

Directors' Report and Financial Statements



Financial
Ombudsman
Service

introduction

Set up under the Financial Services and Markets Act 2000, the role of the Financial Ombudsman Service is to resolve individual disputes between consumers and financial businesses – fairly, reasonably, quickly and informally.

We handle complaints about a wide range of financial and money-related matters, ranging from insurance and mortgages to investments and credit.

If a business does not resolve a complaint to the consumer's satisfaction, we can step in and settle the dispute. We are independent and impartial. When we decide a complaint, we look carefully at both sides of the story and weigh up all 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 as a result the consumer has lost out – we can order matters to be put right.

It is not our role to write the rules for businesses providing financial services – or to fine them if the rules are broken. That is the job of the regulators – the Financial Services Authority (FSA) or the Office of Fair Trading (OFT). However, we work closely with the regulators – as well as with a wide range of stakeholders including the industry and consumer representatives – to share insights from the complaints we handle and to help prevent future problems.

We are still seeing a continuing significant increase in demands for our services. This year we handled over a million front-line enquiries and complaints from consumers – around 4,000 every working day. Over 200,000 of those enquiries turned into formal disputes requiring the involvement of our adjudicators and ombudsmen.

Of these disputes, just over 50% involved the sale of payment protection insurance (PPI) – with the number of PPI cases more than doubling to 105,000, the highest number we have ever received in a year about a single financial product. The next three most-complained about financial products were current accounts, credit cards and mortgages.

We resolved almost 165,000 cases during the year – fewer than planned because of the legal action taken against us on PPI complaints (see page 11). In 51% of these cases our involvement resulted in compensation for consumers – who would otherwise have been unlikely to have received redress.

We are committed to constantly developing and improving our service, to meet the needs of all 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, *staying ahead in a changing world* (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

This will be my last report and accounts as chairman of the Financial Ombudsman Service, as I retire from the board in January 2012 at the end of my tenure as a director.

The service has faced significant change since I was first appointed. Our caseload has increased markedly - from around 30,000 in 2000/2001 to over 200,000 in the financial year 2010/2011 – and its composition has also changed. Cases involving investments and pensions made up 62% of our caseload five years ago, mainly because of mortgage endowments. Today they only account for about 7%. Complaints about payment protection insurance (PPI) on the other hand have increased from just 2% of our workload in 2006/2007 to 51% of the new cases we received in 2010/2011.

We need to continue to identify and respond to change around us, to ensure we remain capable of fulfilling our responsibilities. Under the leadership of Natalie Ceeney, our chief executive and chief ombudsman since March 2010, we have reviewed all aspects of our service so that we can build on the successes of the past as we develop an organisation fit for the future.

overview of the year

The past year has been dominated by the exceptional rise in the volume of complaints about payment protection insurance and the challenges resulting from the British Bankers Association's judicial review of the approach to them taken by the FSA and ourselves. A key part of our strategy over the year has been to ensure that the situation with PPI did not adversely affect other aspects of our operations. The success of this strategy is seen most clearly in a marked improvement in the timeliness of our complaints handling for cases other than PPI.

We have contributed over the year to the Government's review of the regulatory structure for financial services. We welcome the government's confirmation that the ombudsman service should remain independent, with a role distinct from the regulators. We will continue to work closely with HM Treasury, the FSA and – in due course – the new regulators on relevant issues.

Our senior management team was strengthened during the year by the appointment of four new members to the executive from both within and outside the organisation.

Towards the end of the year we also made a number of changes to our non-executive board of directors. I am pleased to welcome Dame Janet Gaymer, Alan Jenkins and Pat Stafford. All three were appointed to the board with effect from February 2011. John Howard stood down from the board during the year – as did Alan Cook, since the year end. Barbara Cheney, the company secretary, also tendered her resignation after the year end. I am very grateful to them all for their important contributions.

governance processes

As part of the delivery of change, we have taken the opportunity to strengthen our governance processes during the year, reviewing the structure, terms of reference and membership of all board committees. We have put increased focus on professional procurement following the appointment of a central procurement team. Our major change-programmes are guided by steering committees which involve appropriate membership from across the service and are chaired by members of the executive team.

Led by the finance director, the executive team carries out monthly reviews of our risk register. We have also introduced registers of all programmes of work. The board challenges the executive on risk issues on a quarterly basis. Our internal auditors carry out in-depth assessments of individual risks on behalf of the audit committee, who reports back to the full board. There is more detail about this process later in this report.

outlook

The past decade has shown that our workload is inherently difficult to forecast with any degree of certainty. A wide range of external factors affect the levels of demand for our service – in terms of the volumes and types of cases referred to us. These factors include how the financial markets are performing, how well businesses themselves handle complaints, the actions of claims-management companies, publicity in the media, and the extent of any regulatory action when wider problems are identified.

The range of issues around PPI, for example, shows in very real terms how these factors can have a major impact on our work. So in planning for the future we need to accept that volatility and uncertainty is likely to remain a permanent feature – and one which we have to build-in to our operational and financial planning.

I remain confident that the service will continue to develop and improve to meet the needs of its customers in a changing world, offering excellent standards of customer services whilst remaining true to its values.

Sir Christopher Kelly KCB
July 2011

chief executive's report

The year just finished was my first year at the Financial Ombudsman Service, and it has certainly been a very busy one. Any new chief executive takes the opportunity to look afresh at their organisation – to see where there is scope for improvement, as well as to ensure that the successes of the past can be continued. I too have spent time doing this over the past year.

The service I joined in March 2010 was one that had grown significantly since its creation just ten years earlier. It was handling over 160,000 disputes a year – a significant increase on the 30,000 cases in our first year. This had led to the number of staff increasing from under 400 to over 1,500 staff (including contract and directly-employed staff).

Many of the challenges I identified on joining were the same challenges the service has always faced. This included the challenge of ensuring we assess complaints quickly and with the appropriate level of care – which means making the decision in the right way and treating both parties well.

However, some of the challenges we now faced in 2010 were clearly different from issues we had dealt with in the past. The major challenge was recognising that the ombudsman was now operating on a different scale – and ensuring that we had a strong, cost-effective and efficient infrastructure to support an organisation with a cost-base of over £100 million.

My continuity with the past has been the strong focus on the quality of our work. Over the past year we have recruited more ombudsmen, who can help us reduce the length of time it takes to resolve the most complex disputes, and who can also help in the professional development of our adjudicators. Ombudsmen are a valuable resource, as well, in helping to draw insight from our work, to help us all prevent future complaints.

We have had success during the year. Almost 50% of the disputes we handled last year (other than PPI cases) were resolved within three months. And we maintained and grew our customer-satisfaction levels despite the record levels of complaints. We now employ the best-practice techniques that are expected from an organisation of our size and remit. For example, all teams of adjudicators now receive regular feedback on how their customers rate the quality of the service – as well as on how well they are doing to reduce waiting times and on their speed in handling cases.

We have strengthened the training and support we give our new recruits, creating an intensive “academy” programme for all new adjudicators. This involves training them in key product areas and case-handling techniques, before they take on responsibility for their own caseload. Following a tendering exercise, we are working with Queen Margaret University, Edinburgh, on an externally-accredited continuing professional development programme for the ongoing professional development of our adjudicators.

During the year we have also doubled the content of the online technical resource on our website. This resource now sets out our general approach to complaints in over 90% of the services and products we cover – from pet insurance to spread betting. The aim of our online technical resource is to help the industry and consumer groups alike learn from what we see – so that we can help prevent problems in the future.

An area of new focus over the last year has been to reinforce our infrastructure, to position us effectively for the scale on which we now operate. My starting point has been to strengthen our executive team, bringing in senior professionals with extensive experience of service delivery in

the public and private sectors. I have also promoted internally two senior managers to our executive team.

This has created a capable and professional leadership team, who have overseen significant change-management and service-improvement programmes over the year. For example, we have focused on our cost-base through a structured and targeted cost-reduction programme; we have started a two-year “e-enablement” programme (looking at the way we exchange information with our customers); we are introducing new demand - and operational-planning techniques; and we have reviewed the balance between our permanent staff and those on contract, ensuring we have a cost-effective and flexible arrangement and that all staff who handle cases for us do so to consistently high standards.

This has also meant that, for the second year running, we have been able to freeze the case fee that we charge businesses (payable after their first three *free* cases) – as well as freezing the *total* amount we raise through levies (apart from the funds needed to increase our reserves as a contingency against the costs of growing volatility).

As any new chief executive will attest, a significant priority for their first year in the job is to building strong working relationships with key stakeholders. As a service that can be accessed by any consumer if the need arises – and covering over 100,000 businesses that deal in financial services – this can be pretty challenging for us.

However, I have been pleased by the strength of our relations with our stakeholders. Despite the fact that we may not always agree with each of our stakeholders on *all* issues, we have built and maintained constructive working relationships. Over the past year, we have seen some businesses significantly strengthen their complaints handling, and we have worked with them to enhance and develop our feedback loops, so that together we can prevent future complaints. Continuing our work in this area remains a priority for us.

A significant challenge over the past year has, of course, been the management of complaints involving mis-selling of payment protection insurance (PPI). We started the 2010/2011 financial year expecting 46,000 new PPI cases, following consultation with the industry about likely volumes. The first half of the year was characterised by rising tension – especially among the banks – on how PPI complaints should be handled. This led to a hardening of approach in the way these businesses handled PPI cases which were subsequently referred to the ombudsman service.

In October 2010 the British Bankers Association (“BBA”), on behalf of a number of high-street banks (excluding Santander), launched a judicial review against the ombudsman service and the FSA – on the approach to handling PPI complaints. At the same time they effectively started putting their PPI complaints on hold, which resulted in a substantial increase in the volume of stalled cases being referred to the ombudsman service.

Judgment was handed down in April 2011, rejecting the banks’ challenge and endorsing the ombudsman’s and the FSA’s approach on the way payment protection insurance (PPI) complaints should be handled. In May 2011 the banks announced that they would not be appealing this judgment.

The impact of this legal challenge by the banks during 2010/2011 led to the number of new PPI cases referred to the ombudsman service more than doubling. It also resulted in delays and uncertainties for consumers, as progress stalled on their cases – and to significant costs for us. Now that the legal action is over, we are currently working with the FSA and the businesses involved, to clear the backlogs as quickly as possible.

Largely as a result of these legal and operational challenges relating to PPI, the financial position for 2010/2011 was not as strong as we had expected. The first quarter of the financial year was weak, as we invested in new adjudicators (who are less productive during their initial induction and training periods) and scaled-up our base of contract staff, to help deal with potentially volatile complaint numbers.

Over the course of the year we reviewed all our major contracts, started a “lean re-engineering” programme, and introduced other cost reduction measures. However, while our financial performance improved, as we progressed through the year, the additional costs resulting from the PPI legal challenge meant that we were unable to reduce our total costs as much as we would have liked.

As a result, we ended the year with a £8.4m deficit – against a budgeted deficit of £2m. Nevertheless, the cost-per-case unit cost we were achieving in the last quarter of the year was strong. This meant that we were able to freeze the case fee for the new financial year – and enter the 2011/2012 financial year with a balanced budget.

With the approach to handling PPI complaints now settled, the major challenge we face for 2011/2012 is to reduce the substantial volume of PPI complaints awaiting a decision. This will require substantial work by the banks – which we are committed to supporting. We also have an active programme to improve the time it takes us to resolve cases *other than* PPI complaints – and our aim is settle 50% within three months.

Our operational change-management programme is well underway – with plans to streamline our operational processes across all areas of the organisation, and to seek longer-term cost and efficiency benefits through greater use of technology. We have an ambitious year ahead – and we are confident that we have the skills and expertise to achieve our goals.

In summary, my first year at the ombudsman service has been challenging and exciting – but rewarding. As much of my year has been focused on the plans for the organisation over the coming year, it represents the start of the next phase of our journey, with ambitious plans ahead.

One of the most rewarding elements of working at the ombudsman service has been the commitment and passion of my colleagues to do the right thing. For the leader of any organisation, it is inspiring to work with people who have a shared set of values that are demonstrated in all aspects of their work.

I would also like to thank Sir Christopher Kelly, our chairman, for the support he has given both to me, in my first year, as well as to the ombudsman service in his ten years on our board. He has challenged and supported us in equal measure – and he deserves much of the credit for the organisation’s success. He stands down as chairman in 2012 and will be greatly missed.

