Financial Ombudsman Service

our plans and budget for 2011/2012


a consultation paper

our plans and budget for 2011/2012

Dear colleague

Each year the Financial Ombudsman Service consults our stakeholders on our plans and budget for the coming year. This consultation is vitally important for us. As a “demand led” service, funded by the financial services industry, we need to ensure we use the insight of our stakeholders to help us focus on what matters.

In preparation for this consultation we have already spoken with key trade associations, industry practitioners and consumer groups about the themes and plans in this document. And we will continue to talk to our stakeholders before we finalise our budget for 2011/2012 in March 2011.

This consultation document explains our plans for the 2011/2012 financial year against the background of what has happened so far in the *current* financial year (2010/2011). We look forward to hearing your feedback on what we are doing and how we are planning to make ourselves as effective as possible, going forward.

Natalie Ceeney CBE
chief ombudsman and chief executive

January 2011

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We welcome your feedback on our *plans and budget for 2011/2012*. Please send your views and comments – to reach us by Monday 21 February 2011 – to adrian.dally@financial-ombudsman.org.uk. Or write to:

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We may want to publish the responses we receive to this consultation paper. If you would like your response or name to be kept confidential, please ensure you make this clear in your response.

If you reply by email, we will take it that your consent to our publishing your response overrides any confidentiality disclaimer that your organisation's IT system may add automatically to your email – unless you specifically include a request for confidentiality in the main text of your response to us.

“settling disputes, without taking sides ... ”

“... sharing what we see, to help prevent future problems”

The Financial Ombudsman Service was set up by law to resolve individual disputes between consumers and financial businesses – fairly, reasonably, quickly and informally.

We can look at complaints about a wide range of financial and money matters – from insurance and mortgages to investments and credit.

If a business cannot resolve a consumer’s complaint, we can step in to settle the dispute. We are independent and impartial. When we decide a complaint we look carefully at both sides of the story and weigh up all the facts.

If we decide a business has treated a consumer fairly, we will explain why.
But if we decide the business has acted wrongly – and the consumer has lost out – we can order matters to be put right.

We are constantly seeking ways to improve how we can resolve cases to the highest professional standards.

Best practice in complaints handling includes learning lessons when dissatisfaction and disputes arise. We therefore have a crucial role in sharing the insights that can be gained from the complaints we see. This gives consumers greater confidence in financial services and helps businesses prevent future problems by learning from situations where things have gone wrong.

In the chapters that follow, we want our stakeholders to see:

- what we have been doing to meet the demands on our service;
- that we are committed to providing value for money; *and*
- how we plan to improve the service we provide, going forward.

chapter 1: executive summary

This consultation paper sets out:

- how we are dealing with the current demand on our service – and the operational and financial implications for the current year (2010/2011);
- our plans for the future, as we look ahead to 2011/2012;
- the expected demands on our service in 2011/2012; *and*
- the operational and financial implications for 2011/2012.

The Financial Ombudsman Service continues to see significant growth in its caseload – with a shift towards harder-fought cases and a further substantial rise in the volume of payment protection insurance (PPI) disputes.

Chapter 2 of this document gives an overview of the current financial year, outlining how the different types of complaints we see (what we call our "case mix") have changed over the last year. It also explains how trends we are currently seeing may serve as indicators for our future workload.

Chapter 2 also explains how dealing with the unexpected additional volume of PPI cases has had a significant financial impact, as well as an operational impact on our service over the past year. This is likely to result in our financial reserves reducing significantly by the end of the current financial year (2010/2011).

The ombudsman service has ambitious plans for the future, to ensure we continue to develop our levels of service in line with the expectations of our users and stakeholders. We believe we have a key role to play in helping the financial services industry improve the way it handles and learns from complaints.

Chapter 3 outlines our plans for the future – on which we welcome feedback. At their heart, these plans focus on our being a trusted, fair and high-quality service, open to everyone.

This consultation paper outlines the achievements we have already made this year. It sets out how we plan to commit to the professional development of our staff, enhance our knowledge-management systems, and develop our capability to better share our insight and information with all our stakeholders – including the financial services industry, consumer groups and regulators.

We have put substantial management focus on increasing our efficiency and reducing our costs.

As a result of our efficiency and cost-reduction drives throughout the year, we are now absorbing most of the additional case-handling costs that have come about because of the shift towards more complex and harder-fought cases.

Apart from any significant cost-implications arising out of the challenging approach some financial businesses are now taking to PPI cases (see page 7), we expect to end the 2010/2011 financial year with a broadly balanced month-on-month budget.

As well as describing what we have already achieved this year, this document outlines how we plan to modernise our infrastructure – to help improve our efficiency and reduce the overall costs for users of "doing business" with us.

We expect the demands on our service to continue to be challenging.

Chapter 4 of this document explains the continuing uncertainty we expect to see – in relation both to the volumes of cases that will be referred to us and to the types of issues and products those cases will involve. We also expect continuing uncertainty in relation to the impact of challenges to our handling of PPI cases.

Chapter 5 gives more detail about our financial plans for 2011/2012. These plans are based on our aim to freeze – for the second year running – the amount of the case fee and the total underlying levy.

However, the degree of uncertainty and complexity we face in terms of case volumes and "case mix" means we need to review our position on our financial reserves in relation to our compulsory jurisdiction (which covers 97.5% of our workload). Chapter 5 sets out further details of the issues involved and the range of options we are considering.

We are keen to hear from all our stakeholders on:

- Our overall aims – and the plans we have outlined for the coming year (2011/2012) – particularly in terms of priorities for developing our service.
- What volumes of new cases stakeholders expect us to receive – and whether the range in numbers we have forecast seems reasonable.
- Whether stakeholders believe that volumes of complaints about PPI sales will rise or fall – and by what level.
- Our proposals to freeze the levy and case fee (other than for any increase in our reserves) – and what the case fee and levy balance should be, going forward.
- What stakeholders believe our position on financial reserves should be – and how this should be funded.

