

## TO THE BOARD OF THE FINANCIAL OMBUDSMAN SERVICE

### THE INDEPENDENT ASSESSOR'S ANNUAL REPORT 2013-14

I am pleased to present my first annual report as the Independent Assessor to the Financial Ombudsman Service. The Ombudsman Service provides a valuable service for consumers of financial services. This year 512,167 consumers used its services. Not surprisingly, given the sheer volumes of interactions with consumers on a daily basis, there were occasions when things went wrong.

My role is to ensure that once the Ombudsman Service's own internal process to address service complaints has been exhausted, those people who remain dissatisfied can have their complaints reviewed by someone independent and external of the Ombudsman Service. That might be the consumer, the financial business or anyone else directly affected by how the Ombudsman Service has dealt with a case.

I look at the situation afresh and the issues objectively. I will decide whether or not the complaint is justified. If it is, I can recommend compensation for the complainant or improvements to the Ombudsman Service's wider processes. However the mere fact that service has been poor and complaints about service failings are justified, does not in itself mean that financial compensation should follow. I will often note instances of service failings that I regard as having been unavoidable, or where the failing is minor and has not caused the complainant material distress or inconvenience. Sometimes apologies are enough, and if they have already been given appropriately, I will not recommend financial compensation.

I am not an advocacy service for complainants. I am impartial and look at the issues dispassionately. What I can assure complainants of, is that while they may not always get the outcome they hoped for, I will give them a clear explanation of what happened in their case and whether required standards were met.

It is only right that the investigative time, cost and priority devoted to a service complaint should be proportionate to the seriousness of the allegations and the dispute about them. Serious allegations of poor service by the Ombudsman Service over a prolonged period should demand time and priority. On the other hand, some of the matters referred to me had, as their background, complaints against Ombudsman Service staff involving disputes about one minor service lapse, where there had been dealings for two years which were satisfactory. In my view these cases demand less time and priority – in both the Ombudsman Service's review and mine, if that was later required.

#### **Service complaints received by the Ombudsman Service and escalated to me**

Last year (1 April 2013 -31 March 2014) the Ombudsman Service received 2,847 complaints about its service (2012-13 =2,397), of which it resolved 82% through its internal complaints process. 63% were resolved at its first stage by a Team Manager and a further 19% were resolved at the second, final stage of the internal complaints process by one of its senior managers. Over the year, 51% of the complainants who referred their service complaints to a Senior Manager then asked me for an independent review, compared to 54% last year.

My Terms of Reference are set by the board of the Financial Ombudsman Service and these set out the complaints I can consider. Between 1 April 2013 and 31 March 2014, I received 416 complaints that were within my remit, 5% more than last year.

### Complaints where the Ombudsman Service's investigation was on-going

My Terms of Reference state that I normally review a complaint after the Ombudsman Service has concluded its investigation, except where there are exceptional circumstances which mean I should require the Ombudsman Service to suspend the investigation.

97 service complaints were made to me whilst the Ombudsman Service's investigation was still on-going. Of those, I exercised my power to suspend a case on 4 occasions.

### Opinions

I issued 339 formal opinions last year, compared to the 311 my predecessor issued the previous year.

The following statistics relate to the 339 where I issued a formal opinion:

	2012/2013	2013/2014
Service Complaints referred to me where the Ombudsman Service had upheld the case against the financial business	26%	29%
Service complaints referred to me that I upheld	64%	54%
Cases where I made recommendations to the Ombudsman Service	27%	23%

Last year, the Ombudsman Service accepted all of my recommendations, most of which were for financial compensation for avoidable distress and inconvenience. The sums of compensation awarded ranged from £25 to £1000, with an average of £216.

When I issue my opinion about the level of service provided to the complainant and the Ombudsman Service, I categorise the level of service provided as follows:

**Satisfactory:** Where the Ombudsman Service has followed its normal process and handled contact with the complainant with reasonable efficiency.

**Adequate:** Where the Ombudsman Service has followed its normal process reasonably accurately but there were minor service failings. The service failings identified had not seriously compromised a fair investigation into the complainant's case against the financial business.

**Critical:** Where the Ombudsman Service had failed to follow its normal process and/or there were serious service failings.

Of the 339 cases where I reached a formal opinion:

- 46.3% were satisfactory compared to 35% last year;
- 17.4% were adequate compared to 24% last year; and
- 36.3% were critical compared to 41% last year.