Natalie Ceeney CBE
July 2011

our workload over the last decade

	<i>number of new cases</i>	<i>number of resolved cases</i>
2002	43,330	39,194
2003	62,170	56,459
2004	97,901	76,704
2005	110,963	90,908
2006	112,923	119,432
2007	94,392	111,673
2008	123,089	99,699
2009	127,471	113,949
2010	163,012	166,321
2011	206,121	164,899

year ended 31 March

the directors

our board of non-executive directors

Sir Christopher Kelly KCB

chairman

Sir Christopher Kelly was appointed chairman of the Financial Ombudsman Service on 23 February 2002. He is chairman of the nomination & remuneration committee. He currently also acts as chairman of the King's Fund and the Committee on Standards in Public Life.

During his career he has been chairman of the NSPCC, permanent secretary at the Department for Health, and head of policy at the Department of Social Security. He has also worked as director of monetary and fiscal policy and director of the budget and public finances at HM Treasury.

Sir Christopher Kelly will reach the end of his maximum term of office on 31 January 2012, having served for 10 years, and will consequently retire from the board.

Alan Cook CBE

Alan Cook served on the board since 23 February 2008 and was a member of the both the nomination & remuneration committee and the quality committee. Previously, Alan Cook was managing director of the Post Office Ltd, as well as holding a number of senior roles within National Savings & Investments and Prudential.

Since the year end, Alan Cook resigned from the board (with effect from 29 April 2011) on taking up the chairmanship of Irish Life.

Dame Janet Gaymer DBE QC (Hon)

Dame Janet Gaymer was appointed to the board on 23 February 2011 and is a member of the nomination & remuneration committee.

She currently acts as a governor of the London School of Economics and a member of the Council of Justice. She also serves on the board of International Women of Excellence and is life vice-president of the UK Employment Lawyers' Association. During her career, she worked as Commissioner for Public Appointments in England and Wales and was a senior partner at Simmons & Simmons.

Janet Gaymer's term of office is currently due to expire on 22 February 2014.

Alan Jenkins

Alan Jenkins was appointed to the board on 23 February 2011 and is a member of the audit committee. He is a non-executive director of UK Trade & Investment, an independent non-executive director at PKF (UK) LLP, a director of Gross Hill Properties Ltd, Sydney and London Properties Ltd and Northcourt Ltd.

He currently also acts as vice chairman of the International Institute for Environment & Development, and is chairman of the board of trustees of Mencap Trust Company Ltd and Latitude Global Volunteering.

During his career, he has been chairman of Eversheds LLP and managing partner of Frere Cholmeley Bischoff. Until 30 April 2011, he was a partner and chairman of global markets at Eversheds LLP.

Alan Jenkins' term of office is currently due to expire on 22 February 2014.

Professor Elaine Kempson CBE

Professor Elaine Kempson has been on the board since 23 February 2008 and is a member of the quality committee. Elaine Kempson is an emeritus professor at the University of Bristol. She works as a consultant for the World Bank and is a member of the Social Security Advisory Committee.

Previously, Elaine Kempson has been a member of both the Financial Inclusion Taskforce and the Treasury policy action team on access to financial services. She has worked as an adviser to the Thoresen review of generic financial advice and was a non-executive director of the Department for Work and Pensions' Pensions Client Board.

Elaine Kempson's term of office is currently due to expire on 22 February 2013.

Kate Lampard

Kate Lampard was appointed to the board on 23 February 2002 and is chairman of the audit committee. She is also a member of the nomination & remuneration committee.

Kate Lampard is currently chairman of the NHS South East Coast and a trustee of the Esmée Fairbairn Foundation. During her career, Kate has acted as chairman of the Kent and Medway Strategic Health Authority, the Independent Housing Ombudsman Ltd and the Invicta Community Care NHS Trust. She has also acted as a non-executive director of RHS Enterprises Ltd and as an associate of Verita Ltd.

Kate Lampard will reach the end of her maximum term of office on 22 February 2012, having served for 10 years, and will consequently retire from the board.

Julian Lee

Julian Lee has been on the board since 23 February 2005 and is chairman of the quality committee. He is a member of the nomination & remuneration committee and, as a qualified accountant, is a member of the audit committee.

Julian Lee is currently chairman of the Brighton & Sussex University Hospitals Trust, a non-executive director of the Maritime and Coastguard Agency and a Commissioner of the Legal Services Commission. He runs a strategy & risk consultancy. He is a Justice of the Peace on the Northern Sussex Branch.

He has been 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 and a partner in Arthur Andersen & Co.

Julian Lee's term of office is currently due to expire on 22 February 2012.

Roger Sanders OBE

Roger Sanders was appointed to the board on 23 February 2005 and is a member of both the audit committee and the quality committee.

Roger Sanders is managing director of LighthouseGEB, the employee benefits division of Lighthouse Group plc. He is chairman of the financial services committee of the Insurance Institute of London, as well as acting as a council member and vice president of the Institute.

During his career, Roger has acted as deputy chairman of the Association of Independent Financial Advisers and deputy chairman and head of employee benefits of Helm Godfrey Partners Ltd. He has also been a director of the Personal Investment Authority Ombudsman Bureau.

Roger Sanders' term of office is currently due to expire on 22 February 2012.

Baroness Maeve Sherlock OBE

Baroness Maeve Sherlock was appointed to the board on 23 February 2008 and is a member of the quality committee. She is a member of the House of Lords and is currently undertaking research for a doctorate at Durham University. She is also chair-designate of Chapel St, a charitable social enterprise.

Previously, she has worked as chief executive of the Refugee Council and the charity, One Parent Families. She has acted as a commissioner at the Equality and Human Rights Commission and a non-executive director of the Child Maintenance and Enforcement Commission.

Maeve Sherlock's term of office is currently due to expire on 22 February 2014.

Pat Stafford

Pat Stafford was appointed to the board on 22 February 2011 and is a member of the quality committee. She is currently a mentor for New Leaf and an adviser to the Young Enterprise Company Programme.

Previously, Pat has worked as a non-executive director of HMRC and a regional board member of the Prince's Trust. She has also acted as group marketing director at BUPA.

Pat Stafford's term of office is currently due to expire on 22 February 2014.

company secretary

The company secretary supports the board, its committees and the executive. She is available to provide independent advice to directors on issues relating to their responsibilities. She ensures all procedures are adhered to and followed.

Barbara Cheney has been company secretary during the year. She has stepped down from the role since the year end and will be leaving the service in July 2011.

directors' report

business review

This business review has been prepared in accordance with the Companies Act 2006 and should be read in conjunction with the chairman's statement and the chief executive's report.

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. The service carries out its statutory functions on a not-for-profit basis.

complaints we received

During the financial year 2010/2011 we received over a million front-line enquiries and complaints from consumers – about 4,000 in each working day. One in five of these initial enquiries became formal disputes, requiring the involvement of an adjudicator and/or ombudsman. This resulted in the ombudsman service dealing with a record 206,121 new complaints – an increase of 26% on the previous year.

Over half of these cases (104,597 disputes) involved payment protection insurance (PPI) – more than double the number of cases we received in the previous year. This is the highest number of complaints we have ever received in a year about a single financial product. This had significant operational and financial implications for us which are described elsewhere in this report.

In October 2010 the British Bankers Association (BBA) launched a legal challenge on behalf of a number of high-street banks. This challenge, in the form of a judicial review, related to guidance published by the Financial Services Authority (FSA) on handling PPI complaints and to information on our own website about our approach to PPI cases.

As detailed in the chief executive's report, judgment was handed down by the High Court at the end of April 2011 – endorsing our approach, and that of the FSA, to handling PPI complaints. In May 2011 the BBA confirmed it would not seek leave to appeal against the ruling. We are now working closely with the FSA and with the financial businesses involved in PPI complaints, to ensure that consumers' complaints are dealt with fairly and promptly.

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

We continued to settle cases at record levels – resolving a total of 164,899 cases in the financial year 2010/2011. This number was fractionally lower than the 166,321 cases we resolved in the previous year – and is the second highest number in any year since the ombudsman service was set up in the year 2000.

However, the number of cases we were able to settle during the year was lower than we had initially anticipated. This was because of slower progress on large numbers of PPI complaints – which were hampered by delays, uncertainty and less co-operation from financial businesses, as a result of the legal challenge on PPI-related matters brought during the year by the BBA on behalf of a number of high-street banks.

The number of cases requiring the direct involvement of an ombudsman – and a formal ombudsman decision – increased significantly, from 8% of resolved cases (in 2009/2010) to 11% in 2010/2011.

This 63% increase in the number of cases where a complaint is pursued to an ombudsman decision – as the final stage of our process – appears to continue a trend we have highlighted in recent years. This is the shift towards more entrenched disputes – with businesses increasingly taking a harder-fought and legalistic approach, and consumers becoming more demanding and less willing to concede.

In total we upheld 51% of the complaints we settled in the financial year 2010/2011 – compared with 50% of cases in the previous year. There is more information about the complaints we resolved in our *annual review*, which we publish separately and which is available on our website.

working with the FSA

The Financial Ombudsman Service was set up under the Financial Services and Markets Act 2000 to settle disputes between individual consumers and businesses providing financial services. To carry out our functions effectively, we need to co-operate and communicate constructively with a number of organisations and official bodies, including the regulator, the Financial Services Authority (FSA).

Under the Financial Services and Markets Act 2000 the FSA has a number of specific responsibilities in relation to the ombudsman service, including the approval of our annual budget and the appointment of non-executive directors to our board. There is a formal Memorandum of Understanding between the FSA and the ombudsman service (on our website at www.financial-ombudsman.org.uk/about/other_bodies.html).

There is ongoing contact between the ombudsman service and the FSA at a number of operational and strategic levels. At the strategic level, the chief executives of the two organisations have regular meetings, and the chairmen also meet regularly. Our chief executive and/or chairman also attended three FSA board meetings during the year – to discuss our proposed budget and plans for the next financial year, and to outline our performance for the year just ended.

In addition, there is a formal co-ordination committee which meets on a regular basis, to discuss matters of joint interest, including case trends and themes.

our financial performance

funding

The Financial Ombudsman Service is funded by an annual levy paid by the financial businesses we cover – and by case fees that we charge businesses for settling disputes referred to us about them. Around 80% of our funding comes from case fees and 20% from levies.

The levy covering the “compulsory jurisdiction” is allocated on the basis of the workload forecasts that we consult on publicly each year in January and February – before the start of the new financial year.

In the financial year 2010/2011 we did not charge businesses case fees for the *first three* disputes involving them. Businesses were charged case fees only for the *fourth* (and any subsequent) dispute during the year. The case fee was set at £500 – the same as in previous years.

budget process

We consult publicly each year in January and February on our proposed plan and budget for the next financial year. Having taken account of comments and feedback from stakeholders (which we publish on our website), our board sets and approves a final budget – which is submitted to the board of the FSA for final approval at its meeting in March each year.

As a not-for-profit organisation, the Financial Ombudsman Service aims, as a principle, to break even financially. However, in recognition of the operational challenges that the service faces, with an increasingly volatile and uncertain workload – and given the requirement to invest in additional resource – the budget for the financial year 2010/2011 was set at a deficit of £2 million.

income

	2010/11	2010/11	2009/10
	<i>actual</i>	<i>budget</i>	<i>actual</i>
	£m	£m	£m
case fees	77.1	94.5	78.4
levy	20.9	19.5	20.6
other	0.4	0.2	0.0
	<hr/>	<hr/>	<hr/>
	98.4	114.2	99.0

As explained earlier in this report, the number of cases we were able to settle during the year was lower than we had anticipated. This was because of slower progress on large numbers of PPI complaints – which were hampered by delays, uncertainty and less co-operation from financial businesses, as a result of the legal challenge on PPI-related matters brought during the year by the BBA on behalf of a number of high-street banks. This meant that income from case fees for resolved cases was 18% below budget, resulting in a significantly reduced revenue stream.

expenditure

	2010/11 <i>actual</i>	2010/11 <i>budget</i>	2009/10 <i>actual</i>
	£m	£m	£m
administrative costs	106.8	116.2	92.3
exceptional pension credit	0.0	0.0	(1.8)
	<hr/> 106.8	<hr/> 116.2	<hr/> 90.5

Budgeted expenditure for the financial year 2010/2011 was increased by 26% over the previous year – to take account of the anticipated increase in the number of new cases and the agreed plan to improve the timeliness of our case handling. We anticipated increasing the number of staff by 5%. To help us deal with the uncertainty and volatility of our caseload – especially in relation to the increasing volume of PPI complaints – we also planned to supplement our case-handling resource with outsourced contract staff, providing us with short-term flexibility.