We welcome your feedback on our plans and budget for 2011/2012. Your views and comments on this consultation paper will help us to finalise the budget we put to the Financial Services Authority (FSA) – for its approval in March 2011.

Please send responses to us by Monday 21 February 2011.
Our contact details are on page 3.

chapter 2: overview of the current financial year so far (2010/2011)

In this chapter:

- We look at how we are dealing with the current demands on our service – and the operational and financial implications nine months into the current financial year (2010/2011).
- We provide stakeholders with details of the trends we are seeing so far – and how we anticipate these trends are likely to continue into 2011/2012.

overall case volumes so far in 2010/2011

We are a “demand led” organisation – so forecasting the volumes of complaints likely to be referred to us is a critical part of our planning. However, the extent to which financial businesses and consumers cooperate with us in our work resolving cases also has a significant impact on our workload.

In the consultation on our plans and budget at the start of 2010, stakeholders expressed varying views on the number of cases they believed would be referred to us about specific financial products. There was particular uncertainty about the likely number of new PPI cases. The broad consensus favoured a central assumption of an overall rise of 17% in new cases – with the possibility of significant fluctuations in PPI cases, depending on the outcome of proposed action by the FSA.

So far this year, new cases *have* increased. We now expect the number of cases for the year to March 2011 to be 7% higher than last year. However, within this total figure, PPI cases have risen by almost 40%, while other cases have fallen by 7%. There is more detail about these numbers at annex A.

In October 2010 the British Bankers Association (BBA) issued judicial review proceedings – principally against the FSA in relation to its PPI complaints-handling guidance, but also involving the ombudsman service in relation to information on our website. Some businesses with large numbers of PPI complaints have decided that they will not respond substantively until the final legal outcome of these proceedings is known.

We expect an increase in the number of PPI cases being referred to us as a result – with some financial businesses being less cooperative in progressing those cases.

The current rate at which we are resolving cases is equivalent to 180,000 cases in a full year – compared with our budgeted forecast of 210,000 for the year. This reflects:

- a larger proportion of harder-fought cases (with significantly more disputes now being referred to an ombudsman for a final decision);
- an increase in the complexity of cases; *and*
- fewer cases capable of being resolved quickly by informal settlements (with some businesses now improving their own complaints handling in relation to certain types of cases – and resolving more cases satisfactorily themselves).

"case mix" trends so far in 2010/2011

During the year the types of issues and products involved in the cases we see (the "case mix") have continued to change – and in many instances have become more complex.

complaints involving banking, credit and mortgages

Aside from our rapidly-growing PPI caseload, complaints involving banking and credit (including mortgage-related complaints) continue as our largest area of work. This is unsurprising, given the size of the market. Our publication of complaints data relating to individual financial businesses – together with regulatory action by the FSA – appears to have resulted in some improvement in the way businesses are handling these types of cases.

Reflecting the current uncertain economic times, we are seeing an increase in the number of cases where consumers are experiencing financial pressures – and expect additional help and flexibility from their lender. Meanwhile, lenders are increasingly focused on reducing their overall costs. This means there is less common ground for negotiating informal settlements – so resolving these cases is becoming more difficult.

We are seeing a rise in the number of complaints about the quality of goods obtained on credit, with cases in this area also being harder-fought and noticeably less easy to resolve informally than in previous years. A higher number of cases are being referred to our ombudsmen for final decisions – and more complex analysis is required to try and resolve these cases.

complaints involving motor and general insurance

The number of cases we are seeing involving motor and general insurance is broadly similar to previous years. Many of the issues in these cases are also the same as in previous years – with no new major trends. For example, we are still dealing with significant numbers of complaints about repairs –in terms both of the quality of repairs and the liability of contractors.

Disappointingly, we are still seeing insurers who fail to understand that, if they choose to repair vehicles, they are responsible for the quality of those repairs – and for the consequences of poor-quality work. This is despite information we have published on our website about our well-established approach to these types of complaints.

complaints involving investments

The number of cases relating to investments continues to decline – compared both with the numbers for last year and with this year's forecast. Market conditions are not as subdued as anticipated. And encouragingly, we are seeing evidence of improved complaints handling on the part of some businesses – which is also resulting in fewer complaints being referred to us.

Several specific "new" issues have emerged over the last few years in our investment casework. For example, we have received complaints from a number of consumers who had assumed that property was a "safe" investment – and were unhappy to find they could not access capital when withdrawals from property funds were deferred.

We have set out our general approach to this type of complaint in the online technical resource on our website.

We have also seen a significant number of investment-related complaints involving consumers who found they had invested in products which carried greater levels of risk than they had anticipated. Consumers have complained that this happened where the underlying investments did not seem to match the descriptions they were given. We have seen some instances of highly unsuitable products being sold to elderly and inexperienced investors. We are talking individually with businesses – and, where appropriate, with the regulator – where this appears to have happened.

We continue to receive a small but steady stream of complaints involving pensions and portfolio management. Many of these cases also relate to the degree of risk involved – where this year's market volatility has given rise to unexpected losses. Disagreements between consumers and businesses about what investments should make up a "high", "balanced", "low" or "no risk" portfolio form a significant part of our casework.

resolving cases in 2010/2011

Over the year we have worked hard to reduce the length of time that consumers and businesses need to wait to have their cases resolved. As the table below shows, we have made good progress in all cases other than PPI. However, we believe there is still substantial room for improvement – and we are working hard to do better.

our timeliness *(excluding PPI cases)*	resolved within 3 months	resolved within 6 months	resolved within 9 months	resolved within 12 months
2009/2010	36%	62%	74%	81%
so far in 2010/2011	49%	76%	85%	89%

In relation to our PPI workload, the challenging environment we have described earlier is affecting our ability to resolve cases as quickly as we would like. However, we have increased our resources significantly during the year, to help us tackle the rising volumes of PPI cases.

