



**directors' report  
and financial statements**

financial year 2012 | 2013

**ombudsman**



# introduction

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

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

We are independent and impartial. When we consider a complaint, we look carefully at both sides of the story and weigh up the facts. If we decide a business has treated a consumer fairly, we explain why. But if we decide a business has acted wrongly – and that the consumer has lost out as a result – we can tell the business to put things right.

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

This year we continued to see a significant increase in demand for our services. We handled a record number of frontline enquires and complaints from consumers (2,161,439) and resolved a record number of cases (223,229).

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

## **chairman's statement**

Over the past year – my first full year as chairman – the Financial Ombudsman Service has faced challenges on a scale that nobody could have foreseen. This report describes the enormous effort that has gone into transforming the organisation to meet those challenges – and the considerable success we have had in doing so.

Of course, the main driver for change has been the need to deal with over half a million new cases about mis-sold payment protection insurance – a 140% increase on last year. Demand on this scale would test the planning capability, resource management skills and governance arrangements of any organisation.

These challenges are intensified by the ever-present reports that consumer confidence in financial services is at a record low. That confidence has been damaged still further over the last year by fresh problems, such as the controversy over the manipulation of the LIBOR rate and the mis-selling of interest rate swaps. This means that now more than ever, we need to demonstrate absolute integrity in the way we deal with our customers – and in the way we run our organisation.

I am proud to report that we have risen to the challenge. Our achievements during the year reflect the dedication and professionalism of the people who work for us. We have resolved more cases than in any previous year – and each of those cases has called for careful attention and individual judgement. We have also taken the time to review our governance arrangements to make sure they are supporting our changing organisation effectively.

The guidance we offer and the decisions we make matter enormously to the people who bring them to us. This is why the training and development of our staff matter more to us than almost anything else. This report describes in detail the work that has gone into enhancing the professional leadership of our organisation, and developing the knowledge and skills of people at every level.

I must single out certain colleagues who have left us this year – or who are moving to a different role within the organisation. All of these people have given their time, their commitment and their expertise tirelessly and generously – and all can move on safe in the knowledge that they have made a positive difference to the ombudsman service.

Our current independent assessor, Linda Costelloe Baker, reached the end of her term of office on 26 May 2013. Linda has shown extraordinary commitment during her time as independent assessor. She has helped us learn a great deal about providing the best possible customer service, and the ombudsman service has benefited enormously from her professionalism and her insight.

Linda's successor, Amerdeep Somal, took up her post in June 2013. Amerdeep brings a wealth of experience – as well as impeccable judgement and integrity – to the role, and we look forward to working alongside her over the coming years.

Three members of the Board stood down during the year. Janet Gaymer, Elaine Kempson and Roger Sanders all made outstanding contributions to the ombudsman service, and I would like to thank them for all that they did. I would also like to thank Jane Hingston – a lead ombudsman who has worked at the ombudsman for almost 22 years – who left her role in March 2013. Jane helped lead our thinking across many different areas of casework and in thousands of individual cases – and she provided the kind of professional leadership that is so crucial to our success in the future.

During a time of such significant change at the ombudsman service, it is essential that our governance arrangements evolve to reflect its changing needs. During our regular Board evaluation exercise, there was general consensus that the Board was performing well, but that reducing the number of non-executive directors and executive attendees would make it more flexible and responsive. It was agreed to reduce the Board to six non-executive directors, including the chairman.

The Board also decided that quality – in everything we do – is central to the ombudsman service, and that it should be considered by the whole Board rather than by a sub-committee. The Board agreed a new approach to enhancing quality assurance – including the appointment of two Board members to act as “critical friends” in that area.

Looking ahead, we face the task of not letting up on our standards – while at the same time planning for a future that will inevitably see significant changes in consumers' expectations and behaviour. We are tackling that task. Our standards and values have not been allowed to suffer by our having to double in size to meet the huge growth in demand. Nor will they do so in the face of the further demands made of our service that we expect to see in the coming year.

The customer remains firmly at the heart of all our planning for the future. Our aim remains to enable consumers and financial businesses to reach a fair and quick resolution to their disputes. That points towards our working increasingly with both sides to deploy a service tailored to the nature and complexity of each individual complaint. That greater responsiveness lies at the heart of our strategy for the future.

Although there will inevitably be profound change at the ombudsman service over the coming years, our approach to leading and running the organisation will stay the same. As this report describes, we have been adapting to our changing circumstances decisively and with integrity. This will continue – and I am confident that the organisation stands ready to meet the formidable challenges ahead.

Sir **Nicholas Montagu** KCB  
July 2013

## chief executive's report

To echo the comments made by Sir Nicholas Montagu, this has been a year of unprecedented challenges for the ombudsman service. As well as receiving substantially higher volumes of cases than anyone forecast, we have found our caseload increasingly volatile – with a higher proportion of more complex disputes being referred to us by consumers.

I should emphasise that the exceptionally high demand for our services was not *just* down to the number of complaints about payment protection insurance (PPI) more than doubling. We have seen higher numbers of complaints across the range of products and services that we cover and, were it not for PPI, we would be commenting on just how large some of those increases were in their own right. It remains disappointing that we are not yet seeing a significant improvement in complaint-handling standards of the major financial institutions, and that we are – yet again – needing to resolve many disputes that should have been solved quickly by financial businesses themselves.

To respond to these challenges, the executive team – ably guided and supported by our Board – has significantly developed our organisation over the last year. The most profound change, of course, was the decision to build our capacity to handle the influx of new PPI cases. However, as this report shows, we have been careful to develop our organisation responsibly, ensuring that we maintain quality at the heart of what we do, and ensuring that we spend money wisely. The ombudsman service is funded by the financial businesses that consumers complain about, and we know how important it is to control costs and provide good value for money – now more than ever.

To help us handle the cost pressures and financial risks brought about by the increasingly volatile demand for our services, we have changed our case-fee structure. This has reduced our financial risk significantly, while also reducing the bill we would otherwise have had to raise on the financial services sector in 2013/2014. We are now charging the very largest financial groups on a “group-account” basis, which focuses on the total proportion of our costs that can be attributed to each of them, and which reduces the proportion of our operating costs we need to hold as reserves. We have also made sure that smaller businesses generally pay no case fees at all – by increasing the number of “free” cases for each business from 3 to 25.

Meanwhile we have continued to scrutinise our day-to-day running costs. We were pleased with the outcome of the efficiency review that the National Audit Office (NAO) carried out for us – which we published in January 2012. The review noted that, since the ombudsman service was set up, our costs have grown significantly more slowly than our caseload. During the year we have taken forward various recommendations suggested by the NAO as part of its review.

Of course, building our capacity in casework also had implications for our corporate support functions. They have been adapting to the changing needs of a much larger, more complex organisation. This can perhaps be seen most clearly in human resources – where we have been developing our in-house recruitment capability to offer a better experience to candidates, as well as simply recruiting more cost effectively. But everyone in the organisation has needed to adapt in some way, and both this report – and our *annual review* – show that we have been responding effectively to the changes in our environment.

To be able to respond to change, we need to identify it – and to understand the implications for the ombudsman service. During the year we have been rigorous in identifying and addressing our key risks. Having the right governance arrangements in place also helps us manage risks effectively – at project level as well as corporate level. As Nick Montagu points out in his statement, we made a number of changes to our governance structure this year to make sure it is flexible and responsive to the changing needs of the organisation.

The job we do – resolving individual cases, using intellectual judgement – relies on having well trained and capable people. There can be no short cuts in the work we do. Our people are *by far* our most important resource. We rely on their skills, expertise, intellect and professionalism to determine the outcome of cases in ways that are, and are seen to be, fair and reasonable in the unique circumstances of each case.

Our ombudsmen are our professional leaders. They set the tone for the work we do and they determine our approach to the different types of disputes we see. This year we have increased the number of our ombudsmen significantly and invested heavily in their development – to enhance their role as the professional leaders of our organisation. We have also strengthened our career structure for casehandlers at all levels, enhanced the development programme for our managers and introduced new ways of sharing knowledge “on the job”. By doing this, we will continue to ensure that quality and consistency remain at the heart of our work, as we face the challenges of a caseload that continues to grow and change significantly.

Professionalism is, of course, about more than technical knowledge – especially when our people are dealing with lives, livelihoods and reputations. We think it is important to show both professionalism *and* compassion. That is why we are so driven by our values. We have continued to recruit, assess and reward our people against these values – and as this report shows, they continue to guide and influence the way we run our organisation at every level. I was particularly pleased this year that we were ranked 25<sup>th</sup> in the Sunday Times Best Companies “top 100 non-profit organisations to work for” – a sign of how successful we have been at engaging our staff in the work we do.

I am pleased to report that as well as tackling the challenges of building our capacity, we have also been looking at new ways of doing things. We have run innovative projects to test out new ways of resolving certain disputes – to sort out people’s problems as quickly as possible without using the more formal aspects of dispute resolution – while maintaining our high standards of fairness and impartiality.

During the year this involved our working with a number of financial businesses to find new ways of dealing with complaints about e-money and money transfer. By working differently, we were able to resolve many of the problems consumers brought us in days rather than weeks.

Meeting the demand for rapid resolution of problems will challenge us all. But we have seen from our experiments that it is achievable as long as we – and the businesses involved – work differently. I hope that we can use these experiments in casework as a model for the future across far more of our work. In fact, we have already started talking to the major financial institutions to see whether they are willing to work with us in a different way, which should enable us to resolve many disputes far more quickly.

Looking ahead, it is difficult to predict what will happen – especially when experience suggests that the only thing we *can* predict with confidence is a degree of volatility. We are demand led, so we need to be responsive and flexible. Strong leadership – with the ability to approach uncertainty with confidence – is essential, and I believe this report shows that our organisation is well equipped to deal with uncertainty and volatility in the future.

Alongside our role to help solve the financial problems people bring to us, we also take seriously our relationship with our local community and society more broadly. As this report notes, we are committed to reducing our carbon emissions, and have developed a five-year carbon



management plan, working alongside the Carbon Trust. Our target is ambitious, but we are determined to reduce our relative carbon emissions by 30% over the next five years.

I am proud too of the charitable and other 'giving something back' work we have done this year, and it's something staff were particularly keen to see high up on our agenda. Our staff-chosen charity for the year was locally-based Richard House Children's Hospice, a charity providing care and support for life-limited children and children with complex healthcare conditions and their families. Staff really threw themselves behind Richard House and raised a terrific £20,000 through a wide range of fundraising events.

I am proud of what we have achieved this year. We have adapted to significant changes and we have improved the way we work. But I am not complacent. I know that there are significant challenges ahead of us, and we will keep on pushing ourselves to meet them.

**Natalie Ceeney CBE**

July 2013

# our workload over the last decade

	<i>number of</i> new cases	<i>number of</i> resolved cases
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
2012	264,375	222,333
2013	508,881	223,229

*year ended 31 March*

# 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. We carry out our statutory functions on a not-for-profit basis.

### complaints we received

Demand for our services reached record levels in 2012/2013. We handled 2,161,439 initial enquiries and complaints from consumers – around 7,000 every working day. This was an increase of around 70% on 2011/2012.

To help consumers who wanted to contact us we extended the opening hours of our consumer helpline from 6pm till 8pm in the evening and added Saturday mornings.

A record 508,881 enquiries went on to become formal disputes – which required the involvement of our adjudicators and ombudsmen. This was a 92% increase on 2011/2012 and over three times the number of formal disputes we looked into just three years ago.

74% of these cases – 378,699 disputes – related to payment protection insurance (PPI). This was a 140% increase on last year. The longer-term trend is equally striking. We received almost eight times the number of PPI cases we received three years ago, and by the end of March 2013 PPI complaints accounted for 38% of our *total* workload since we were set up in 2000.

This year we saw a reduction in the proportion of complaints referred to us by claims managers on behalf of consumers – from 46.5% to 45% of all the cases we received. The fall results from the increase in the number of consumers bringing their own complaints about PPI – rather than paying claims managers to do it for them. 57% of new PPI cases during the year were brought by claims-management companies – down from 69% in the previous year. We have emphasised to consumers that they don't need the help of claims management companies when they are likely to get the same result by claiming themselves.

Over 60% of the complaints we received related to four financial services groups – all of which are major banking groups. In contrast, 4,819 businesses accounted for just 3% of our caseload.

