



Financial
Ombudsman
Service

corporate plan & 2008/2009 budget

January 2008

this document

The Financial Ombudsman Service's year runs from 1 April to 31 March. In June each year we publish our *annual review*, recording what happened in the previous year. And in January each year we publish our *corporate plan and budget*, which looks forward.

This document consults on our workload forecasts and proposed budget for the financial year 2008/09. It also provides an update on progress with our corporate plan, and our agenda for the three years from 1 April 2008 to 31 March 2011.

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responses

We invite your views on our workload forecasts and proposed budget for 2008/09, and on our corporate plan. Please send your comments by 22 February 2008 to:

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1: introduction

The availability of the Financial Ombudsman Service to provide fair redress for individual consumers if things go wrong is one of the key components underpinning consumer confidence in financial services.

Events in the banking sector in late 2007 showed just how important the maintenance of consumer confidence is to the financial health of the country as a whole, and to the UK's role as the world-leading centre for financial services.

Since 2001, when the Financial Ombudsman Service was established by law as a unified service for resolving disputes between consumers and businesses providing financial services, there has been a continual expansion in our role.

The ombudsman service started out by bringing together the existing dispute-resolution schemes relating to complaints against:

- banks;
- building societies;
- insurance companies;
- investment providers; *and*
- investment intermediaries.

Our remit has been progressively extended to cover complaints against:

- credit unions;
- electronic money institutions;
- all mortgage lenders;
- mortgage intermediaries;
- insurance intermediaries;
- National Savings & Investments;
- managers/administrators of personal pensions;
- providers of home-reversion and home-purchase plans; *and*
- consumer credit businesses with standard licences from the Office of Fair Trading (OFT).

The ombudsman service has replaced eleven previous stand-alone complaints handling schemes in total, as well as extending independent dispute resolution to new areas. We now cover more than 120,000 financial businesses. And further extensions to our remit are in prospect.

Until recently, our workload expanded quickly. This was partly because of a steady increase in the underlying number of complaints across the whole financial sector, coupled with the extension of our remit to new areas. But on top of that there was a surge of complaints about mortgage endowments – which at one stage represented more than half of the new cases we were receiving.

The surge of new mortgage endowment cases has now largely petered out. Our assumption is that this is because the events in question increasingly fall outside the time limits set by the Financial Services Authority (FSA). Indeed, new mortgage endowment cases have fallen off even more quickly than we and the financial services industry had expected.

Nevertheless, a significant number of mortgage endowment cases have not yet completed all the stages of our process. These include many that are coming up for decision by an ombudsman – the final and most formal stage of the process.

But the steep fall in the number of new mortgage endowment cases means that the ombudsman service faces a sharp decline in the total number of new cases coming in – despite a steady underlying growth in complaints on other issues, and a significant increase in some areas such as payment protection insurance.

The overall picture was complicated for a while during 2007 by a rush of cases about charges levied for unauthorised bank overdrafts. But the significant and controversial legal issues raised are now being considered by the High Court in a case involving several banks, a building society and the Office of Fair Trading (OFT). So individual cases are on hold, pending the outcome of that court case.

To handle the reduced workload going forward, the ombudsman service is in the process of restructuring itself. We instituted a freeze on recruitment some time ago, and we have released staff who were engaged on temporary contracts.

But because the decline in mortgage endowment cases has been sharper than expected, the restructuring necessarily includes a redundancy programme for some of our staff. This involves human and financial costs – with expense arising from disruption caused as well as from compensation payable.

The restructuring is not just a question of scaling down. It also involves redesigning the service's structure to enhance our existing drive for further improvements in quality of service and efficiency of operations, as well as planning for the longer term. At the same time, it is important to maintain the values and stakeholder confidence we have worked hard to achieve.

Our Board has long been committed to commissioning regular independent external reviews of the ombudsman service every three years. The 2004 independent review, led by Professor Elaine Kempson, reported (www.financial-ombudsman.org.uk/news/updates/2004-07-kempson.htm) that "*the Financial Ombudsman Service is a thoughtful, well-managed organisation that is doing a good job under difficult circumstances*".

The 2007 independent external review, led by Lord Hunt of Wirral, is under way and due to report early in 2008. It is looking in particular at the accessibility and transparency of the ombudsman service.

Against that background: chapter 2 of this document summarises how our corporate plan was implemented in 2007/08; chapter 3 outlines factors that we need to take into account in updating our corporate plan for the future; and chapter 4 sets out the actions that we propose to take in order to deliver this work.

Each year the ombudsman service produces a budget for approval by the FSA. This sets out the resources and income required for our work. Within the wider context of our corporate plan: chapters 5 to 8 set out, for consultation, the factors underlying our proposed budget for 2008/09 and the way in which it is proposed that the budget should be funded.

2: how we delivered our corporate plan in 2007/08

The corporate plan we published in January 2007 summarised our overall aims as:

- continuous improvement of our processes and systems, so that they remain capable of delivering a cost-effective redress service which meets ever-rising expectations;
- managing staff and other resources so as to provide an efficient and effective service, irrespective of future fluctuations in numbers and types of cases;
- enhancing dialogue with our stakeholders so that we remain responsive to their needs and to the public interest, while continuing to provide an impartial service; *and*
- helping to secure wider public benefits by using our expertise and resources to help enhance and extend accessible and effective dispute resolution.