We are also working hard to improve how long it takes us to deal with cases that are referred to the final stage of our process, as consumers and businesses are currently waiting longer than we would like for final decisions by our ombudsmen. This is because of the significant increase in the number of requests – both by businesses and consumers – for an ombudsman's final decision. The proportion of cases requiring an ombudsman's decision has risen from around 8% in 2008/09 to a current rate above 14%.

This reflects the more entrenched attitudes we are increasingly seeing across all areas of our casework – probably resulting from the tougher economic climate affecting businesses and consumers alike. As well as having implications for our levels of customer service, the increase in requests for a final decision by an ombudsman has significant cost ramifications.

our financial performance in 2010/2011

Our income is closely linked to the number of cases we resolve. This is because 80% of our funding is raised through case fees on a cost-per-case basis.
Our income so far this year has been lower than anticipated, as a result of our resolving fewer cases than forecast. This reflects the more complex and harder-fought cases we are now dealing with, and the less cooperative stance being taken by some financial businesses in progressing PPI cases.

In response to the increasing complexity of cases – leading to a higher proportion of disputes now being referred to our ombudsmen for a final decision – we have significantly expanded our ombudsman team. This will cost us around £2 million over the whole year.

The higher than expected volumes of PPI cases have also required us to increase our resources rapidly. Adjudicators and ombudsmen who have transferred to work in this area need to be appropriately trained. Transferring staff from one area of our work to another takes time – and has cost implications. This is why we have needed to use contractors to help us scale-up quickly to deal with the additional PPI workload.

The past few years have proved the importance of having a flexible workforce model involving contractors. But inevitably, this increased flexibility means increased cost. We are now reviewing the balance between our contractors and our permanent staff. We started recruiting permanent staff to handle additional PPI cases in July 2010. However, the costs incurred over the first part of this financial year – predominantly to deal with the increased PPI volumes – mean that we now forecast to end the year with an overall deficit of around £8 million. We can cover this by using our reserves.

Over the year we have launched a range of efficiency and cost-reduction drives. We have re-negotiated all our major contracts (releasing more than £2million for the year as a whole). So we are now able to absorb most of the additional case-handling costs we are currently facing. In the absence of any significant cost implications arising out of the British Bankers Association's legal challenge to our handling of PPI cases (see page 7), we expect to end the 2010/2011 financial year with a broadly balanced month-on-month budget.

our staff

We rely on the skills, expertise and professionalism of our staff to decide cases in a way which gets to the right outcome for all parties. In response to the continued high level of demand and the increase in our caseload, we recruited and trained a significant number of new adjudicators in 2009/2010. We have recruited further adjudicators this year to handle the latest rise in PPI cases (see above). We continue to invest heavily in the development of these new adjudicators – and we are reviewing our professional-development model as part of this investment.

As explained above, we have also significantly increased the number of our ombudsmen – and we are giving careful thought to whether we need to increase this resource further. Ombudsmen are the ultimate decision-makers in individual cases – making final legally-binding decisions. This means that we have to maintain the most stringent standards in their recruitment and training.

other initiatives and achievements in 2010/2011

Highlights of our work this year to help us better meet the needs of those who use our service – and to share more about the work we do – include the following projects and initiatives.

offering alternative individually-tailored options for customers who might struggle with standard processes

- We have established partnerships with eight charities – to help us better understand and respond to consumers who are less comfortable with "process and officialdom".
- We held our second "customer service day" for all staff – working with a number of specialist charities to help us focus on getting a better understanding of the impact of mental illness.
- We are working with Citizens Advice to trial a dedicated phone link between their bureaux and our front-line customer-contact centre.

expanding our online technical resource

- We have doubled the content of the online technical resource on our website – to provide increased insight into our approach to complaints, ranging from caravan insurance to spread-betting.

making our lines of communication with stakeholders clearer and stronger – and promoting our impartial, authoritative credentials

- We have reviewed our engagement strategy to ensure it enables appropriate levels of operational and strategic contact with our many stakeholders.
- We have launched a new series of external events, including regional seminars for smaller businesses.
- Our regional training days, aimed at helping community and advice workers sort out financial complaints at the front-line, now involve an average of 25 different local organisations at each fortnightly event around the UK.

chapter 3: our plans for the next financial year (2011/2012)

In this chapter:

- We set out our ambitious plans for the future – to help ensure we continue to develop our service in line with our customers' needs and the wider needs of the financial services sector.

We are committed to developing the Financial Ombudsman Service and to constantly improving our organisation. We want to offer excellent service when compared with customer-service standards in *any* sector. The plans we have developed for the next financial year (2011/2012) reflect these ambitions.

We outline below five key priorities for the coming year. Following feedback, we will turn these priorities into more detailed plans for our service for the 2011/2012 financial year. We will publish these more detailed plans in March 2011.

to deliver a trusted, fair and easy-to-use service – for everyone

The ombudsman service sees the hardest-fought disputes, which financial businesses and consumers have already tried and failed to resolve themselves. We need to *be* – and be *seen to be* – fair and impartial. And we want to be open and accessible to everyone, from all backgrounds.

Our research shows that we are already reaching a wider and more diverse proportion of the population. But we believe we can do more to make our service easier to use. For example, we are planning closer integration of our own consumer helpline with other front-line services. This will include strengthening links with advice agencies and aligning our operational processes with those of financial businesses.

