

Financial Ombudsman Service

# plan & budget 2003/04

for the year ending 31 March 2004

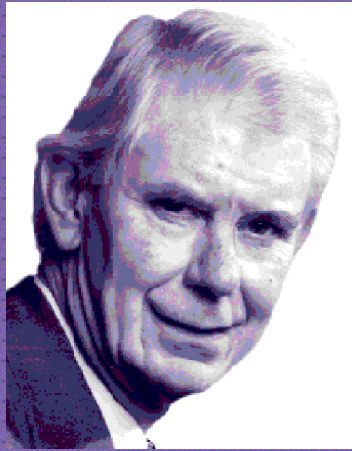


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# foreword by the chairman



Andreas Whittam Smith  
chairman

This is the third *plan & budget* that I have presented on behalf of the Financial Ombudsman Service, and, since my term of office as chairman ends shortly, it is also my last.

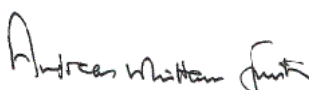
Back in 1999, there were those who said it was likely to prove a daunting challenge for the board and staff of the new organisation to maintain service to our users at a time when complaint volumes were rocketing, while simultaneously merging six bodies and relocating to new premises. Indeed it was a challenge. However, we were able to put in place a new infrastructure capable of meeting the demands that might be placed on it. The scale of those demands can now be seen. In 1999/2000 the six previous schemes dealt with 25,000 cases, while in this *plan & budget* we anticipate receiving 55,000 new complaints.

Despite an ever-rising workload, the board has set challenging efficiency targets – higher productivity, faster turnaround and lower unit costs – while never losing sight of our essential purpose, to offer consumers and the financial services industry a fair, professional, and independent means of resolving disputes. In financial terms, as this *plan & budget* demonstrates, we have succeeded in reducing our unit costs well below the levels we inherited. There can be little doubt that had the Financial Ombudsman Service not come into being, the industry would by now be shouldering a far higher cost burden.

Since our prime objective is to resolve complaints quickly and fairly, we do not measure our success by the scale or quantity of our awards. But the value transferred annually from firms to consumers, following our intervention, must run into millions of pounds. Were it not for the fact that consumers have cost-free access to our service, little of this transfer would be happening. Firms' financial balances would be unjustifiably stronger, while those of individual consumers would be commensurately, and wrongly, weaker.

We derive equal satisfaction from those cases, far higher in number, where we are able to assure consumers that they have not been unfairly treated and that their complaints have no foundation. The industry rightly pays for the public reassurance this gives – that wrongs can be righted, but only where justified.

This statutory ombudsman service is a unique institution, not only in the UK but in the world. I am proud to have been associated with its early years, and I commend this *plan & budget* to our users and to all those interested in our work.



Andreas Whittam Smith



chapter one

# executive summary

'The overall result will be a substantially lower unit cost this year and in 2003/04.'

## introduction

- 1.1 This *plan & budget* reports on the performance of the Financial Ombudsman Service during 2002/03. It also consults on
- costs and funding for the year to March 2004;
  - the changes to the special case fee in Chapter 5 of the Complaints sourcebook in the FSA Handbook; *and*
  - the voluntary jurisdiction tariff.

## effect of the budget proposals on consumers

- 1.2 Consumers will benefit from our new timeliness targets, summarised in chapter five. We aim to close cases faster than last year. And we will introduce additional performance indicators at three and nine months to assess our timeliness in closing cases. Our determination to reduce the level of work-in-progress will also help us improve our service to consumers.

## effect of the budget proposals on the industry

- 1.3 The industry will benefit from a lower unit cost, and from a reduction in the annual levy. This levy will, on average, be 24% lower than in 2002/03. Firms whose unresolved complaints are referred to us will pay a greater proportion of our total costs than those firms that are able to resolve any complaints satisfactorily without the need for our direct involvement. The standard case fee will remain at £360 for 2003/04.

## managing the workload

- 1.4 Events during 2002 have already demonstrated the importance of our being sufficiently flexible to cope with unpredictable variations in workload. The need to match our resources to varying levels of demand will be a permanent feature of the ombudsman service.

Within months of the Financial Services Authority (FSA) approving our budget in March 2002, it became clear that the forecasts on which we had based the budget had underestimated complaint volumes. We needed to act quickly in the short term and to establish a plan of action for the longer term, to ensure that the unexpected surge in complaints did not result in substantial and unacceptable backlogs of cases.

Our success in achieving this owes much to the investment made over the last two years in our management, premises and technology. Because of this investment, we managed to prevent backlogs and maintain our service levels.