These aims were translated into a plan of things to do over the following three years. This plan evolved during the year to include work on the restructuring of our service, in line with future workload needs. Casework trends are covered by chapter 6. Other things we did during 2007/08 towards delivering the agenda included the following:

- Our new consumer credit jurisdiction opened on 6 April 2007. We continued to work with trade associations and consumer advisers to increase awareness, among both businesses and consumers, of how this new jurisdiction applies and works. Under the relevant legislation, the consumer credit jurisdiction only covers events from 6 April 2007 onwards, so the build-up of cases has inevitably been gradual.
- We have maintained close relations with other bodies which have associated public-interest responsibilities. These included the government departments and regulators most directly connected with financial services and consumer credit – principally: HM Treasury; the Department of Business, Enterprise and Regulatory Reform; the FSA; and the OFT. We have also assisted a number of other public bodies that are responsible for redress schemes (nationally and internationally) and that have looked to the Financial Ombudsman Service model in designing their schemes.
- We worked closely with our associated regulators, so far as this is consistent with our independent role and separate statutory responsibilities. The OFT, the regulator of consumer credit, joined the ‘wider implications process’ we had previously operated jointly with the FSA. This process is designed to manage any overlaps between our respective roles in a structured and transparent way. The process was updated in the light of experience and republished on shared web-pages at www.wider-implications.info. We also agreed and published updated memoranda of understanding with both the FSA and the OFT.
- The FSA aims to simplify its rulebook and make it more principles-based. A key factor in this is the existence of the ombudsman service to deal with individual consumer complaints. This enables the FSA, as regulator of financial services, to focus its resources in a risk-based, outcome-focused way. We worked closely with the FSA in relation to a number of practical issues relating to its move towards more principles-based regulation; its *treating customers fairly* programme, and its *retail distribution review* – which is considering the future shape of the market for the retail sale of investments and savings.

- In line with the FSA's aim to simplify its rulebook, we worked together with the FSA to write, and publish for consultation, a new version of the rules governing how complaints are handled by individual businesses and by the ombudsman service. Besides allowing for the requirements of the European Markets in Financial Instruments Directive (MiFID), this new version makes the rules shorter and easier to follow. Together with the FSA, we are currently considering the consultation responses and we plan to publish a joint policy statement in the first quarter of 2008.
- MiFID is one of the signs of increasing globalisation of financial services. So the handling of cross-border complaints assumes increasing importance. For example, when PayPal relocated from the UK to Luxembourg it elected to remain covered by the ombudsman service on a voluntary basis, in order to maintain the confidence of its English-language customers throughout Europe. We launched a consultation about extending our voluntary jurisdiction to a wider range of services directed at the UK from elsewhere in Europe. And consumer information is now available on our website in 20 languages.
- We continued to work with FIN-NET, the European network of financial dispute-resolution bodies which we helped to found in 2001, in order to facilitate improvements in the handling of cross-border cases. And our position as the world's largest independent service for the resolution of financial disputes was well-illustrated by the fact that a conference we organised on the resolution of financial disputes was attended by delegates from 32 countries in six continents. The Economic Secretary to the Treasury took the opportunity presented by the conference to announce the five principles which will in future shape the UK government's approach to the development of financial services in Europe.
- We cooperated with the Law Commission and the Scottish Law Commission in their review of the law on misrepresentation and non-disclosure in relation to insurance contracts. In particular, they were able to study (under conditions of confidentiality) a range of cases with which we had dealt. This led to their publishing a consultation paper on the law applicable to consumers, with recommendations which largely reflect FSA rules and ombudsman service guidelines.
- We completed the work planned for our *smaller-firms taskforce*, and implemented the system and information changes it recommended – including creating a special section on our website to answer the questions that smaller firms might have. We launched two new taskforces: our *accessibility taskforce* to examine the accessibility of the ombudsman service to consumers and businesses generally; and our *'joined-up information' taskforce* to review how we structure and align the information we produce, both internally and externally, about our approach to different types of financial complaint.
- Our *accessibility taskforce* aims to ensure that our service is accessible to everyone, whatever their needs may be. This has included identifying and acting upon potential barriers to accessibility, as well as undertaking targeted initiatives with groups that are under-represented in our caseload – such as Asian consumers, young people, migrant workers and younger women. It has also included setting up a dedicated group to look at issues affecting disabled users.
- Our work on accessibility and on information will be informed by the results of the three-yearly independent external review. We said we would ask this to look, in particular, at whether we should be doing more to be visible and accessible to those we serve, and whether we are making the most effective use – for the benefit of consumers, industry and regulators – of the information and experience gained from our work. The review is being led by Lord Hunt of Wirral, who has published his call for evidence at www.thehuntreview.com and is meeting key stakeholders. We look forward to receiving his report in the early part of 2008.

- We continued our programme of external liaison work designed to help reduce the causes of complaints and encourage the resolution of more complaints before they reach the ombudsman service. This included, in a year: answering more than 15,000 enquiries to our technical advice desk (for businesses and consumer advisers); taking part in more than 150 conferences, training workshops and events; dealing with more than 400 enquiries from Members of Parliament and more than 3,500 calls from the media; and issuing more than one million leaflets and other publications.
- In September 2007 we started our restructuring programme. The aim, by March 2008, is to have reshaped the organisation's structure and reduced staffing to the levels required for our expected workload in 2008/09. This programme is being carried out in full consultation with employee representatives, and aims to maximise the number of voluntary redundancies in order to minimise the number of compulsory job losses. The restructuring programme is designed to ensure that we retain the skills needed for future work, while maintaining the values and service standards that our stakeholders rightly expect of us.

Meanwhile, we continued to handle large numbers of enquiries and cases. Our workload was swollen for a time by a surge of cases about charges for unauthorised overdrafts. At one stage, we were receiving eight times the usual number of new banking cases. Applying the lessons of earlier complaint surges, we implemented contingency plans, including shift-working and the use of a specially-tailored computer system, that enabled us to process these enquiries and cases without developing a significant backlog.

For some time, the banks and building societies concerned settled all these complaints about charges for unauthorised overdrafts. We were therefore not called on to decide the key issue of whether or not the charges were lawful – although we did make findings against businesses which closed accounts simply because consumers made a complaint. The OFT's announcement of a court case to test the legal principles on which such disputes turn, and the associated decision by the FSA, allowing businesses to suspend their handling of complaints in relation to these charges, meant that new cases were subsequently placed on hold, pending the outcome of the court case.