Our goals for the coming year are to:

- Use customer insight and segmentation to design operational and communication channels that better meet the diverse needs of consumers and businesses.
- Continue our outreach work with those who find us less accessible.
- Create online services as part of our "e-enablement" plans.
- Develop our partnerships with front-line advice agencies, as part of our work towards seamless service delivery (for example, in cases involving financial hardship).
- Ensure that quality is central to the way we plan and deliver our service.

to share our experience and insight – helping to prevent future problems

Our work is about putting things right when they have gone wrong. But this is only part of the challenge. What is essential is that lessons are learnt – to prevent the same thing happening again. To help with this learning, we need to be open and transparent about what we see and what we do.

Following Lord Hunt's review of our accessibility and openness in 2007/2008, we have published substantially more information – including (in our online technical resource) details of our approach to the wide range of complaints we see most frequently, as well as complaints data about individual businesses and individual products. We have received broadly positive feedback for making this information publicly available – and we want to do more.

Our goals for the coming year are to:

- Share with key stakeholders (the financial services industry, consumer groups and regulators) the emerging issues and trends we see, to help prevent future problems.
- Invest time with businesses, to help them improve their complaints handling and learn from our insights into where things have gone wrong.
- Share our experience with consumers and consumer groups, to help them resolve issues themselves where possible.

to put knowledge and expertise at the heart of everything we do

We rely on the skills, expertise and professionalism of our staff to resolve the complaints referred to us – and arrive at the right outcome in each case.

In response to the continued high level of demand and the increase in our caseload, we recruited and trained a significant number of new adjudicators in 2009/2010. We have invested heavily in the development of these new adjudicators – and we are reviewing our professional-development model as part of this investment.

We want our staff to continue learning and developing skills that help them deal with a wider variety and complexity of casework. There are significant training and development costs for newly-recruited staff – and an inevitable dip in productivity as new adjudicators work under close supervision until they can show they meet our required professional standards. It is therefore important that we retain staff once they become fully productive. We recognise that as the employment market improves, there is likely to be strong demand for the staff we have trained and invested in.

Our goals for the coming year are to:

- Launch an enhanced career model that encourages and enables the professional development of case-handling staff through to the role of ombudsman.
- Further develop the role of our ombudsmen as mentors and coaches.
- Extend our approach to knowledge management, to ensure all our staff have the information they need.
- Use every opportunity to reinforce the key importance of quality as a core value for our service.

to be flexible, reliable and efficient

Demand for our service is inherently volatile. We see volatility not only in case volumes, but also in the "case mix", as well as in the behaviour of financial businesses and consumers. This means it is challenging to forecast levels of demand accurately.

Despite this, it is essential that we are able to cope with variable levels of demand, so that we can offer a consistently good service whatever the volume or mix of cases we face. This is why we are reviewing our operational model – to ensure we have the flexibility to respond efficiently and reliably to variable demand. This should also reduce the time it takes us to resolve cases.

Our goals for the coming year are to:

- Review the workforce balance between our contractors and our permanent staff, to ensure we have a cost-effective arrangement which gives us flexibility – while ensuring that all staff who handle cases for us do so to consistently high standards. This will involve reviewing our contractor relationships on a longer-term basis.
- Strengthen our operational planning capability in relation to demand and capacity – so that we can identify changes and trends in case volumes or "case mix" at the earliest possible stage, and respond rapidly.
- Streamline our operations to ensure the efficient handling of cases and make the best use of resources.
- Further reduce the time it takes us to resolve cases.

to operate a "lean" and effective infrastructure

We want to invest sensibly in our future. But we recognise the importance of keeping our overall costs as low as possible to those who fund our service.

This is why we are committed to making savings – to fund the investment we want to make. We believe that many of these savings can be delivered by scrutinising our case-handling processes and cutting out any unnecessary complexity or duplication. We also believe that there are longer-term cost and efficiency benefits to be gained through greater use of electronic and web-based technology.

So a key part of our plans going forward involves starting to "e-enable" our service. We will be working closely with key stakeholders to do this in a way that links, wherever possible, with their own processes. We are also committed to ensuring that our service remains accessible to those consumers who prefer to deal with us using more traditional channels.

Our goals for the coming year are to:

- Begin work "e-enabling" our operations – internally in terms of our own systems and externally in the way we exchange information with our customers.
- Help reduce the costs of "doing business" with us – working in partnership with businesses to streamline our "end-to-end" processes.
- Reduce cost while maintaining quality – through a structured and targeted cost-reduction programme.

chapter 4: forecast volumes and “case mix” for 2011/2012

In this chapter:

- We set out the levels of demand we expect to deal with in the next financial year (2011/2012) – in terms of the range of numbers of enquiries and new cases, and the “case mix” involved.
- We use our plans for 2011/2012 (as set out in chapter 3) as a guide to how we will handle the case volumes and “case mix” we are forecasting.

case volumes in 2011/2012

Recent events reinforce the lessons of the past decade – that our workload is inherently difficult to forecast with any degree of certainty. A wide range of external factors can affect the volumes we receive and the mix of the cases we see.

These factors include the standards of complaints handling by businesses, the extent of any regulatory action, the economic climate, and the behaviour of consumers. Sudden large surges in complaints about the same product or topic (“mass claims”) also have a very substantial impact on our workload. Mass claims are usually driven by internet campaigns, claims-management companies and publicity in the media.

For example, over the last ten years we have seen significant volumes of complaints involving mortgage endowments, dual variable-rate mortgages, split-capital investment trusts, “precipice” bonds, credit-card default charges and unauthorised-overdraft charges.

In planning for the future, we need to accept that the uncertainty surrounding these factors is likely to remain a permanent feature – which we have to build into our operational and financial planning. In view of the difficulty in forecasting case numbers with any accuracy, we are therefore focusing on strengthening our operational capability to respond quickly and effectively to changeable demand levels.