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

### complaints we resolved

We continued to settle cases at record levels this year. We resolved 223,229 cases – the highest number in any year since the ombudsman was set up. Since we began our work in 2000, 1,945,975 cases have been referred to us – of which 59% have involved just three issues: mortgage endowments, bank and credit-card charges, and payment insurance. The significant volatility in workload relating to these three issues – and the way financial businesses have themselves managed the volumes of complaints – have presented us with major operational challenges over the last decade.

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

The number of cases that required the direct involvement of an ombudsman and a formal ombudsman decision increased to 24,332 cases – an increase of 18% on last year. In 2012/2013, 11% of all the cases we settled required an ombudsman to make a final decision. This proportion is up from last year – and continues an upward trend. Nearly 70% of the requests for ombudsman decisions were made by consumers, and in 88% of cases the ombudsman reached the same conclusion as the adjudicator who had previously handled the case. Where a different decision was reached, there was usually a finely balanced judgement call, or more often, new facts came to light very late in the process.

In total we upheld 49% of the complaints we settled during the year, compared with 64% of cases in the previous year. However, within these overall numbers there are significant variations – for example – we upheld 65% of PPI complaints but only 34% of pension complaints. There is more information about the complaints we resolved in our *annual review*.

## developing our response to PPI

When we consulted in January 2012 on our plans for 2012/2013, we forecast that we would receive around 165,000 new PPI cases. We said that the challenges of our PPI caseload were unprecedented. We also pointed out that if the expected level of demand were to continue, we would need to build up our capacity to deal with the high volumes – and to ensure that our service standards were the best that we could deliver.

We also said that we would be embarking on a significant change programme that would include further recruitment, the bringing together of our PPI case-handling work, and introducing different ways of working – including working electronically.

Most people who responded to our consultation thought that our assumptions and plans were reasonable. During the year we recruited and trained an additional 922 permanent staff, as well as some additional temporary staff to work on PPI. This meant we had to take on additional office space in the local area.

In the event, the number of PPI cases we received dramatically exceeded those forecasts. As we note earlier in this report, by the end of the year we had received 378,699 PPI disputes – a 140% increase on the previous year.

Even though we had increased our capacity and introduced new ways of working, the dramatic increase in PPI cases had a significant impact on our ability to maintain the level of service we wanted to offer. The sheer volume of new complaints and enquiries that we received meant that we had to divert many of our new staff – who we had recruited to *resolve* PPI cases – to *processing* the higher volumes of new cases coming in. This meant that many consumers and businesses had to wait much longer than we had planned before we could assess their case.

Resolving disputes is inherently labour intensive. Every case needs to be assessed on its own merits, and we need trained staff to take on this role. Although we recruited over 900 new staff for PPI in 2012/2013, they needed extensive training and supervision before they could resolve people's cases to the high standard we insist on.

The high level of new enquiries meant that we did not resolve quite as many cases as we had planned to. But the massive rise in incoming case volumes meant that stock levels have built in-year, causing waiting times for consumers of one to two years in many cases.

Although we monitored the volume of incoming cases and staffing levels closely as the year progressed, we took the view that raising the level of recruitment from already record levels was not the right answer. Adding even more new and untrained staff to our operation risked seriously jeopardising the quality of our case handling. We did, however, explore various other options to ensure that we could use our trained resource as effectively as possible, including using contract staff to take on a variety of administrative tasks.

For the coming year, all the indications are that high volume of PPI cases is set to continue. The FCA's approach to PPI is a complaint-led one – and at the end of 2012/2013, only just over 10% of all people sold PPI policies had complained (according to FCA published data). This suggests that our volumes could still rise far higher. In response to this, we consulted on plans that assumed we would continue to receive around 5,000 new PPI cases each week for 2013/2014, and that we would need to scale up our resources still further to continue to handle this volume of cases. Most respondents suggested that these plans were appropriate. Over 2013/2014, therefore, we will be adding an additional 1,000 staff to our PPI operation. We are recruiting our new staff on three-year contracts to enable us to manage staffing levels downwards if we need to when PPI volumes eventually subside.

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

#### **working with the regulator**

The regulator has a number of responsibilities in relation to the ombudsman service, including the appointment of directors to our Board, making the rules that determine the scope of our compulsory jurisdiction and the approval of our annual budget.

Until 31 March, the primary regulator for financial services was the Financial Services Authority (FSA). On 1 April 2013 the FSA was replaced by the Financial Conduct Authority (FCA). We will, of course, work closely with the FCA as it takes on its new responsibilities. The Office of Fair Trading (OFT) also oversees some key elements of financial services regulation; most notably that of consumer credit.

These regulators and the ombudsman have different statutory responsibilities, but we do have many common goals. We have an open and constructive relationship with these regulators. The relationship between ourselves and the FCA is described in a formal memorandum of understanding, which is available on our website ([www.financial-ombudsman.org.uk/about/other\\_bodies.html](http://www.financial-ombudsman.org.uk/about/other_bodies.html)).

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

The *Financial Services Act 2012* gave additional responsibilities to the ombudsman and we are working closely with the FCA to ensure these are being effectively fulfilled. We are also developing our relationship with the National Audit Office, which has been appointed as our auditor for the financial year starting on 1 April 2013.

## **our financial performance**

### **funding**

The Financial Ombudsman Service is funded by a combination of levies and case fees paid by the financial businesses it covers.

The majority of our funding comes from case fees – 87% in 2012/2013. This was made up of a standard case fee of £500 (charged for the fourth and any subsequent case received during the year) and a new supplementary case fee of £350 for PPI mis-selling complaints (charged for the 26th and any subsequent case received during the year, when the case was formally taken on). The supplementary case fee was introduced from April 2012 to enable us to gear up to deal with a substantially increased PPI caseload. It was directed at those involved in selling PPI – and who were therefore responsible for the additional costs.

During the year we consulted on proposals for new case-fee arrangements for 2013/2014. These proposals were designed to reflect the costs we would incur in dealing with the cases we had already received, together with the new cases that we are expecting – and to manage better the risk of our casework volatility.

As well as needing to work well for the ombudsman service, the new arrangements also needed to work well for the range of different businesses that fund our work. The proposals were to:

- increase the levy for the compulsory jurisdiction to £23m (from £17.7m) and the standard case fee to £550 (from £500);
- retain the PPI supplementary case fee at £350;
- increase the number of “free” cases from 3 to 25 for each business; *and*
- introduce a group-account fee for the largest users, who together account for about 60% of our work.

The new group-account fees would be charged quarterly and would generate a more predictable income stream. This would allow us to handle the additional cost pressures and financial risks brought about by an increasingly volatile demand for our services. Greater stability in meeting incurred costs would also mean that we would not have to increase our reserves to address the inherent volatility of our casework – and not have to make a further call on the industry in the 2013/2014 funding round.

We reported in our post-consultation feedback statement that we had received generally supportive responses to the proposals, and we confirmed that we would therefore be introducing the new arrangements from April 2013.

### **budget process**

Following our annual public consultation on our proposed plan and budget for the next financial year, and having taken account of our stakeholders’ comments and feedback, we ask our Board to set a final budget for submission to the regulator for final approval in March each year.

As a not-for-profit organisation, the Financial Ombudsman Service aims to break even financially through the combination of levy and case-fee income.



income

	2012/2013	2012/2013	2011/2012
	actual	budget	actual
	£m	£m	£m
case fees	102.6	119.6	102.8
supplementary case fees	126.0	52.4	-
levy	20.8	19.7	23.6
Total gross revenue	249.4	191.7	126.4
deferred income	86.5	-	-
	162.9	191.7	126.4
special levy	-	-	25.0
Revenue	162.9	191.7	151.4
Other income	0.5	0.2	0.5
Total income	163.4	191.9	151.9

For the second year running, we were faced with the costs of rapidly expanding our operation to deal with the rising volumes of PPI cases. As we note elsewhere in this report, we mitigated some of the financial uncertainty caused by PPI volatility by introducing a supplementary case fee for new PPI cases.

However the number of PPI cases we actually received during the year significantly exceeded our planning assumptions and industry forecasts. By the end of the year we had received 378,699 cases – more than double our original estimates. Revenue from supplementary case fees was therefore significantly higher than budget at £126m.

In line with accounting standards we are deferring supplementary case fee income into future years to cover anticipated costs - recognising only 10% of the total fee (£85) on conversion of the case, with the remainder of the fee released to income when we close the case in a future period. This approach means we have only released £39.5m of the £126m with the remaining balance shown as deferred income.

**expenditure**

	<b>2012/2013</b>	2012/2013	2011/2012
	<i>actual</i>	<i>budget</i>	<i>actual</i>
	<b>£m</b>	£m	£m
administrative costs	<b>162.6</b>	198.3	107.0

We are committed to running our organisation efficiently to provide value for money – and to offer value more generally by helping underpin confidence in financial services. However, we are a demand-led service, and we are required to deal with all of the cases that are referred to us. So we have to manage uncertainty about the numbers and types of cases we will receive – and the extent to which the parties will cooperate with us in resolving them.

In our 2012/2013 plan and budget consultation document we explained the challenges we expected to face in relation to increased PPI volumes and the need for significant additional resources.

During the year we took on significant numbers of case-handling staff to deal with the increasing volumes of PPI complaints. To maintain high standards and professional integrity across the organisation, we also invested heavily in the professional leadership within the organisation. Our ombudsmen are our professional leaders. They set the tone for the work we do and determine our approach to the different types of disputes we see.

We therefore appointed more ombudsmen last year, both from within the organisation and from outside it. By the end of the year the ombudsman panel stood at 116 full-time equivalents) (2011/12-83.6) supplemented by 37 fee-paid ombudsman (2011/2012-22) who are paid a daily rate. As a way of improving the immediacy of front line support and guidance provided by the ombudsman we restructured our operation. In general casework, embedding teams of

ombudsman with teams of adjudicators with groups led by a senior manager and a senior ombudsman. This has resulted in demonstrably stronger professional leadership and innovative ways of working.

We have continued our policy of using contingent staff (contractors) as a method of retaining flexibility and also accessing additional resource at short notice. We take the same approach to managing and monitoring the performance and quality of the contingent staff – and their work – as we do with our permanent staff, and they undertake a period of training and induction before receiving a case load. As at 31 March we had 195 contingent staff working as adjudicators in PPI and in general casework. Over the coming year we will continue to monitor the need for contingent staff – and modify our resources accordingly.

Although we are not formally required to do so, we apply public sector procurement practices. Over the last twelve months we have tendered contracts for £2.9m, and procured £7.5m of goods and services using government frameworks.

**unit cost**

	<b>2012/2013</b>	2012/2013	2011/2012
	<i>actual</i>	<i>budget</i>	<i>actual</i>
cases resolved	<b>223,229</b>	260,000	222,333
unit cost	<b>£724</b>	£760	£480

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. Overall unit cost for the year was lower than we had anticipated in our budget, but significantly higher than it was in 2011/2012.

The higher cost reflects the significant up-front costs of building our capacity to handle the influx of PPI cases in 2012/2013 – and the continued high volume of cases we expect to receive in 2013/2014. It also reflects a number of other factors, including general inflationary and cost pressures, the shift towards harder-fought disputes, and changes in the “product mix” of our caseload.

The year-on-year increase we describe above is exacerbated by the fact that the unit cost in 2011/2012 was significantly *lower* than we had anticipated. That was largely down to the fact that financial businesses dealt with a large number of PPI complaints immediately after the judicial review – when many businesses offered settlements to consumers without the need for us to get involved on an individual case basis.

#### **external review**

We are committed to operating efficiently, cost effectively and openly. To meet this commitment the Board has agreed that a rigorous, fully independent external review of the organisation should be carried out every three years. The latest review was carried out by the National Audit Office (NAO) and their report was published in January 2012 – available on our website at <http://www.financial-ombudsman.org.uk/news/updates/nao-report.htm>.

As we said in our 2011/2012 *directors' report*, the NAO's report focused on our efficiency and change programme. It concluded that the volatility of demand, together with the way in which some financial businesses handle complaints, presents us with some major operational challenges – particularly in terms of efficiency. The report also concluded that the programme of changes we introduced to modernise our operational processes and IT was being managed well. Over the last year we have continued to address the recommendations that came out of the NAO's report.

We are in the process of commissioning our next external review, which will focus on the changing context for financial services, including the needs of consumers when things go wrong, so that we can best understand how the ombudsman service can continue to meet customer needs in the future.