Because of our earlier investment in our infrastructure, the additional expenditure we incurred reflects, in the main, only the direct costs of employing and equipping the new staff. We were able to act quickly to recruit these staff because our financial control framework, agreed with the FSA, is based on our unit cost rather than on a cash limit.

The overall result will be a substantially lower unit cost this year and in 2003/04. The unit cost will have fallen from £753 in 2000/01 to £684 last year, and is expected to be under £560 this year and in 2003/04.

re-structuring

1.5 On 1 October 2002 we undertook a structural reorganisation, replacing the three divisions based on the three product areas – insurance, banking and investment – with four general business units. Each of these units deals with all areas of our business. This allows the three principal ombudsmen, previously responsible for managing their respective divisions as well as for policy, to concentrate solely on policy issues. Our operations director is responsible for the resources and service standards in the four business units. The reorganisation will increase our flexibility and enable us to respond speedily and effectively to peaks and troughs of work related to different product areas.

key points of the current year 2002/03

1.6 The key points of the current year – 2002/03 – are as follows:

- new complaints. By the end of December 2002, we had received 43,000 new complaints. We expect that total to have risen by April 2003 to 55,000. This is 47% above the 2002/03 budget and is largely due to complaints about dual variable mortgage rates and mortgage endowment policies.
- case closures. During the year, as the inflow of new complaints exceeded our projections, we recruited significantly more case-handlers than originally planned. At the end of December 2002 we had closed in excess of 40,000 cases. In total, we expect to close 54,500 cases this year, compared with the budget assumption of 40,000.
- unit cost. Our budget was to achieve a unit cost of £688. After allowing for the costs of the additional staff recruited to handle the extra volume of work, we expect to achieve a figure of £544 in 2002/03. This will be the result of an increase in productivity and the fact that our fixed costs are spread over a larger number of cases.

key points  
for the  
budget year  
2003/04

- 1.7 Key points for the budget year – 2003/04 – are as follows:
- new complaints. It is always very difficult to predict the level of new complaints. We have assumed that there will be no significant change from the revised forecast for this year and that we will handle 55,000 new complaints. However, we have also tested two alternate scenarios: a 10% increase and a 10% fall in new cases.
  - productivity. We aim to increase our productivity further. Our target of 4.4 cases closed per case-handler per week is 40% higher than that achieved in 1999/2000.
  - case closures. In view of the level of new complaints and our need to achieve our productivity and timeliness targets, we have decided to increase the average number of case-handling staff by 30. With case-handling staff at this level, we expect to close 59,000 cases in 2003/04.
  - timeliness. We will include two further indicators that will monitor the timeliness of our case closures at three months and nine months. We will also increase from 75% to 80% our target for the percentage of cases closed within six months.
  - unit cost. The effect of these assumptions will be a total expenditure of £33.1m. This is an increase on the 2002/03 budget of 17%. However, it is equivalent to a unit cost of £551 compared with the £688 in the budget for 2002/03.

conclusion

- 1.8 We welcome comments on any aspect of this *plan & budget* or on the level of case fees and the tariff for the voluntary jurisdiction. Please direct any comments on the general levy tariff for the compulsory jurisdiction to the Financial Services Authority, as this forms part of a separate consultation on funding the ombudsman service (CP161).



chapter two

## performance in the year 2002/03

'This volume of case closures is 39% higher than last year and 36% higher than the budget forecast.'

## introduction

2.1 This will be the first full year in which the Financial Ombudsman Service has operated under its own powers. As well as managing a continued increase in the volume of new complaints, we have completed the process of merging the 'old' schemes into one integrated service.

key activities  
of the year  
so far

2.2 The key activities of the year so far have been as follows:

2.3 achievement of targets. The year has been characterised by a very large increase in the volume of new complaints. Despite this, we expect to meet our productivity and timeliness targets and to deliver a unit cost considerably below that forecast.

2.4 restructuring of the business. Previously, our casework was carried out in three divisions, based on the former banking, insurance and investment ombudsmen schemes, each with their own rules. We had always recognised that this structure could not be a permanent one, since it did not give us the flexibility to transfer staff from one division to another to meet sudden and unexpected surges in complaints.

Having implemented our unified casework system and business process, we have now been able to reorganise these divisions into new teams, each dealing with a variety of cases covering all three areas of complaint. In the short term, we expect this reorganisation to lead to some interruption to our normal levels of productivity, as case-handlers develop their expertise in the full range of products.

2.5 credit unions. Approximately 800 credit unions joined the Financial Ombudsman Service on 1 July 2002. Trade bodies representing many of these credit unions invited us to their conferences to run seminars and familiarise delegates with the complaints-handling process.