However, forecasting future case volumes and trends remains essential – given the costs and time-scales that are inevitably involved in increasing, or reducing, our operational capacity. We are therefore keen to hear the views of our stakeholders on our likely workload in the 2011/2012 financial year – in terms of total volumes and trends by financial product or sector.

expected enquiries in 2011/2012

Our front-line customer-contact division is the first point of contact for customers with problems and complaints. We can sort out around 80% of these enquiries *without* needing to take on the matter as a formal case.

We do this by explaining the formal procedures that financial businesses have to follow – and confirming the details of the person consumers should complain to at a business, if they have not already done this. We also give consumers the facts and information they need, to be able to resolve problems themselves at the earliest stage possible.

We expect the volume of front-line enquiries we will receive next year to stay broadly in line with current levels. However, this area of our operation is particularly sensitive to the impact of internet campaigns, media coverage and promotional activity by claims-management companies. These can all result in raised consumer awareness of specific issues – and substantial surges of enquiries.

front-line consumer enquiries	actual 2009/10	forecast 2010/11	budget 2011/12
phone calls	448,140	450,000	400,000 to 600,000
written enquiries	476,995	480,000	400,000 to 600,000
total	**925,095**	**930,000**	**800,000 to 1,200,000**

expected number of new cases in 2011/2012

Subject to feedback from stakeholders as part of this consultation, we propose to work on the assumption that the base number of new cases we will receive in 2011/2012 (other than PPI cases) is likely to be the same as our forecast for the current year (2010/2011) – 105,000 cases *plus or minus* 15%.

Given the operational uncertainties arising out of the British Bankers Association's judicial review of PPI-related matters, it is difficult to forecast the volumes of PPI cases we will receive in 2011/2012. However, at this stage we propose to plan on the assumption that we will receive around 60,000 PPI cases (*plus or minus* 20%) in the next financial year.

new cases	actual 2009/10	forecast 2010/11	budget 2011/12
banking	65,371	61,300	51,000 to 69,000
insurance (not including PPI)	19,838	20,500	17,600 to 23,800
investment	22,278	16,400	13,400 to 18,200
consumer credit	6,329	7,800	7,200 to 9,800
PPI (payment protection insurance)	49,196	68,000	48,000 to 72,000
total	**163,012**	**174,000**	**137,000 to 193,000**

expected number of resolved cases in 2011/2012

Our plans to improve the time it takes us to resolve cases should mean that we are able to settle around 15,000 more cases in 2011/2012 than we expect to receive. This is on the assumption that the challenges to dealing with PPI cases do not increase the numbers of cases we have in hand at the end of the 2010/2011 financial year.

The table below shows the range of numbers for the cases we expect to resolve in the 2011/2012 financial year.

cases resolved	actual 2009/10	forecast 2010/11	budget 2011/12
banking	80,793	67,500	52,500 to 70,500
insurance (not including PPI)	20,687	18,500	18,600 to 24,800
investment	24,229	18,000	13,700 to 18,500
consumer credit	5,297	7,000	7,200 to 10,200
PPI (payment protection insurance)	35,315	69,000	60,000 to 84,000
total	**166,321**	**180,000**	**152,000 to 208,000**

chapter 5: our proposed budget for 2011/2012

In this chapter:

- We set out our financial plans for 2011/2012. As we explain in chapter 3, these plans take into account our aim to keep overall costs low by improving efficiency – while saving money to invest in developing our service for the future.
- We explain the challenge of deciding what level of financial reserves to keep, given the current levels of uncertainty about case volumes.

As we explained earlier in this document, we have had a challenging year so far in 2010/2011, with levels of demand differing significantly from those that we and industry stakeholders had forecast. At the same time, our costs are rising as a result of the more complex cases we are now seeing – and the significant increase in the number of requests for a final decision by an ombudsman. We do not expect the 2011/2012 financial year to be any less challenging.

total income and expenditure

Reflecting the workload provided by our three jurisdictions (compulsory, consumer-credit and voluntary), our total budget expenditure for 2011/2012 is divided as follows:

- 97.5% relates to our compulsory jurisdiction (which covers firms regulated by the FSA).
- 1.7% relates to our consumer-credit jurisdiction (which covers businesses other than FSA-regulated firms that have a standard consumer-credit licence issued by the Office of Fair Trading).
- 0.8% relates to our voluntary jurisdiction (which covers a small number of financial businesses that have *chosen* to be covered by the ombudsman service – but that would not otherwise come under our jurisdiction).

Our aim is to freeze the case fee and underlying levy for 2011/2012 (for the second year running). We plan to do this by absorbing inflationary pressures and the additional case-handling costs we are facing – while making savings to release funds for investing in the future development of our service.

Achieving this relies on levels of demand for our service falling within the ranges we have indicated in chapter 4. If these levels of demand are correct, then we expect to be able to set a budget for 2011/2012 totalling between £90 million and £116 million. However, this does not take into account any additional costs in our compulsory jurisdiction associated with challenges to progressing PPI cases – arising out of the British Bankers Association's judicial review of PPI-related matters.

Significantly higher, or lower, levels of demand can put our financial model under greater stress – as we know from the financial pressures we have experienced during the current financial year.

Later in this chapter we explain how we plan to review our policy on financial reserves, to address significant shifts in the level of demand within our compulsory jurisdiction.

unit cost and cost savings

Our unit cost represents our total costs for the year (apart from the cost of financing) – divided by the number of cases we have resolved.

Our unit cost at the end of the 2010/2011 financial year is currently forecast to be a little over £600. This will be around 10% over budget – reflecting rising case-handling costs caused by: the increased complexity of cases, the larger proportion of cases now requiring a final decision by an ombudsman, and volatility in the "case mix".

