Financial Ombudsman Service

plan & budget 2004/05

for the year ending 31 March 2005

Financial Ombudsman Service

contents

Please send your comments by 19 February 2004 to

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Sue Slipman
chairman

foreword by the chairman

'new challenges of size and diversity will add to the continuing challenge of complaint numbers.'

This is the first *plan & budget* I have introduced, although it is now the fourth year we have consulted publicly on our workload and financial forecasts.

Last year's consultation provided feedback on emerging complaint patterns that helped us revise our initial estimates. However, even after increasing our workload assumptions, we expect actual complaintnumbers for 2003/04 to be over 60% higher than we forecast in the budget for 2003/04, and 58% higher than in the previous year. Coping with this level ofdemand has prompted us to innovate – adopting new strategies to enable us to manage the increased workload without compromising quality and consistency in decision-making. During 2004/05, we plan to build further on initiatives alreadyintroduced, including new case-handling procedures, greater flexibilityin managing caseloads and the recruitmentof additional staff. We will also continue to seek ways of moving and reallocating staff resources, quickly and efficiently, to areas of high demand.

Our planning assumption for 2004/05 is that the current high level of mortgage endowment complaints (around 37,000 complaints in the first nine months of 2003/04) will fall – initially to 35,000 in 2004/05 and then to 15,000 in 2005/06. These figures may well need to be adjusted in the light of experience and we will particularly welcome feedback based on industry intelligence in this area.

The widening of our jurisdiction will bring us new challenges of size and diversity to add to the continuing challenge of complaint numbers. Mortgage and insurance intermediaries will join our compulsory jurisdiction in October 2004 and January 2005 respectively. This will add an estimated 20,000 to the number of firms covered by the ombudsman service – giving us jurisdiction over more than 30,000 firms in total. We are not predicting a significantgrowth in complaint load as a result. However, as so many smaller firms will be joining our compulsory jurisdiction, we have been particularly keen to find funding mechanisms that meet their particular needs, without unfairlyaffecting the firms we already cover. We note, too, that the Department of Trade and Industry's recent White Paper on consumer creditincluded proposals for an alternative dispute resolution service, for which a scheme such as ours may be considered appropriate.

Our board has given much thought this year to how the service will maintain its values of independence, balance and integrity as it grows in size and complexity. We have been listening to – and learning from – our stakeholders' expectations, and we are keen to ensure the service is responsive to our users' needs. This commitment forms the basis of our response to HM Treasury's review of the FinancialServices and Markets Act 2000 (the so-called "*N2+2 review*"). The Treasury has asked us to work together with the FinancialServices Authority(FSA) in reviewing a wide range of stakeholder concerns, including the way in which issues with wider implications are managed between the ombudsman service and the FSA, and the issue of appeals. A group of expert stakeholders – drawn from consumer and industry backgrounds – was appointed in December 2003. It will oversee the scope, terms and conduct of the consultation process for the review, leading to a full public consultation exercise early in 2004.

We have already consulted with the FSA on the broad outline of this *plan & budget* and we will report back to it on the outcome of this consultation in March 2004, when we will also seekour final budgetary approval. Before then, we welcome your views to help us finalise our plans.

Sue Slipman

chapter one

executive summary

‘we intend to maintain our timeliness targets, despite the increased workload.’

introduction

1.1 The purpose of this *plan & budget* is to report on the performance of the Financial Ombudsman Service during 2003/04 and to consult on proposed expenditure, caseload forecasts and funding for the financial year to 31 March 2005.

The *plan & budget* also proposes changes to our method of invoicing and collecting case fees in 2004/05, and consults on the tariff and case fee rates for firms in our voluntary jurisdiction.

effect on consumers of the budget proposals

1.2 Despite the increase in workload, we expect to broadly meet our targets for timeliness in 2003/04, and plan to maintain them in 2004/05. Our surveys show that overall levels of consumer satisfaction remain high, with 80% of consumers telling us they are satisfied with the service they have received from the ombudsman service. Further details are given in chapter 2.

effect on the industry of the budget proposals

1.3 The industry will benefit from a continuing fall in our unit cost, from £730 in 1999/2000 to a proposed unit cost of £507 in 2004/05. Firms that rarely refer complaints to the Financial Ombudsman Service will benefit by being invoiced for case fees only for their third and subsequent "chargeable" complaint in a year. All firms will benefit from our returning a proportion of last year's surplus to the industry. Overall, firms against whom complaints are made will continue to pay a greater proportion of the costs of the ombudsman service.

increasing the scope of our compulsory jurisdiction

1.4 During the financial year 2004/05, mortgage and general insurance intermediaries will join our compulsory jurisdiction. We have been preparing for this by consulting the relevant trade associations on our funding proposals, and by holding seminars and roadshows around the country. We expect mortgage and general insurance intermediaries to increase our complaint-handling workload by between 5% and 10%, although they will increase the total number of firms we cover from under 10,000 to over 30,000.