A key priority over the year has been to look at how we can operate more efficiently. We have started a “lean re-engineering” programme across all areas of the organisation, to streamline our operational processes and cut out any unnecessary complexity or duplication. Our newly established procurement function has reviewed and re-negotiated contracts with all our major suppliers. And we have re-examined how we use contractors, to ensure the most effective workforce balance between our permanent staff and those on contract.

However, although this work means that we are now well on our way to cutting our cost base by 10%, we have incurred significant costs both as a result of the increased volume of new cases and as a result of the delays and uncertainties arising out of the judicial review on PPI-related matters brought during the year by the BBA.

This has resulted in a deficit for the year of £8.4m – a £6.4m negative variance from budget. The unit cost rose by 16% during the year to an average of £644 per case closed. Whilst this was significantly in excess of the budget (£551), the increase arose largely in the first half, with an average unit cost of £674 for the first six months. As previously mentioned the second half of the year saw the start of cost reduction and efficiency savings programmes. By the fourth quarter, costs had reduced by 5% and productivity increased by around 15% compared to the first quarter, resulting in a fall in the unit cost to £613. With a unit cost budget of £571 for the 2011/12 financial year, the focus remains on continuous improvement and efficiency.

	2010/11	2010/11	2009/10
	<i>actual</i>	<i>budget</i>	<i>actual</i>
cases resolved	164,899	210,000	166,321
unit cost	£644	£551	£555

Our unit cost is calculated by dividing our total costs (before financing charges, bad debt charges and exceptional items) by the number of cases we resolve.

external review

We are committed to operating efficiently, cost effectively and openly. To meet this commitment, the board has agreed to rigorous, fully independent reviews of the service being carried out every three years. The last review and report was carried out by Lord Hunt of Wirral in 2007/2008 (available on our website at www.financial-ombudsman.org.uk/news/updates/LordHunt_Report.html).

During the year the board commissioned a review to be undertaken by the National Audit Office (NAO) during 2011/2012. The focus is a review of our efficiency – particularly in relation to the change-management and cost-reduction programmes we are carrying out.

The review will provide an important independent assessment of the progress we are making in these areas and will be carried out through the second half of the financial year, with the NAO reporting back to the board with its findings towards the end of 2011.

significant contracts

During the year the Financial Ombudsman Service had two major contracts for the provision of case-handling resource.

One contract, with Hazell Carr, was focused on providing the extra resource we needed to resolve cases – other than PPI complaints – where the workload had been especially volatile. This contract was ended in December 2010 when the management of these cases was brought in-house.

We continue to have a major contract with Deloitte – for the provision of casework management in relation to PPI complaints. Following a re-negotiation of this contract, the administration function – supporting the outsourced staff – has now been transferred in-house. The contract will end during the next financial year.

The total cost of these contracts during the year was approximately £31m (including VAT).

cash management

There has been an increased focus on cash management during the year. Cash balances are reviewed daily and placed on deposit where appropriate. The loan facility of £15m was not called on during the year. The facility remains available until January 2013.

reserves

In the consultation paper that we published in January 2011 on our plans and budget for 2011/2012 (available on our website), we explained that, historically, our policy was to keep reserves at 5% of our annual expenditure.

We started the financial year 2010/2011 with reserves of approximately £14m – however, as a result of the deficit incurred during the year, we ended the year with our reserves reduced to £7m.

Our workload is inherently difficult to forecast with any degree of certainty. A wide range of factors can affect the number and type of complaints referred to us. At the time our budget was set in March 2011, the outcome of the BBA's judicial review on PPI-related matters remained unknown.

However, the board was required to make a decision on the level of reserves which it would be prudent for the service to retain. It recognised the need to minimise unnecessary financial burdens on the industry, but it also needed to take account of the need to remain a going concern and to protect the service against a range of financial risks during 2011/2012.

Taking into account a range of financial and operational scenarios, the board approved a request to the FSA to levy an additional £25m – which would be used as a special reserve. This request, together with a commitment to adopt an appropriate governance mechanism in relation to potential draw-down of the funds, was approved by the board of the FSA at its meeting in March 2011.

Our reserves policy is reviewed each year as part of our public consultation on our plan and budget. This means it will be reviewed again in December 2011, in preparation for our 2012/2013 budget. At that time the board will assess the appropriate level of reserves – with the benefit of increased knowledge about the ongoing impact of the PPI workload.

creditors' payment terms

The Financial Ombudsman Service has a policy to pay creditors within agreed terms. We have complied with this policy during the year.

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 within their role.

Specifically, the role of the board of the Financial Ombudsman Service is to:

- ensure that the ombudsman 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 (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 FSA;
- approve (with the FSA) appropriate rules in the *Dispute Resolution: Complaints (DISP)* section of the *FSA Handbook*; and
- prepare and approve the *annual review* – an overview of consumer complaints handled by the ombudsman service.

Non-executive directors on the board are appointed by the FSA. Directors on the executive team are appointed by the chief executive and are *not* members of the board. However, the executive team are invited to attend board meetings. And the board operates by combining executive and non-executive insight in governing the service effectively.

The chairman and chief executive meet regularly, to discuss all aspects of the operation and development of the ombudsman service. The responsibilities of the chairman are to ensure that the service has clear strategy and direction – with effective management for its current and future needs. The chairman also ensures that the board remains effective in terms of its operation, its decision making and its support – and that effective line-management is provided to the chief ombudsman and chief executive. The chairman also acts as an ambassador in promoting the interests of the service to external stakeholders.

The chief executive's responsibilities include leading the development of strategy within the organisation and overseeing its delivery; leading the executive in making and implementing operational decisions; and ensuring the board has clear, timely and accurate information about the service's performance and operations. The chief executive is also responsible for appointing members of the executive, overseeing key external relations, and managing the service's risks.

changes to the board

Following an assessment of the future needs of the ombudsman service and the skills and experience of the board, a recruitment exercise took place in 2010 including advertising in the national press. As a result, Janet Gaymer, Alan Jenkins and Pat Stafford were appointed as non-executive directors in February 2011. John Howard resigned from the board in November 2010. Since the year end Alan Cook, tendered his resignation with effect from 29 April 2011.

board meetings

The board usually meets ten times a year. Attendance at board meetings held during the financial year 2010/2011 is recorded below.

	<i>board meetings</i>	<i>audit committee</i>	<i>nomination & remuneration committee</i>	<i>quality committee</i>
Sir Christopher Kelly, chairman	10/10	-	3/3	-
Alan Cook	9/10	-	2/3	3/3
Janet Gaymer	1/1	-	-	-
John Howard	6/7	2/2	-	-
Alan Jenkins	1/1	-	-	-
Elaine Kempson	9/10	-	-	2/3
Kate Lampard	9/10	4/4	3/3	-
Julian Lee	10/10	4/4	3/3	3/3
Roger Sanders	9/10	4/4	-	3/3
Maeve Sherlock	10/10	-	-	2/3
Pat Stafford	1/1	-	-	-

The chairman leads the board and ensures that it meets its statutory and corporate responsibilities. Agendas are divided into two distinct parts – strategic and assurance issues – to reflect the board’s key roles and responsibilities. The chairman and the company secretary set agendas in advance which are timed to ensure there is adequate time for discussion about key issues.

Minutes of board meetings are available on our website (at www.financial-ombudsman.org.uk/about/minutes.html).

Two meetings of the board were held “off-site” during the year. The first, which took place in June 2010, focused on the results of a board evaluation exercise. The second event, in September 2010, had a strategic agenda and focused on the impact on the ombudsman service of a range of possible future external changes. Discussions at the meeting in September 2010 formed the basis of the plan and budget which was subsequently published for consultation in January 2011.

independence of the board

As described earlier in this report, the Financial Ombudsman Service works closely with the FSA at a number of operational and strategic levels.

This includes the provision under which the FSA appoints the non-executive directors to the board of the ombudsman service. The terms of these appointments have to ensure that the directors' are independent of the FSA. The chairman of the board is appointed by the FSA with the approval of HM Treasury.

The non-executive directors appointed by the FSA are members of the board of the "scheme operator" that "administers" the ombudsman 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 has exercised 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 as "public interest" directors is to take a strategic overview and to ensure that the ombudsman service is properly resourced and able to carry out its work effectively and independently.

On average the chairman spends two days each week with the ombudsman service. The other non-executive directors work around two days a month for the service. Directors have also volunteered their time in addition to these formal commitments – to support the executive team in a range of projects and initiatives linked to the strategic development of the service.

conflicts of interest

Under the provisions of the Companies Act 2006, the board has the power to 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 regularly reviewed to ensure all details are kept up to date. Appropriate authorisation has to be sought for any new potential conflicts of interest, prior to any new director being appointed – or as and when they 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 director may be re-appointed by the FSA. In the case of the chairman, the re-appointment has to be approved by HM Treasury. Any director can be re-appointed, 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 director.

A director who wants to resign *before* his term of office would otherwise be due to end must give at least three months' notice in writing to both the service and to the FSA.

performance evaluation

The board carries out a formal rigorous evaluation each year of its own performance and that of its committees and individual directors. As part of this evaluation, the chairman holds meetings with each non-executive director to discuss various aspects of the board's role and responsibilities.

During these meetings the directors review the appointment process, how the board defines and manages risk, and the security of the organisation in terms of appropriate continuity plans. These meetings provide an opportunity to assess achievements made during the financial year – and to highlight areas for future development, both for individual directors and for the board as a whole.

The chairman confirms that, following this year's evaluation, the performance of each director continues to be effective and each director commits sufficient time and resource to carry out their roles. The board considers there is a good balance of skills, experience and length of services to ensure it operates effectively.

Additionally, the chairman arranges an external evaluation every three years to ensure that the effectiveness of the board is independently reviewed on a regular basis. As agreed at the February 2011 board meeting, an external evaluation of the board and its effectiveness will be completed by ICSA (the Institute of Company Secretaries and Administrators) during 2011/12.

indemnity of directors

To the extent permitted by law and by the company's Articles of Association, the company indemnifies each 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 directors. Subject to the provisions of UK legislation, the company's Articles of Association provide an indemnity for directors in relation to costs that they may incur in defending any proceedings brought against them, arising out of their positions as directors – where they are acquitted or where the court gives judgment in their favour.

corporate governance

As the Financial Ombudsman Service is a company limited by guarantee, it does not *have* to comply with the UK Corporate Governance Code. However, as an organisation that aims to meet best practice and the highest standards of corporate governance, the board is committed to complying with this Code as far as possible.

As the company does not have any shareholders – and does not hold an annual general meeting – directors are not submitted for re-election, in accordance with the UK Corporate Governance Code, and cannot maintain dialogue with shareholders, as outlined in the Code.

However, we engage actively with a wide range of stakeholders and those who have an interest in our work – including financial businesses and trade bodies, consumer groups, claims-management companies, the media and parliamentarians, and regulators and government.

There are more details in our *annual review* (at www.financial-ombudsman.org.uk/publications/ar11/index.html) about the full range of outreach and external-liaison activities we carry out – aimed at sharing our experience and insight with the outside world.

appointment of ombudsmen

A matter reserved for the board is the appointment of ombudsmen on terms which guarantee their independence. As at March 2011, the ombudsman panel is led by Natalie Ceeney as chief ombudsman – supported by three principal ombudsmen, two lead ombudsmen and 67 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.

The professional, academic and technical qualifications held by our ombudsmen cover all areas relevant to our work. They are each experts in their own field – which includes 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 (at www.financial-ombudsman.org.uk/about/panel-ombudsmen.html).

board committees

the audit committee

In line with the UK Corporate Governance Code, the company has established an audit committee. Members of the audit committee during the year were:

- Kate Lampard *chair*
- Julian Lee
- Roger Sanders
- John Howard (to 22 November 2010)
- Alan Jenkins (from 23 February 2011)

The board is satisfied that at least one committee member has recent and relevant financial experience. 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 systems and risk management systems.
- *compliance, whistleblowing and fraud*
To review the adequacy of arrangements for employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.
- *internal audit*
To monitor and review the effectiveness of the internal audit function in the context of the overall risk management system; and to approve the appointment and removal of the internal auditor.
- *external audit*
To consider and make recommendations to the board about the appointment, re-appointment and removal of the company's external auditor; and to oversee the relationship with the external auditor.