For the 2011/2012 financial year we plan to reduce our unit cost to below £600 – which will involve a cost-savings exercise to cut our cost base by around 10%. The final unit cost figure will depend on actual case volumes during the year.

We are currently part-way through the cost-savings exercise. As a result of re-negotiating our major contracts we have already reduced our cost base by around 4%. We believe we can make the remainder of our planned savings by improved efficiencies and by streamlining our operational processes. We are working on plans to achieve this.

investment in developing our service

As we explained in chapter 3, we have two priorities for investing in the development of our service. Our first priority is to invest in technology – to reduce the costs of "doing business" with us, and to improve people's experience of our service. Our second priority is to invest in the professional development of our staff.

We believe that these investments will benefit our customers through higher levels of service and professional quality – and through lower overall costs of dealing with us, in the case of the businesses that fund us. We are confident that we can fund these investments through the internal efficiencies and cost savings that we are committed to making.

our staff

Over 80% of our cost base relates to our staffing costs. This means that the way in which we manage our staff resource is a significant issue in setting and managing our budget. We publish our pay scales on our website – and show the number of people in each pay band. Over half of our permanent employees are adjudicators in a pay band that ranges from £21,500 to £54,809.

As we explained in chapter 2, we have increased the number of our case-handling staff in 2010/2011 to cope with rising levels of demand. We have also made a commitment to develop our staff in terms of their professional skills, expertise and knowledge. We described in chapter 2 how and why we have further increased our team of ombudsmen.

In chapter 3 we set out how we plan to launch an enhanced career model that encourages and enables the professional development of case-handling staff through to the role of ombudsman. Chapter 3 also explains how we plan to review the workforce balance between our contractors and our permanent staff, to ensure we have the optimal arrangements to give us flexibility, efficiency and quality.

The table below shows the number of staff we forecast we will need by the start of the 2011/2012 financial year. However, we are likely to have to increase or decrease these numbers in response to changes in levels of demand throughout the year.

staff	budget March 2011	forecast March 2011	budget March 2012
ombudsmen	70	70	70 to 90
front-line customer-contact staff	125	120	110 to 140
casework divisions (including adjudicators)	1,271	1,092	920 to 1,360
support staff	148	147	140 to 170
total	**1,614**	**1,429**	**1,240 to 1,760**

building our reserves in the compulsory jurisdiction – and planning for significant shifts in demand for our service

In recent years our policy has been to keep reserves at 5% of our annual expenditure. We started the current financial year (2010/2011) with reserves of £14 million – slightly higher than the usual level. This arose from a large batch of cases we closed at the end of the 2009/2010 financial year – following the Supreme Court's ruling on unauthorised-overdraft charges.

We currently expect to have reserves of around £6 million at the end of this financial year (2010/2011) – subject to the operational uncertainties arising out of the British Bankers Association's judicial review of PPI-related matters.

Our workload is inherently difficult to forecast with any degree of certainty. A wide range of external factors can affect the case volumes and "case mix" referred to us. This is why we are now focusing on improving our operational resilience to cope with peaks and troughs in demand – as we explained in chapter 3. We take the view that we should build the operational capability to deal with *moderate* swings in demand – in keeping with the ranges outlined in this document. But we also need to plan how we would deal with a shift in demand *outside* these ranges.

We believe the risk of a significant shift in levels of demand is more likely to increase than to decrease. The factors increasing the risk include the growth in "mass claims" involving sudden large surges in complaints about the same product or topic. Even the regulator's new powers to intervene in circumstances like this – using the new "section 404" to set up a consumer redress scheme – could result in significant fluctuations in our workload if, for example, the regulator's intervention led to volumes of cases suddenly stopping.

The future volume of PPI cases is particularly difficult to forecast. The British Bankers Association's judicial review of PPI-related matters adds significant uncertainty to our plans and forecasts – both in relation to the number of new PPI cases we can expect to receive and the extent to which we will be able to progress those cases.

We may not know the final outcome of this legal action much before the end of the 2011/2012 financial year. This means we could face some extreme (but far from implausible) operational and financial scenarios which might result in our incurring substantially increased costs with far lower income. For example, if financial businesses were to decide to suspend cooperation on PPI cases as a result of the legal action, our loss of income from case fees in just one month could lead to an operating monthly deficit of up to £4 million. This would exhaust our reserves within six weeks.

The consequences of this for the ombudsman service in the current financial year and in 2011/2012 could involve an amount totalling between £10 million and £30 million – well in excess of our reserves.

Our board has an obligation to set a budget which meets the anticipated costs of the ombudsman service and keeps a prudent level of financial reserves. The board's view is that a budget which did *not* take account of the likely contingencies that face us would be deeply imprudent.

The board believes that to reflect these uncertainties we need to plan on the basis of a significantly higher level of reserves in relation to the compulsory jurisdiction. The alternative – waiting to see what happens and managing fluctuations by running a significant overdraft – would be inappropriate and inconsistent with our operating principles.

Our board has therefore been considering what an appropriate level of reserves might be. Our analysis currently suggests a significant increase in the level of reserves – perhaps up to 20% or 25% of our annual expenditure. An increase in our reserves will require a corresponding increase in the compulsory jurisdiction levy, because it is the compulsory jurisdiction where the volatility and risks lie.

We will need to make a final decision on the level of our reserves in March 2011. This is because the law requires our annual budget to be set by our board and approved by the FSA before 1 April each year.

Our board will, of course, monitor these reserves to ensure they are used only to cover volatility – and do not mask any "business as usual" issues. And our stakeholders will have the additional assurance of the upcoming value-for-money review by the National Audit Office.

The majority of our funding comes from case fees. The rest of our funding comes from annual levies.

case fees

For all three of our jurisdictions (see below), the amount of the case fee is set by the Financial Ombudsman Service and approved by the FSA.