We carried out a wide-ranging programme of work to ensure continuous improvement in the way we handle enquiries and cases. These initiatives included the following:

- We continued the review of our enquiry-handling and case-handling processes and systems. This is a major three-year programme, running through to 2009, to enhance our core IT systems and business processes. The aim is to improve the handling of cases (both individually and in bulk); bolster the consistency, quality and user-friendliness of our service for consumers and businesses; and 'future-proof' our systems and processes for the different types of case that might arise.
- We completed the roll-out of significant new customer-contact computer and telephony systems. These will provide increased flexibility, security, resilience and scalability, as well as enhancing our capability to provide our service in new and different ways. We also reviewed and tested our disaster recovery and business continuity plans to ensure they remain robust, in line with new and increased risks.
- The scope and coverage of our quality assurance systems was extended, by conducting more random reviews of cases to ensure we were attaining the standards expected of us. And we have enhanced our programme of consumer and business satisfaction surveys, ensuring that we listen to and understand the views of our users – both consumers and businesses.

- We launched our *sharpening the focus* programme. This reinforces the importance we place on each member of our staff taking personal responsibility for delivering a service which recognises the needs of the individuals and businesses involved in the cases we deal with.
- We continued work on a number of initiatives aimed at improving our output. These have included work to help us match resources to workload as different types of case rise and fall, with regular reviews ensuring that service standards are maintained across the service. We used contract staff for some work that was likely to decline, and have released them as part of the restructuring programme. And our new skills database is improving the efficiency of HR processes and enabling us to deliver more flexible resourcing policies.

3: key issues for 2008/09 and beyond

The Financial Ombudsman Service's overall priority for 2008/09 and beyond continues to be to deliver an efficient and effective service which retains the confidence of consumers, businesses and all our other stakeholders in the essential role we fulfil. This chapter describes some important factors that we need to take into account when planning our work and priorities in the years ahead.

our roles

Our key roles are:

- resolving complaints in a way that is impartial, fair, accessible, timely, informal, efficient and free to consumers – and awarding fair redress where appropriate;
- encouraging the resolution of complaints before they reach the service, by providing clear information about our approach; *and*
- encouraging the elimination of the sources of financial complaints, by providing clear information about the lessons learned from our work.

We are part of the statutory arrangements designed to underpin public confidence in financial services. As an alternative to the civil courts, we also form part of the arrangements for the administration of justice.

coverage of financial products

Government initiatives, such as the *Hampton review*, have emphasised the benefits of delivering public services that have fewer and clearer entry points for the user, with economies of scale and value for money being provided by a reduction in the number of separate organisations. Against that background, it is logical that we are seen as a one-stop ombudsman for disputes about financial products (whether or not they are regulated by the FSA).

As outlined in chapter 1, the scope of the Financial Ombudsman Service has been extended continually since we were established in 2001. The number of FSA-regulated businesses we cover has grown from around 8,000 to around 21,000. And since April 2007 our new consumer credit jurisdiction covers around 100,000 consumer credit businesses that have OFT standard licences.

Most extensions of scope involve new kinds of issues and a different range of consumers and businesses. And further extensions of scope are in prospect. For example, the government has announced plans for legislation that will encourage banks and building societies to transfer unclaimed assets to one or more 'reclaim funds'. Provision will be required for complaints against those funds. And the *European Directive on Payment Services*, to be implemented by 1 November 2009, says that out-of-court complaint and redress procedures must be in place for settling disputes between payment-service providers and their users.

The *Thornton review* recommended that the Pensions Ombudsman should be merged with the Financial Ombudsman Service to create a single scheme for all complaints about pensions, whether private or occupational. The Government has accepted this recommendation, and we are working with relevant government departments, the Pensions Ombudsman and the FSA on proposals for delivering this effectively. Legislation to implement this will be required in due course.

economic factors

Despite relative stability in the overall economy, there has been considerable recent volatility in the stock market, as well as a significant increase in interest rates payable by some borrowers. These factors do not, of themselves, affect levels of consumer detriment overall. However, they are likely to affect the behaviour of consumers and financial services businesses, and therefore to affect the scale and nature of our incoming work.

Recent increases in interest rates may, for example, affect borrowers' safety margins, and so increase their propensity to complain – both about their credit products and about financial products more generally. Similarly, recent stock market downturns may affect both the return on investment products and also consumers' propensity to complain about these products.

The same economic factors may also affect the way in which businesses that provide financial services and products handle complaints. Reduced margins might, for example, tempt businesses to be readier to reject consumer complaints. On the other hand, the FSA's *treating customers fairly* initiative should lead to improvements in complaint-handling by FSA-regulated businesses.

caseload

Predicting future caseload is an inexact science, as numbers may be affected by many factors, national or international. Our working assumption is that 2008/09 will see a significant fall in our caseload, but the outlook for future years is less clear. Turbulence in financial markets, natural disasters (such as flooding) and consumer campaigns can all lead to significant volatility in the number of complaints. We therefore need to plan for this in our systems and processes, which will need to be sufficiently flexible and scaleable.

The sharp reduction in new mortgage endowment cases means we will lose some of the economies of scale that we had developed in this area. More of the disputes which remain to be resolved involve smaller businesses, less familiar with our processes – and an increasing proportion of such cases are those which can only be resolved by going all the way to a formal ombudsman decision. So we will continue during the coming period to need different service standards for the declining number of mortgage endowment cases.

Cases about charges for unauthorised bank overdrafts are now on hold, pending the outcome of current litigation involving the OFT. It is to be hoped that the outcome of the court proceedings will provide a clear solution to all of these cases. If not, there is the prospect of a surge in caseload as complaints that are currently 'parked' with the banks and building societies come through to the ombudsman service for resolution.

value-added roles

While our statutory role is to resolve disputes between consumers and financial businesses, we have always recognised that we have a wider public-service duty to use our expertise to encourage the prevention and early resolution of disputes, before they reach our service. We have therefore devoted some resource to this, through our external liaison and technical advice teams.