The committee's full terms of reference are on our website (at www.financial-ombudsman.org.uk/about/audit_committee.pdf).

The audit committee met on four occasions during the year to discuss and review the directors' report and financial statements for 2009/2010; the risk management systems (including a review of the structure of the corporate risk register); the information assurance system; the internal audit plan; the reserves policy and arrangements for the governance of the general reserve; the whistleblowing policy; and the external audit plan for 2010/2011.

The ombudsman service's internal auditors carried out internal audit reviews of complaints data for publication, financial systems, the value-for-money of our IT helpdesk, and risk management and governance. Substantial assurance was provided in all cases.

During the meeting in June 2010, members of the audit committee, the external auditors from Baker Tilly UK Audit LLP and internal auditors from KPMG held a private session without members of the executive being present.

The audit committee reviewed its relationship with its auditors, Baker Tilly, and has concluded that there are sufficient controls in place to ensure that the required level of independence is maintained. During the year, no fees, other than for audit and tax advice, were paid to Baker Tilly UK Audit LLP. £10,000 of tax advice was received by the ombudsman service. The full audit fees were £59,999.

Any provision of non-audit services by the company's auditor would be considered and approved by the audit committee on a case-by-case basis. The committee recommended the re-appointment of the auditors following an assessment of their performance.

the nomination & remuneration committee

Members of the nomination & remuneration committee during the year were:

- Sir Christopher Kelly *chairman*
- Alan Cook
- Kate Lampard
- Julian Lee
- Janet Gaymer (from 23 February 2011)

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

- *remuneration strategy*
To oversee the remuneration strategy for executive and other senior posts; and to consider and agree proposals from the chief executive/chief ombudsman about the 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; and to make recommendations to the FSA 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.

The committee's full terms of reference are on our website (at www.financial-ombudsman.org.uk/about/remuneration_committee.pdf).

The nomination & remuneration committee is also responsible for succession-planning for non-executive directors on the board. As and when a vacancy occurs on the board, the committee assesses the skills and experience that are required to fill the post – taking into account the skills and experience already held across the board.

advice to the nomination & remuneration committee

The nomination & remuneration committee has access to market surveys on pay carried out by Towers Watson – which are used to guide the committee in agreeing remuneration levels for the executive team.

In addition, the committee receives advice from the HR director and the operations director on all aspects of remuneration. The chief ombudsman/chief executive attends the committee meetings to report on the performance of the executive team – but not on her own performance.

appointment of directors

Under the service's Memorandum of Association, the board must consist of a minimum of six directors but should not exceed fifteen. At 31 March 2011, the board consisted of ten non-executives. The board considers that this number of directors is ideal to provide a sufficiently diverse, broad range of skills and experience – while being small enough to ensure constructive discussions.

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 FSA. In addition, the appointment of the chairman must be approved by HM Treasury.

Under an agreement with the FSA, the nomination & remuneration committee carries out a recruitment exercise using an external recruitment company – and nominates suitable candidates to the FSA for appointment.

During the financial year 2011/2012, the chairman, Sir Christopher Kelly, and the chairman of the audit committee, Kate Lampard, will both reach the end of their terms of office. In line with Schedule 17 of the Financial Services and Markets Act 2000, the FSA will recruit and appoint a chairman to succeed Sir Christopher Kelly during 2011 – ensuring a sufficient hand-over period with Sir Christopher Kelly before his retirement from office in January 2012.

The appointments to the board in February 2011 were made in anticipation of Kate Lampard standing down – ensuring a similar transition period. Since the year end, Alan Cook has resigned from the board with effect from 29 April 2011. This means the committee is liaising with the FSA to recruit and appoint an additional director during 2011.

On appointment by the FSA, each non-executive director receives a letter of appointment which includes the terms and fees payable. Details of remuneration paid to non-executive directors are in the remuneration report on pages 36 and 37.

All non-executive directors go through a comprehensive induction and familiarisation programme. 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 service.

the quality committee

The quality committee met on three occasions during the year. Members of the quality committee during the year were:

- Julian Lee *chairman*
- Alan Cook
- Elaine Kempson
- Roger Sanders
- Maeve Sherlock
- Pat Stafford (from 23 February 2011)

The quality committee's main terms of reference are:

- *quality assurance*
To review quality assurance procedures and systems.
- *quality assessment*
To review reports on quality-assessment findings, customer-satisfaction surveys, complaints about the service, and the executive's strategy for maintaining and improving quality.
- *the independent assessor*
To consider regular reports from the independent assessor.
- *internal audit*
In conjunction with the audit committee, to commission and/or review internal audit reports about quality-related issues.

The committee's full terms of reference are on our website
(at www.financial-ombudsman.org.uk/about/quality_committee.pdf).

Delivering a high-quality service is of fundamental importance to the ombudsman service. The quality committee focuses on the assurance framework that ensures that the required levels of quality are achieved.

The committee reviews feedback from differing sources, including quality reports and customer-satisfaction surveys. It also meets with the independent assessor to discuss her findings and reports on complaints about the level of service provided by the service. The independent assessor's annual report is included as an annex to this report.

ad-hoc groups of the board

There are two *ad hoc* groups attended by members of the board and the executive team. Each group has its own terms of reference and members. They are both working groups – not decision-making committees. They are intended to generate ideas, opinions and practical suggestions – for debate and consideration.

strategy group

Members of the strategy group include:

- Sir Christopher Kelly *chairman*
- Alan Cook
- Alan Jenkins (from 23 February 2011)
- Kate Lampard
- Julian Lee
- Maeve Sherlock

The strategy group is intended to support the executive team in considering broader policy issues. The group helps to identify and focus on the strategic priorities and goals in relation to new policies and priorities.

technology group

Members of the technology group include:

- Alan Cook *chairman*
- Julian Lee

Established during the year, the technology group is intended to support the executive team in developing the technology strategy. Following the appointment of the chief technology officer, the group met once during the year. Its members are available to act as a “critical friend” in relation to the service’s technology development-programme.

the executive

The board is supported by the executive team who are responsible for the day-to-day management of the Financial Ombudsman Service. The following people served on the executive team during the year:

- Natalie Ceeney CBE
chief executive and chief ombudsman
- Tony Boorman
decisions director and principal ombudsman
- Julia Cavanagh *appointed January 2011*
finance and performance director
- David Cresswell
communications and customer insight director
- Simon Rouse *appointed August 2010*
operations director
- David Thomas
corporate director and principal ombudsman
- Jacquie Wiggett *appointed May 2010*
HR and organisational development director
- Caroline Wayman *formally appointed April 2011*
legal director and principal ombudsman
- Jeremy Kean *left June 2010*
finance and IT director
- Roy Hewlett *left September 2010*
operations director
- Peter Stansfield *left May 2010*
HR director

Led by Natalie Ceeney, the chief executive and chief ombudsman, the executive team:

- sets the budget and approves major expenditure;
- plans, priorities and oversees the delivery of plans;
- ensures the service is running effectively and efficiently; *and*
- manages the risk framework.

internal audit

The audit committee has appointed KPMG LLP as its internal auditors. The committee agrees the scope of work that is to be carried out on the service's financial systems. KPMG attends the committee's meetings to report on the outcome of their investigations. The chairman of the audit committee is available to discuss any matters with KPMG at any time.

During the year a programme of work was agreed by the audit committee to ensure that the internal audit adequately covered the areas of risk. This included internal audit reviews of complaints data for publication, financial systems, the value-for-money of our IT helpdesk, and risk management and governance.

There were no matter of significance brought to the attention of the committee.

internal control

During the year there has been an increased focus on the service's "control environment". At board level, this involved reviewing terms of reference and membership of all committees. Across the entire organisation we introduced an organisational "scorecard", focused on four areas – operations, customer and quality, finance and people.

The executive team reviews this scorecard – and the supporting schedules and commentary – monthly, before giving it to the board. Performance against the scorecard is subject to an in-depth review by the board on a quarterly basis. A quarterly financial report to the board has also been introduced.

An operating committee chaired by the operations director, and comprising the finance director and heads of functions, meets on a monthly basis to carry out an in-depth review of service's operational performance and the status of the "scorecard indicators". The service also uses a quarterly financial forecasting and reporting process as a control mechanism.

Major change-programmes are overseen by a steering group, chaired by a relevant member of the executive team – with input from board members as required.

Key risks identified across the service are recorded on a risk register which is discussed by the executive team on a monthly basis and by the board on a quarterly basis. The risk register is also considered by the audit committee as part of its approval of the internal-audit programme for the year. Major change-programmes also have risk registers.

The key organisational risks can be grouped into the following areas:

<i>risk category</i>	<i>risk description</i>	<i>mitigation</i>
regulatory	The risk around changes in the regulatory environment which could affect our ability to perform our role effectively.	Continued discussions with HM Treasury and regulatory/industry bodies.
operations	Our ability to manage the organisation effectively and provide a good service in relation to factors such as: <ul style="list-style-type: none"> ▪ staffing ▪ health and safety ▪ business continuity ▪ data protection ▪ volatility ▪ customer needs 	The risk owner (an executive team member) has responsibility for ensuring an appropriate risk-mitigation plan, which is regularly reviewed and challenged.
financial	Our ability to remain solvent given the current volatility and uncertainty in relation to the number and type of new cases.	Regular operational reviews together with monthly financial analysis. The FSA has approved an additional levy of £25m to increase our reserves as a contingency.

the independent assessor

The independent assessor can consider complaints from consumers and businesses about the level of service provided by the Financial Ombudsman Service. She is appointed by the board and has her own official terms of reference. She also has her own website (at www.independent-assessor.org.uk).

The independent assessor’s remit does not cover disagreements about the merits of individual cases – in other words, whether the service was right to uphold or reject a dispute between a business and a consumer.

The quality committee meets regularly with the independent assessor to discuss her findings and reports. The independent assessor also meets with members of the executive team to discuss any underlying themes in the complaints she receives – and the actions being taken to address them.

The independent assessor produces an annual report for the board – setting out findings and recommendations made over the year. Her report is included as an annex to this report on pages 60 to 64.

environmental policy

The Financial Ombudsman Service believes that implementing environmental policies can produce good corporate governance practice.

We are committed to recycling waste to help minimise the impact it has on the environment. We buy “green” electricity which is generated from renewable energy sources. We turn off our lighting and air-conditioning systems at night and at weekends to conserve energy and reduce carbon emissions. We have also installed energy-saving devices that turn off printers and copiers if they are not used for a period of time.

We operate a “bin the bin” policy to encourage staff to recycle more waste, and we provide separate bins for non-recycling, mixed recyclable and food composting. Confidential waste and case files that have been closed for more than three years are shredded, pulped and recycled. As a result of these activities over the year we have:

- recycled 131,335 kilos of paper;
- saved 2,233 trees;
- conserved 34,401 kilowatts of energy; *and*
- reduced landfill by 657 cubic meters.

These figures have been derived from calculations based on methodology used by the Carbon Trust to assess energy savings and reduction in waste.

We use photocopier paper produced from pulp manufactured from managed and sustainable forests in accordance with ISO14001 environmental-management systems and Forest Stewardship programmes. During the year we gave 780 empty toner-cartridges to the Roy Castle Cancer Foundation which returns them to the manufacturers for recycling.

We support the use of Fair Trade products in the company café – to support better deals for disadvantaged producers in the developing world. We serve tap water at meetings instead of bottled mineral-water.

equality and diversity

As a public service provider, a statutory body and an employer, we are fully committed to the fair and equal treatment of everyone we deal with. We see diversity as an asset that helps deliver our vision of a service that meets the needs of all our customers and stakeholders – irrespective, for example, of gender, age, disability, sexual orientation, race, religion, belief or socio-economic background.

We work towards an “equality and diversity standard” in the way we provide our service – to help us identify and overcome any real or perceived barriers. Our high-level strategy on diversity and equality – published on our website – is set and monitored by our board and executive team.