Each business has three free cases a year. For the fourth case – and any subsequent case – we charge a case fee of £500, once the case is resolved. We propose to freeze the amount of the case fee at £500 in 2011/2012 – for the second year running.

compulsory jurisdiction levy

The levy payable by FSA-authorised firms is set by the FSA. The FSA also collects the levy – as part of a combined invoice that includes the levies for the Financial Services Compensation Scheme (FSCS) and for the FSA itself.

In line with the approach described above, we will be asking the FSA to set a levy that covers both the total levy for 2010/2011 and an appropriate addition to our reserves. The FSA will consult on the total amount of the levy – and on how it should be allocated among industry blocks – as part of its wider consultation that also covers the FSA and FSCS levies.

We understand that the FSA's consultation on the levies is due at the beginning of February 2011. Broadly, allocation of the total levy among regulated firms involves two stages:

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

This means that the share of the levy allocated to a particular industry block may change, even though the *total* levy remains the same. The funding mechanism (in the FEES 5 section of the FSA's *Handbook*) requires the total levy to be allocated in this way. It does not allow the underlying levy and the additional reserves to be allocated in a different way. For example, the levy cannot be targeted on particular financial businesses.

consumer-credit jurisdiction levy

The total for the consumer-credit jurisdiction levy is set by the ombudsman service and approved by the FSA. The amount payable by individual businesses that have a consumer-credit licence is set by the Office of Fair Trading (OFT) – and collected with the licence fee from businesses that take out or renew a standard consumer-credit licence during the year.

In view of this, we have agreed with the OFT to "average out" the levy over the 5-year renewal period for consumer-credit licences. In line with this, the total levy for the consumer-credit jurisdiction in 2011/2012 has been set at £2.4 million (net of the OFT's collection costs) – the same figure as in 2010/2011. The fluctuations in the figures shown in the budget on page 24 reflect when the revenue from the consumer-credit jurisdiction is recognised in line with workload. The amount collected from businesses does not change.

voluntary jurisdiction levy

The voluntary jurisdiction levy payable by the relevant businesses is set by the ombudsman service and approved by the FSA. It is collected by the ombudsman service. The rates proposed for 2011/2012 are set out in annex C. None of these rates have been increased.

our overall funding structure for 2012/2013 and beyond

We know that some businesses have strong – and sometimes mutually conflicting – views on the funding structure of our compulsory jurisdiction. We and the FSA have consulted periodically on the principles involved – and annually on the actual figures.

Within the constraints set by the *Financial Services and Markets Act 2000* we have deliberately chosen a simple funding structure that avoids the administration costs, paid for ultimately by the industry, that would necessarily arise if judgements had to be made about *different* fees for *different* cases.

When the ombudsman service was established ten years ago, the funding of our compulsory jurisdiction came 50% from case fees and 50% from the levy. This has shifted over time – so that for the current year, the funding of the compulsory jurisdiction is forecast to come 80% from case fees and 20% from the levy. This means that funding is more closely related to the number of cases received from individual businesses. But it also introduces a significant element of potential instability into our funding.

We froze the case fee and the total levy in 2010/2011. By making efficiency savings of 10%, we propose to freeze them again in 2011/2012 – unless any increase in the compulsory jurisdiction levy requires us to increase our reserves. Even if the compulsory jurisdiction levy rose to increase our reserves by £20 million, case fees would still make up around 67% of the funding in this jurisdiction.

We do not believe it would make sense to change this structure for next year (2011/2012). However, we welcome views on the right balance between the case fee and levy – and on the number of "free cases" – going forward.

what this means for our overall income and expenditure plans – our proposal for 2011/2012

With the levels of demand we have forecast for 2011/2012, we expect to be able to set a budget for an amount between £90 million and £116 million. We have also forecast a range of scenarios in relation to our reserves – from a zero increase through to a £30 million increase – which we have assumed will be an addition to the compulsory jurisdiction levy.

There is more detail about our overall income and expenditure plans in the chart below.

income and expenditure

	2009/10	2010/11		2011/12 budget		
	actual	budget	forecast	low	medium	high
income (£m)						
compulsory jurisdiction levy	18.3	17.7	17.9	17.7	17.7	17.7
consumer-credit jurisdiction and voluntary jurisdiction	2.3	1.8	2.6	2.8	2.8	2.8
case fees	78.4	94.5	81.2	69.9	82.8	95.7
other income	0.2	0.2	0.2	0.1	0.1	0.1
provision for bad/doubtful debt	-0.9	-0.5	-0.5	-0.8	-0.8	-0.8
total	**98.4**	**113.7**	**101.4**	**89.8**	**102.7**	**115.6**
expenditure (£m)						
staff and staff-related costs	78.4	99.7	92.8	73.8	83.5	92.6
professional fees	1.3	1.6	1.8	1.3	1.3	1.3
IT costs	1.8	1.8	2.1	2.1	2.3	2.5
premises and facilities	6.1	7.0	6.6	6.6	6.6	7.2
other costs	3.0	3.5	4.1	4.0	4.0	4.0
depreciation	1.8	1.9	2.0	2.0	2.0	2.0
investment	-	-	-	1.0	3.0	3.0
total operating costs	**92.4**	**115.5**	**109.4**	**90.8**	**102.7**	**112.6**
financing costs	0	0.2	0	0	0	0
surplus / deficit (£m)	**6.0**	**-2.0**	**-8.0**	**-1.0**	**0**	**3.0**
case closures	166,321	210,000	180,000	152,000	180,000	208,000
unit cost (£)	555	550	608	597	571	541
case fee (£)	500	500	500	500	500	500
free cases	3	3	3	3	3	3

your feedback

We are keen to receive input from all our stakeholders on:

- Our overall aims – and the plans we have outlined for the coming year (2011/2012), particularly in terms of priorities for developing our service.
- What volumes of new cases stakeholders expect us to receive – and whether the ranges we have set for case volumes seem reasonable.
- Whether stakeholders believe that volumes of complaints about PPI sales will rise or fall – and by what level.
- Our proposals to freeze the total levy and case fee (other than for any increase in our reserves) – and what the case fee and levy balance should be, going forward.
- What stakeholders believe our position on financial reserves should be – and how this should be funded.