2.6 consultation on opening the voluntary jurisdiction. Mortgage and general insurance intermediaries are likely to be subject to our compulsory jurisdiction in October 2004, when they become regulated by the FSA. After discussion with the Mortgage Code Compliance Board (MCCB) and the General Insurance Standards Council (GISC), we decided there was merit in anticipating this by opening our scheme early for those mortgage and insurance intermediaries who wished to join. We therefore published a consultation document in May 2002 on opening the voluntary jurisdiction. In the light of responses to this consultation, we will be accepting new members into our voluntary jurisdiction from 1 April 2003. However, we do not expect the number of customer complaints that will reach us as a result to be significant in relation to our total budget.

- 2.7 *working together* conferences. We have undertaken a series of *working together* conferences at venues around the country. The conferences were aimed at financial services practitioners and involved presentations from ombudsmen and adjudicators, coupled with workshops and discussion of case studies. The conferences were well attended and feedback from the firms that took part suggests that participants found them very valuable.
- 2.8 measuring quality. We have introduced routine quality monitoring within our business process and we have started sending questionnaires to customers after we have dealt with their cases, in order to measure their views on aspects of our service. Given that our base consists of customers who are already dissatisfied, and that we do not uphold the majority of the complaints referred to us, we accept that satisfaction rates are unlikely to be high. However, the results of our monitoring will provide very useful indicators. We intend to publish a summary of our findings in our *annual review 2002/03*.

In addition, we plan to consult soon on how best we might measure firms' satisfaction with our service.

- 2.9 new complaints. By the end of December 2002 we had received 43,000 new complaints. We expect this figure to rise to 55,000 by the end of March 2003. This is 27% above last year's figure of 43,300 and 47% above the budget forecast of 37,500. This high level of cases reflects some of the major areas of financial complaints that have arisen during the year, including complaints about dual variable mortgage rates, mortgage endowments, Equitable Life and split capital investment trusts.

Some of the publicity surrounding these issues has stimulated an increase in the number of complaints reaching us, both about these issues and also about other – unrelated – financial matters.

We have based our forecast for new complaints on the following assumptions:

- complaints about dual variable mortgage rates will be significantly lower during the last half of the year 2002/03;
- complaints about Equitable Life and split capital investment trusts will continue to arrive at the same rate;
- mortgage endowment complaints will increase in the final four months to March 2003, following firms' issuing their second round of mortgage endowment 're-projection letters' to policyholders, towards the end of 2002.

- 2.10 case closures. Our budget, set in March 2002, assumed 40,000 case closures this year. By the end of December 2002 we had closed 40,398 cases, and we now expect to close 54,500 cases by the end of March 2003. This volume of case closures is 39% higher than last year and 36% higher than the budget forecast.
- 2.11 In May 2002 it became apparent that the volume of cases, especially in the banking area, was well in excess of what we had expected. We recruited 35 new case-handlers to help keep our timeliness targets and work-in-progress to acceptable levels. Later in the year we introduced a further incentive scheme for our existing case-handlers. Coupled with the recruitment of an additional 18 case-handlers by the end of January 2003, this will bring our work-in-progress back to its level at the beginning of the year.
- 2.12 productivity and timeliness. We calculate productivity as the average number of cases that each case-handler closes each week. Our productivity for the first nine months was 4.6 cases per case-handler, exceeding our budget target of 4.1 cases. We expect this to increase to 4.7 by the year-end. This figure reflects:
- the special project to reduce the work-in-progress;
  - a continuing improvement in the business process, especially the earlier stages of our complaints-handling process; *and*
  - the effect of closing significant numbers of dual variable rate mortgage cases through our 'lead case' procedure.

The productivity figure of 4.7 does not, however, represent a sustainable position in the long term. This is because we are only achieving this rate of productivity by offering case-handlers incentives to work extra hours in order to conclude additional cases well over their normal targets.

We began the year in April 2002 with 22 weeks of work in hand. This was six weeks more than anticipated in the budget, due to higher than expected numbers of new complaints in 2001/02. By December 2002, our work-in-progress had improved to 21 weeks and we expect it to fall to 19 weeks by the year-end.

Our targets for timeliness are to close 75% of cases within six months and 100% of cases within 12 months. At present, we have closed 76% of cases within six months and 96% within 12 months, with any cases exceeding this time limit being reported to the board. We have achieved these results despite a large increase in cases.