#### **significant contracts**

Randstad Financial & Professional worked with us closely last year to recruit or provide permanent, temporary and contingent staff. The need to expand our PPI operation during the year led to a significantly greater requirement for resource than we had anticipated during the tender process. During the year we spent £23.3m on the contract – of which approximately 80% related to the cost of contingent (contractor) and temporary staff.

Given the significant amount of money involved, we have been continually assessing our recruitment model. During the year we concluded that we could meet our recruitment needs efficiently and effectively – and offer a more personal experience to candidates – by bringing more of our recruitment operation in house. We built our in-house recruitment capability during the second half of 2012/2013, and are now managing most of our permanent and fixed-term contract recruitment in-house.

#### **cash management**

Cash management is important to any well run organisation and we review our balances daily. Cash requirements are reviewed as part of the quarterly re-forecast process and balances are placed on deposit, with terms ranging from overnight to three months. The supplementary case fee, charged on conversion of a case, was introduced to provide an upfront inflow of funds – which could be used to invest in the resource and infrastructure required to increase our capacity to deal with PPI cases.

As it turned out, in-year case conversions were more than twice those we had anticipated in our budget. This led to revenue from supplementary fees of £126m – compared with £52m included in the budget. However, the record volumes of incoming phone calls and post reduced our capacity to resolve cases – and our case-fee income was approximately £17m below budget.

Following discussions with the audit committee it was agreed that our £15m loan facility, which expired in January 2013, would not be replaced in the short term, although the matter would remain under review. Instead we negotiated an overdraft facility of £15m – with no fee unless drawn. The facility expired on 31 May 2013 and has not been renewed.

The executive team, with the support of the audit committee, reviews our banking facilities each year. After this year's review they decided that our current banking arrangements should continue.

#### **reserves**

We maintain reserves to cover volatility in our caseload – and to make sure we can continue to meet incurred costs. Before the introduction of the new group-fee account arrangements for the 2013/14 financial year, our reserves position had been to maintain a level of reserves equating to approximately three months' costs – and this was applied across our whole budget.

This reflected the high levels of volatility in our workload, and our relatively fixed cost base when considered over a one-year period.

As we have noted earlier in the section on our funding arrangements, the introduction of a group-account fee for our very largest users will bring greater stability in meeting incurred costs – and reduce the amount we need to hold in reserves for volatility. In effect, this means that the "three months' costs" policy *only* applies to that element of the cost base not covered by the fees raised through the group-account arrangements. We have not, therefore, had to increase the level of reserves for 2013/2014.

#### **creditors' payment terms**

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

# **the directors**

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

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

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

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

Previously, Nick was chairman of the Aviva UK Life With-Profits Committee and a director of the Pension Corporation. He is also a former chairman of the board of Inland Revenue.

Nick Montagu's term of office is currently due to end on 31 January 2015.

### **Gwyn Burr**

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

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

She has over 25 years' business experience, including 5 with Nestle Rowntree and over 13 with ASDA/WalMart where she held various board-level positions. Before joining Sainsbury's, Gwyn founded her own marketing consultancy. She is currently chair of Business in the Community's cause-related marketing leadership-team.

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

## **Alan Jenkins**

Alan Jenkins was appointed to the Board on 23 February 2011. He is a member of the audit committee.

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

Alan 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 Lattitude Global Volunteering.

During his career, he has been chairman of Eversheds LLP and managing partner of Frere Cholmeley Bischoff and a governor of Bishop Gilpin Primary School. Until 30 April 2011, he was a partner and chairman of global markets at Eversheds LLP, and until 31 March 2013, he was an independent non-executive at PKF (UK) LLP.

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

## **Julian Lee**

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

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

Julian has been a non-executive director of the Maritime and Coastguard Agency, chairman of NHS Surrey and of NHS Brighton & Hove and a non-executive director of South East Coast Ambulance Service. During his career he was chairman of Allied Carpets plc, chief executive of Bricom Group plc, managing director of British & Commonwealth Holdings plc, International chief operating officer of Phibro Solomon Inc and a partner in Arthur Andersen & Co.

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



### **Baroness Maeve Sherlock OBE**

Maeve Sherlock was appointed to the Board on 23 February 2008. She is a member of the audit committee until 31 May 2013 and is also the senior independent director.

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

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

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

### **Pat Stafford**

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

Pat is currently a trustee at Guide Dogs, where she chairs the trading company. She is a mentor for ex-offenders through the New Leaf organisation, and a business adviser and mentor at Young Enterprise.

Previously, Pat has worked as a non-executive director of HMRC and as a regional board member of the Prince's Trust. She has also acted as group marketing director at BUPA, a governor at the University of Bedfordshire and managing director of corporate positioning services and head of brands management at British Airways.

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

### **company secretary**

The company secretary, with the help of the Board secretary, supports the Board, its committees and the executive team and ensures all relevant procedures are followed. The company secretary is available to provide independent advice to directors on issues relating to their responsibilities.

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

## the role of the board

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

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

- ensure that the service is properly resourced and able to carry out its work effectively and independently;
- appoint the panel of ombudsmen under paragraphs 4 and 5 of schedule 17 of the *Financial Services and Markets Act 2000* (FSMA2000) (which the Board has delegated to the chairman);
- appoint the independent assessor – who deals with complaints about the level of service we provide in our work resolving consumers’ complaints;
- approve the draft budget each year for recommendation to the regulator (previously the Financial Services Authority (FSA) – from 1 April 2013 the Financial Conduct Authority (FCA));
- approve (with the regulator) appropriate rules in the *Dispute Resolution: Complaints (DISP)* section of the regulator’s *Handbook*; and
- prepare and approve the *annual review* – an overview of the work of the ombudsman service.

Board directors are appointed by the FCA. Members of the executive team are appointed by the chief executive and are *not* directors. However, certain members of the executive team are invited to attend Board meetings, and the Board operates by combining executive and non-executive insight to govern the organisation effectively.

The chairman and chief executive meet regularly to discuss the operation and development of the organisation. Their responsibilities are distinct and clearly defined. The chairman ensures that the organisation has a clear strategy and direction – with effective management for its current and future needs. He ensures the Board is operating effectively in its decision making and its support for the executive – and that the chief ombudsman and chief executive has effective line management. The chairman also has an important role as an ambassador for the organisation.

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

### **appointment of directors**

Under the memorandum of association, the Board must consist of a minimum of six directors, but should not exceed fifteen. On 31 March 2013, the Board consisted of six directors, all of whom were non-executive.

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

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

The recruitment process for non-executive directors to the organisation is overseen by our own nomination and remuneration committee (see page 35 and 36). The committee nominates suitable candidates to the regulator’s Board for approval.

When the FCA appoints a non-executive director, it sends them a letter of appointment – which includes details of terms and remuneration. Details of remuneration paid to non-executive directors can be found in the remuneration report on pages 51 to 53.

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

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

#### changes to the board during the year

There have been no appointments to the Board in the financial year. In July 2012 the Board agreed to reduce its size to six non-executive directors, including the chairman.

Janet Gaymer stood down from the Board on 1 February 2013, with Elaine Kempson and Roger Sanders standing down on 22 February 2013. We are grateful to Elaine, Janet and Roger for their significant contributions to the ombudsman service.

## board meetings

The Board met ten times during the financial year 2012/2013. Attendance at Board meetings is recorded below:

	<i>Board meetings</i>	<i>audit committee</i>	<i>nomination &amp; remuneration committee</i>	<i>quality committee</i>
Sir Nicholas Montagu, chairman	9/10	-	2/2	-
Gwyn Burr	8/10	-	2/2	-
Janet Gaymer	7/8	1/3	2/2	-
Alan Jenkins	10/10	3/4	-	1/1
Elaine Kempson	7/9	-	-	1/1
Julian Lee	10/10	4/4	2/2	-
Roger Sanders	9/9	3/3	-	0/1
Maeve Sherlock	10/10	1/2	-	1/1
Pat Stafford	10/10	-	1/2	0/1

The chairman leads the Board and ensures that it meets its statutory and corporate responsibilities. Agendas are divided into two parts – strategic issues and assurance issues – to reflect the Board’s roles and responsibilities. The chairman and the chief executive/chief ombudsman set agendas in advance. Meetings are structured to ensure there is enough time for important issues to be discussed.

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

Of the ten Board meetings that we held during the year, two were focused on broad strategic issues, and a third was the annual Board evaluation exercise. The other Board meetings focused on both ongoing assurance of the way in which the ombudsman service was being run *and* the major operational and funding challenges for the organisation in the context of PPI – as well as wider regulatory reform and social change.

### **independence of the board**

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

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

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

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

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

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

## conflicts of interest

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

## tenure policy

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

A non-executive director may be re-appointed by the FCA. In the case of the chairman, the re-appointment has to be approved by HM Treasury. Any non-executive 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 non-executive director.

A non-executive 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 both to the chairman and the regulator.

## performance evaluation

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

In line with good practice, these evaluation exercises are facilitated by external consultants every three years. Following an external review in 2011, we carried out an internal review of the Board's effectiveness in 2012. The review took the form of a confidential questionnaire, which covered the operation of the Board, the content of discussions, the administration of the Board, the role of the chairman, and also included a review of each of the Board subcommittees.

The questionnaire was completed by Board and executive team members. The Board also revisited the 2011 review to ensure that the actions had been followed up.

The chairman held meetings with each non-executive director to review the Board's role and responsibilities, as well as to discuss individual performance. The senior independent director led the performance evaluation of the chairman, taking into account the views of the non-executive directors and the executive team members.

The Board then discussed the findings from the questionnaires and from individual meetings in detail. They concluded that the Board was performing well overall, but that there was scope for some change to the Board itself and to the quality committee. There was general consensus that reducing the number of non-executive directors and executive attendees would provide a flexible and responsive Board, able to give strong strategic support to the service and help it meet the challenges that lay ahead. On the basis of this review, it was agreed the Board size should be reduced to six non-executive directors, including the chairman.

In relation to the quality committee, the Board concluded that arrangements for oversight of quality matters should reflect the fact that quality sits at the heart of the organisation – and should be a matter for the whole Board to consider. The Board agreed to new proposals to enhance quality assurance, which included the appointment of two Board members, Alan Jenkins and Pat Stafford, to act as "critical friends" on quality assurance including attending quarterly meetings with the independent assessor.

Based on his review of the non-executive directors' individual performance during 2012/2013, the chairman confirms that the performance of each non-executive director was effective and that each non-executive director committed sufficient time and resource to their role.

#### **indemnity of directors**

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

Directors' and officers' liability insurance cover is in place for the non-executive directors. Subject to the provisions of UK legislation, the company's Articles of Association provide an



indemnity for non-executive directors in relation to costs that they may incur in defending any proceedings brought against them, arising out of their positions as non-executive directors – where they are acquitted or where the court gives judgment in their favour.

### **corporate governance**

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

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

There are more details in our *annual review* about the full range of outreach and external liaison activities we carry out.

### **appointment of ombudsmen**

It is the Board's responsibility to appoint ombudsmen on terms that guarantee their independence. As at March 2013, the ombudsman panel is led by Natalie Ceeney as chief ombudsman – supported by one deputy chief ombudsman, one principal ombudsman, five lead ombudsmen, three managing ombudsmen and 143 other ombudsmen. Each member of the panel is appointed by the Board under paragraphs 4 and 5 to schedule 17 of the *Financial Services and Markets Act 2000*.

Our ombudsmen's professional, academic and technical qualifications cover every area that is relevant to our work. Each one is an expert in their own field – and their specialisms include the law and professional services, banking and credit, mortgages, insurance, and investment and pensions.

There is more information about our panel of ombudsman on our website –

[www.financial-ombudsman.org.uk/about/panel-ombudsmen.html](http://www.financial-ombudsman.org.uk/about/panel-ombudsmen.html)

## board committees

### the audit committee

The audit committee met on four occasions during the year. Members of the audit committee were:

- Julian Lee *chair*
- Janet Gaymer (to 31 January 2013)
- Alan Jenkins
- Roger Sanders (to 22 February 2013)
- Maeve Sherlock (from 1 October 2012 – 31 May 2013)
- Pat Stafford (from 3 June 2013)

Each member of the audit committee is experienced in financial matters. Julian Lee, chair of the audit committee, is a fellow of the Institute of Chartered Accountants in England and Wales (FCA), and has recent and relevant financial experience as chief operating officer and chief executive officer of large listed companies in the UK. Julian has worked in investment and corporate banking and with large private equity organisations, and has served on audit committees in six different organisations. He has also been partner in a global accounting firm.