We welcome your feedback on *our plans and budget for 2011/2012*. Please send your views and comments – to reach us by Monday 21 February 2011 – to adrian.dally@financial-ombudsman.org.uk. Or write to:

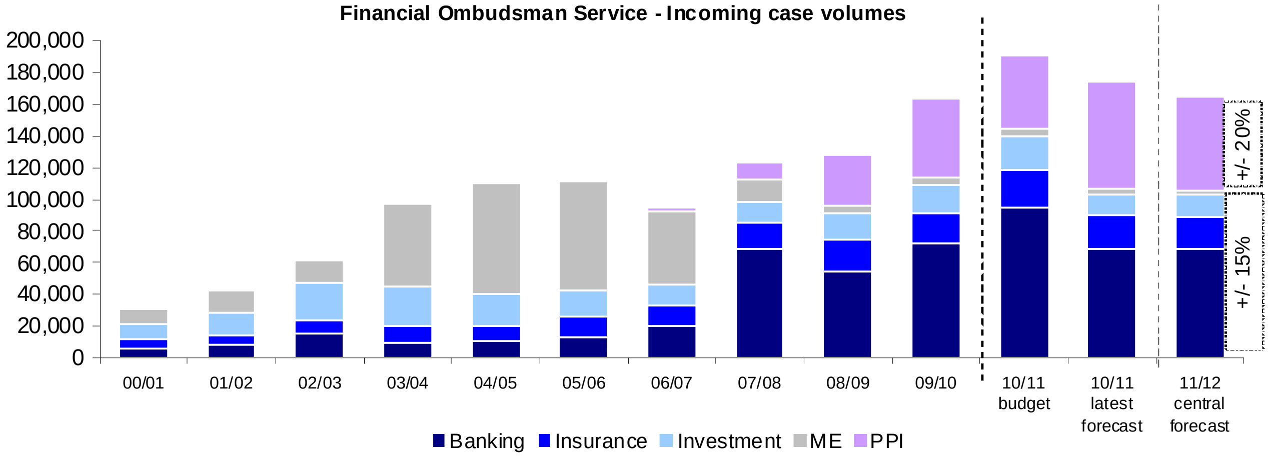
Adrian Dally
Financial Ombudsman Service
South Quay Plaza
183 Marsh Wall
London E14 9SR

We may want to publish the responses we receive to this consultation paper. If you would like your response or name to be kept confidential, please ensure you make this clear in your response.

If you reply by email, we will take it that your consent to our publishing your response overrides any confidentiality disclaimer that your organisation's IT system may add automatically to your email – unless you specifically include a request for confidentiality in the main text of your response to us.

annex A

historic case volumes – and assumptions for new cases in 2011/2012



our latest projections for volumes of new cases in 2010/2011 and 2011/2012

	2009/10	2010/11		2011/12
	Actual	Plan	Latest view	Central view
Current accounts	25252	35000	21000	20000
Credit cards	18396	22100	18000	17000
Mortgages	7459	8500	7300	7000
Other banking	14254	19400	15000	16000
Banking	65371	85000	61300	60000
Motor insurance	5451	6600	5500	5000
Other general insurance	14387	17000	15000	15700
Insurance (exc. PPI)	19838	23600	20500	20700
Mortgage endowments	5400	4000	3200	2500
Pension products	3594	3600	2900	2500
Other investment	13284	17600	10300	10800
Investment	22278	25200	16400	15800
Consumer credit	6329	10200	7800	8500
Payment protection insurance	49196	46000	68000	60000
Total	163012	190000	174000	165000

Central forecast subject to +/- 15% margin

Central forecast subject to +/- 20% margin

annex B

case fees – all jurisdictions

FEES 5 annex 3R – case fees payable for 2011/2012

table of case fees payable		
	standard case fee	special case fee
compulsory jurisdiction	£500	£500
voluntary jurisdiction	£500	£500
consumer credit jurisdiction	£500	£500

notes

- The definitions of *standard case fee* and *special case fee* are in FEES 5.5 (case fees) of the FSA's *Handbook*.
- Firms, licensees and VJ participants will only be charged for the *fourth* and subsequent chargeable case in each financial year. The definition of *chargeable case* is in the Glossary to the FSA's *Handbook*.

annex C

voluntary jurisdiction – levy for 2011/2012

FEES 5 annex 2R
annual levy payable in relation to the voluntary jurisdiction for 2011/2012

industry block and business activity		tariff basis	tariff rate	minimum levy
1V	deposit acceptors, mortgage lenders and administrators, including debit/credit/charge card issuers and merchant acquirers, and electronic money institutions	number of relevant accounts	0.0278	£100
2V	*VJ participants* undertaking insurance activities subject only to prudential regulation	per £1,000 of relevant annual gross premium income	0.103	£100
3V	*VJ participants* undertaking insurance activities subject to prudential and conduct of business regulation	per £1,000 of relevant adjusted annual gross premium income	0.025	£100
6V	intermediaries	not applicable	n/a	£75
7V	freight-forwarding companies	not applicable	n/a	£75
8V	National Savings & Investments	not applicable	n/a	£10,000
9V	Post Office Limited	not applicable	n/a	£2,000
10V	Persons not covered by 1V to 8V undertaking activities which would be *regulated activities*, *payment services* or *consumer credit activities* if they were carried on from an establishment in the *United Kingdom*	not applicable	n/a	£75