2.13 expenditure and unit cost. The budget for expenses (before financing charges) was £27.5m, based on our closing 40,000 cases, giving a unit cost of £688. The total expenditure for 2002/03 (before financing charges) is expected to exceed the budget by £2.2m, mainly due to the additional staff and staff-related costs. However, with case closures now expected to be 54,500, this gives a unit cost of £544 for the year. This is £144 (or 21%) less than originally anticipated.

summary | 2.14

	12 months actual 2000/01	12 months actual 2001/02	9 months actual 2002/03	12 months forecast 2002/03
opening work-in-progress	12,083	14,781	18,917	18,917
new cases	31,350	43,330	43,294	55,000
case closures	28,652	39,194	40,398	54,500
closing work-in-progress	14,781	18,917	21,813	19,417
work in hand (weeks)	22	22	21	19
unit cost	753	684	547	544
productivity	3.3	3.8	4.6	4.7
cases closed in six months	65%	73%	76%	78%

conclusion | 2.15 As in previous years, we have tried to balance the importance that consumers attach to our providing a fast complaints-resolution service with the need to provide a quality service at a reasonable cost to the industry.

# business plans

'Our challenge now is to  
continue these  
improvements in  
productivity and timeliness  
while maintaining, or  
further improving, the  
quality of our work.'

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**insurance and mortgage intermediaries**

3.1 Insurance and mortgage intermediaries have the option of being covered by our service from April 2003. We do not expect the majority to join until October 2004, when they become authorised by the FSA. But we need to prepare ourselves for their entry. At present, our database of firms covered by the ombudsman service comprises around 10,000 authorised firms and 32,000 appointed representatives. We estimate the number of potential new firms – those not covered at present – to be in the region of 35,000, so the entry of insurance and mortgage intermediaries will have a significant effect on the overall number of participating firms.

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**document imaging/firms' extranet**

3.2 Our work in assessing and resolving complaints involves dealing with large amounts of correspondence and other documents from customers and firms. We plan to reduce our dependence on paper files by starting to scan material into our electronic database and to exchange information electronically wherever possible. During the coming year we aim to build and pilot-test a secure electronic information exchange with one or two large firms, with a view to making this more widely available in due course.

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**knowledge management**

3.3 Our decision to move away from casework divisions structured around the former ombudsman schemes led to our setting up a 'knowledge management' project. Our new casework structure requires our staff to develop their skills in dealing with complaints about a variety of products. We will use knowledge management to create an easily-accessible knowledge base. This will help staff build on their existing expertise and develop a full understanding of those areas and issues that had previously been less familiar to them. Knowledge management will also help us to ensure consistency, as it will enable us to pull together information about our approach to complaints in all the different sectors.

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**training**

3.4 Training continues to be a priority. We will focus on the need to cross-train our staff on a wide range of products, so that we have the necessary flexibility to handle surges of work in different areas.

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**conclusion**

3.5 We have demonstrated our ability to improve productivity and timeliness while, at the same time, handling a significant increase in the volume of complaints. Our challenge now is to continue these improvements in productivity and timeliness while maintaining, or further improving, the quality of our work.



## complaint trends

'Each week our initial contact point, the customer contact division, receives and deals with 5,000 calls and 1,400 written communications from new customers.'



**new complaints**

- 4.1 The difficulties involved in predicting numbers and patterns when forecasting new complaints are universally accepted. The number of complaints brought to the ombudsman service is affected by many different factors, including consumer experience and behaviour, product performance, the conduct of firms and the way in which firms deal with complaints.
- 4.2 Anecdotal evidence suggests that consumers in general are far more likely to voice their grievances than they were – say – twenty years ago. However, we need to look for more concrete factors when we forecast the likely levels of complaints reaching us.

The external issues that may impact on the level of complaints for the remainder of this year (2002/03) and the year ahead include:

a) mortgage endowments

It is certain that there will be a significant increase in mortgage endowment complaints to the ombudsman service, although exactly when it will reach us and how large it will be is less easy to predict.

Insurance companies have begun sending out 're-projection letters' to their mortgage endowment policyholders, and they will need to complete this before the summer of 2003. This is not likely to impact on our service until some months after policyholders receive their letters.