During the year we continued to work with a range of external partners specialising in this area. These included:

- a leading “equality consultancy” – providing us with ongoing strategic and practical advice in the role of a “critical friend”;
- the Institute of Equality and Diversity Practitioners; *and*
- eight disability, mental health and wellbeing charities – including the Samaritans, British Dyslexia Association and Alzheimer’s Society – who provide training for our staff on disability issues.

Our in-house *customer service group* – made up predominantly of front-line staff across the ombudsman service – also carries out a range of activities, to help keep us focused on the fact that each customer may have individual needs to be taken into account. One of the key activities organised by the customer service group during the year was the launch of our latest disability-awareness and customer-service programme.

The customer service group has also provided input and guidance on a number of equality impact assessments (EqlAs) that we carried out during the year, covering areas such as:

- HR recruitment procedures;
- our physical working environment; *and*
- the impact on more vulnerable consumers of the delays and uncertainties arising out of the British Bankers Association’s judicial review on PPI-related matters.

During the year we underwent the first of a series of assessments for accreditation as part of the “*commitment to equality*” standard – which we subsequently passed in May 2011. We are also a member of Stonewall’s “diversity champion” programme.

equality in the workforce

The average age of people working at the service during the year was 35, with the age of employees ranging from 18 to 72. Across our workforce, 54% are male and 46% are female. Women now account for 50% of our executive team and 46% of our panel of ombudsmen. 17% of our employees are from non-white ethnic minority backgrounds. In our voluntary survey 1.5% of our staff described themselves as disabled.

Throughout our recruitment process we make every effort to ensure candidates with disabilities are fairly accommodated. In the event of an employee becoming disabled, we work to ensure that their employment continues and we provide specialised training where this is appropriate.

The board currently comprises equal numbers of male and female directors. All directors have been appointed for their individual skills, knowledge and experience. The board believes that this diversity helps them lead productive discussions and make the most appropriate decisions.

learning and development

The skills and knowledge of our staff are key to ensuring high quality and consistency in our work. We dedicate significant resource to training and continuing professional development at all levels. Our training team delivered over 700 courses over the last year, which resulted in over 30,000 hours of training. Topics ranged from technical product training to leadership development. On average our staff each attended 3.7 days of training last year.

training

Our newly-recruited adjudicators receive intensive training as part of their induction. We use an “academy”-style approach – to develop new recruits over a period of 12 weeks. This involves a mixture of class-room training and intensive mentoring.

New adjudicators are initially trained in handling complaints relating to three main financial-product areas – as well as in the core skills of being an adjudicator. Our values – and our commitment to quality and customer service – are fundamental to how we deliver our training.

Half-way through their initial training, new recruits take on a “live” caseload – fully supervised as they carry out their adjudications. Their work is quality assessed, a sample of their phone calls are monitored, and their knowledge is tested – before they are then placed into casework teams.

As part of our commitment to developing talent, we offer opportunities internally to employees who work in areas *other than* casework – who we identify as having the potential to become an adjudicator. This includes six-month secondments with intensive training opportunities and regular assessments.

We also run a job-shadowing scheme, encouraging employees to experience first-hand the work that other people do across the ombudsman service. This helps build connections across the organisation – as well as enabling people to identify where they may want to build their careers. During the year over 100 employees job-shadowed a colleague in this way – resulting in a number of people progressing into different roles.

During the year we launched a tender exercise to find a partner to develop a bespoke accredited case-handling qualification. Commitment to continuous professional development – and maintaining a “licence” of knowledge and skills – will be central to this qualification. The programme will be developed to degree-level – and will involve a detailed understanding of adjudication skills, customer service, quality and technical product issues.

sharing knowledge and information

One of our key priorities is to put knowledge and expertise at the heart of everything we do. We rely on the skills, expertise and professionalism of our staff to resolve the complaints referred to us – and arrive at the right outcome in each case.

We share up-to-date casework news and information across the organisation, using our knowledge-management “toolkit” on our staff intranet. This helps us ensure the quality and consistency of our approach to individual cases.

This approach is supplemented with regular in-house clinics, mentoring sessions, briefings and seminars – which help us share knowledge, learn and improve. During the year we also launched an online forum and *wiki* on our intranet – for staff to share comments, questions and views about casework issues.

We are also committed to sharing our knowledge with the outside world. Making information increasingly available about our approach to particular types of cases should make it easier for consumers and financial businesses to resolve more complaints themselves – without referring them to the ombudsman service.

During the year we added or updated 2,073 pages of our website and 13,124 pages of our staff intranet. This included doubling the content of the online technical resource on our website (at www.financial-ombudsman.org.uk/publications/technical.htm) and revising and updating the widely-used frequently-asked questions (at www.financial-ombudsman.org.uk/faq/index.htm).

professional leadership

We are committed to investing in those managers and employees who we have identified as “leaders” – to enable them to support and lead our organisational change-programme. We provide individual mentoring and coaching – as well as individually-tailored training. We are currently part-way through completing a tender to identify a training partner, to build a leadership development-programme for our team managers.

Our panel of ombudsmen are central to our commitment to professional leadership. They deliver internal training, write technical notes to support adjudicators, provide coaching and mentoring, run casework forums, and give talks on case-handling topics.

Following the recruitment of a number of ombudsmen during the year, we have provided a package of individual training, tailored specifically to their individual needs. All newly-recruited ombudsmen also have an experienced ombudsman as their mentor.

employee engagement

We believe that strong employee engagement is vital – and results in a happy and productive workforce. We are committed to open communication and dialogue with employees – and we do this in a range of different ways.

These include our employee newsletter, *connect*; our “ask the executive” question-times; online forums, bulletin boards and chatrooms on our staff intranet; the chief executive’s weekly *blog* – with comments and postings from staff; “60-second interviews” on the intranet, to introduce new staff and projects more informally; and our online “rumour mill”, to encourage staff to raise any concerns or worries openly.

We employ a full-time employee-engagement manager to help co-ordinate and promote these activities – and to encourage staff, especially managers, to develop effective dialogue and engagement with their own teams and colleagues.

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.

During the year we ran a series of focus groups and online discussions for employees to debate and agree our organisational values. We also carried out a detailed employee survey – to measure levels of employee engagement – which we plan to repeat annually, to help us benchmark results and measure improvements.

health and safety

We are committed to ensuring the health, safety and welfare of our employees, contractors and visitors. Our managers are responsible for complying with our health and safety policy on all our premises. Health and safety considerations are always given priority in planning and supervising our day-to-day work – to ensure that accidents and “near misses” are kept to an absolute minimum. During the year the following health and safety matters were reported by our employees:

<i>incident</i>	<i>number</i>
slips, trips and falls	7
ill health requiring attendance by a first aider	40
lift incidents	A significant number which are logged and reported to the property manager – and subsequently followed up as part of regular service-review meetings with the property management company.

corporate social responsibility

Our annual employee survey showed that our staff believe strongly in the importance of “putting something back” into the community – as one of our organisational values. The very nature of our work – as a not-for-profit organisation that helps resolve disputes between consumers and businesses – means that our commitment to corporate social responsibility is central to what we do.

Many of our employees make an active choice to work for the ombudsman service because of our values – and because of the positive impact we can have on the world around us, both through resolving people’s complaints and through helping to prevent problems in the first place. With our outreach programme, for example, we provide front-line complaints training to hundreds of community and advice workers across the UK each year – empowering them to sort out problems as they arise, in their role of “trusted intermediaries” in their own local communities.

At a local level, we also recognise our responsibilities as citizens in our own neighbourhood. Our employees support various local voluntary groups and charities in East London, where we are based. These charities include The Richard House Children’s Hospice and the Island History Trust – a voluntary group that works with older people in the Isle of Dogs, to preserve and celebrate their memories of the local area. We have also engaged with local faith groups, and employees take part in reading and maths schemes with local schools.

We encourage our employees to play an active part in their own communities too. We support staff – and give them time off – to carry out unpaid roles ranging from school governors to members of local police authorities. Our employees also participate generously in our payroll-giving programme.

donations

We made no political or charitable donations during the year.

information security

We take very seriously our responsibilities in relation to data protection and information security. We regularly monitor our security policies, standards and physical security systems. Awareness of information security forms part of our induction and training programme for new employees. Full pre-employment checks are carried out on employees and relevant contractors.

We formally record and investigate any information security incidents. In the financial year 2010/2011 no protected personal-data incidents have required formal reporting to the Information Commissioner's Office.

We have arrangements in place for offsite office space, in the event of full or partial disruption to our main offices. We are reviewing our business continuity plan – and making contingency plans – for the impact of the Olympics and Paralympics taking place in London in 2012.

litigation

Our in-house legal team deals with legal challenges and proceedings brought against us – for example, applications for judicial review and civil claims.

The major legal challenge we faced during the year was the judicial review launched in October 2010 by the British Bankers Association (BBA) on behalf of a number of high-street banks. This challenge, in the form of a judicial review, related to guidance published by the Financial Services Authority (FSA) on handling PPI complaints and to information on our own website about our approach to PPI cases.

As detailed in the chief executive's report, judgment was handed down by the High Court at the end of April 2011 – rejecting the banks' legal challenge. The judgment was a strong endorsement of a number of very important issues – such as "principles-based" regulation and the "fair and reasonable" jurisdiction of the ombudsman.

The judgment was an endorsement of previous court rulings – including by the Court of Appeal – on the role of the ombudsman in deciding cases. It is clear from the judgment that the ombudsman service is required to decide cases on the basis of what is fair and reasonable, having regard to a number of matters, including the law and relevant regulatory rules.

Other applications for judicial review we have dealt with during the year included allegations of procedural unfairness, bias, errors of law and infringements of Article 6 of the European Convention on Human Rights. Civil claims are typically brought against us by consumers whose complaints we have not upheld – and who allege negligence and/or maladministration on the part of our staff. We have also dealt with legal challenges during the year in the form of a statutory demand, threats of injunctions, and an application to the European Court of Human Rights.

Our in-house legal team advises the ombudsmen on the merits of claims, prepares evidence, drafts correspondence and pleadings, files and serves court papers, ensures that the service complies with the civil procedure rules, works with external counsel on preparing the cases for court, attends court hearings and pursues costs (where appropriate). The team also actively monitors and mitigates legal risk, and provides regular reports and updates on litigation issues to the ombudsman panel, the executive team and the board.

freedom of information

The Ministry of Justice confirmed in January 2011 that the Freedom of Information Act will be extended to cover the Financial Ombudsman Service with effect from November 2011. While we are not currently subject to this Act, we aim to answer questions about our work as though we were. We also publish extensive information on our website about what we do and how we do it.

In its consultation paper published in February 2011 – on a new approach to financial regulation – the government said it wanted to clarify that the ombudsman could publish its decisions in a proactive and co-ordinated way.

Since the year end, the government has subsequently published (in June 2011) its white paper and draft Bill, proposing changes to the regulation of financial services. This includes a proposed obligation on the ombudsman service to publish decisions, unless we think it inappropriate to do so.

We are currently working with our stakeholders to consider how this may be put into practice.

by order of the board

company secretary
20 July 2011

remuneration report

The board consists entirely of non-executive directors, who are initially appointed for a period of three years. Non-executive directors do not participate in the reward, pension or benefit schemes run for employees of the ombudsman service. The fees paid to directors are not specifically related to individual or collective performance. Directors are not entitled to compensation for loss of office.

Directors’ fees are set annually by the Financial Services Authority (FSA) and adopted by the board. The nomination & remuneration committee considers and approves executive remuneration.

In line with its standard process, the FSA reviewed the level of fees for the financial year 2010/2011 and recommended a range of increases from 2% to 17% with effect from 1 April 2010. However, the board agreed that – while it accepted the proposed fees as the appropriate rate for their roles – it would be inappropriate to be paid this increase. Their fees for the financial year 2010/2011 were therefore paid at the rate set on 1 April 2008. Since the year end, the board have agreed an increase in fees of 2% from 1 April 2011.

The chairman received an annual fee of £73,500. A fee of £21,000 was paid to the other non-executive directors. Additionally, a fee of £4,750 was paid to the directors who chaired the audit committee, the quality committee and the technology group.

	<i>fee paid from 1 April 2008</i>	<i>FSA recommended fee payable from 1 April 2010</i>	<i>fee paid from 1 April 2010</i>
chairman	£73,500	£75,000	£73,500
committee chairmen	£25,750	£29,500	£25,750
non-executive	£21,000	£24,500	£21,000

Total amounts paid to the non-executive directors during the 2010/2011 financial year are shown on the following chart.