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

The Board has reviewed the performance of the committee and is satisfied that the combined knowledge and experience of its members ensures that it fulfils its responsibilities effectively.

The audit committee's main terms of reference are:

- *financial reporting*  
To review and challenge accounting policies adopted and accounting practices used for unusual or significant transactions; and to assess whether appropriate standards have been followed.

- *internal controls and risk management systems*  
To keep under review the adequacy and effectiveness of internal financial control, and internal control 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. With effect from 1 April 2013, only the external relationship management element will remain, as the National Audit Office have been appointed by statute as the external auditors.

During the year the committee considered matters including the reserves policy, revenue recognition, our readiness preparations for the Olympics and the provision of our corporate banking services. The committee reviewed the annual internal audit programme to make sure it was adequately resourced, and the chair of the audit committee had regular meetings with the internal and external auditors. The committee also looked in depth at key risks on the corporate risk register and ensured that these risks were being managed appropriately.

2012/2013 is the final year of our external audit contract with Baker Tilly UK Audit LLP. Following the implementation of the *Financial Services Act 2012*, the National Audit Office became our external auditors from 1 April 2013. We will work with both auditors to ensure that the transition takes place smoothly and efficiently.

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

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

#### the nomination and remuneration committee

The nomination and remuneration committee met twice during the year. Members of the nomination and remuneration committee were:

- Sir Nicholas Montagu *chair*
- Gwyn Burr
- Julian Lee
- Janet Gaymer (to 31 January 2013)
- Pat Stafford

With effect from May 2013 all non-executive directors have been appointed members of the nomination and remuneration committee.

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

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

the ombudsman service's senior team, and the succession and recruitment risks for critical senior posts. To ensure succession planning for non-executive directors on the Board. To assess the skills and experience required to fill the post – taking into account existing the skills and experience already represented on the Board.

During the year the committee has appointed a replacement independent assessor and taken an active role in reviewing the organisational talent and succession plans. They have been involved in agreeing the ombudsman's plans for talent development more generally. The committee also agreed a recommendation from the executive to change the pay review cycle, moving it from April to July and an increase to maternity pay making it more reflective of our organisational values and bringing it more in line with external comparators.

The chief executive and the director of human resources & organisational development are invited to attend all committee meetings. However, they do leave the room when their own performance and remuneration is discussed.

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

#### **the quality committee**

As we note in the performance evaluation section of this report, the Board agreed that quality is central to the organisation and assurance on quality is a matter for the whole Board. The quality committee had its final meeting on 25 April 2012.

Members of the quality committee until July 2012 were:

- Alan Jenkins *chair*
- Elaine Kempson
- Roger Sanders
- Maeve Sherlock
- Pat Stafford

The responsibility for delivering quality is organisation-wide and involves all our people. The Board takes part in an annual file review, which it uses to inform a wider ranging discussion about our quality strategy. The executive and senior ombudsmen take part in a wider exercise

which informs thinking on quality objectives, standards and measurement. Two Board members, Alan Jenkins and Pat Stafford, have been appointed to act as "critical friends" on quality assurance matters.

Resources for our well-established customer experience and quality team have been increased to reflect the increasing size of our organisation. We will soon be investing in new quality assurance software that will enhance our management information capability.

Quality remains one of the key performance measures in our corporate scorecard.

## **the executive**

The Board is supported by the executive team, which is responsible for the day-to-day management of the organisation. The following people served on the executive team during the year:

- Natalie Ceeney CBE  
*chief executive and chief ombudsman*
- Tony Boorman  
*deputy chief executive and chief ombudsman*
- Julia Cavanagh  
*finance and performance director/company secretary*
- David Cresswell  
*communications and customer insight director*
- Chris McDermott  
*operations director*
- Caroline Wayman  
*principal ombudsman/legal director*
- Jacquie Wiggett  
*HR and organisational development director*
- Liz Brackley – joined the executive team on *2nd April 2013*  
*strategic service development director*

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

- proposes and manages the budget and approves major expenditure;
- plans, prioritises and oversees the delivery of the organisation's strategy and plans;
- ensure the organisation is running effectively and efficiently; *and*
- manages risk

## **internal audit**

Our internal auditors are PricewaterhouseCoopers UK LLP. The audit committee agrees the scope of work to be carried out on the organisation's financial systems and other processes and controls. The internal auditors attend the audit committee meetings to report on their findings. The chairman of the audit committee is available to discuss any relevant matters with PricewaterhouseCoopers UK LLP at any time.

During the year, the audit committee agreed a programme of work to ensure that assurance was provided in relation to material risks. This programme included audits undertaken by the internal auditors and in-house reviews of key risks. These internal audits helped to identify a number of actions to further strengthen our control environment. In particular, an audit of our business continuity plans identified ways to strengthen our planning in this area. Our audit committee reviews progress on all the actions we have agreed with internal audit.

## **risk management and internal control**

During the year we have continued to enhance the organisation's control environment.

We have further developed the targets that we set for the organisation through our organisational scorecard. This focuses on four areas – timeliness of case resolution, service standards and quality, financial performance, and our people. The overall goals for the organisation are cascaded throughout the organisation. This helps every department and team to understand the ombudsman service's goals – and how each team contributes to the success of the organisation as a whole.

Scorecards showing progress against targets are produced weekly at casework team level and monthly for the organisation as a whole. The organisational scorecard, along with supporting information, is reviewed in depth by the executive team before being submitted to the Board.

Performance against the organisation's targets is subject to an in-depth review by the Board on a quarterly basis. The Board also receives a monthly financial and operational update and detailed quarterly report.

Each year the executive reviews formally the internal governance arrangements for the organisation to ensure that risks are well managed, that major projects are governed effectively and that we have appropriate levels of challenge and debate. The terms of reference, membership and reporting structure of all executive sponsored groups and major projects were reviewed in 2012.

Major change programmes are overseen by a steering group, chaired by a relevant member of the executive team. Board members also offer their insight as and when it is required. Our PPI programme Board is chaired by the chief executive and chief ombudsman with two non-executive directors on the Board as critical friends.

The Board and executive undertake an annual strategic review of the risks facing the organisation. During the year they reviewed the effectiveness of the organisation's risk management and internal controls systems. This review covered all material controls including financial, operational and compliance controls.

Key risks identified across the service are recorded on a risk register, which is discussed monthly by the executive team and quarterly by the Board. The risk register is also considered by the audit committee as part of its approval of the internal audit programme for the year. Key risks are identified for a "deep dive" review by the committee. 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>
strategic	Responding to the PPI challenge and ensuring the ombudsman service continues to provide a service that is relevant and valued by our customers, the regulator and government.	PPI Programme management with clear executive and Board oversight.  Development priorities within our plan and budget, reviewed regularly by Board.
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"> <li>▪ customer needs</li> <li>▪ staffing</li> <li>▪ health and safety</li> <li>▪ business continuity</li> <li>▪ data protection</li> <li>▪ casework volatility</li> </ul>	The risk owner (an executive team member) has responsibility for ensuring an appropriate risk-mitigation plan, which is regularly reviewed and challenged by members of the executive team and Board.
external	Our ability to respond to changes in the external environment that could affect our ability to carry out our role effectively	Maintaining effective relationships and communication with our wide range of external stakeholders. Continuing to develop our service to meet changing needs of our customers.
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 new funding model and supplementary case fee for PPI cases help mitigate this risk.

## the independent assessor

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

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

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

The independent assessor produces an annual report for the Board – setting out the findings and recommendations she has made during the year. This year's report is attached as an annex on pages 77 to 82. The Board has accepted the independent assessor's report and her recommendations in full – and would like to thank the independent assessor for her contribution to helping us improve the service we offer.

The independent assessor, Linda Costelloe Baker, reached the end of her term of office on 26 May 2013. We would like to thank Linda for the enormous contribution she has made over the last three years and the insight her work has given the ombudsman service on its service delivery and on improving the customer experience for all. We wish her well for the future. The new independent assessor, Amerdeep Somal, joined the organisation on 3 June 2013. Amerdeep was appointed after a rigorous recruitment process, which included an interview panel of two Board members as well as independent evaluators.

## environmental policy

The Financial Ombudsman Service is committed to reducing its carbon emissions. Our staff fully support this commitment. The organisation recognises the importance of appropriate environmental policies and their relationship with good corporate governance practice.

We began working with the Carbon Trust in 2012 and we now form part of their carbon management programme.

We have developed our five-year carbon management plan and have set ourselves an ambitious carbon reduction target. We plan to reduce our relative carbon emissions by 30% over the next five years. To help deliver this target we have created an environmental committee that will help raise awareness across the organisation – and will lead a variety of projects to reduce our emissions.

As a responsible employer, we already;

- buy “green” electricity which is generated from renewable sources
- turn off lights and air conditioning outside core working hours
- use energy saving devices installed on all printers and photocopiers
- operate a “bin the bin” policy to encourage all staff to recycle – separate bins for non-recycling and food waste are provided
- encourage staff to recycle pens, pencils and batteries which are turned into money for our nominated charity
- shred, pulp and recycle confidential waste and case files
- ask suppliers/contractors to hold environmental accreditation as part of our procurement processes
- purchase stationery, paper, toners and consumables through one supplier which reduces the number of deliveries
- purchase environmental friendly stationery
- use fair-trade and free range products in our café
- use tap water rather than bottled mineral water during meetings.

To reduce our use of paper, we introduced an e-filing system in May 2012. Since then we have scanned over 18 million pages onto our systems. We are also encouraging businesses to send us their documentation via a secure network, which so far has prevented over 13,000 paper case

files – containing over 67,000 documents – being sent through the post. We plan to extend the e-filing system across the whole of the organisation within the next year.

## **equality and diversity**

We are committed to the fair and equal treatment of everyone we deal with. We believe that a diverse workforce helps deliver a service that meets the needs of all our customers and stakeholders. We work towards an equality and diversity standard in the way we provide our service – to help us identify and overcome any barriers that could prevent potential customers from accessing our services or work to the detriment of those people who are already using our service.

Our three strategic priorities on diversity and equality – published on our website – are set and monitored by our Board and executive team. On the ground, our work in this area is co-ordinated and championed by our customer service taskforce, which brings together senior staff from all areas of the organisation.

During the year our strategic and practical approach to diversity was independently assessed by Equality Accreditation Services Ltd over an eight-week period – and we were awarded for the second year running “gold standard” accreditation as a diversity assured organisation. We also achieved the first stage Investors in Diversity award, which checks our approach to equality and diversity. This is informed by accurate, in depth and up-to-date information and measures people’s feelings, perceptions, and experience of being involved with the ombudsman service.

We have continued to work with a range of external partners specialising in this area. These included Stonewall, the Employers’ Network for Equality and Inclusion, the National Centre for Diversity, the British Standards Institute, and a range of other disability, mental health and wellbeing charities.

Our in-house customer service group – made up predominantly of casework staff from across the organisation – also helps keep us focused on the fact that each customer may have individual needs that should be taken into account. The customer service group has contributed to a number of equality analyses (formerly known as “impact assessments”) that we carried out during the year.

We have also worked with disability and healthcare charities as part of our “omb|assador” activities. Our omb|assadors are employees who are interested – outside work – in helping to raise awareness of the ombudsman in their own local communities. As our frontline ambassadors they help promote the ombudsman locally where levels of awareness or usage of our service are lower. This year we have worked with schools and youth groups, the gay and lesbian community, different ethnic communities, and people who live in our own area in Tower Hamlets.

### **equality of the workforce**

Across our workforce, 46% are male and 54% are female (2012 - 51% and 49% respectively). At the end of the year, women accounted for 50% of our Board, 57% of our executive team and 37% of our panel of ombudsmen.

33% of our employees are from non-white ethnic backgrounds. In our voluntary survey 2% of our staff described themselves as disabled.

48% of people working at the organisation at the end of the year were aged between 25 and 35 – with 4% of our workforce older than 55. The age of our employees ranged from 18 to 65 years.

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

### **learning and development**

People who work at the ombudsman service make important – often life changing – decisions about the complaints that consumers refer to us. Our work matters, and quality is at the heart of everything we do. We are a people business – and our staff’s knowledge and professionalism matters more to us than almost anything else.