In addition, in the White Paper on consumer credit that it published in December 2003, the Department of Trade and Industry proposed establishing an alternative dispute resolution mechanism for disputes about consumer credit. One possibility would be for this to be included within our compulsory jurisdiction. If this happened, it would be unlikely to take effect before 2006.

key points of the current year 2003/04

1.5 A summary of the keypoints of the current year – 2003/04 – is as follows:

- **new complaints.** By the end of December 2003, we had received over 71,000 new complaints, and we expect this figure to increase to 98,000 by the end of March 2004. Of these complaints, approximately 50% relate to mortgage endowments.

- **cases resolved.** During the year we recruited additional casework staff to help handle the increasing numbers of complaints. By December 2003, we had resolved and closed 50,000 cases and we expect this figure to increase to 80,000 by the end of March 2004 – 17,000 higher than predicted in our budget for the year.

- **unit cost.** We expect our unit cost for the year to be £489, compared with our budget of £541.

key points for the budget year 2004/05

1.6 Key points for the budget year 2004/05 are as follows:

- **new complaints.** As we have found in previous years, predicting the level of new complaints is not an exact science. Overall, we have assumed that complaints will fall by 15,000, reflecting a decrease in the number of mortgage endowment complaints reaching us.

- **cases resolved.** With additional case-handling staff in place, we expect to resolve and close 88,000 cases in 2004/05, an increase of 10% on the figure for the current financial year.

- **productivity & timeliness.** Compared with the current exceptional year (2003/04), our productivity will return to normal levels. We set out the reasons for this on page 20. We intend to maintain our timeliness targets, despite the increased workload.

- **unit cost.** Our total expenditure, before financing charges, will increase from the budget figure of £34.1m in 2003/04 to £44.6m in 2004/05. This will equate to a unit cost in 2004/05 of £507 compared with the budget figure of £541 in 2003/04.

conclusion

1.7 We welcome comments on any aspect of this *plan & budget*, and, in particular, on:

- our workload assumptions;
- the level of our case fees and the change in our invoicing policy for firms in our compulsory jurisdiction;
- the amount of reserves we hold, and our method for returning any surplus to firms; *and*
- tariff rates and case fees for firms in our voluntary jurisdiction.

Any comments on the general levy tariff for the compulsory jurisdiction should be sent to the FSA, as this forms part of its consultation on funding the Financial Ombudsman Service (CP208).

chapter two

performance in the year 2003/04

‘we have seen a dramatic increase in the number of complaints about endowment mortgages.’

introduction

2.1 The year has been characterised by several challenging issues, including mortgage endowments and split capital investment trusts. However, we have begun to reap the benefits of our flexible approach to working, by being able to move case-handling staff quickly to areas of high demand, where necessary.

key activities of the year

2.2 Key activities for the year are as follows:

- **endowment mortgages.** We have seen a dramatic increase in the number of complaints referred to us about endowment mortgages. In 2002/03 we received 13,570 of these complaints, compared with 37,000 in the first nine months of 2003/04. We expect that complaints aboutendowment mortgages will comprise around a half of all the cases we will have dealt with in 2003/04. We have worked closely with the FSA, trade associations and individual firms to help in wider efforts to resolve these disputes at the earliest possible opportunity. We are also developing new ways of working with firms to streamline the administrative effort involved in investigating and resolving these cases.

- **split capital investment trusts.** We have received about 4,200 complaints in total relating to split capital investment trusts, and we have so far resolved about 1,000 of them. These complaints throw up complexities beyond those raised by the fact that there is an ongoing FSA investigation into the sale of these products, and by the complicated nature of "splits" themselves.

  Many of the complaints combine issues that are specific to the particular case, and that can only be assessed in the circumstances of each individual case, with "*splits*"-*specific* issues (those that can only be assessed collectively for all "splits" cases). "Splits"-specific information identified in individual cases has to be fed back to the collective assessment. "Splits"-specific conclusions then have to be fed back to the outcomes of individual cases. And the position on the "splits"-specific issues can vary over time.