It is for consideration, however, whether there are other ways in which the information we hold could be put to use in the wider public interest. Our current independent external review by Lord Hunt of Wirral is examining whether we are making the most effective use – for the benefit of consumers, industry and regulators – of the information and experience gained from our work. Various tasks may flow from the report's recommendations.

resource issues

Our restructuring programme aims to ensure we have the right level of resources for the workload we anticipate in 2008/09 – while ensuring we retain those skills that would enable us to respond flexibly to any sudden changes in workload.

A number of issues have the potential to affect the cost of providing our service. These include:

- **staff resources:** Because of the restructuring programme, and the effective freeze on recruitment that preceded it, fewer staff are at the lower end of the relevant pay scale. So although overall staffing numbers will decline, staff unit costs are likely to increase in real terms. And there will also be an increase in the short term caused by the costs, direct and indirect, of the restructuring programme itself.
- **internal capability:** Likely future changes in the balance between the different types of complaint mean that – through our restructuring programme and other work – we need to continue to focus on developing our staff to be broadly-skilled and flexible in the types of case they have the capability to handle. This means that, through peaks and troughs in workload, we need to retain existing knowledge and expertise, as well as continuing to invest in the professional development and training required to share knowledge and expertise.
- **infrastructure:** We occupy our existing building on terms that provide reasonable flexibility to contract, which we will need to do as staff numbers decline – though there will be some inevitable time-lags as we await break-points in our leases. And we will need to continue the modernisation of our IT systems, if we are to be able to deliver a service that meets rising expectations and copes with future volatilities.

Such factors have the potential to affect significantly both our cost base and the value for money of our service. Our corporate plan needs therefore to include a range of initiatives that take these factors into account, while also bearing down on other costs, where practicable.

4: actions we will take in 2008/09 and beyond

Our caseload expectations are covered by chapter 7. Taking into account the factors outlined in the previous chapter, we will undertake a range of other actions going forward. These include continuing many, and updating some, of the actions outlined in the previous corporate plan, published in January 2007. As in that plan, our actions largely fall into four broad themes: processes and systems; flexible resources; accountability; and serving justice.

processes and systems

Our objective is continuous improvement of our processes and systems, so that they remain capable of delivering a cost-effective redress service which meets ever-rising expectations.

The processes and systems that underpin our service require continuous evaluation and improvement if they are to remain fit-for-purpose and in line with ever-rising customer expectations. These systems and processes must also be capable of dealing with future changes in the balance between complaints concerning different types of products and businesses. We will therefore do the following:

- We will move towards completion of our new enquiry-handling and case-handling processes and systems. As stated in chapter 2, our aims are to improve the handling of cases (both individually and in bulk); bolster the consistency, quality and user-friendliness of our service for consumers and businesses; and 'future-proof' our systems and processes for the different types of case that might arise.
- We will increase our business-continuity capability, and our flexibility, by exploring increased electronic-imaging of case files. We will expand the capabilities of our new telephony systems, in order to enhance our customer-contact capacity and flexibility. And we will review our existing IT infrastructure, to ensure it keeps pace with potential future demands for electronic information.
- Through our *sharpening the focus* programme, we will continue to focus on the needs of our users – both consumers and businesses. As well as evaluating the initiatives we have already taken to develop relevant skills and to hear more clearly the voice of the user, we will introduce changes to our business process to incorporate the improvements resulting from this programme. The work of our *accessibility taskforce* and its disability group will also focus on the specific needs of users.
- We will continue our regular surveys of our customers (both consumers and businesses) to ensure our processes take account of changing issues and the concerns of those who use our service. And we will conduct further awareness research to contribute to the accessibility initiatives.

flexible resources

Our objective is to manage staff and other resources so as to provide an efficient and effective service, irrespective of future fluctuations in numbers and types of cases.

As previously noted, we are facing a reduction in our workload for 2008/09. But sudden changes in workload in specific areas are a likely feature of our future caseload. So as well as restructuring our resources in line with anticipated short-term needs, we must also ensure

our systems and processes are flexible and scaleable, and that we have access to appropriate skills and expertise, so that we are prepared for any future sudden changes in workload. Therefore:

- We will complete our restructuring programme in order to deliver a service that is fit for future needs, while retaining the values and service standards we have worked hard in previous years to achieve.
- We will continue to keep our organisational structure under review, to ensure both that staff are effectively deployed, in line with changing caseloads, and that the structure is sufficiently flexible to deal with the unexpected.
- We will continue to develop our capacity for creating tailored processes, in order to deal most effectively and promptly with an increase in surges of complaints on particular topics.
- We will use our skills database to reinforce our systems for staff development and training. This will enhance our flexibility by enabling an increasing proportion of staff to operate in more than one financial sector.
- We will continue to examine our costs, to assist in the shaping of the restructuring programme and ensure our expenditure is appropriate for the level of service our stakeholders are entitled to expect.

accountability

Our objective is to enhance dialogue with our stakeholders, so that we remain responsive to their needs and to the public interest, while continuing to provide an impartial service.