### **professional leadership**

Our ombudsmen are our professional leaders. They set the tone for the work we do and they determine our approach to the different types of disputes we see. This year, we have invested heavily in the development of our ombudsmen to enhance their role and capacity as the professional leaders of our organisation.

Our ombudsmen worked very closely with their casework colleagues – mentoring and sharing their knowledge. They are, of course, careful to retain their independence – as their decisions are the final “appeal” stage in our process.

We also worked hard to help our ombudsmen manage their *own* professional development. New ombudsmen went through a rigorous induction programme – during which an experienced colleague mentored them on every aspect of their role. We have also developed a continuing professional development programme for our ombudsmen to help them keep their knowledge and skills up to date.

During the year we recruited 32 ombudsmen of which 11 were internal applicants – which we believe demonstrates the benefit of investing in the professional expertise of all our case-handling staff.

#### **sharing knowledge and information**

To make sure we approach cases consistently, people’s knowledge must be up to date. We share casework news and information across the organisation using a variety of methods. We supplement this with regular in-house clinics, mentoring sessions, briefings and seminars – which help us share knowledge, learn and improve.

During the year, use of our internal discussion forums has increased significantly – and staff are increasingly comfortable with sharing their comments, questions and views about casework issues.

We are also committed to sharing our knowledge with the outside world. Making more information available about our approach, informed by the cases we have seen, makes it easier for consumers and financial businesses to resolve more complaints themselves – without needing to refer them to us. We have continued to increase the number of technical notes on our website, and add information on both the volume and types of complaints we see. Our focus for the coming year is to publish even more, including decisions published by ombudsman on our website, with effect from 1 April 2013.

## training

To deliver high quality services, we must train people properly – from the moment they join the organisation and throughout their time with us. During the year, our learning and development team have delivered induction training to 1,070 new casework adjudicators – over 900 of whom will be working in our PPI operation.

On average we have delivered 18.9 days of formal training per member of staff. This included training on management skills, leadership development, business influencing, training skills for technical experts, mentoring and technical product training - in addition to our extensive induction programme for new joiners. This represents a huge investment in people's skills – to help equip them to support our significant change and expansion programmes.

Casework adjudicators receive intensive training as part of their induction. We have continued to use an “academy-style” approach to develop new staff over a 9-12 week period. This training is a blend of taught modules, mentor support and on-the-job supervision and training. Subjects are a mix of technical product knowledge and core case-handling skills.

Our values underpin everything we train people to do – and we put the customer experience at the heart of things as soon as someone joins us. New casework staff are actively supported and mentored as they take on “live” cases, and they are given feedback on both the quality of their case assessment and on customer service standards. Essential technical skills are assessed throughout the learning process and adjudicators work towards being accredited at key tasks. This allows us to monitor quality and support people's development.

We continue to develop talent at all levels. We have launched an internship scheme for adjudicators who have the potential to progress quickly. These people are offered more challenging work assignments and spend time with members of the executive team. We offer aspiring manager programmes for those who would like to move into line management. We are currently piloting an “aspiring head of teams” programme, for those with potential to be senior managers.

We have also introduced a “lead adjudicator” role for our most able adjudicators to support them as they develop stronger case leadership skills, and as an apprenticeship model for future ombudsmen. Job shadowing has become a core part of how we support development – and forms part of our induction process to help new staff see their role in a wider context.

Our accredited training programme, run in partnership with Queen Margaret University, has now been completed by 523 casework adjudicators and we began piloting an advanced level in March 2013. This is a bespoke course designed to develop both practical and academic skills in case handling and dispute resolution and is set at masters level.

We invest in our people to help them become the best they can be – and we look out for leadership talent at every level in the organisation. Through our “aspiring” programmes we provide development for middle and senior managers who have leadership potential. Our middle manager leadership programme is now integrated into the wider development programme that we offer. We provide mentoring, coaching and individually tailored training where it would benefit a member of staff. We are also launching a coaching faculty to help us embed leadership skills and broaden our coaching capability.

## employee engagement

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

- our employee newsletter, *connect*
- “ask the executive” question times
- forums, bulletin boards and chat-rooms on our 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 informally
- divisional staff engagement by managers throughout the organisation
- formal cascade mechanisms

Our staff employee engagement team help co-ordinate and promote these activities – and to encourage staff, especially managers, to engage effectively 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.

For the third year running we participated in the *Sunday Times* Top 100 Employers staff engagement survey. We are delighted to have featured in the top 100 non-profit employers in Britain. We are currently in 25<sup>th</sup> position in the “top 100”. Our results in 2012/2013 were a significant improvement on the previous year, and we will continue to take part in the survey 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. We have significantly developed our health and safety infrastructure during the year. This included the appointment of an experienced health and safety adviser, who is leading our improvement plan. A 6-12 month plan is now in place to further strengthen our systems and raise awareness of health and safety issues among our employees.

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

- Work related incidents – 33
- RIDDOR (reporting of injuries, diseases and dangerous occurrences) incidents – 2
- ill health requiring first aid attention – 71

## **corporate social responsibility**

Our annual employee survey continues to show that our staff believe strongly in the importance of “giving something back” to the community. The nature of our work and our status as a not-for-profit organisation means that corporate social responsibility is central to what we do.

Many of our employees tell us they have chosen to work here because of our values – and because of the positive impact we can have on the world around us by resolving people’s complaints and helping to prevent problems in the first place. We do as much as we can to maximise this impact. For example, through our outreach programme, we provide frontline complaints training to hundreds of community and advice workers across the UK each year – empowering them to sort out problems in their role of “trusted intermediaries” in their local communities.

At a local level, we recognise our responsibilities as citizens in our own neighbourhood. Our employees support various local voluntary groups and charities in East London, including The Richard House Children's Hospice which was identified as our charity of the year during 2012/13. Fundraising activities by staff members raised £20,677 for the charity. 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 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.

## **information security and business continuity**

Because of the work we do, we need to store data. A significant amount of this data is personal data about individuals and third parties – all of whom have a right to expect that the information we hold about them is handled responsibly.

We are committed to protecting the information that we hold in line with the *Data Protection Act*. We train our employees in how to handle data during their induction and throughout their time with us.

We formally record and investigate any information security incidents. In the financial year 2012/2013 no protected personal data incidents have been assessed as requiring formal reporting to the Information Commissioner's Office.

We have a security working group, which includes representatives from departments across the organisation. This group discusses security risks, potential changes to policy and reviews the lessons learned from any security incidents.

We have arrangements in place for off-site office space in the event of full or partial disruption to our main offices.

## **freedom of information**

We became subject to the *Freedom of Information Act 2000* in November 2011. Since then, we have received more than 370 requests for information. These requests have tended to cover three broad areas: individual cases, corporate information, and requests for more detailed information about complaints than we currently publish every six months on our website. We have also finalised our plans to publish, from April 2013, the decisions made by our ombudsmen as part of our commitment to working openly and transparently.

**by order of the board**

company secretary

23 July 2013

# remuneration report

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

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

During 2012/13 the chairman received an annual fee of £74,970. A fee of £24,500 was paid to each of the other non-executive directors, and an additional fee of £5,000 was paid to those directors who chaired the audit committee and the quality committee. The senior independent director also received a fee equivalent to that paid to committee chairs.

All fees paid to non-executive directors will remain unchanged for the 2013/14 financial year.

	<i>note</i>	<i>total fees for year ended 31/3/13</i>	<i>total fees for year ended 31/3/12</i>
		<i>£</i>	<i>£</i>
Sir Nicholas Montagu	1	74,970	12,495
Gwyn Burr	2	24,500	10,710
Alan Jenkins	3	29,500	21,917
Julian Lee	4	29,500	26,265
Maeve Sherlock	5	29,500	23,439
Pat Stafford		24,500	21,420
Janet Gaymer	6	20,417	21,420
Elaine Kempson	7	22,458	21,420
Roger Sanders	8	22,458	21,420
Kate Lampard	9	-	24,076
Sir Christopher Kelly	10	-	62,475
Alan Cook	11	-	2,189
<i>Total</i>		<b>277,803</b>	269,246

*notes*

- 1 Sir Nicholas Montagu joined the Board on 1 February 2012.
- 2 Gwyn Burr joined the Board on 19 October 2011.
- 3 Alan Jenkins' fee includes an additional fee for chairing the quality committee from 23 February 2012.
- 4 Julian Lee's fee includes an additional fee for chairing the Audit Committee.
- 5 Maeve Sherlock's fee includes an additional fee as the senior independent director.
- 6 Janet Gaymer left the Board on 1 February 2013.
- 7 Elaine Kempson left the Board on the 22 February 2013.
- 8 Roger Sanders left the Board on 22 February 2013.

- 9 Kate Lampard's fee includes an additional fee for chairing the Audit Committee. Kate Lampard left the Board on 21 February 2012.
- 10 Sir Christopher Kelly left the Board on 31 January 2012.
- 11 Alan Cook left the Board on 29 April 2011.

During the year, the independent assessor, Linda Costelloe Baker, received a salary of £98,624 for four days a week, pension contributions of £14,794 and other benefits amounting to £3,200. Linda Costelloe Baker's term of office expired on the 26 May 2013.

#### expenses incurred by board members

In line with the memorandum of association, the directors are entitled to be paid travel, hotel and other expenses, which are reasonable and have been properly incurred. The directors' expenses policy is available on our website. The expenses incurred by, or on behalf of, the directors during the 2012/2013 financial year are shown in the following table.

	<i>travel</i>	<i>accommodation</i>	<i>entertaining</i>	<i>total</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Sir Nicholas Montagu	-	-	230	230
Janet Gaymer	-	-	-	-
Alan Jenkins	-	-	-	-
Elaine Kempson	659	438	-	1,097
Julian Lee	1,760	544	115	2,419
Roger Sanders	-	-	-	-
Maeve Sherlock	469	-	-	469
Pat Stafford	933	62	-	995
Gwyn Burr	-	-	-	-
<i>Total</i>	<b>3,821</b>	<b>1,044</b>	<b>345</b>	<b>5,210</b>

## **executive remuneration**

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

### **salary**

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

### **reward scheme**

In line with the recommendations of the Hutton Review into Fair Pay in the Public Sector (March 2011) all members of the executive team have their remuneration structured so that an element of their salary is “at risk”. 15% of their salary is held back until the end of the year – and is paid only if the organisation’s performance is agreed by the Board to be satisfactory. The level of payment is determined by the nomination and remuneration committee who can award up to an additional 5% of salary to individual executives for exceptional performance.

### **pension**

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

### **other benefits**

Members of the executive team are eligible to take part in the flexible benefit arrangements, which are open to all employees except non-executive directors. These arrangements provide life assurance (up to four times of salary), permanent health cover, personal accident insurance and a healthcare plan. Each executive also receives a cash benefit allowance of £600 a year they can spend on other benefits available under the flexible benefit plan.

remuneration and benefits for the executive team

		<i>salary*</i>	<i>pension</i>	<i>other benefits**</i>	<i>total for year ended 31/3/13</i>	<i>total for year ended 31/3/12</i>
		£	£	£	£	£
Natalie Ceeney		222,000	27,912	6,152	256,064	236,444
Tony Boorman	<sup>1,2</sup>	185,625	20,625	48,955	255,205	262,503
Julia Cavanagh		166,750	22,255	8,524	197,529	192,290
David Cresswell		135,125	17,383	4,748	157,256	137,993
Chris McDermott	<sup>3</sup>	184,000	19,200	6,431	209,631	16,998
Caroline Wayman		182,000	22,786	5,158	209,944	163,230
Jacque Wiggett		135,125	17,431	4,578	157,134	138,136
David Thomas	<sup>4</sup>	-	-	-	-	69,511
Simon Rouse	<sup>5</sup>	-	-	-	-	105,591
<i>Total</i>		<b>1,210,625</b>	<b>147,592</b>	<b>84,546</b>	<b>1,442,763</b>	1,322,696

notes

- 1 Pension contributions shown for Tony Boorman were paid as cash in lieu of participation in the pension scheme
  - 2 During the year the service leased a flat in London Docklands. This has been made available to Tony Boorman for the year. The cost of the benefit (including associated tax) amounted to £44,475 (included above in “other benefits”). This benefit ended at 31 May 2013
  - 3 Chris McDermott joined the executive team on 1 March 2012 as operations director
  - 4 David Thomas retired on 31 March 2012. Prior to his retirement he stood down from the executive team on 1 September 2011, and worked for the service in a part time advisory capacity for the remainder of the year. During 2012/13 David has worked for the ombudsman on a part time consultancy basis
  - 5 Simon Rouse resigned on 11 November 2011.
- \* Salary cost represents base salary including salary at risk.