It seems very likely that these letters will reveal greater shortfalls than before, leading to more complaints. In addition, fears about the potential impact of a time bar may drive larger numbers of customers to complain to us – at an earlier stage – than might otherwise be the case.

b) falling stock markets

Major falls in the market tend to uncover instances of mis-selling that a more benign environment would conceal. We expect investment complaints generally to rise quite substantially.

c) market-linked bonds

The small number of complaints that we are beginning to see in this area could increase as more of these bonds reach maturity.

d) split capital investment trusts

We have received over 1,700 complaints relating to split capital investment trusts and there is potential for more.

e) insurance and mortgage intermediaries

During 2003 we will extend our jurisdiction to these groups of firms on a *voluntary* basis, in advance of the likely extension to our compulsory jurisdiction in 2004. However, we do not expect this to have a significant impact on our overall figures during 2002/03.

f) improved complaint-handling by firms

Full compliance with the FSA's complaint-handling regime remains patchy, and the sheer volume of complaints can put severe pressure on firms' complaints-handling capabilities. However, the new complaint-handling rules should continue to improve firms' performance in dealing with complaints, reducing the number of cases that might otherwise escalate and be referred to us.

g) 'wider implications' cases

We have put arrangements in place with the FSA for identifying cases that have more wide-ranging regulatory implications and might be susceptible to a regulatory solution.

h) complaints about dual variable mortgage rates

We are assuming that we are unlikely to see a recurrence of the surge of complaints we received in 2002, following the introduction by some lenders of dual variable mortgage rates.

- 4.3 Matching these factors against what we see as underlying trends, and taking into account both historical patterns and an overall 'sensitivity check', our 'base' case assumption is that in 2003/04 we will receive 55,000 new complaints, a similar number to that forecast for this year. For our 'sensitivity check' we have modelled the scenarios of a 10% decrease or a 10% increase on our 'base' case assumption.

customer  
contact division

- 4.4 Each week our initial contact point, the customer contact division, receives and deals with an average of 5,000 calls and 1,400 written communications from new customers. Approximately 1,100 of these initial contacts per week result in our needing to investigate the customer's complaint. The division accounts for 15% of budgeted staff numbers and 10% of staffing costs.

We estimate that our emphasis on early complaint prevention (either by providing initial information to the customer, over the phone, or by contacting the firm) means that some 1,000 contacts every week are resolved without being formally referred to us as a complaint against a firm.

The general information we provide may also help a proportion of callers to avoid altogether the need to take up a complaint with a firm. We find that some of the customers who contact us direct about a 'complaint' may, for example, simply need reassurance about basic points of general procedure, or an explanation that matters such as a fall in the value of the stock market are not, in themselves, cause for complaint.

- 4.5 Up to the end of December 2002 we had received 190,000 telephone calls and 56,000 written complaints. We expect to have received 260,000 telephone calls and 70,000 new written enquiries by the end of March 2003.

	9 months actual 2002/03	12 months forecast 2002/03	12 months budget 2003/04
calls to our customer contact division phone number (0845 080 1800)	190,000	260,000	260,000
new written enquiries	56,000	70,000	67,000
total	246,000	330,000	327,000

- 4.6 The number of new complaints is increasing, but call volumes and written enquiries have remained stable. This is probably because growing numbers of consumers are visiting our website ([www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk)). The website now receives up to two thousand visits a day.

From the initial third of a million calls and enquiries we receive, we expect that only 55,000 will become new complaints for us to deal with (as 'chargeable cases'). Our business process tries to ensure that as many enquiries as possible are resolved before they become new complaints.

- 4.7 We continue to invest in the training of our consumer consultants, with the aim of ensuring that they are all able to deal with enquiries about complaints involving the full range of financial services.
- 4.8 We use a software package that helps us maximise efficiency by allocating and switching staff resources between answering calls and dealing with post.

## new complaints analysis

4.9 An analysis of new complaints by major product type is as follows:

product	actual 2001/02	forecast 2002/03	budget 2003/04
dual variable rate mortgages	575	6,200	0
endowment policies linked to mortgages	14,595	10,500	16,000
personal pension plans	5,881	6,000	6,000
non mortgage-linked endowments/ whole-of-life policies	3,647	3,400	3,500
mortgage loans	3,301	2,900	3,400
motor insurance	1,609	2,400	2,400
single premium investment bond	362	1,700	2,500
split capital investment trusts	0	2,000	3,000
current accounts	1,280	1,400	1,500
savings accounts	1,230	1,300	1,500
buildings insurance	985	1,250	1,250
travel insurance	884	1,000	1,000
other banking products	1,642	3,300	3,500
other insurance products	3,277	4,850	4,850
other investment products	4,062	6,800	4,600
total	43,330	55,000	55,000

## conclusion

4.10 Given the difficulties of forecasting complaint volumes, we are assuming that we will receive a similar number of complaints in 2003/04 to the number received in 2002/03. However, we have modelled two alternative scenarios – a 10% increase and a 10% decrease in complaint volumes.



chapter five

## productivity, timeliness and service quality

'We are committed to improving timeliness and reducing the level of work-in-progress during 2003/04, whatever the level of complaints.'