As well as maintaining the independence and impartiality of our service in resolving disputes, we need to maintain an effective dialogue with a range of stakeholders. To ensure the effectiveness of this dialogue we will do the following:

- We will continue the work of our *accessibility taskforce* and *joined-up information taskforce*. And we will review our plans in the light of the recommendations from the three-yearly independent external review currently being led by Lord Hunt of Wirral. This may lead to medium- or longer-term changes in the ways we make ourselves visible and accessible to those we serve, and in the ways we use the information and experience gained from our work, for the benefit of consumers, industry and regulators.
- We will continue to work closely with the FSA in connection with three of its key initiatives: *treating customers fairly*; more principles-based regulation; and the *retail distribution review*. Stakeholders have recognised that the existence of the ombudsman service to resolve individual cases enables the FSA to focus its resources in a risk-based and principles-based way. Consistent with this, we will continue to explore ways of enhancing the predictability of our decisions, through the information we publish about cases and outcomes.
- With the FSA, we will keep under review the funding model for our compulsory jurisdiction. Stakeholders' responses to the 2006 discussion paper on funding for the compulsory jurisdiction indicated broad support for increasing the importance of the case fee in financing the ombudsman service. This does, however, place a greater premium on the ability to predict fairly accurately the number and trend of future of future cases. In the context of our 2008/09 budget, this issue is considered further in chapter 8.

- We will continue our range of external liaison activities with businesses and consumers and their representatives. These activities are aimed both at helping to prevent complaints reaching the ombudsman service in the first place, and at increasing awareness of the service among groups of consumers under-represented in our caseload. And our Board has reviewed its committee structure in order to enhance its oversight of our many initiatives for further developing the quality of our service.

servicing justice

Our objective is to secure wider public benefits by using our expertise and resources to enhance and extend accessible and effective dispute resolution for financial services and products.

As previously mentioned, the scope of the ombudsman service has progressively been extended to cover a wider range of financial services and products, and further extensions are in prospect.

We already use the expertise and information we have, in order to help businesses and consumers avoid future causes of complaint. This is an area of our work that our current external review is examining in detail.

We also respond positively, wherever possible, to those who are creating dispute-resolution schemes in other UK sectors and abroad and wish to benefit from our expertise in dispute resolution.

- We will continue to work with the Department of Work and Pensions, the FSA and the Pensions Ombudsman in order to implement the *Thornton reviews* recommendation that the Financial Ombudsman Service and the Pensions Ombudsman should merge.
- We will continue to cooperate with HM Treasury and the FSA in extending dispute resolution to all types of payment services, in order to fulfil the requirement in the Payment Services Directive that an out-of-court redress system should be put in place.
- We will also work with HM Treasury and the FSA on other financial areas where extensions to regulation and out-of-court redress are in the pipeline, such as on the sale of travel insurance as part of a package holiday.
- With the Department of Business, Enterprise and Regulatory Reform and the OFT, we will prepare for the likely extension of our consumer credit jurisdiction to include complaints about debt administration and credit information services from October 2008.
- We will continue to provide consultancy to those setting up other out-of-court redress schemes, modelled on the Financial Ombudsman Service, as well as continuing to cooperate with ombudsman colleagues in the British and Irish Ombudsman Association.
- In Europe, we will continue to work with the European Commission through our membership of the steering committee of FIN-NET, to seek a comprehensive network of redress for cross-border financial disputes in the developing European single market.

5: overview of budget

Chapters 5 to 8 report on our performance so far during the financial year 2007/08 and consult on our workload forecasts, proposed expenditure and funding for the financial year 2008/09.

2007/08

In this current financial year, the number of new complaints referred to us is expected to be nearly 29% above the estimate in the budget on which we consulted in January 2007. This arises from a temporary surge in complaints relating to charges for unauthorised overdrafts – partially offset by lower than anticipated numbers of complaints relating to mortgage endowment policies, which have reduced faster than anticipated.

Following this temporary increase in workload, the total number of new complaints is likely to decrease significantly. We froze recruitment in order to reduce staff by natural turnover. However, in order to rebalance future workload and workforce, it was necessary to announce a restructuring of the service (with associated redundancies) in September 2007.

Because of the recruitment freeze, we had fewer adjudicators settling and closing cases than budgeted. And the announcement of the restructuring programme, with the associated statutory consultation process, caused some loss of productivity. Coupled with an increase in the proportion of more complex disputes in some areas, this has led to case closures being nearly 12% below budget.

2008/09

As in previous years, the pattern of new complaints remains uncertain. However, with mortgage endowment complaints tailing-off (as they become time-barred) and complaints about charges for unauthorised bank overdrafts on hold, awaiting the current High Court proceedings, we expect a significant decline in the number of incoming complaints for 2008/09.

As a result of the restructuring of the service, the number of adjudicators and the number of cases settled and closed will be scaled back. Nevertheless, we expect the number of cases closed to exceed the number of new cases, leading to a reduction in our current caseload by the end of 2008/09.

Our expenditure (excluding restructuring costs) is expected to fall by 9% compared with the 2007/08 forecast and by 14% compared with the 2007/08 budget – owing to the lower number of employees – but the unit cost is expected to rise to £584. We have retained the benefit of efficiencies developed over past years. But we will inevitably lose economies of scale as volumes decline, and some fixed costs (such as premises) cannot be reduced immediately.

When we and the FSA consulted about the funding of our compulsory jurisdiction, a majority of respondents favoured increasing the proportion of our funding that is collected through case fees and also increasing the number of 'free' cases. Because of the current volatility in case numbers, we need to move cautiously at present. But we propose to move in the direction favoured by those who responded to the consultation – increasing the case fee to £450, and the number of 'free' cases to three.

6: 2007/08 forecast

This chapter deals with our forecast for the current year, ending 31 March 2008.

new complaints

Our 2007/08 budget assumed that we would receive 80,000 new cases, a 15% decrease from the previous year.

Mortgage endowment complaints are likely to fall to under half the level expected, but this shortfall has been more than made up by the large number of complaints we received relating to charges for unauthorised bank overdrafts. Because of the test case in the High Court involving the OFT, complaints of this type are now on hold unless they involve financial difficulty or other considerations.

Our forecast is that we will receive 103,300 new complaints by the end of March 2008, 29% above the budget figure.

cases resolved

Our 2007/08 budget assumed that we would settle and close 106,500 cases. Our current forecast is that we will settle and close about 94,000 cases.