## Complaints not within my remit

Last year I received 444 letters, emails and voicemails (2012-13 = 371) about complaints that were not in my remit to consider but required a substantive reply.

- In 52% of those complaints, the complainant had not made a complaint of poor service to the Ombudsman Service.
- In 21% of those complaints, the complainant had made a complaint to a Team Manager but had not referred the complaint to a Senior Manager, which is the second stage and final stage in the Ombudsman Service's internal process of considering complaints about the service it has provided.
- In 23% of those complaints, the complaint made to me was solely about the merits of a case against the financial business or about whether a case was within the Ombudsman Service's jurisdiction.
- In 4%, the complainant did not contact me within 3 months of the final service complaint response from a Senior Manager at the Ombudsman Service.

I have also received 556 general enquiries which raised points that I needed to respond to, such as queries about my remit and how to contact me, or general queries about the Ombudsman Service and its processes.

The service complaints I looked into came from across all the different areas in the Ombudsman Service which includes departments that look at complaints about banking products, insurance, investment products and cases about Payment Protection Insurance (PPI).

Of the 339 cases where I reached a formal opinion, 21 were from the department that deals with PPI. The Ombudsman Service received nearly 400,000 cases about PPI last year, so, proportionately, the number of service complaints coming to me from that area is relatively low.

The most common issue complained about across all departments is poor communication –for example, a complainant not being informed about a change of Adjudicator whilst the case is on-going, promises of calls being returned not being seen through or poor tone within the Ombudsman Service's correspondence.

Some cases I have reviewed were not particularly well handled in terms of communication, and in some, it was very poor. When an Adjudicator ceases to be responsible for a case –whether the reasons are planned or unexpected – there is an important role for management at this critical time. A well managed change will help minimise the disruption. Clear communication with consumers and businesses also helps to reduce the risk of impacting service quality. I have noted a number of cases where it did not appear there was any wider management of the case. In my view, these cases in particular should be supervised by Team Managers to ensure any changeover is dealt with correctly and so they can step in if they need to.

Delay is also a common service issue and often goes hand in hand with poor communication, such as the failure to keep complainants updated when there is a delay. In any service that is driven by demand, and the Ombudsman Service has had an unprecedented surge in work due to PPI mis-selling, there can be unavoidable delays. Most consumers and businesses understand this and hope these delays will mean that a thorough investigation is carried out when their case is reviewed. It is unsurprising that most complainants want to be kept informed when there is a delay, with a reason for

the delay. When complainants make repeated enquiries about the progress of their case and have no reply, they are understandably unhappy and complain.

It is not always possible for the Ombudsman Service to be precise about how long an investigation will take, whether it will be swift and be done in a few months, or much longer and take several years. It is for the Ombudsman Service, usually the Adjudicator, to manage and progress the case, and that means setting deadlines for responses at key stages, such as information requests, assessments, and to the Ombudsman's final decision in order to keep a case moving. On occasions, these deadlines have been the source of heated disagreement, particularly when complainants are responding to assessments they strongly disagree with. These deadlines can result in service complaints, with demands for extensions when complainants feel they have been treated unfairly and undue pressure placed upon them. The cases I have reviewed show that, on the whole, the Ombudsman Service consider the request, provide reasonable extensions when they are able to, and, if not, explain the reasons why. If anything, rather than being unreasonable with time extensions, I have more commonly found that the Ombudsman Service can be rather overly generous which, if not carefully managed, can cause cases to drift.

In the cases I have looked at, I have found that in the vast majority of cases Ombudsman Service staff listen to people's concerns, record and investigate them as they should. They are polite and professional even when dealing with abusive and angry callers. I have been quick to point out that despite the sometimes challenging and highly emotive cases the Ombudsman Service staff deal with, unreasonable and abusive behaviour towards staff should be properly managed and not tolerated.

I am pleased to report that since being appointed in June 2013 I have not seen any evidence of what I would describe as a systemic failure. I am satisfied that the Ombudsman Service's own response to complaints is of a high standard. It is committed to continuous service improvement by identifying lessons that will help its staff learn from complainant's experiences when things go wrong. I have also identified lessons that can help its staff learn from what has happened and I am pleased to report that the Ombudsman Service has accepted all of my recommendations, including those asking it to consider revising procedures. It is important that service complaints are valued as a tool for effective and on-going customer service improvement and I have been pleased to find this culture is very much embedded within the Ombudsman Service.