  That would be complicated enough, even if individual cases involved a service provided on a single date for a single type of share in one "split". But each investor may have a portfolio of different "splits" shares, and the firm may have provided a continuing service over a period of time.

- **knowledge management.** We have developed our work on knowledge management to enhance the consistency and efficiency of the ombudsman service. We have started to introduce structured documentation for use by our adjudicators on many of the main complaint issues we deal with. This has helped to train staff in areas of dispute that are new to them and so has helped our work on increasing flexibility. Our knowledge management team also continues to carry out surveys of our users and to enhance our forecasting and management information systems.

- **consumer satisfaction surveys.** These regular surveys show an overall level of consumer satisfaction of 80%. A similar proportion of customers say they are likely to recommend our service to others. In addition, 70% were satisfied with our timeliness, and 75% were satisfied with the way in which we explained our decision on their case.

- **firms' satisfaction surveys.** We have also researched firms' opinions. Over 70% of the firms surveyed think that our decisions are generally fair, and 90% of these firms think that our service provides a better alternative than the courts. Additionally, 75% felt that the ombudsman service has upheld a reasonable proportion of the complaints made against their firm.

- **conferences and seminars.** We have continued to arrange *working together* conferences throughout the year, as well as presentations, seminars and workshops around the country. We have also held ten roadshows specifically for mortgage and general insurance intermediaries, to give them an opportunity to find out more about the benefits of joining our voluntary jurisdiction before they become regulated by the FSA in 2004/05.

2.3 **new complaints.** Following consultation with firms and consumer organisations, in March 2003 we increased the budget assumption for new complaints by 5,000 to 60,000, and this was approved by the FSA as our final budget. However, we now expect the number of new complaints to rise to 98,000 – 58% above last year's figure of 62,170 and an increase of 63% compared with the budget. The revised numbers reflect an increase over the 2003/04 budget of 150% for mortgage endowment cases and of 20% for cases about other products (mainly as a result of increased numbers of complaints about single premium investment bonds and split capital investment trusts).

The forecast for 2003/04 is based on the assumption that complaints about mortgage endowments will continue at their current level and that we will continue to receive complaints about all other products at the same rate we saw in the first half of the current year.

2.4 **cases resolved.** In last year's budget we assumed we would resolve and close 63,000 cases in 2003/04. However, following the increase in the volume of cases reaching us, we now expect to resolve 80,000 cases in 2003/04. Important factors in helping us to achieve this have been the recruitment of additional adjudicators and the setting up of a special mortgage endowment project, enabling us to handle the large number of complaints as efficiently as possible.

2.5 **productivity and timeliness.** We define productivity as the average number of cases resolved per week by each case handler. Up to December 2003, productivity was 4.7 cases per case handler, exceeding our target of 4.4 cases. We expect productivity to increase for the remainder of the year as our newly-recruited staff gain experience, and we see the benefits of our streamlined approach to mortgage endowment cases. There is a difference between the productivity levels for mortgage endowment complaints and those for complaints about other products. This is because the high volume of mortgage endowment complaints makes it possible to implement a streamlined process, and to achieve increased productivity through economies of scale. We have therefore been able to resolve these cases at a considerably higher rate, without compromising on quality or consistency. The cases that involve subject areas other than mortgage endowments include those that are particularly complex and time-consuming, such as split capital investment trusts, portfolio management, and personal pensions.

Work-in-progress had increased to 28 weeks at the end of December 2003 but is likely to have reduced to 23 weeks by the end of March 2004. This is above the level anticipated in the budget, and is almost wholly due to the unexpected increase in mortgage endowment cases.

We expect the level of timeliness for 2003/04 to be close to the targets set in the budget (see paragraph 2.7), although the need to divert resources to the mortgage endowment project is expected to result in a small slippage in meeting the 3-month target.

We know, from our consumer satisfaction surveys, that the length of time it can take for some cases to be allocated to an adjudicator is a cause of frustration. By the end of 2003/04, for complaints about products other than endowments, we will have reduced this time down to 8 weeks from the current average of 11 weeks. For mortgage endowment complaints, we hope the waiting time will have reduced from 18 weeks to 13 weeks.