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

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

	<i>note</i>	<i>travel</i>	<i>accommodation</i>	<i>entertaining</i>	<i>prof subs</i>	<i>total for year ended 31/3/13</i>
		<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Natalie Ceeney	<sup>1</sup>	2,231	1,257	722	350	4,560
Tony Boorman	<sup>1</sup>	605	868	485	-	1,958
Julia Cavanagh		10	356	7	405	778
David Cresswell		659	559	84	-	1,302
Chris McDermott		294	-	-	-	294
Caroline Wayman	<sup>1</sup>	459	694	20	-	1,173
Jacque Wiggett		-	-	-	134	134
<i>total</i>		<b>4,258</b>	<b>3,734</b>	<b>1,318</b>	<b>889</b>	<b>10,199</b>

1 Includes accommodation and travel for attendance at INFO 2012- Copenhagen, Denmark

This table shows the salary bands in place at 31 March 2013.

Job Family	Number of staff (*FTE)	Range of salary earned **
executive	7	£115,000 to £190,000
ombudsmen, lead ombudsmen and managing ombudsmen	116	£58,806 to £112,267
heads of department and senior managers	64	£60,000 to £111,920
managers	271	£30,111 to £70,623
adjudicators	1690	£22,000 to £58,985
helpline staff	103	£20,622 to £33,820
casework administration staff	233	£16,400 to £53,980
support staff (including finance, IT, facilities, communications and HR)	188	£16,125 to £80,000

\*full time equivalents

\*\* not including salary at risk

#### pension scheme

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

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

<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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial accounts; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that:

- are sufficient to show and explain the company's transactions;
- disclose with reasonable accuracy, at any time, the financial position of the company; and
- enable them to ensure that the financial statements comply with the Companies Act 2006.

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.

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

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

We have audited the financial statements which comprise the Income and Expenditure Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Reserves, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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, 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 [www.frc.org.uk/apb/scope/private.cfm](http://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 2013 and of its surplus 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 matter 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, Statutory Auditor  
St Philips Point, Temple Row, Birmingham B2 5AF  
Date: 24 July 2013

# corporate information

**name**

Financial Ombudsman Service Limited

**registered office**

South Quay Plaza 2  
183 Marsh Wall  
London  
E14 9SR

**bankers**

Lloyds TSB Bank plc  
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London  
EC2V 7HN

**auditors**

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

**internal auditors**

PricewaterhouseCoopers UK LLP  
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London  
SE1 2RT

**website**

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

**registered no. 03725015**

England and Wales  
company limited by guarantee

**Income and expenditure account  
for the year ended 31 March 2013**

	Notes	2013 £'000	2012 £'000
<b>Continuing operations</b>			
Revenue	3	162,928	126,435
Exceptional item – special levy	3	0	25,000
		162,928	151,435
Administrative costs		(162,566)	(107,027)
		362	44,408
Other operating income	4	326	245
<b>Operating surplus</b>		<b>688</b>	<b>44,653</b>
Interest receivable and similar income	5	130	274
<b>Surplus on ordinary activities before taxation</b>	<b>6</b>	<b>818</b>	<b>44,927</b>
Tax charge on surplus on ordinary activities	7	(55)	(43)
<b>Surplus on ordinary activities after taxation</b>		<b>763</b>	<b>44,884</b>

**Balance sheet as at 31 March 2013**

	Notes	2013 £'000	2012 £'000
<b>Fixed assets</b>			
Tangible assets	11	10,170	7,817
<b>Current assets</b>			
Debtors	12	62,442	14,666
Cash at bank and in hand		84,563	50,524
		147,005	65,190
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	13	(4,472)	(4,430)
<b>Net current assets</b>		<b>142,533</b>	<b>60,760</b>
<b>Total assets less current liabilities</b>		<b>152,703</b>	<b>68,577</b>
<b>Non-current liabilities</b>			
Provisions for liabilities	15	(2,971)	(2,971)
Net pension liability	21(d)	(4,445)	(4,266)
		(7,416)	(7,237)
<b>Accruals and deferred income</b>	16	<b>(95,900)</b>	<b>(12,270)</b>
<b>Net assets</b>		<b>49,387</b>	<b>49,070</b>
<b>Capital and reserves</b>	20	<b>49,387</b>	<b>49,070</b>

The financial statements on pages 62 to 76 were approved and authorised for issue by the board of directors on 23 July 2013, and are signed on behalf of the board of directors by:

Sir Nicholas Montagu, chairman  
23 July 2013  
Company number: 03725015

**Statement of total recognised gains and losses  
for the year ended 31 March 2013**

	Notes	2013 £'000	2012 £'000
<b>Surplus for the year</b>		<b>763</b>	44,884
Actuarial losses on pension scheme	21 (i)	(446)	(2,863)
<b>Total recognised gains for the year</b>		<b>317</b>	42,021

**Reconciliation of movements in reserves  
for the year ended 31 March 2013**

	Notes	2013 £'000	2012 £'000
Total recognised gains for the year		317	42,021
Accumulated surplus at 1 April		49,070	7,049
<b>Accumulated surplus at 31 March</b>		<b>49,387</b>	49,070



**Cash flow statement  
for the year ended 31 March 2013**

	Notes	2013 £'000	2012 £'000
<b>Net cash inflow from operating activities</b>	i	<b>40,669</b>	49,482
Returns on investments		136	137
Taxation (UK corporation tax paid)		(45)	(19)
Capital expenditure and financial investment (payments to acquire tangible fixed assets)	11	(6,721)	(6,142)
<b>Net cash inflow before financing</b>		<b>34,039</b>	43,458
<i>Financing</i>			
Movement in long term borrowings	14	0	0
Increase in cash in the year		<b>34,039</b>	43,458
<b>Cash at 1 April</b>		<b>50,524</b>	7,066
<b>Cash at 31 March</b>		<b>84,563</b>	50,524

**Notes to the cash flow statement  
for the year ended 31 March 2013**

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

		2013 £'000	2012 £'000
Operating surplus for the year		<b>688</b>	44,653
Depreciation	11	<b>4,364</b>	2,208
Loss on disposal of fixed assets		4	398
Increase in debtors		(47,776)	(1,258)
Increase in creditors		32	2,181
Increase in provision for liabilities		0	2,193
Increase / (decrease) in accruals and deferred income		<b>83,630</b>	(620)
		<b>40,942</b>	49,755
<b>Defined benefit pension costs</b>			
Contributions			
Deficit reduction contributions		(273)	(273)
<b>Net cash inflow from operating activities</b>		<b>40,669</b>	49,482

## Notes to the accounts – for the year ended 31 March 2013

### 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 recognition

The Financial Ombudsman Service carries out its statutory functions on a not-for-profit basis. Revenue is recognised on a basis which reflects the level of activity in progressing cases in the accounting period.

#### Sources of revenue

The principal sources of revenue are:

- Annual levy

Each business that comes within the jurisdiction of the Financial Ombudsman Service is required to pay an annual levy based on the permissions given to that firm by one of the Financial Services Authority (Financial Conduct Authority from 1 April 2013) (for the Compulsory Jurisdiction), the Financial Ombudsman Service (for the Voluntary Jurisdiction) or The Office of Fair Trading (for the Consumer Credit Jurisdiction). Businesses in the Compulsory and Voluntary jurisdictions pay an annual levy, whilst those in the Consumer Credit jurisdiction pay a levy every five years.

- Standard 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.

- Supplementary case fees

Each business that has chargeable PPI complaints referred to the Financial Ombudsman Service is required to pay a supplementary case fee for the twenty sixth and all subsequent complaints formally taken on for investigation in the financial year.

#### Recognition bases

Fixed standard case fees and supplementary case fees are charged irrespective of the time and other costs incurred relating to the specific case. The costs directly incurred in dealing with cases are expensed as incurred and the following recognition bases have been used in order to reflect the level of activity in measuring the performance in progressing cases during the year.

- Levy Income

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

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

- Case fee income

Standard case fee income for all jurisdictions is recognised in the month in which the case is closed.

For supplementary case fees, a proportion of the income (2012/13: £85 per case, being 10% of the combined standard case fee and supplementary case fee) is recognised in the month in which the case is formally taken on for investigation, to reflect the work performed on the case prior to this point. The remainder of the supplementary case fee (2012/13: £265 per case) is deferred and recognised as income in future periods.

In view of the very high level of PPI complaints which have been referred for investigation and the lack of clarity regarding the future level of complaints there remains significant uncertainty regarding the time and costs involved in dealing with current and future cases. This uncertainty, combined with the potential impact on the future funding of the Financial Ombudsman Service has led the Financial Ombudsman Service to adopt a policy whereby the deferred element of the supplementary case fee is recognised at a point of certainty, in the month in which the case is resolved, which is consistent with the approach taken with the standard case fee.

Whilst there remains significant uncertainty regarding the outcome of the PPI complaints, if in future periods this recognition basis would result in the Financial Ombudsman Service recognising a material surplus, it is expected that a further amount will be deferred.

### **Deferred income**

Businesses in the Consumer Credit Jurisdiction buy a five year licence. For the five years from 1 April 2007 to 31 March 2012 only, in order to spread the income over the period of the licence, only part of the cash received was taken as income. This was based on the number of cases that were closed in the year. The balance of income not taken to the income & expenditure account over the five year period was shown in the deferred income account at 31 March 2012. An amount is released to income each year to recognise the difference between the costs incurred in dealing with cases and the income now being received from 1 April 2012.

Amounts billed and collected by the Financial Services Authority (Financial Conduct Authority from 1 April 2013) in advance for levy due the following year are treated as deferred income.

The proportion of the supplementary case fees invoiced but not recognised as income is treated as deferred income. Amounts will be released to income on a basis which reflects the activity in progressing PPI cases during the period.

## **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 remaining period of the lease
Premises fees and stamp duty	Over remaining period of the lease
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 three to five years *
Fixtures and fittings	Over remaining period of the lease
Motor vehicles	Over four years

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

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

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

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

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

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

## **Operating lease commitments**

The annual rentals of operating leases are charged to the income and expenditure account on a "straight line" basis over the lease term, after taking into account any rent free periods.

## Taxation

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

### Provision for dilapidations

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

The company is required to perform dilapidation repairs on leased properties prior to the properties being vacated at the end of their lease term.

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

<b>3. Revenue</b>	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Annual levy	20,823	23,595
Standard case fees	102,598	102,840
Supplementary case fees	39,507	0
	<b>162,928</b>	<b>126,435</b>

An additional levy of £25m was raised for 2011-12. This followed the consultation carried out in early 2011 and represented additional funds required to supplement our financial reserves in response to increased volatility in demand. This has been shown as an exceptional item at 31 March 2012.

<b>4. Other operating income</b>	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Publications	289	227
Conferences	35	15
Miscellaneous	2	3
	<b>326</b>	<b>245</b>

<b>5. Interest receivable and similar income</b>	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Bank interest	136	137
Interest cost on pension plan liabilities	(1,035)	(1,019)
Expected return on pension plan assets	1,029	1,156
	<b>130</b>	<b>274</b>

<b>6. Surplus on ordinary activities before taxation</b>	<b>Notes</b>	<b>2013</b>	<b>2012</b>
		<b>£'000</b>	<b>£'000</b>
This is stated after charging:			
Staff costs	8	99,151	65,375
Depreciation	11	4,364	2,208
Loss on disposal of fixed assets		4	398
Operating lease rentals: premises		4,484	3,955
Operating lease rentals: other		350	150
Bad debts written off		767	702
Auditor's remuneration	10	123	81

<b>7. Tax charge on surplus on ordinary activities</b>	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
<i>Analysis of tax charge on ordinary activities</i>		
United Kingdom corporation tax at 20% (2012:20%) for the year	(54)	(44)
Adjustments in respect of prior years	(1)	1
<b>Current tax charge for the current year</b>	<b>(55)</b>	<b>(43)</b>

*Factors affecting tax charge for the current year*

The tax assessed for the year is lower than that resulting from applying the small profits rate of corporation tax in the UK: 20% (2012:20%).