	<i>note</i>	<i>total fees for year ended 31/3/11 £</i>	<i>total fees for year ended 31/3/10 £</i>
Sir Christopher Kelly		73,500	73,500
Alan Cook	1	25,750	21,000
John Howard	2	14,000	21,000
Elaine Kempson		21,000	21,000
Kate Lampard	1	25,750	25,750
Julian Lee	1	25,750	25,750
Roger Sanders		21,000	21,000
Maeve Sherlock		21,000	21,000
Janet Gaymer	3	1,750	-
Alan Jenkins	3	1,750	-
Pat Stafford	3	1,750	-
Joe Garner	4	-	19,250
<i>total</i>		233,000	249,250

- notes*
- 1 An additional fee of £4,750 is payable to chairman of board committees.
 - 2 John Howard stepped down as a director during the year.
 - 3 Janet Gaymer, Alan Jenkins and Pat Stafford were appointed as directors during the year.
 - 4 Joe Garner stepped down as a director during the previous year.

During the year the independent assessor received remuneration of £56,408 (2010: £47,876). Michael Barnes was in post until 31 May 2010 and Linda Costelloe Baker from 27 May 2010.

expenses incurred by board members

In accordance with the memorandum of association, the directors are entitled to be paid travel, hotel and other expenses, which are seen as reasonable and have been properly incurred. The directors' expenses policy is on our website. The expenses incurred by, or on behalf of, the directors during the 2010/2011 financial year are shown on the following chart.

	<i>travel *</i>	<i>accommodation</i>	<i>total</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Alan Cook	1,036	-	1,036
Janet Gaymer	-	-	-
John Howard	727	90	817
Alan Jenkins	-	-	-
Sir Christopher Kelly	73	-	73
Elaine Kempson	528	780	1,308
Kate Lampard	414	-	414
Julian Lee	1,359	167	1,526
Roger Sanders	-	-	-
Maeve Sherlock	432	550	982
Pat Stafford	144	-	144
<i>total</i>	<i>4,713</i>	<i>1,587</i>	<i>6,300</i>

* Travel includes train, plane, underground, taxis, mileage, meals and parking.

executive remuneration

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

base 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 and the principal ombudsmen are also reviewed annually with reference to movements in the judicial salary-scales.

reward scheme

In accordance with the recommendations of the Hutton Review on fair pay in the public sector (March 2011), most of the executive team have their remuneration structured so that an element of their base salary is at risk. 15% of their salary is held back until the end of the year – and paid only if the service’s performance is agreed by the board to be satisfactory. For exceptional performance, an additional 5% of salary can be awarded to individual executives at the discretion of the remuneration committee.

pension

Members of the executive team are eligible to join the non-contributory defined-contribution pension scheme, which is open to all employees (but not to non-executive directors). The ombudsman service makes a core contribution as a percentage of salary linked to age. In addition, the service matches individual flexible contributions to the scheme by 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 (but not to non-executive directors). These arrangements provide life assurance (up to four times salary), permanent health cover, personal accident insurance and a healthcare plan. Each executive can also spend £600 a year on other benefits available under the flexible benefit plan.

executive employment contracts

Employment contracts for the executive directors give a six months’ notice period. The normal retirement age for executives is 65.

remuneration and benefits for the executive team

	<i>note</i>	<i>salary (including at risk) £</i>	<i>pension £</i>	<i>other benefits £</i>	<i>total for year ended 31/3/11 £</i>	<i>total for year ended 31/3/10 £</i>
Natalie Ceeney	¹	190,414	28,392	5,790	224,596	-
Tony Boorman	²	169,660	*19,456	25,581	214,697	179,841
David Cresswell		109,730	14,313	3,611	127,654	113,248
David Thomas		155,651	*19,456	4,770	179,877	192,709
Julia Cavanagh	³	26,672	3,215	659	30,546	-
Simon Rouse	³	92,749	11,005	2,530	106,284	-
Jacque Wiggett	³	103,915	12,454	3,293	119,662	-
Roy Hewlett	⁴	68,179	9,704	2,352	80,235	153,401
Jeremy Kean	⁴	30,944	4,190	1,049	36,183	132,642
Peter Stansfield	⁴	17,440	2,557	694	20,691	121,761
Ian Sansbury	⁵	-	-	-	-	88,123
Walter Merricks	⁵	-	-	-	-	128,908
<i>total</i>		965,354	124,742	50,329	1,140,425	1,110,633

- notes*
- * This payment was made in lieu of participation in the company pension scheme.
 - ¹ The payment for 2010/11 includes £6,366 relating to the previous year. With effect from April 2011, Natalie Ceeney has put 15% of her base salary at risk – to join other executives in the “salary at risk” scheme.
 - ² During the year the service leased a flat in London Docklands. This has been made available to Tony Boorman for part of the year. The cost of the benefit (including associated tax) amounted to £20,865 (included above in “other benefits”).
 - ³ Julia Cavanagh, Simon Rouse and Jacque Wiggett joined the executive team during the financial year 2010/2011.
 - ⁴ Roy Hewlett, Jeremy Kean and Peter Stansfield left during the financial year 2010/2011.
 - ⁵ Ian Sansbury and Walter Merricks left during the financial year 2009/2010
Certain *ex gratia* payments have not been included in this table.

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

	<i>note</i>	<i>travel*</i>	<i>hotels</i>	<i>entertaining</i>	<i>prof subs</i>	<i>total for year ended 31/3/11</i>
		<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Natalie Ceeney	1	2,677	477	73	370	3,597
Tony Boorman	1	1,769	1,938	352	-	4,059
Julia Cavanagh	4	25	-	2	-	27
David Cresswell		766	1,259	58	-	2,083
Roy Hewlett	2	-	-	-	-	-
Jeremy Kean	2	-	-	-	-	-
Peter Stansfield	2	-	-	-	-	-
Simon Rouse	4	-	545	-	-	545
David Thomas	3	7,297	1,077	-	-	8,374
Jacque Wiggett	4	-	377	-	125	502
<i>total</i>		12,534	5,673	485	495	19,187

- notes*
- * Travel includes train, plane, underground, taxis, mileage, meals and parking.
 - 1 Includes £1,493 associated with the 2010 international ombudsman conference.
 - 2 Roy Hewlett, Jeremy Kean and Peter Stansfield left during the financial year 2010/2011.
 - 3 Includes £5,563 associated with the 2010 international ombudsman conference – and £1,987 charged to the European Commission of which £1,293 was refunded.
 - 4 Julia Cavanagh, Simon Rouse and Jacque Wiggett joined the executive team during the financial year 2010/2011.

salary bands

The following chart shows the various salary bands in place at 31 March 2011.

<i>job family</i>	<i>number of staff</i>	<i>range of salary earned</i>
executive	7	£95,417 to £184,730
ombudsmen, lead ombudsmen and managing ombudsmen	52	£64,153 to £106,921
heads of department and senior managers	33	£53,063 to £105,000
managers	111	£22,500 to £60,500
adjudicators	720	£21,000 to £54,809
helpline staff	111	£18,200 to £33,048
casework administration staff	134	£16,400 to £48,448
support staff (including finance, IT, facilities, communications and HR)	82	£19,000 to £56,985

pension scheme

The Financial Ombudsman Service is a participating employer in the FSA pension plan – which is a voluntary, money purchase, non-contributory scheme. This pension scheme is only open to employees – and not to the non-executive directors.

The ombudsman service pays contributions on behalf of employees at the rates in the following table. 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 service makes a matched contribution up to 3% of pensionable salary.

<i>age</i>	<i>contribution rate</i>
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 *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; *and*
- 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.

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.

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.

independent auditor's report to the members of the Financial Ombudsman Service Limited

We have audited the financial statements on pages 46 to 59. 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).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

respective responsibilities of directors and auditor

As more fully explained in the Directors' Responsibilities Statement set out on page 43, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2011 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; *and*
- have been prepared in accordance with the requirements of the Companies Act 2006.

opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; *or*
- the financial statements are not in agreement with the accounting records and returns; *or*
- certain disclosures of directors' remuneration specified by law are not made; *or*
- we have not received all the information and explanations we require for our audit.

CHARLES FRAY (Senior Statutory Auditor)
For and on behalf of BAKER TILLY UK AUDIT LLP
St Philips Point, Temple Row, Birmingham B2 5AF
20 July 2011

corporate information

name

Financial Ombudsman Service Limited

registered office

South Quay Plaza 2
183 Marsh Wall
London E14 9SR

bankers

Lloyds TSB Bank plc
1st Floor
25 Gresham Street
London
EC2V 7HN

auditors

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

internal auditors

KPMG LLP
15 Canada Square
London
E14 5GL

website

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 2011

	notes	2011 £	2010 £
continuing operations			
revenue	3	97,994,199	99,023,833
administrative costs, excluding exceptional item		(106,776,884)	(92,339,630)
exceptional item – curtailment gain	21	0	1,803,000
total administrative costs		(106,776,884)	(90,536,630)
other operating income	4	205,070	200,502
operating (deficit) / surplus		(8,577,615)	8,687,705
interest receivable and similar income	5	147,902	(161,647)
interest payable and similar charges	6	0	(953)
(deficit) / surplus on ordinary activities before taxation	7	(8,429,713)	8,525,105
tax (charge) on (deficit) / surplus on ordinary activities	8	(18,681)	(21,250)
(deficit) / surplus on ordinary activities after taxation		(8,448,394)	8,503,855

balance sheet as at 31 March 2011

	notes	2011 £	2010 £
fixed assets			
tangible assets	12	4,281,339	5,073,542
current assets			
debtors	13	13,407,505	17,332,245
cash at bank and in hand		7,065,978	8,589,159
		20,473,483	25,921,404
current liabilities			
creditors: amounts falling due within one year	14	(9,895,852)	(6,930,519)
net current assets		10,577,631	18,990,885
total assets less current liabilities		14,858,970	24,064,427
non-current liabilities			
creditors: amounts falling due after one year	15	0	0
provisions for liabilities and charges	16	(777,796)	(336,428)
net pension liability	21(d)	(1,813,000)	(3,378,000)
deferred income		(5,218,751)	(6,304,182)
		(7,809,547)	(10,018,610)
net assets		7,049,423	14,045,817
capital and reserves	20	7,049,423	14,045,817

The financial statements on pages 46 to 59 were approved and authorised for issue by the board of directors on 20 July 2011, and are signed on behalf of the board of directors by:

Sir Christopher Kelly KCB, chairman
20 July 2011

Company number: 03725015

**statement of total recognised gains and losses
for the year ended 31 March 2011**

	notes	2011 £	2010 £
(deficit)/surplus for the year		(8,448,394)	8,503,855
actuarial gains/(losses) on pension scheme	21 (i)	1,452,000	(694,000)
total recognised (losses)/gains for the year		(6,996,394)	7,809,855

**reconciliation of movements in reserves
for the year ended 31 March 2011**

	2011 £	2010 £
total recognised (losses)/gains for the year	(6,996,394)	7,809,855
accumulated surplus at 1 April	14,045,817	6,235,962
accumulated surplus at 31 March	7,049,423	14,045,817

**cash flow statement
for the year ended 31 March 2011**

	notes	2011 £	2010 £
net cash (outflow)/inflow from operating activities	i	(260,453)	1,917,685
returns on investments (interest received)		34,902	42,353
servicing of finance (interest paid)		0	(961)
taxation (uk corporation tax paid)		(21,031)	(65,850)
capital expenditure and financial investment (payments to acquire tangible fixed assets)	12	(1,276,599)	(2,687,323)
net cash (outflow) before financing		(1,523,181)	(794,096)
<i>financing</i>			
movement in long term borrowings	15	0	(250,000)
(decrease) in cash in the year		(1,523,181)	(1,044,096)
cash at 1 April		8,589,159	9,633,255
cash at 31 March		7,065,978	8,589,159

**notes to the cash flow statement
for the year ended 31 March 2011**

(i) reconciliation of operating (deficit)/surplus to net cash (outflow)/inflow from operating activities

	2011 £	2010 £
operating (deficit)/surplus for the year	(8,577,615)	8,687,705
depreciation	2,068,802	1,827,226
decrease (increase) in debtors	3,924,740	(6,643,009)
increase in creditors	2,967,683	912,612
increase in provision for liabilities and charges	441,368	0
(decrease) in deferred income	(1,085,431)	(134,849)
	(260,453)	4,649,685
defined benefit pension costs		
service cost	0	830,000
curtailment gain	0	(1,803,000)
contributions		
normal contributions	0	(859,000)
additional deficit reduction contributions	0	(900,000)
	0	(2,732,000)
net cash (outflow)/inflow from operating activities	(260,453)	1,917,685

notes to the accounts – for the year ended 31 March 2011

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

revenue

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 Services Authority (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.