## productivity

- 5.1 For 2003/04, our working assumption is that there will be a reduction in productivity from 4.7 to 4.4 cases per case-handler per week. This decrease reflects:
- the fact that we had to introduce one-off special measures to achieve the exceptionally high level of case closures in 2002/03; *and*
  - the extensive training programme we will undertake to enable caseworkers to work on cases outside their current specialism.

The productivity target of 4.4 complaints resolved by each case-handler each week will represent a 40% increase in productivity since 1999/2000. We can achieve this by 'smarter' working methods, our new casework system, modifications to the business process and improved performance management.

## headcount

- 5.2 We have assumed that we will require an additional 30 case-handlers in order to reduce our work-in-progress by 4,000 cases – the equivalent of three weeks' activity.

## closures

- 5.3 We expect the increase in the number of case-handlers to result in our closing 59,000 cases in 2003/04.

improvements  
in timeliness

- 5.4 The boards of both the Financial Ombudsman Service and the Financial Services Authority have confirmed that resolving complaints speedily should be a key priority for us. We have therefore decided to refine our performance measures by adding two new indicators – measuring the number of cases we close within three months and within nine months. Our new targets are to close 45% of complaints within three months and 90% of cases within nine months. The number of cases we aim to close within six months, currently 75%, will be increased to 80%. In addition, we will report in detail to our board all cases that have been outstanding for longer than 12 months.

reduction in  
work-in-progress

- 5.5 In view of our recruitment of additional case-handlers, we plan to reduce the work-in-progress to the equivalent of 14 weeks by March 2004.

## cross-training

- 5.6 The new organisational structure we put in place at 1 October 2002 has replaced divisions that reflected the structure of the former ombudsman schemes with more flexible business units. During 2003/04 we will devote a considerable amount of time to cross-training our case-handlers so that they are able to handle a broader range of complaints. This will have a short-term adverse effect on our productivity. However, our investment in creating a more flexible organisation will enable us to increase our productivity in future years.

alternative scenarios

5.7 a) increasing complaints. Our experience from previous years, where we have seen double-digit growth in new complaints, has illustrated the need to plan for significantly higher volumes of work than our 'base' forecast. We have modelled a scenario where new complaints increase by 10% more than our 'base' case. In that event, we would recruit an additional 15 case-handlers to close an additional 4,000 cases, while maintaining our work-in-progress at the equivalent of 14 weeks. Our productivity and timeliness targets would not change. Our unit cost would fall to £525.

b) Even if new complaints rose more substantially, our current accommodation has the capacity for an additional 10% of our headcount. Our IT system supports distance-working, and we currently use this facility for a small number of home-workers. Overall, we could cope with 35% more complaints than modelled in the 'base' case scenario before our additional accommodation requirements would require a step-change in our expenditure budget.

c) decreasing complaints. If there were a 10% reduction in new complaints, we would plan to:

- reduce the average number of case-handlers by not replacing those who leave;
- close 4,000 fewer cases; *and*
- maintain our work-in-progress to the equivalent of 14 weeks.

Our productivity and timeliness targets would not change and the unit cost would be £585.

## summary | 5.8

	2001/02 actual	2002/03 forecast	2003/04 budget	2003/04 increasing complaints	2003/04 decreasing complaints
opening work-in-progress	14,781	18,917	19,417	19,417	19,417
new cases	43,330	55,000	55,000	60,000	50,000
case closures	39,194	54,500	59,000	63,000	55,000
closing work-in-progress	18,917	19,417	15,417	16,417	14,417
work in hand (weeks)	22	19	14	14	14
productivity	3.8	4.7	4.4	4.4	4.4
closed within three months		45%	45%	45%	
closed within six months	73%	78%	80%	80%	80%
closed within nine months			90%	90%	90%
closed in under 12 months	100%	96%			
closed in over 12 months			all cases reported to the board		

**conclusion** | 5.9 We are committed to improving timeliness and reducing the level of work-in-progress during 2003/04, whatever the level of complaints. Our new targets for closing cases within three and nine months will help us to provide a better service to our stakeholders.



chapter six

# budget 2003/04

'Our unit cost has fallen dramatically – and we have met our three-year target of having a unit cost lower than it was at our predecessor schemes.'



## introduction

6.1 Expenditure for 2002/03, before financing costs, is expected to be £2.2m above budget, mainly due to the additional staff and staff-related costs. However, we expect our unit cost to be £544, compared with the budgeted figure of £688.

6.2 The budget for 2003/04 (before financing costs) of £32.5m is £2.8m more than the forecast for 2002/03 – an increase of 9%. The majority of this increase relates to the staff recruited in 2002/03 to service the increasing levels of complaints. We expect the unit cost to be £551 – slightly higher than in 2002/03, in which it was reduced abnormally by the exceptional level of closures. The increase reflects:

- the full-year effect of staff recruited in 2002/03;
- additional staff in 2003/04;
- increased funding for the final salary pension scheme; *and*
- the additional 1% national insurance contributions.