The differences are explained below:

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Surplus on ordinary activities before taxation	<b>818</b>	44,927
Tax at 20% (2012: 20%) thereon	<b>(164)</b>	(8,985)
Effects of:		
Non taxable income and expenditure	<b>110</b>	8,941
Prior period adjustments	<b>(1)</b>	1
<b>Current tax charge for year</b>	<b>(55)</b>	<b>(43)</b>

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

<b>8. Staff costs</b>	<b>Notes</b>	<b>2013</b>	<b>2012</b>
		<b>£'000</b>	<b>£'000</b>
Salary costs		<b>78,299</b>	51,671
Social security costs		<b>8,967</b>	5,814
Employer's pension costs - money purchase scheme		<b>7,585</b>	5,143
Flexible benefit costs		<b>4,300</b>	2,747
	<b>6</b>	<b>99,151</b>	65,375
Employer's pension costs			
Included in interest receivable		<b>6</b>	(137)
Included in statement of total recognised gains & losses		<b>446</b>	2,863
<b>Total employment costs</b>		<b>99,603</b>	68,101

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

	<b>2013</b>	<b>2012</b>
	<b>No.</b>	<b>No.</b>
Ombudsmen	<b>100</b>	64
Case-handlers	<b>1,470</b>	850
Other	<b>718</b>	524
	<b>2,288</b>	1,438

## 9. Directors' remuneration

Directors' remuneration payable during the year amounted to £277,803 (2012: £269,246). The chairman, who is also the highest paid director, was paid at a rate of £74,970 per annum (2012: £74,970), the senior independent director and the committee chairmen were paid at a rate of £29,500 per annum (2012: £26,265) and the other directors were paid at a rate of £24,500 per annum (2012: £21,420). Further details are provided in the remuneration report on pages 51 to 53.

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.

## 10. Auditor's remuneration

	2013 £'000	2012 £'000
Audit	110	66
Tax	13	15
	<b>123</b>	<b>81</b>

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

## 11. Tangible assets

	Leasehold improvements and premises fees £'000	Computer equipment and software £'000	Furniture and equipment £'000	Motor Vehicle £'000	Total £'000
<b>Cost</b>					
At 1 April 2012	4,881	18,517	5,068	9	28,475
Additions	0	3,687	3,034	0	6,721
Disposals/Scrap	0	(8,757)	0	0	(8,757)
<b>At 31 March 2013</b>	<b>4,881</b>	<b>13,447</b>	<b>8,102</b>	<b>9</b>	<b>26,439</b>
<b>Depreciation</b>					
At 1 April 2012	4,823	12,885	2,941	9	20,658
Charge for year	18	2,796	1,550	0	4,364
Disposals/Scrap	0	(8,753)	0	0	(8,753)
<b>At 31 March 2013</b>	<b>4,841</b>	<b>6,928</b>	<b>4,491</b>	<b>9</b>	<b>16,269</b>
<b>Net book value at 31 March 2013</b>	<b>40</b>	<b>6,519</b>	<b>3,611</b>	<b>0</b>	<b>10,170</b>
At 31 March 2012	58	5,632	2,127	0	7,817

## 12. Debtors

	2013 £'000	2012 £'000
Trade debtors	56,717	10,677
Other debtors	2,096	596
Prepayments	3,629	3,393
	<b>62,442</b>	<b>14,666</b>

## 13. Creditors: amounts falling due within one year

	2013 £'000	2012 £'000
Trade creditors	1,250	2,523
Other taxes & social security	2,464	1,602
Other creditors	704	262
UK corporation tax	54	43
	<b>4,472</b>	<b>4,430</b>

#### 14. Bank facilities

The company took out a revolving loan facility of £15m dated 24 January 2003 which ended in January 2013. There was no draw down of the account during 2012/13 or 2011/12.

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

#### 15. Provision for liabilities

	2013 £'000	2012 £'000
Provision brought forward at 1 April	2,971	778
Movement in the year	0	2,193
Provision carried forward at 31 March	2,971	2,971

The provision at 31 March 2012 and 2013 reflects the recommendations made following a property review undertaken by an external consultant.

#### 16. Accruals and deferred income

	2013 £'000	2012 £'000
CJ levy billed in advance	1,174	993
Supplementary Case Fees	76,239	0
CCJ Levy	1,689	1,789
Accruals	16,798	9,488
	95,900	12,270

#### 17. Financial commitments

As at 31 March 2013, there were capital commitments contracted for but not provided totaling £2,646,000 (2012: £897,630). This was in relation to a contract for work at Exchange Tower (2012: Independent House) and represents work contracted for but not carried out as at 31 March 2013.

#### 18. Operating lease commitments

As at March 2013, the company was committed to making the following payments during the next year, in respect of operating leases:

	Premises 2013 £'000	Other 2013 £'000	Premises 2012 £'000	Other 2012 £'000
Leases which expire:				
Within 1 yr	0	0	0	0
Between 2 & 5 yrs	6,348	352	4,932	252
After 5 yrs	2,283	0	0	0



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

<b>Floor</b>	<b>Start of current lease</b>	<b>Future break clauses</b>	<b>End of lease</b>
<b>SQP 2</b>			
1 – 4	November 1999		November 2014
6	July 2001		November 2014
7	December 2008		November 2014
9	September 2008		November 2014
<b>SQP 3</b>			
3	January 2013	June 2015	June 2020
8	December 2011		November 2014
12	March 2011		November 2014
13	March 2011		November 2014
14	July 2011		November 2014
<b>Independent House</b>			
	December 2011		February 2015
<b>Exchange Tower</b>			
Various	Various between March and November 2013	Various	Various between September 2014 and August 2023

## 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.

- a) The Financial Ombudsman Service entered into an agency agreement with the Financial Services Authority whereby, with effect from 1 April 2004, the Financial Services Authority collects tariff data, issues levy invoices and collects levy monies on behalf of the Financial Ombudsman Service, at a net cost of £84,000 for the year ended 31 March 2013 (2012: £87,600).
- b) 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 2013 is £114,077 (2012: £85,875).
- c) An amount of £1,135,335 was due from the Financial Services Authority at 31 March 2013 (2012: £118,968). This was the net balance due following the billing of levies to firms and is included in 'Other debtors' (see note 12).
- d) 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.
- e) From 1 April 2013, the Financial Services Authority changed its name to the Financial Conduct Authority.

Other than disclosed above, there were no related party transactions during the year (2012: £Nil).

<b>20. Accumulated surplus</b>	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Accumulated surplus before net pension liability	53,832	53,336
Net pension liability	(4,445)	(4,266)
Accumulated surplus after net pension liability	49,387	49,070

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

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

### *(a) Main financial assumptions*

	<b>31 March 2013</b>	<b>31 March 2012</b>	<b>31 March 2011</b>
	<b>% pa</b>	<b>% pa</b>	<b>% pa</b>
RPI inflation	3.5	3.4	3.8
Pension increase (RPI maximum 5%)	3.2	3.1	3.4
Discount rate for plan liabilities	4.6	4.8	5.6

**(b) Mortality assumptions**

**Life expectancy at age 60**

		<b>31 March 2013</b>	31 March 2012	31 March 2011
		<b>years</b>	years	years
Age 60, at the balance sheet date	Males	<b>28.9</b>	28.8	27.6
	Females	<b>30.2</b>	30.1	29.5
Age 60, 20 years after the balance sheet date	Males	<b>30.8</b>	30.7	29.7
	Females	<b>32.2</b>	32.2	31.5

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

	<b>at 31 March 2013</b>		at 31 March 2012		at 31 March 2011	
	<b>Long-term rate of return expected % pa</b>	<b>Value £'000</b>	Long-term rate of return expected % pa	Value £'000	Long-term rate of return expected % pa	Value £'000
Equities	<b>7.3</b>	<b>9,656</b>	7.6	7,967	8.4	8,286
Property	<b>6.6</b>	<b>1,211</b>	6.6	1,359	8.1	1,331
Corporate bonds	<b>3.9</b>	<b>7,969</b>	4.3	7,996	5.3	6,866
Other	<b>0.8</b>	<b>1,088</b>	1.0	178	0.8	127
Combined*	<b>5.5</b>	<b>19,924</b>	5.9	17,500	7.0	16,610

\* 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 2013.

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

	<b>Value at 31 March 2013 £'000</b>	Value at 31 March 2012 £'000	Value at 31 March 2011 £'000
Fair value of plan assets (see 21 (c))	<b>19,924</b>	17,500	16,610
Present value of funded defined benefit obligations (see 21 (f))	<b>(24,369)</b>	(21,766)	(18,423)
Gross pension liability recognised on the balance sheet	<b>(4,445)</b>	(4,266)	(1,813)
Related deferred tax	<b>0</b>	0	0
Net pension liability	<b>(4,445)</b>	(4,266)	(1,813)

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

	<b>2013</b>	2012
	<b>£'000</b>	£'000
Interest cost	<b>1,035</b>	1,019
Expected return on assets	<b>(1,029)</b>	(1,156)
Credit / (charge) recognised in income and expenditure account	<b>6</b>	(137)

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

	<b>2013</b>	2012
	<b>£'000</b>	£'000
Opening defined benefit obligation	<b>21,766</b>	18,423
Interest cost	<b>1,035</b>	1,019
Actuarial losses on liabilities*	<b>1,961</b>	2,784
Net benefits paid out	<b>(393)</b>	(460)
Closing defined benefit obligation	<b>24,369</b>	21,766

\* includes changes to the actuarial assumptions.

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

	<b>2013</b>	2012
	<b>£'000</b>	£'000
Opening fair value of assets	<b>17,500</b>	16,610
Expected return on assets	<b>1,029</b>	1,156
Actuarial gains / (losses) on assets	<b>1,515</b>	(79)
Contributions by the employer	<b>273</b>	273
Net benefits paid out	<b>(393)</b>	(460)
Closing fair value of plan assets	<b>19,924</b>	17,500

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

	<b>2013</b>	2012
	<b>£'000</b>	£'000
Expected return on assets	<b>1,029</b>	1,156
Actuarial gains / (losses) on assets	<b>1,515</b>	(79)
Actual return on assets	<b>2,544</b>	1,077

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

	<b>2013</b>	2012	2011	2010	2009
	<b>£'000</b>	£'000	£'000	£'000	£'000
Total actuarial (losses) / gains	<b>(446)</b>	(2,863)	1,452	(694)	(4,460)
Cumulative amounts of (losses)/gains recognised in STRGL	<b>(9,194)</b>	(8,748)	(5,885)	(7,337)	(6,643)

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

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Fair value of assets*	19,924	17,500	16,610	16,092	10,492
Defined benefit obligation	(24,369)	(21,766)	(18,423)	(19,470)	(15,704)
(Deficit) in plan	(4,445)	(4,266)	(1,813)	(3,378)	(5,212)

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

*(k) History of experience gains and losses*

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Experience gains / (losses) on assets	1,515	(79)	(250)	3,162	(3,316)
Experience (losses) / gains on plan liabilities**	(87)	(397)	137	635	(62)

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

*(l) Contributions*

*Defined benefit scheme*

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

With effect from 1 April 2011, the service has agreed to make annual contributions of £273,000 over the next ten years to fund the deficit. Amounts paid in the year to 31 March 2013 were £273,000 (2012: 273,000).

*Defined contribution scheme*

The Financial Ombudsman Service made normal contributions totalling £7,585,331(2012: £5,143,470) to the defined contribution scheme.

## **TO THE BOARD OF THE FINANCIAL OMBUDSMAN SERVICE**

### **THE INDEPENDENT ASSESSOR'S ANNUAL REPORT 2012 - 2013**

I am appointed by the board of the Financial Ombudsman Service and my role 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 investigate or uphold a complaint about a financial business - service is about practical handling and service delivery rather than the outcome of a complaint about a financial business.

The Ombudsman Service recorded receiving 2,397 service complaints (2011-12 = 2,382) and 73% were settled by a Team Manager or equivalent and not escalated to a senior manager, normally a Managing Ombudsman or Head of Casework. Over the year as a whole, 54% of the complainants who made a service complaint to an Ombudsman Service senior manager then asked me for an independent review, compared with 49% last year.