Case fees - each business that has a chargeable complaint referred for investigation to the Financial Ombudsman Service is required to pay a case fee upon closure of the fourth and subsequent complaint in any one financial year.

Recognition of income

▪ Levy Income

For both the Compulsory and Voluntary Jurisdictions, the levy income is recognised on invoicing for the period to which the invoices relate.

For the Consumer Credit jurisdiction, where firms pay for a five year licence, the income is based on the number of case closures in the financial year, so as to spread the payments received over five years in relation to the amount of work undertaken (see 'deferred income' accounting policy).

▪ Case fee income

Case fee income for all jurisdictions, from 1 April 2002, is recognised at the date when invoices are raised, this being the end of the month in which the case is closed.

tangible fixed assets

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

leasehold improvements	over period of lease
premises fees and stamp duty	over five years
computer hardware	over three years
computer software	over five years
computer systems development and fees	over three to five years
office furniture and equipment	over five years
fixtures and fittings	over ten years
motor vehicles	over four years

The carrying values of tangible 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 2011, 1,200 employees were 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". Gains and losses on curtailments/settlements are recognised when the curtailment/settlement occurs.

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, after taking into account any rent free periods.

deferred income

Businesses in the Consumer Credit Jurisdiction buy a five year licence. In order to spread the income over the period of the licence, only part of the cash received is taken as income. This is based on the number of cases that are closed in the year. The balance of income not taken to the income & expenditure account is shown in the deferred income account.

Amounts billed and collected by the Financial Services Authority in advance for levy due the following year are treated as deferred income.

taxation

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

3. revenue	2011	2010
	£	£
annual levy	20,875,944	20,585,708
case fees	77,118,255	78,438,125
	97,994,199	99,023,833

4. other operating income	2011	2010
	£	£
publications	178,900	193,510
conferences	21,878	0
miscellaneous	4,292	6,992
	205,070	200,502

5. interest receivable and similar income	2011	2010
	£	£
bank interest	34,902	42,346
other interest	0	7
	34,902	42,353
interest cost on pension plan liabilities	(1,078,000)	(1,011,000)
expected return on pension plan assets	1,191,000	807,000
	147,902	(161,647)

6. interest payable and similar charges	2011	2010
	£	£
bank loan and overdraft	0	314
other interest	0	639
	0	953

7. (deficit)/surplus on ordinary activities before taxation	notes	2011	2010
		£	£
This is stated after charging/(crediting):			
staff costs	9	54,598,727	47,438,449
depreciation	12	2,068,802	1,827,226
operating lease rentals: premises		3,378,157	3,147,703
operating lease rentals: other		91,878	70,953
bad debts written off		888,489	495,687
auditor's remuneration	11	69,999	68,750
exceptional item – curtailment gain	21	0	(1,803,000)

8. tax charge on (deficit)/surplus on ordinary activities	2011	2010
	£	£
<i>analysis of tax charge on ordinary activities</i>		
United Kingdom corporation tax at 21% (2010:21%) for the year	(19,300)	(21,650)
adjustments in respect of prior years	619	400
current tax charge for the current year	(18,681)	(21,250)

Factors affecting tax charge for the current year

The tax assessed for the year is higher than that resulting from applying the small profits rate of corporation tax in the UK: 21% (2010:21%).

The differences are explained below:

	2011	2010
	£	£
(deficit)/surplus on ordinary activities before taxation	(8,429,713)	8,525,105
Tax at 21% (2010: 21%) thereon	1,770,240	(1,790,272)
Effects of:		
non taxable income and expenditure	(1,789,540)	1,768,622
prior period adjustments	619	400
current tax charge for year	(18,681)	(21,250)

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

9. staff costs	notes	2011	2010
		£	£
salary costs		43,258,793	37,200,503
social security costs		4,783,479	4,045,650
employer's pension costs			
included in administrative costs:			
current service costs of final salary scheme		0	830,000
money purchase scheme		4,273,251	3,380,795
flexible benefit costs		2,283,204	1,981,501
	7	54,598,727	47,438,449
employer's pension costs			
included in interest (receivable)		(113,000)	204,000
included in exceptional item – curtailment gain		0	(1,803,000)
included in statement of total recognised gains & losses		(1,452,000)	694,000
total employment costs		53,033,727	46,533,449

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

	2011	2010
ombudsmen	50	42
adjudicators	649	579
other	479	430
	1,178	1,051

10. directors' remuneration

Directors' remuneration payable during the year amounted to £233,000 (2010: £249,250). The chairman, who is also the highest paid director, was paid £73,500 (2010: £73,500), the audit committee chairman was paid £25,750 (2010: £25,750), the quality committee chairman was paid £25,750 (2010: £25,750), the technology group chairman was paid £25,750 (2010: £21,000) and the other directors at a rate of £21,000 per annum (2010: £21,000). Further details are provided in the remuneration report on pages 36 and 37.

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.

11. auditor's remuneration

	2011	2010
	£	£
audit	59,999	57,790
tax	10,000	10,960
	69,999	68,750

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

12. tangible assets

	leasehold improvements and premises fees	computer equipment and software	furniture & equipment	motor vehicle	total
cost	£	£	£	£	£
at 1 April 2010	5,311,291	14,149,695	3,359,489	9,181	22,829,656
additions	0	1,111,272	165,327	0	1,276,599
at 31 March 2011	5,311,291	15,260,967	3,524,816	9,181	24,106,255
depreciation					
at 1 April 2010	4,639,746	10,624,241	2,483,039	9,088	17,756,114
charge for year	511,097	1,358,597	199,015	93	2,068,802
at 31 March 2011	5,150,843	11,982,838	2,682,054	9,181	19,824,916
net book value at 31 March 2011	160,448	3,278,129	842,762	0	4,281,339
at 31 March 2010	671,545	3,525,454	876,450	93	5,073,542

13. debtors

	2011	2010
	£	£
trade debtors	9,547,640	13,395,084
other debtors	1,875,909	2,146,114
prepayments	1,983,956	1,791,047
	13,407,505	17,332,245

14. creditors: amounts falling due within one year

	2011	2010
	£	£
trade creditors	903,067	503,826
uk corporation tax	19,300	21,650
other taxes & social security	1,221,788	1,116,589
other creditors	80,928	16,829
accruals	7,670,769	5,271,625
	9,895,852	6,930,519

15. creditors: amounts falling due after one year

bank loan

The company took out a revolving loan facility of £15m dated 24 January 2003. The facility was originally available for a period of five years. This has been extended each year by a further year and the facility will now end in January 2013. During the year to March 2010 £250,000 was paid off the outstanding balance, so that the amount drawn down at 31 March 2010 was nil. There was no draw down of the account during 2010/11. The amount drawn-down at 31 March 2011 was £Nil (2010: £Nil). The interest rate payable is 0.15% per annum above London interbank offered rates. A commitment fee of 0.08% is charged on the outstanding sum on the revolving loan facility not yet drawn down. The Financial Services Authority had previously guaranteed the loan facility but was released from this guarantee in February 2008.

16. provision for liabilities and charges

	2011 £	2010 £
provision for dilapidations	777,796	336,428
	777,796	336,428

The provision at 31 March 2010 comprised an amount received in the year ended 31 March 2009 from a former tenant of the 7th floor of South Quay Plaza. As at 31 March 2011, a revised provision for dilapidations has been made for all the floors in South Quay Plaza 2 and 3 on the basis of a rate per square foot calculation multiplied by the floor space utilised and then discounted at a rate of 4% per annum. This initial estimate will be revised during the year ended 31 March 2012, as part of an ongoing property review.

17. financial commitments

As at 31 March 2011, there were no capital commitments contracted for but not provided (2010: Nil).

18. operating lease commitments

As at March 2011, the company was committed to making the following payments during the next year, in respect of operating leases:

	premises 2011 £	other 2011 £	premises 2010 £	other 2010 £
leases which expire:				
within 1 yr	0	0	0	11,313
between 2 and 5 yrs	3,084,194	54,531	3,570,827	63,082
after 5 yrs	0	0	0	0

Details of the terms of the leases of the South Quay Plaza 2 and 3 premises are as follows:

floor	start of current lease	end of lease
SQP 2		
1 – 4	November 1999	November 2014
6	July 2001	November 2014
7	December 2008	November 2014
9	September 2008	November 2014
SQP 3		
12	March 2011	November 2014
13	March 2011	November 2014

19. related party transactions

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. The Financial Services Authority has to ensure that the terms of appointment of the directors secure their operational independence from the Financial Services Authority. Accordingly, the Financial Ombudsman Service is not controlled by the Financial Services Authority but considers the Financial Services Authority a related party.

- The Financial Ombudsman Service has entered into an agency agreement with the Financial Services Authority whereby, with effect from 1 April 2004, the Financial Services Authority will collect tariff data, issue levy invoices and collect levy monies on behalf of the Financial Ombudsman Service, at a net cost of £67,900 for the year ended 31 March 2011 (2010: £34,149).
- The Financial Services Authority bill the Financial Ombudsman Service administration charges in respect of the pension scheme. The charge for the year ended 31 March 2011 is £40,041 (2010: £52,259).
- An amount of £1,419,615 was due from the Financial Services Authority at 31 March 2011 (2010: £1,678,516). This was the net balance due following the billing of levies to firms and is included in 'Other debtors' (see note 13).
- The Financial Services 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.

Other than disclosed above, there were no related party transactions during the year (2010: £Nil).

20. accumulated surplus

	2011	2010
	£	£
accumulated surplus before net pensions liabilities	8,862,423	17,423,817
net pension liabilities	(1,813,000)	(3,378,000)
accumulated surplus after net pensions liabilities	7,049,423	14,045,817

21. 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 2010 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 closure of the defined benefit section represented a curtailment event which generated an actuarial gain. This was measured as at 31 March 2010 using the assumptions at that date. The curtailment gain was calculated as £1,803,000 which has been shown as an exceptional item in the income and expenditure account for the previous year.

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

	31 March 2011	31 March 2010	31 March 2009
	% pa	% pa	% pa
rpi inflation	3.8	4.0	3.7
rate of general long term increase in salaries	N/A	N/A	5.2
rate of increase to pensions in payment	3.4	3.7	3.5
discount rate for plan liabilities	5.6	5.6	6.3

(b) mortality assumptions

life expectancy at age 60

		31 March 2011	31 March 2010	31 March 2009
		years	years	years
age 60, at the balance sheet date	males	27.6	27.5	27.4
	females	29.5	29.4	29.3
age 60, 20 years after the balance sheet date	males	29.7	29.6	29.5
	females	31.5	31.4	31.3

(c) expected return on assets

	at 31 March 2011		at 31 March 2010		at 31 March 2009	
	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	8.4	8,286	8.5	9,479	8.0	6,610
property	8.1	1,331	9.0	1,220	7.0	794
corporate bonds	5.3	6,866	5.5	5,124	5.8	2,950
other	0.8	127	0.6	269	1.6	138
combined*	7.0	16,610	7.5	16,092	7.2	10,492

* 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 2011.