2.6 **expenditure and unit cost.** Because of the higher number of case fees invoiced during the year, we expect income to be £6.7m above budget. We expect expenditure to be £4.8m above budget, reflecting the costs of the additional staff (and staff-related costs) needed to handle the extra workload. Our unit cost is forecast to be £489 compared with the figure of £541 in the budget.

summary

2.7

	actual 2001/02	actual 2002/03	actual 9 months 2003/04	forecast 12 months 2003/04	budget 12 months 2003/04
opening work-in-progress	15,657	19,793	25,504	25,504	24,628
new complaints	43,330	62,170	72,241	98,000	60,000
cases resolved	39,194	56,459	50,876	80,000	63,000
closing work-in-progress	19,793	25,504	46,869	43,504	21,628
work in hand (weeks)	22	21	28	23	14
productivity*	3.8	4.9	4.7	4.9	4.4
resolved within 3 months	n/a	44%	50%	44%	45%
resolved within 6 months	73%	76%	81%	81%	80%
resolved within 9 months	95%	90%	92%	93%	90%
unit cost	684	518	501	489	541

**average numberof cases resolved each week by each case handler.*

conclusion

2.8 **conclusion.** The year has been notable for the large increase in mortgage endowment complaints. However, despite the challenges that it has brought, we have maintained a service providing for the efficient, timely and consistent resolution of complaints at a realistic cost.

chapter three

business plans

N2+2 review

3.1 In November 2003, the Financial Secretary to the Treasury announced a two-year review of the Financial Services and Markets Act 2000. Part of the review will examine aspects of the work of the Financial Ombudsman Service. The review will cover the way the Financial Ombudsman Service interacts with the FSA's regulatory responsibilities and with the work of the other bodies with regulatory responsibilities. It will also consider the case for amending the process by which firms may appeal against our decisions. Together with the FSA, we have established a group of stakeholder representatives to oversee the scope, terms and conduct of the consultation process. We expect the review to be completed by November 2004.

internal assessment

3.2 In parallel with the external review, we have commissioned Elaine Kempson, at the University of Bristol, to provide an independent assessment of the work of the ombudsman service, focusing on the quality, consistency and flexibility of our process. Her assessment is likely to be completed by the summer of 2004.

intermediaries

3.3 Mortgage and insurance intermediaries will join our compulsory jurisdiction in October 2004 and January 2005 respectively. During 2003, we have been in discussion with the FSA and the relevant trade associations about how best to merge these new sectors into our present operations. In early 2004, together with the FSA, we will issue a consultation on the proposed funding mechanism for these firms (covering arrangements for both 2004/05 and 2005/06 onwards), along with any necessary rule changes. Throughout 2003 we have been encouraging mortgage and insurance intermediaries to join our voluntary jurisdiction, to help them prepare in advance of their being required to join our compulsory jurisdiction.

modular training

3.4 To help us develop the skills of our case-handling staff, we have put in place a training framework comprising three modules:

- case-handling
- product guidance; *and*
- management.

All case-handling staff will take part in those aspects of the training that are relevant to their specific responsibilities.

chapter four

complaint trends

‘we will particularly value feedback on our workload assumptions.’

new complaints

4.1 As we are acutely aware, predicting the numbers of new complaints is not an exact science. It can be affected by many different factors, including the firm's attitude to a certain type of complaint, the state of the economy and the stock market, and media coverage. Given the unexpected increase in complaints this year, we will particularly value feedback on our workload assumptions.

4.2 We have tried in the past to validate our assumptions about the likely numbers of future complaints by talking to the FSA, industry bodies, consumer groups and firms. These discussions are a valuable source of information for us, and we have decided to formalise this information-gathering by recruiting a new member of staff, whose role will be to analyse external and internal data, with the aim of increasing the accuracy of our forecasting.

The external issues that we expect to have an impact on the level of complaints during the next 18 months include:

4.2.1 **mortgage endowments.** We expect to continue to receive complaints at a similar level as at present until the second half of 2004/05, when we expect a slow reduction. This likely reduction in the number of complaints will be driven by a number of factors including:

- new rules waivers given to some firms by the FSA, and a return to normal complaint-handling timescales for other firms;
- a reducing pool of mortgage endowment policyholders who have not yet complained; *and*
- time limits that will begin to bite, rendering potential complaints "out-of-time".

4.2.2 **single premium investment bonds (including "precipice" bonds).** The number of complaints has increased significantly in 2003/04, and we expect to receive a significant number in 2004/05 as more of these bonds reach maturity.

4.2.3 **insurance and mortgage intermediaries.** The information given to us by these intermediaries' trade associations suggests that we will not see a large number of new complaints from these firms, as a proportion of the total number of complaints we receive.