6.3 IT costs will increase as a result of the licences and equipment we need to support the additional casework staff, and maintenance charges on our software. The depreciation charge will increase by £0.5m, due to our implementing the new unified case system in 2002/03. This increase is equivalent to £6 on our unit cost.

## capital expenditure

6.4 Capital expenditure of £1.4m is planned in 2003/04. This consists of £0.3m to fit-out existing accommodation for the additional staff, £0.4m for IT infrastructure, and £0.7m for IT development.

## summary of expenditure

6.5

	budget 2002/03 £m	forecast 2002/03 £m	budget 2003/04 £m
staff and staff-related costs	19.7	21.1	22.9
professional fees	0.5	0.6	0.4
IT costs	0.8	0.9	1.3
premises and facilities	3.5	4.0	4.2
other costs	0.3	0.4	0.5
depreciation	2.7	2.7	3.2
operating costs	27.5	29.7	32.5
financing costs	0.7	0.4	0.6
total costs	28.2	30.1	33.1
case closures	40,000	54,500	59,000
unit cost	£688	£544	£551

## unit cost per case

6.6 The unit cost per case, analysed over the different parts of our business process, is as follows:

	actual 2001/02 £	forecast 2002/03 £	budget 2003/04 £
case-handling	351	284	282
complaints prevention			
customer contact division	64	47	45
external liaison/publications	22	18	18
other administration (incl board costs)	86	70	76
premises and facilities	95	76	75
depreciation	66	49	55
total	684	544	551

## headcount

6.7 The full time equivalent headcount is expected to increase to 550 by the end of March 2004 as follows:

	budget 2002/03	forecast 2002/03	budget 2003/04
casework divisions	298	353	383
customer contact division	87	85	85
external liaison/publications	16	17	18
business improvement	9	9	9
knowledge management	3	7	8
subtotal	115	118	120
support services	45	45	47
total	458	516	550

## conclusion

6.8 Although our costs have increased above the rate of inflation, this is almost wholly due to increased volumes of work. Our unit cost has fallen dramatically, and we have met our three-year target of having a unit cost that is materially lower than that of our predecessor schemes.

## tariff and case fee information

‘Maintaining the case  
fee at £360 would allow  
for a 24% reduction in  
the overall levy.’

**levy** 7.1 The annual levy this year (before the bad debt provision) is expected to collect £0.4m more than required. The forecast surplus for 2002/03 is £3.4m, mainly relating to the greater number of case fees. Together with our reserves of £0.8m brought forward from last year, this will give us potential reserves of £4.2m.

We will use these reserves to write-off the remaining establishment costs of £3m immediately, rather than recovering them over the next two years. This proposal has been strongly supported by the cross-section of industry practitioners and trade body representatives who form our Industry Funding Group.

income analysis	budget 2002/03 £m	forecast 2002/03 £m	budget 2003/04 £m
levy	14.1	14.5	11.9
case fees	14.1	20.0	21.2
<b>total</b>	<b>28.2</b>	<b>34.5</b>	<b>33.1</b>

**case fees** 7.2 Our original assumption was to have a 50:50 levy/case fee split in our first year. However, in Consultation Paper 74 – *Funding the Financial Ombudsman Service* – (CP74 – issued jointly by the FSA and ourselves) it was suggested that the ‘user pays’ element might be allowed to rise in the light of experience, after the scheme had been running for a time. We expect that in 2002/03 case fees will amount to 58% of our income.

We propose to keep the case fee at the present level of £360. Case fees will then constitute 64% of our income. Again this proposal is supported by the Industry Funding Group. There are practical reasons for maintaining consistency in the case fee, quite apart from this being in line with the policy aim set out in CP74.

Looking ahead to the possibility of a tiered case fee (an option also favoured by many in the industry), keeping £360 as the fee for a case that requires a full investigation might allow us to introduce a lower fee for cases that can be concluded at an earlier stage (for example, a case resolved by mediation at the assessment stage). We do not yet have a legally definable 'assessment' stage, nor a definite feel for how many cases might be concluded at this point in the process. However, these matters could form part of next year's consultation on the possibility of introducing the lower fee for certain cases.