The shortfall is mainly due to lower than expected numbers of adjudicators available to close cases, and to lower productivity – caused partly by the increasing complexity of cases and partly as a result of implementing the restructuring of the service. There is significant uncertainty as to the levels of productivity in the later part of the year.

timeliness

Timeliness figures for 2007/08 are expected to be better than budgeted, assisted by the early settlement of a significant number of cases concerning overdraft charges.

unit cost

Our 2007/08 budget assumed that our unit cost (total costs excluding restructuring costs and financing charges, divided by the number of cases closures) would be £535. Our current forecast is a little higher at £571, reflecting the lower number of case closures.

	actual 12 months 2006/07	actual 9 months 2007/08	forecast 12 months 2007/08	budget 12 months 2007/08
opening work-in-progress ¹				
mortgage endowment cases	47,572	29,829	29,829	39,500
other cases	16,745	17,207	17,207	15,500
total	64,317	47,036	47,036	55,000
new cases				
mortgage endowment complaints	46,134	11,682	14,500	32,000
other complaints	48,258	83,524	88,800	48,000
total	94,392	95,206	103,300	80,000
cases resolved				
mortgage endowment cases	63,877	24,124	31,000	54,000
other cases	47,796	53,837	63,000	52,500
total	111,673	77,961	94,000	106,500
closing work-in-progress ²				
mortgage endowment cases	29,829	17,387	13,329	17,500
other cases	17,207	32,894	29,007	11,000
subtotal	47,036	50,281	42,336	28,500
overdraft charge cases on hold	0	14,000	14,000	0
total	47,036	64,281	56,336	28,500
work in hand (weeks)				
mortgage endowment cases	23.9	36.8	52.9	18.1
other cases	18.6	20.1	22.3	11.6
total	21.7	26.2	29.8	14.9
productivity				
mortgage endowment cases	4.5	2.6	2.8	4.7
other cases	3.6	5.3	4.5	4.0
total	4.1	4.0	3.7	4.3
% closed within 6 months				
mortgage endowment cases	44	39	35	45
other cases	81	86	85	80
total	61	72	70	60
unit cost	£484	n/a	£571	£535

¹ 'opening work-in-progress' means the number of cases open at the beginning of the year

² 'closing work-in-progress' means the number of cases open at the end of the year

7: complaint trends

enquiries

Enquiries to our 'front-line' customer contact division, by telephone and in writing, have increased during the year, mainly because of the overdraft-charges issue. They are expected to reduce significantly in 2008/09, in line with our estimate of new complaints.

	actual 2006/07	budget 2007/08	forecast 2007/08	budget 2008/09
phone calls to our enquiry line	341,410	290,000	350,000	260,000
written enquiries	286,359	240,000	285,000	210,000
total	627,769	530,000	635,000	470,000

new complaints

The total number of new complaints is expected to fall. This reduction is mainly due to a further fall in mortgage-endowment complaints, and to overdraft-charge complaints being put on hold during the current High Court case.

types of complaint	actual 2006/7	budget 2007/08	forecast 2007/08	budget 2008/09
endowments linked to mortgages	46,134	32,000	14,500	10,000
pensions	3,687	4,000	4,000	4,000
other investments	13,108	10,000	9,000	10,000
banking and loans	15,733	17,500	54,800	24,000
insurance	15,730	14,500	19,000	21,000
consumer credit	0	2,000	2,000	3,000
total	94,392	80,000	103,300	72,000

mortgage endowment complaints

We have assumed that the number of new cases about mortgage endowments will reduce significantly in 2008/09, mainly as a result of their falling outside the time limits set by the FSA for bringing complaints. We expect the number of new mortgage endowment cases to fall from about 14,500 in 2007/08 to 10,000 in 2008/09.

banking complaints

In July 2007 the OFT and FSA announced a test case in the High Court on charges for unauthorised overdrafts. This also involved the FSA granting a waiver enabling current-account providers to put relevant complaints on hold, pending the outcome of the High Court action. We are assuming that no further complaints of this type will be referred to us until the test case is finally resolved, apart from financial-difficulty cases and small-business cases.

We have completed those cases, referred to us before the High Court case was launched, where offers had been accepted by customers. However, approximately 14,000 cases remain on hold, awaiting the outcome of the test case in the courts. It is unclear how long it will take for the litigation to run its course and how much subsequent work will remain for us to do on individual cases. So we have erred on the side of caution and assumed that these cases may not be finally closed during 2008/09. To avoid materially distorting the figures, we have excluded them from the work-in-progress ratios for the year.

We are assuming an underlying increase of 5% in complaints about other banking products.

other complaints

We are assuming an increase of 10% in insurance-related complaints, partly because of the media focus on payment-protection insurance, and a similar increase of 10% in investment complaints.

Our new consumer credit jurisdiction came into force as recently as April 2007. So we have only limited experience to use as a foundation for future forecasts. But we do not expect this jurisdiction to produce significantly more complaints in 2008/09 than in the current year.

closures

Cases resolved and closed in 2008/09 are expected to fall to 84,000, reflecting the lower number of adjudicators following our restructuring, together with a change in the overall mix of cases.

timeliness

The time taken to resolve and close a case is expected to improve in 2008/09, with approximately two out of every three cases closed within three months and 80% of cases expected to be closed within six months.