There is a tendency to assume that people only complain of poor service if they don't get what they wanted in their complaint about a financial business. For cases that had been concluded by the Ombudsman Service with a known outcome, 26% of the service complaints I reviewed this year were on cases where the Ombudsman Service had upheld the complaint about the financial business; in 18%, the outcome had been accepted by the consumer.

#### **complaints within my remit**

From 1 April 2012 to 31 March 2013 I received 395 (2011-12 = 304) complaints within the Independent Assessor's remit, a 30% year on year rise. Only 5% were linked to payment protection insurance investigations, though the number is slowly rising; complaints from financial businesses remained low at 2%.

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

103 service complaints (2010-11=62) were made to me whilst the Ombudsman Service's investigation into a complaint about a financial business was still underway.

My Terms of Reference state I normally review a complaint after the Ombudsman Service has concluded its investigation and I check the Ombudsman Service's case record to see if there are exceptional circumstances which mean I should require the investigation to be suspended. I used this power in 5 cases this year, all of which related to the handling of evidence and in all of them I found the service to have been adequate – not quite good enough - rather than satisfactory.

I could complete 26 of these "midway" cases without getting in the way of the Ombudsman Service's ongoing investigation. I was satisfied with the service provided in around half of these cases and my review may have prevented a festering grievance from affecting the remainder of the Ombudsman Service's investigation.

In 72 "midway" cases I decided that I would complete my review once the Ombudsman Service had concluded the case. In most, the main cause of complaint was not a practical handling

problem but disagreement with an Adjudicator's assessment and I explain that the next step is an Ombudsman, not me.

## 2) opinions

During the year I issued 311 formal Opinions (2010-11 = 268). In 64% (up from 54% last year) I upheld the complaint of poor service, though there was another significant fall in the proportion of cases where I needed to make recommendations - down to 27% from 35% last year and 46% the year before that. The Ombudsman Service has made significant strides in the way it responds to service complaints and is more consistent in offering financial compensation for causing avoidable distress and inconvenience. If I am satisfied that the amount offered by the Ombudsman Service is reasonable and in line with the published guidance; that there has been a suitable apology; and that the Ombudsman Service has demonstrated that it intends to learn from whatever problem has been drawn to its attention, then there is no need for me to add to that. I class such cases as critical: no recommendations.

The Ombudsman Service accepted all my case related recommendations, most of which were for financial compensation for avoidable distress and inconvenience, with sums ranging from £25 to £850 and an average of £269 (2011-12= £227). In 43 cases where I recommended compensation, the Ombudsman Service had not offered any before my review.

In one case, I recommended compensation for loss when a problem with the Ombudsman's determination meant a 2 month delay before the financial business met the award of £100,000. The loss of interest on the sum awarded came to £1,333, which the Ombudsman Service paid. In one case I recommended compensation to cover the reasonable legal costs incurred by both the complainant and the financial business after a failure of fair process and the Ombudsman needing to clarify the determination. Legal costs and compensation of £800 for each party amounted to £7,044.40, the largest financial recommendation I made this year.

### satisfactory service

In 35% of cases (down from 46% last year) 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**. Although the percentage fall might appear to be a cause for concern, there has been a marked reduction in service complaints which were solely about lengthy queues for an Ombudsman and which I counted as satisfactory handling if the complainant had been kept appropriately informed.

I have noted as good practice:

- prioritising cases where the decision will be on whether the complaint is within the Ombudsman Service's jurisdiction and cases which look as though they may need to be resolved elsewhere (for example by the courts);
- letting both financial business and consumer know when a case needs to be transferred and the "new" member of staff introducing themselves;
- recognising that where one consumer has a number of cases that need to be handled by different parts of the Ombudsman Service, the various Adjudicators need to keep in touch with each other;

- sending a helpfully detailed reply covering what was, and was not, on the Ombudsman Service case file;
- giving a confident and easy to understand explanation about which documents the consumer is entitled to see;
- setting a deadline for a response and sending a reminder on the due date;
- explaining that making a service complaint would not re-open the complaint about the financial business and would not change the Ombudsman's decision;
- explaining that if the consumer did not accept the Ombudsman's decision by the due date, the financial business would not be required to pay the redress ordered by the Ombudsman;
- apologising for failures of good service as soon as they are spotted.

The Ombudsman Service continues to record positive comments to use as feedback and it's important to remember that highlighting good practice is an effective method of service improvement.

### **adequate but not quite good enough**

I classed 24% of cases as **Adequate** (19% last year), 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.

### **critical – poor service**

I classed 41% of cases as **Critical** (up from 36% last year) 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. There were problems with; not completing adequate file notes for phone calls; using post-it notes to record important information; incorrect referrals to the Financial Services Compensation Scheme; badly managed handovers when staff changed; failing to keep people informed; sending routine letters that did not apply; weak and defensive responses to a complaint of undoubted poor service; failing to handle requests for material evidence as they should be. I noted in particular that an Adjudicator should not say it would be “highly unlikely” for the Ombudsman to reach a different view because an appeal to the Ombudsman is a fresh look at all the circumstances, not a foregone conclusion. Ombudsmen reach a substantially different conclusion from the Adjudicator in around 11% of cases referred to them, quite often when further evidence is provided.

### **major themes and advice**

The Terms of Reference limit the Independent Assessor to making recommendations that apply only to the person who has made the complaint to me. When I spot a repeated problem I provide advice to the Ombudsman Service on what it could do to avoid the cause of a specific service difficulty: the Ombudsman Service's response can sometime take a very long time.

### **advice on explaining things - access to evidence**

I have raised concerns on the way the Ombudsman Service handles access to evidence since I started as Independent Assessor in 2010. The Ombudsman Service has to work with legal



requirements - Data Protection Act and Freedom of Information Act - and it also has a policy or practice called “natural justice” which is to provide material evidence on request and without charge. There may be some restrictions on what can be disclosed, such as sensitive fraud prevention measures and information that is commercially confidential, for example underwriting criteria or decisions on setting interest rates.

In 2010 the Ombudsman Service was treating evidence requests as Subject Access Requests under the Data Protection Act even though a request for personal data may not cover all material evidence. My long held view is that an Adjudicator’s assessment and Ombudsman’s provisional decision should include information that the consumer and financial business can have a copy of the evidence that has been relied on, subject to any restrictions, and all they need to do is ask.

As one person said in response to my Opinion

*telling us at the end of four years of arguing, that we could have requested documents submitted to the Financial Ombudsman Service by the insurance company, leaves a very sour taste*

When requests are handled with confidence, it supports the Ombudsman Service’s aim to be transparent and I highlighted an example of excellent practice when an Ombudsman, in a firm but fair letter, set out the importance of being able to comment on material evidence. The Ombudsman made it clear that he could accept evidence from the financial business in confidence if he thought it appropriate – in other words the decision rested with him. He gave an example where he would agree that information would not be disclosed - commercially sensitive information or security information that could be exploited by other parties. He confirmed that those exceptions did not apply and there was no reason why he should accept the financial business’s submission as evidence but deprive the consumer of the right to see and comment on it.

In response to my advice the Ombudsman Service, in 2012, said that it was about to produce a simple factsheet. Disappointingly, the factsheet has not yet happened and access to evidence continues to be a sore and contentious point.

### **advice on explaining things - referral to an Ombudsman**

Only 11% of cases are referred to an Ombudsman so it’s not a good idea to load the **how we deal with your case** factsheet with information that will be relevant to a minority, but people who do refer a case to an Ombudsman need simple guidance on the key steps and stages. This stage leads to a high proportion of justified service complaints over “who does what” and how the more formal Ombudsman step differs from an Adjudicator’s investigation.

The issues that I come across include: how long will the wait for an Ombudsman be; why the Adjudicator is still involved when they disagreed with the Adjudicator’s assessment and don’t want to have any more contact; why they get updates from admin staff and acknowledgements from Adjudicators; who to phone if they want to know what’s happening; why they hear from another Adjudicator (case review Adjudicator) when they thought the case would go to an Ombudsman; why are they not told who the Ombudsman will be; why they cannot write directly to the Ombudsman; why the Ombudsman does not phone to introduce themselves and cannot be phoned; why the Ombudsman does not discuss the case and after months of routine delay letters they get a Ombudsman final decision out of the blue without advance notice; who drafts/writes the Ombudsman’s decision; why is there a provisional Ombudsman’s decision in some cases and not in others.

The Ombudsman Service accepted my advice to produce a factsheet to cover this critical period and better information may reduce the number of service complaints.

### **advice on treating consumers with respect: fair process**

Mr Y complained about the administration of his pension. When he prompted the Ombudsman Service for a reply, he was told that he would get a letter to say that the complaint had been passed to the Pensions Advisory Service. The letter said that for a number of reasons we and the Pensions Ombudsman have agreed between us that it is better if the Pensions Ombudsman deals with this sort of complaint. Mr Y was astounded and complained that more than 2 months on from when he wrote to the Ombudsman Service it had referred his case to another body to deal with without any real reason, without consultation with him, and without his consent.

Although this had been standard practice, I agreed that Mr Y had been treated without respect for his own wishes. I disagreed very strongly with the Ombudsman Service's approach which may have been routine and administratively convenient for the Ombudsman Service but which presumed rather than obtained informed consent.

In addition to compensation of £300 to Mr Y for causing undoubted distress and inconvenience, in August 2012 I advised the Ombudsman Service to reconsider its general approach, update the relevant Memorandum of Understanding and avoid using abbreviations. The Ombudsman Service accepted the advice which will apply to around 750 cases a year and where consent to transfer will now be obtained, though the Memorandum of Understanding has still not been updated.

### **not within my remit**

I received 371 letters, emails and phone calls making complaints that were outside the Independent Assessor's remit, and which needed a substantive reply (2011-12= 422).

- In 42% (2011-12 = 30%) the complainant had not made a complaint of poor service to the 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 28% (2011-12 = 22%) the complainant had made a complaint to the Ombudsman Service and in almost all cases a Team Manager had replied and sent a copy of the Ombudsman Service's factsheet on service complaints which has my name and contact details, but not the details for an Ombudsman Service senior manager. Towards the end of the year Team Managers started to provide information on the relevant senior manager and fewer people needed to contact me only to be referred back to the Ombudsman Service.
- In 20% (2011-12 = 28%) the complaint to me was solely about the merits of a case or on whether a complaint was within the Ombudsman Service's jurisdiction. This has been a welcome reduction, helped by Ombudsman Service responses to a complaint being clearer on merits v service issues as well as complainants reading my webpage to see what I do before writing to me.

- In 9% (2011-12 = 8%) the complainant did not contact me within 3 months of a final service complaint response from the Ombudsman Service. There is normally a long gap and the deadline is missed by months not days - and by 4 years in one case.

I received 491 (2011-12 = 385) letters and emails that I class as **general queries** in that they raise points to which I need to respond, for example how to make a complaint to the Independent Assessor, asking why an Ombudsman's decision is final and what they can do next; asking who appoints me and why my Terms of Reference are restricted to service complaints.

### **service standards and feedback**

I reply to almost all initial letters or emails of complaint on the same day or the next day. The Ombudsman Service has done well in meeting its commitment to provide its case file and response within 2 weeks and that meant that I was able to complete a full review and Opinion in around 3 weeks, apart from when I was on leave.

Although a significant number of complainants remain disappointed by the scope of the Independent Assessor's role, I do get complimentary feedback on being prompt, professional, thorough, fair and for explaining things that had not been fully understood during the Ombudsman Service's handling of a case.

### **and finally ...**

When I started as Independent Assessor in May 2010, it was a two days a week job with around 165 cases to review each year. I have ended my 3 year term of appointment working 4 days a week, fully reviewing 311 cases in the past year and, with the help of an assistant, handling over 3,000 letters and emails.

In the same period I have watched the Ombudsman Service grow from 1,300 staff to 4,000, expand from one building to four and see its work-in-progress rise from 85,000 cases to half a million. It would be tempting for the Ombudsman Service to concentrate on "how many, how quickly?" and lose sight of "how well?" but its commitment to service quality remains strong.

In this, my final report to the board, I have focused on the advice I have provided, aimed at helping the Ombudsman Service remove good service sticking points. That's an important part of the role because it's forward looking, rather than looking backwards at a single case. I have, throughout, valued the Ombudsman Service's open-mindedness and respect for my views and recommendations, without which the Independent Assessor role would have little lasting impact on service quality.



Linda M Costelloe Baker OBE MBA  
Independent Assessor  
May 2013