(d) reconciliation of funded status to balance sheet

	value at 31 march 2011 £'000	value at 31 march 2010 £'000	value at 31 march 2009 £'000
fair value of plan assets (see 21 (c))	16,610	16,092	10,492
present value of funded defined benefit obligations (see 21 (f))	(18,423)	(19,470)	(15,704)
liability recognised on the balance sheet	(1,813)	(3,378)	(5,212)
related deferred tax	0	0	0
net pension liability	(1,813)	(3,378)	(5,212)

(e) analysis of income and expenditure account charge

	2011	2010
	£'000	£'000
current service cost	0	830
interest cost	1,078	1,011
expected return on plan assets	(1,191)	(807)
curtailment gain	0	(1,803)
(charge) recognised in income and expenditure account	(113)	(769)

(f) changes to the present value of the defined benefit obligation during the year

	2011	2010
	£'000	£'000
opening defined benefit obligation	19,470	15,704
current service cost	0	830
interest cost	1,078	1,011
actuarial (gains) losses on plan liabilities*	(1,702)	3,856
net benefits paid out	(423)	(128)
curtailment gain	0	(1,803)
closing defined benefit obligation	18,423	19,470

*includes changes to the actuarial assumptions

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

	2011	2010
	£'000	£'000
opening fair value of plan assets	16,092	10,492
expected return on plan assets	1,191	807
actuarial (losses)/gains on plan assets	(250)	3,162
contributions by the employer	0	1,759
net benefits paid out	(423)	(128)
closing fair value of plan assets	16,610	16,092

(h) actual return on plan assets

	2011	2010
	£'000	£'000
expected return on plan assets	1,191	807
actuarial (loss)/gain on plan assets	(250)	3,162
actual return on plan assets	941	3,969

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

	2011	2010	2009	2008	2007
	£'000	£'000	£'000	£'000	£'000
Total actuarial gains / (losses)	1,452	(694)	(4,460)	1,107	(173)
cumulative amounts of losses recognised in STRGL	(5,885)	(7,337)	(6,643)	(2,183)	(3,290)

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

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
fair value of plan assets*	16,610	16,092	10,492	12,110	12,051
defined benefit obligation	(18,423)	(19,470)	(15,704)	(13,344)	(14,603)
deficit in plan	<u>(1,813)</u>	<u>(3,378)</u>	<u>(5,212)</u>	<u>(1,234)</u>	<u>(2,552)</u>

*The asset values use the bid value of assets.

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
experience (losses)/gains on plan assets	(250)	3,162	(3,316)	(1,729)	(467)
experience gains/(losses) on plan liabilities**	<u>137</u>	<u>635</u>	<u>(62)</u>	<u>121</u>	<u>(38)</u>

** 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.

(k) 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 (2010: £859,000). 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.

During the year, the plan deficit was reviewed as part of the triennial valuation and therefore no lump sum payment was made (2010: £900,000). However, commencing in April 2011, the service estimates it will make annual contributions of £273,000 over the next ten years to fund the deficit.

defined contribution scheme

The Financial Ombudsman Service made normal contributions totalling £4,273,251 (2010: £3,380,795) to the defined contribution scheme.

TO THE BOARD OF THE FINANCIAL OMBUDSMAN SERVICE

THE INDEPENDENT ASSESSOR'S ANNUAL REPORT 2010 to 2011

I am appointed by the board of the Financial Ombudsman Service and my role as Independent Assessor is to conduct the final review of complaints that the Ombudsman Service has provided a poor service. A complaint of poor service is separate from whether the Ombudsman Service should uphold a complaint about a financial business - service is about practical handling rather than the outcome of an investigation. I began my three year appointment in May 2010 after Mr Barnes, the previous Independent Assessor, retired.

Complaints within my remit

From 1 April 2010 to 31 March 2011 Mr Barnes and I received 263 complaints within the Independent Assessor's remit (2009-2010 = 165). This is a significant 59% rise though I count it as good news. In the middle of 2010 the Ombudsman Service changed the way it handled complaints of poor service. It disbanded a separate Service Review Team and put complaint handling firmly where it should be - within the case handling divisions – where lessons could be quickly learned and progress with the matter under investigation was not delayed or interrupted. If a complainant is dissatisfied with the manager's response, Step 2 is to a senior manager, typically a Head of Division. This has the benefit of ensuring that senior managers are aware of causes of dissatisfaction; they can spot trends and weaknesses and take action. They are also required to provide information about the Independent Assessor as the final, Step 3, for complaints of poor service.

In the past, providing Independent Assessor information was rather hit and miss and the only contact address was a PO Box number, used for the sensible reason of keeping mail separately from the Ombudsman Service. On appointment I set up an email address and in December launched my own webpage. The reason behind the rise in complaints is better information about my role and easier access by email, rather than any worsening of service by the Ombudsman Service.

1) complaints where the Ombudsman Service's investigation is underway

I normally review a complaint after the Ombudsman Service has concluded its work and 101 complaints were made whilst the Ombudsman Service's investigation into a complaint about a financial business was still underway. I search through the Ombudsman Service's case record to see if there are exceptional circumstances which mean I should require the investigation to be suspended.

case study – intervening

Mr A was bothered by delay and mystified why no-one would explain why the Ombudsman Service was waiting for the bank's file when he had been told that it had arrived months ago. Having looked at the Ombudsman Service's case record I could see that it had lost the case file, but not told Mr A. I thought that there were exceptional circumstances and decided to report straightaway.

The case file had gone missing when the case was transferred between teams but no-one noticed until a new Adjudicator took over some months later. She contacted the bank to ask it to resend its papers but, in a well meaning attempt to avoid upset, did not let Mr A know.

I was seriously concerned by this one sided response – the Adjudicator should have treated the bank and Mr A equally. Mr A complained of poor service because no-one would answer his questions, but no-one wanted to be the first to explain what had actually happened. In a large and very busy organisation things can go missing and most people can accept some human error. What was unacceptable in this case was the repeated failure to be up front and honest. The Ombudsman Service accepted my recommendation to pay £200 compensation for its poor response to Mr A's complaints and queries.

In 78 of these cases there were no failures of proper process and I provided a brief report confirming that I would provide a more detailed review after the Ombudsman Service's investigation had closed. In most of these cases, the cause of complaint is disagreement with an Adjudicator's assessment. Adjudicators explain that the complainant can refer their case to an Ombudsman for a final decision, but a significant number of people make a complaint about the Adjudicator instead. The Ombudsman Service does need to take care to prevent the Adjudicator to Ombudsman stage becoming a protracted argument and it should not handle straightforward disagreement as a complaint of poor service.

2) opinions

During the year I issued 204 formal Opinions – 92% at the request of consumers and 8% on complaints by financial businesses.

In 60% of these cases I upheld the complaint of poor service and I made recommendations in 46% of the cases (5 year average = 44%). The Ombudsman Service accepted all of my recommendations, most of which were for financial compensation for avoidable distress and inconvenience with sums ranging from £25 to £750 and an average of £215.

In 40% of cases I found that the Ombudsman Service had followed its normal process and handled contact with the complainant with reasonable efficiency. I class these cases as **Satisfactory**.

case study: satisfactory

Mr and Mrs B complained that the Ombudsman Service had misled them and I understood why they had found initial correspondence to be misleading. The Ombudsman Service had sent standard letters which give the impression that a complaint will be fully investigated. Mr and Mrs B's complaint had been investigated to the point where the Adjudicator and Ombudsman had sufficient information to reach a view and a final determination – which was that the Ombudsman Service could not investigate the merits of Mr and Mrs B's complaint about the financial business.

I was satisfied that Mr and Mrs B had been provided with adequate opportunities to comment on the Adjudicator's view and the Ombudsman Service had extended deadlines for comments when Mr and Mrs B asked for more time. The Ombudsman Service made a reasonable decision that an Adjudicator who was familiar with the background took the case on, and then made a reasonable decision that the Ombudsman who made the final decision had not had previous involvement and could cast a completely fresh eye on matters: I thought that was a sensible balance and was satisfied that the Ombudsman Service had followed its normal process.

I classed 18% of cases as **Adequate**, meaning that the Ombudsman Service followed its normal process reasonably accurately, though there were minor failings and maybe contact with the complainant had some problems; any failings had not seriously compromised a fair investigation.

I classed 42% of cases as **Critical** meaning the Ombudsman Service failed to follow one or more of the key steps in its normal process and/or contact with the complainant had been seriously flawed.

case study: critical

The Ombudsman Service upheld Miss C's complaint about a financial business but she was surprised to be asked to sign an acceptance when she did not know how much money would be refunded. I agreed with Miss C that it can be hard to know whether to accept a settlement unless you have a reasonably certain idea of how much money is involved. The Ombudsman Service knows that providing a method to calculate redress rather a fixed amount causes concern; in Miss C's case it had tried to be helpful but had made matters worse in a phone call which I found to be contradictory and discourteous.

When Miss C complained to the Ombudsman Service a Team Manager called her, promised to call again but did not do so. Miss C wanted her complaint about the Ombudsman Service dealt with by the Chief Ombudsman and the Manager said that he would arrange for that to happen. This was misleading as the next step is for a Head of Casework to reply. Miss C had a response from an Assistant. Eventually, the Head of Casework offered £300 compensation for distress and inconvenience, accepting that the Ombudsman Service had failed to handle the redress calculation at all well.

The Head of Casework had immediately confirmed with the relevant team what should happen in similar circumstances. Although I was critical of two significant failures of good service, lessons had been learnt and the compensation offered was in line with the Ombudsman Service's compensation guidelines.

3) compensation for loss

In a small number of cases I found that the Ombudsman Service had caused avoidable loss. In mid 2010, when complainants asked for copies of documents held on the Ombudsman Service's case file, they were often told they needed to make a Subject Access Request under the Data Protection Act and pay the standard £10 fee. Under the Ombudsman Service's policy of natural justice and transparency, complainants are entitled to copies of evidence that the Ombudsman would rely on in order to reach a decision and I recommended that the £10 fee should be refunded.

In one case I found that the Ombudsman Service had not split complaints made jointly by a couple and had not responded adequately to a service complaint. It is the Ombudsman Service's decision on whether complaints are joined or separate but I found that no decision had been made despite evidence showing there might be grounds for two separate complaints. The Ombudsman Service accepted my recommendation to reconsider the complaint of poor service which then led to it paying compensation for loss caused by failing to investigate separate complaints.

Not within my remit.

From April to March I received 290 letters, emails and phone calls making complaints that were outwith the Independent Assessor's remit.

- In 33%, the complainant had not made a complaint of poor service to the Financial Ombudsman Service. I explain that I can only become involved after the Ombudsman Service has had a reasonable chance to respond to a complaint of poor service and I provide contact details.
- In 22%, the complainant had made a complaint to the Ombudsman Service and in almost all cases a Team Manager had replied sending a copy of the Ombudsman Service's factsheet "putting it right". Although the Ombudsman Service agreed some time ago to refresh information on handling complaints of poor service the factsheet is still not as helpful as it could be. Team Managers do not always make it clear that Step 2 is to complain to a senior manager, not the Independent Assessor and people write to me. This does cause understandable annoyance when I say they need to contact the Ombudsman Service again, at a senior level, before I can become involved. There were also a small number of cases where someone has made a service complaint to the Ombudsman Service but it had been overlooked or ignored. Senior management takes these lapses seriously and welcomes me drawing attention to them.
- In 30% of cases the complaint is not of poor service but solely about the merits of a case including the use of judgement by an Adjudicator or Ombudsman on what evidence is needed, what weight should be placed on the evidence, what is included in the final decision and what redress is appropriate. The boundary between service and merits is not a clear one and I generally need to explain where it lies in a specific complaint.
- In 12% of cases the complainant did not contact me within 3 months of a final reply from the Ombudsman Service. I use the date of post marking, rather than the date of receipt but most of these complaints miss the deadline by a substantial period.

- In 2%, the former Independent Assessor had already reported on a complaint and there is no further appeal.

General queries

Mr Barnes recorded receiving 25 general enquiries in 2009-2010. This year with easier access and, I suspect, better recording, I have had 103 enquiries raising points to which I need to respond, for example how to make a complaint to the Independent Assessor, why an Ombudsman's decision is final, wanting legal advice, asking who appoints me or how to complain about me. There were also quite a few thanks - for being prompt, responsive, detailed, reading what people say and helping them understand.

and finally . . .

I work part time, on my own, with part time administrative support and am not, as some people expect, a separate organisation with staff and offices. It's vital that I retain a robust independence from the Financial Ombudsman Service but I could not be effective unless I had a constructive and professional working relationship with its senior staff. I am pleased to report that it handles my requests promptly and that I have unfettered access to case files and case records. It has accepted all of my case related recommendations and also responded positively to my general observations aimed at improving the service it provides. As an example, I noted that the compensation guidelines referred to inconvenience that might be "trivial". That bothered me because what might seem trivial to an experienced complaint handler might feel far from trivial to the complainant. The Ombudsman Service immediately changed the guidelines to refer to slight inconvenience – a small change to a less emotive word, but an important change nonetheless and an indication that the Ombudsman Service does, as it should do, learn from feedback.



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Independent Assessor
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