workload plans

	actual 2006/07	forecast 2007/08	budget 2008/09
opening work-in-progress			
mortgage endowment cases	47,572	29,829	13,329
other cases	16,745	17,207	29,007
total	64,317	47,036	42,336
new complaints			
mortgage endowment complaints	46,134	14,500	10,000
other complaints	48,258	88,800	62,000
total	94,392	103,300	72,000
cases resolved			
mortgage endowment cases	63,877	31,000	14,000
other cases	47,796	63,000	70,000
total	111,673	94,000	84,000
closing work-in-progress			
mortgage endowment cases	29,829	13,329	9,329
other cases	17,207	29,007	21,007
total	47,036	42,336	30,336
bank charge cases on hold	0	14,000	14,000
total	47,036	56,336	44,336
work in hand (weeks)			
mortgage endowment cases	23.9	52.9	34.7
other cases	18.6	22.3	15.6
total	21.7	29.8	18.8
productivity			
mortgage endowment cases	4.5	2.8	3.0
other cases	3.6	4.5	4.6
total	4.1	3.7	4.3
% closed within 3 months			
mortgage endowment cases	19	15	15
other cases	51	60	65
total	34	45	60
% closed within 6 months			
mortgage endowment cases	44	35	35
other cases	81	85	85
total	61	70	80
% closed within 9 months			
mortgage endowment cases	69	50	50
other cases	89	90	90
total	76	75	85
% closed within 12 months			
mortgage endowment cases	79	60	60
other cases	92	95	95
total	85	80	90

8: 2008/09 budget and case fees

income and expenditure

We need to restore our reserves to a prudent level following the forecast deficit of £5.4m in 2007/08 (largely because of our costs associated with restructuring the service). We also expect to incur £1.0 million capital expenditure on upgrading our IT hardware, continuing to develop our casework system, and minor office refurbishments. We are therefore proposing a budget surplus of £5.8m for 2008/09.

Out of our total income and expenditure:

- 96.0% relates to our compulsory jurisdiction;
- 3.2% relates to our consumer credit jurisdiction; *and*
- 0.8% relates to our voluntary jurisdiction.

	actual 2006/07 £m	budget 2007/08 £m	forecast 2007/08 £m	budget 2008/09 £m
income				
levy	16.6	19.4	19.4	21.7
case fees	36.1	37.9	33.3	33.6
other income	0.4	0.4	0.3	0.3
provision for bad and doubtful debts	(0.6)	(0.4)	(0.4)	(0.4)
total	52.5	57.3	52.6	55.2
staff and staff-related costs	42.4	43.6	42.0	37.7
professional fees	0.7	0.8	0.8	0.9
IT costs	1.8	2.3	1.8	1.7
premises and facilities	6.0	6.4	6.2	5.8
other costs	0.6	0.7	0.7	0.7
depreciation	2.5	3.2	2.2	2.2
operating costs	54.0	57.0	53.7	49.0
financing costs	0.2	0.3	0.3	0.4
total costs	54.2	57.3	54.0	49.4
restructuring costs	0	0.0	4.0	0
surplus (deficit)	(1.7)	0.0	(5.4)	5.8
cases resolved	111,673	106,500	94,000	84,000
unit cost	£484	£535	£571	£584

In 2007/08, income was below budget, owing to fewer than expected chargeable cases, but this was partially offset by a saving in staff costs and staff-related costs. Restructuring costs include redundancy payments, professional fees and outplacement services. The deficit of £5.4 million (which includes restructuring costs of £4.0 million) is expected to be recovered in 2008/09 through the annual levy. Cash flow during the year has been managed by way of a revolving credit facility.

Our expenditure budget for 2008/09 is 9% lower than 2007/08 (excluding restructuring costs) reflecting lower staffing levels.

unit cost

In previous publications we warned that our unit cost would inevitably rise when mortgage-endowment cases fell from their previously high volume. This is partly because of differences in the relative productivity achievable in different types of cases, and partly because fixed costs must be spread over a falling number of cases overall.

Our unit cost for 2008/09 will rise to £584, from a forecast of £571 (and a budget £535) in the current year. To put the figures in context, if the unit cost in 2001/02 of £688 had increased in line with inflation, it would now be nearer £850. This demonstrates that we have implemented longer-term efficiencies, as well as benefiting from shorter-term economies of scale.

staff

For 2008/09 the year-end headcount budget can be analysed as follows:

	actual March 2007	budget March 2008	forecast March 2008	budget March 2009
casework divisions and ombudsmen	762	657	540	540
customer contact division	98	101	85	95
support services	98	95	80	85
total	958	853	705	720

case fees for 2008/09

In line with the feedback we have received from the businesses which provide our funding, we aim to collect a greater proportion of our income by way of case fees as well as increasing the number of 'free' cases. But in view of the volatility of case numbers and their effect on our financial planning, we need to move incrementally.

In all three jurisdictions, we propose to increase the case fee from £400 to £450. But we will charge the case fee only after a financial business has received three 'free' cases (rather than two 'free' cases as now). Allowing for the expected cost of three 'free' cases, our closure target of 84,000 should raise £33.6 million.

When our consumer credit jurisdiction was introduced, we promised to keep under review the position of not-for-profit advice agencies – such as debt advisers – who hold a standard consumer credit licence issued by OFT and so come within our consumer credit jurisdiction. It is difficult to provide special case-fee arrangements for them, because they hold the same type of licence as other consumer credit businesses.

But we have analysed all our consumer credit cases to date, and none relates to a not-for-profit advice agency. Bearing in mind that all licensees will receive three 'free' cases per year in any event, there appears little risk to such agencies. But we will continue to keep the position under review.

annual levy for 2008/09

The remainder of our expenditure, £21.7m (£19.4m in 2007/08), would be raised through the 2008/09 annual levy. However, of this, £4.0 million relates to the one-off costs of the restructuring that took place in 2007/08.

compulsory jurisdiction levy

The FSA will consult separately on the levy payable by firms in the compulsory jurisdiction. The method of allocating the total levy amongst FSA-regulated firms was consulted on in consultation paper CP74. Broadly, it involves two stages:

- The total levy is divided among industry blocks (based on activities) according to the number of case-handling staff we expect to need for cases from that sector.
- The levy for each industry block is divided among the firms in that block, according to a tariff rate (relevant to that sector) which is intended to reflect the scale of the firm's business.