- 7.3 Maintaining the case fee at £360 would allow for an approximate 24% reduction in the overall levy. The tariff rates would then be adjusted accordingly.
- 7.4 The 'special case' fee is £720 in 2002/03. This is the fee charged for complaints about small businesses, or those involving firms that pay no annual levy. In calculating this amount, we equated the special case fee to the total cost of handling a complaint (equivalent to the levy and a case fee). We propose to reduce the special case fee to £600 for the year 2003/04.

overall  
impact on  
firms

- 7.5 The proposals in this budget strategy (together with the forthcoming proposals for tariff rates) would result in:
- the industry paying the levy at tariff rates that – overall – are 24% less than this year;
  - less of the burden of paying for the Financial Ombudsman Service falling on those firms that do *not* have complaints referred to us;
  - those firms that *do* have complaints referred to us shouldering a greater proportion of the costs of the Financial Ombudsman Service, but by paying the same case fee in 2003/04 as in 2002/03.



7.6 We give below some examples of levies resulting from the proposed tariff reduction and the absence of a supplementary levy (assuming constant business, year on year). Since the amount raised from each tariff block relates to the number of complaints handled, the reduction in the tariff rate will not be the same for each block.

- A bank or building society with 2 million relevant accounts would pay £25,000 as opposed to £35,060.
- A general insurer with £100 million relevant premium income would pay £11,600 as opposed to £17,770.
- A life office with £200 million of relevant premium income would pay £18,400 as opposed to £21,860.
- A three-partner IFA firm not holding client money would pay £75 rather than £117.

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conclusion

7.7 In 2003/04 the levy on firms will be substantially reduced and the case fee will remain the same. During 2003/04 we will review what proportion of our costs we should raise through the annual levy and whether we should introduce tiered case fees.

# compulsory jurisdiction – general levy table

appendix A

**compulsory jurisdiction – general levy table** (this table is included for information only, and is part of the FSA’s consultation paper CP 161)

industry block	tariff basis	proposed tariff rate	minimum levy	total
		£	£	£
1 Deposit acceptors, mortgage lenders and administrators (exc FOS14)	Per relevant account	0.0125	200	£2,618,000
2 Insurance Activities subject to prudential regulation only (exc FOS13 & 15)	Per £1000 of relevant annual gross premium income	0.116	200	£2,113,440
3 Society of Lloyds		n/a	n/a	£88,060
4 Insurance Activities, prudential and conduct of business regulation (exc FOS15)	Per £1000 of relevant adjusted annual gross premium income	0.092	100	£4,522,000
5 Fund Managers, holding / not holding client money or assets	Per £1000 relevant funds under management	0.00187	100	£880,600
6 Operators, Trustees and Depositories of collective investment schemes	Per £ relevant annual gross income	0	75	£28,875
7 Dealers as Principal	Per relevant trader	0	75	£35,100
8 Advisory arrangers, dealers or brokers holding and controlling client money or assets	Per relevant approved person (RAP)	35 (Per RAP)	75	£833,000
9 Advisory Arrangers, dealers or brokers NOT holding /controlling client money or assets	Per relevant approved person (RAP)	20 (Per RAP)	75	£714,000
10 Corporate Finance Advisers	Per relevant approved person (RAP)	0	75	£46,350
11 Execution-Only Arrangers, Dealers or Brokers	Per £ relevant annual commission or fee income	0	75	£3,225
13 Cash Plan Health Providers	Per £1000 of relevant annual gross premium income	0	50	£1,150
14 Credit Unions	Per £ gross assets	0	50	£34,400
15 Friendly Societies (whose tax exempt business is 95%+ of total relevant business)	Per £ relevant annual gross premium income	0	50	£9,350

# compulsory jurisdiction – case fee table

appendix B



compulsory jurisdiction – case fee table

case fee

standard case fee	£360
special case fee	£600

See Chapter 5, Section 5.6 (Case Fees) of the Complaints sourcebook in the FSA Handbook for the definitions of *standard case fees* and *special case fees*.



appendix C

# voluntary jurisdiction – general levy tariff and case fees

voluntary jurisdiction – general levy tariff and case fees

industry block and business activity	tariff basis	tariff rate	minimum levy	case fee
1V mortgage lenders and administrators	number of relevant accounts	£0.0125	£200	£360
2V firms undertaking insurance activities subject to prudential regulation only	relevant annual gross premium income	£0.116 per £1,000	£200	£360
3V firms undertaking insurance activities subject to prudential and conduct of business regulation	relevant adjusted annual gross premium income	£0.092 per £1,000	£100	£360
4V mortgage intermediaries	n/a	n/a	n/a	£600
5V insurance intermediaries	n/a	n/a	n/a	£600
6V other intermediaries	n/a	£200 flat fee	n/a	£360
7V firms not falling into any of the above categories	n/a	n/a	n/a	£600