Although the total levy has increased, because of the one-off restructuring costs, the effect of this on firms in different industry blocks varies. That is because the levy depends on the number of cases expected from firms in that fee block. In any event, we estimate that nearly 90% of the firms liable to pay the levy will pay only the minimum levy for their industry block.

Subject to the FSA's consultation, typical levies in the compulsory jurisdiction are likely to be:

firm	2006/07 levy £	2007/08 levy £	2008/09 levy £
bank or building society with 2 million relevant accounts	11,630	18,000	35,600
general insurer with £100 million of relevant gross premium income	5,500	6,500	16,500
life office with £200 million of relevant adjusted gross premium income	24,800	24,000	14,600
investment adviser that holds client money and has 50 relevant approved persons	8,000	7,500	6,500
three-partner firm of independent financial advisers that does not hold client money	135	135	150
mortgage or insurance intermediary firm	50	50	60

consumer credit jurisdiction levy

The total levy for the consumer credit jurisdiction in 2008/09 has been set at £2.4 million (net of OFT's collection costs), the same figure as for 2007/08. This is in line with our aim to average this levy over 5 years, which is the renewal period for consumer credit licences. The Office of Fair Trading sets the levy payable by individual licensees who take out or renew licences during the year.

voluntary jurisdiction levy

The 2008/09 rates of levy proposed for voluntary jurisdiction (VJ) participants are set out in annex D.

A: compulsory jurisdiction – provisional levy 2008/09

These are provisional figures which are expected to form part of a separate consultation by the FSA in January 2008.

industry block	Description	tariff basis	proposed tariff rate	2007/08 tariff rate	proposed minimum levy per firm £	proposed total	2007/08 total	proposed contributions by block %	contribution by block % 2007/08
1	deposit acceptors, mortgage lenders and administrators (excluding firms in block 14)	per relevant account	0.0178	0.009	100	£4,762,973	£2,516,421	24.1	10.0
2	firms that undertake insurance activities subject to prudential regulation only (excluding firms in blocks 13 & 15)	per £1000 of relevant annual gross premium income	0.165	0.065	100	£4,118,475	£1,646,764	20.7	8.9
3	Society of Lloyd's		n/a	n/a	n/a	£38,000	£28,000	0.2	0.2
4	firms that undertake insurance activities subject to both prudential and conduct of business regulation (long-term life insurers) (excluding firms in block 15)	per £1000 of relevant adjusted annual gross premium income	0.073	0.12	100	£4,667,569	£7,075,924	23.0	35.5
5	fund managers (including those holding client money/assets and not holding client money/assets)	flat fee	0	0.0005	200	£187,000	£356,881	1.0	3.1
6	operators, trustees & depositaries of collective investment schemes	flat fee	0	0	75	£30,675	£16,750	0.1	0.2
7	dealers as principal	flat fee	0	0	75	£19,125	£13,850	0.1	0.1
8	advisory arrangers, dealers or brokers holding and controlling client money and/or assets	per relevant approved person	130	150	130	£3,006,510	£3,822,600	15.0	25.3
9	advisory arrangers, dealers or brokers not holding and controlling client money and/or assets	per relevant approved person	50	45	50	£1,562,400	£1,503,000	7.5	8.0
10	corporate finance advisers	flat fee	0	50	75	£35,775	£26,000	0.2	0.3
13	cash plan health providers	flat fee	0	50	50	£650	£600	0.0	0.0
14	credit unions	flat fee	0	50	50	£25,800	£27,550	0.2	0.2
15	friendly societies whose tax-exempt business represents 95% or more of their total relevant business	flat fee	0	50	50	£4,100	£4,100	0.0	0.0
16	mortgage lenders, advisers and arrangers	flat fee	0	50	60	£457,800	£367,250	2.5	2.3
17	general insurance mediation	flat fee	0	50	60	£985,020	£873,900	5.5	5.9
	total – all blocks					£19,901,872	£18,279,860		

B: compulsory jurisdiction – case fees 2008/09**compulsory jurisdiction – case fee table****case fee**

standard case fee	£450	(for the fourth chargeable case and any subsequent chargeable case in this financial year – 2008/09)
special case fee	£450	

The definitions of *standard case fee* and *special case fee* are in FEES 5.5, (case fees), in the *FSA Handbook*.

The definition of *chargeable case* is in the Glossary to the *FSA Handbook*.

C: consumer credit jurisdiction – case fees 2008/09

consumer credit jurisdiction – case fee table

case fee

standard case fee	£450	(for the fourth chargeable case and any subsequent chargeable case in this financial year – 2008/09)
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The definition of *standard case fee* is in FEES 5.5, (case fees), in the *FSA Handbook*.

The definition of a *chargeable case* is in the Glossary to the *FSA Handbook*.

D: voluntary jurisdiction – levy and case fees 2008/09

voluntary jurisdiction – general levy tariff and case fee table				
industry block and business activity	tariff basis	tariff rate	minimum levy	* case Fee
1V deposit acceptors, mortgage lenders and administrators, including debit/credit/charge card issuers and electronic money institutions	number of relevant accounts	0.0178	100	£450
2V <i>VJ participants</i> undertaking insurance activities subject only to prudential regulation	per £1,000 of relevant annual gross premium income	0.165	100	£450
3V <i>VJ participants</i> undertaking insurance activities subject to prudential and conduct of business regulation	per £1,000 of relevant adjusted annual gross premium income	0.073	100	£450
6V intermediaries	not applicable	not applicable	60	£450
8V National Savings & Investments	not applicable	not applicable	10,000	£450
9V Post Office Limited	not applicable	not applicable	10,000	£450
10V Persons not covered by 1V to 8V undertaking activities which would be <i>regulated activities</i> or <i>consumer credit activities</i> if they were carried on from an establishment in the <i>United Kingdom</i>	not applicable	not applicable	60	£450

*** note on case fees:** As in the compulsory jurisdiction, *VJ participants* will be charged for the fourth and subsequent chargeable case in this financial year – 2008/09