4.2.4 **voluntary jurisdiction.** At present, about 300 firms have joined our voluntary jurisdiction, 250 of which will move into our compulsory jurisdiction in 2004/05. We do not expect these firms to produce a significant number of complaints during the year.

customer contact division (CCD)

4.3 Each week our customer contact division (CCD) – our initial contact point for consumers – handles around 6,000 phone calls and 5,000 pieces of correspondence. In line with our objective of resolving issues at the earliest appropriate stage, we are able to resolve the vast majority of enquiries in CCD and they are never converted to "chargeable cases". This year, the total number of contacts made to CCD will have increased by 20% compared with 2002/03, largely as a result of the increase in mortgage endowment complaints. We expect a modest reduction in 2004/05, as mortgage endowment-related queries start to decline.

4.4 In the main, we have managed the increased workload in CCD through further improvements in efficiency, although we have also recruited more staff. The restructuring of CCD, together with continued staff training and development, and the increasing reliability of our resource planning processes, has enabled the division to make significant improvements in the standards of service, as well as coping with the additional work. Over 85% of calls are now answered within 20 seconds, with just 1% of calls being abandoned. Twelve months ago, 57% of calls were answered within 20 seconds and 8% of calls were abandoned. Similar improvements have been made in the processing of correspondence.

Consumers have recognised these improvements – 94% of those who responded to our satisfaction surveys said that they found it easy to contact us and 91% said they were happy with the way that CCD dealt with their enquiry.

4.5 Phone and written contacts have increased by 20% over 2002/03, but we expect the level of contacts to fall in 2004/05, in line with our assumptions about levels of new complaints.

	actual 2002/03	**forecast 2003/04**	**budget 2004/05**
calls to our enquiry line (0845 080 1800)	265,554	298,000	283,000
new written enquiries	196,786	257,000	231,000
total	**462,340**	**555,000**	**514,000**

analysis of new complaints

4.6 Because of the difficulties in forecasting complaint volumes, we are assuming that the underlying volumes will remain constant for 2004/05 and 2005/06, except for a fall in complaints about mortgage endowments. We have assumed an increase of 5,000 complaints in 2005/06, following the extension of our jurisdiction to insurance and mortgage intermediaries. In our assumptions, we have also allowed for an additional 4,000 complaints to cover product areas that have not so far generated any significant number of complaints to us.

type of complaint	actual 2002/03	forecast 2003/04	budget 2004/05	plan 2005/06
endowment policies linked to mortgages	13,570	50,000	35,000	15,000
single premium investment bonds	2,631	6,000	4,000	2,000
pension products	7,233	5,000	5,000	5,000
mortgage loans	2,903	3,000	3,000	3,500
split capital investment trusts	2,233	3,000	2,000	0
non-mortgage endowments/ whole-of-life policies	5,009	4,000	4,000	4,500
motor insurance	2,372	2,750	3,000	3,000
current accounts	1,602	1,700	1,800	1,900
buildings/contents insurance	2,294	2,750	3,000	3,000
travel insurance	1,088	1,400	1,400	1,500
dual variable rate mortgages	6,535	500	0	0
mortgage and general insurance intermediaries	0	0	0	5,000
“new” types of complaint	0	0	4,000	4,000
other complaints	14,700	17,900	16,800	19,600
total	**62,170**	**98,000**	**83,000**	**68,000**

chapter five

productivity, timeliness and service quality

‘we intend to maintain the targets we set in 2003/04, despite the exceptional increase in the workload.’

productivity

5.1 Since most mortgage endowment policies will not mature – and therefore crystalise any *actual* losses – in the near future, our strategy is to prioritise those complaints that do *not* involve these policies, while managing the expectations of *all* our customers. However, we give early consideration to mortgage endowment complaints where the underlying mortgage is due to be repaid shortly or where the policyholder is seriously ill.

Productivity levels in 2004/05 will be lower than in 2003/04 because:

- the remaining "stock" of mortgage endowment complaints will become increasingly difficult as we complete the more straightforward cases;
- we will transfer some existing staff, currently processing mortgage endowment complaints, to deal with other types of complaint;
- high levels of recruitment will have an impact on the productivity both of the new staff, while they are being trained, and of those existing staff who are involved in the training. Our priority when recruiting will be for staff to work in areas other than mortgage endowments, since the work in these other areas is more specialised and complex, and the productivity levels are lower at present than for complaints involving mortgage endowments.

In 2005/06 we expect the upward trend in productivity to return. There will be a decline in the economies of scale that help speed productivity levels for mortgage endowment complaints. However, this will be more than compensated for by the fact that our newer staff will by then be fully trained and able to work on a wider range of cases.

headcount

5.2 We have assumed there will be no additional recruitment in 2004/05.

cases resolved

5.3 With our increased numbers of case handlers, we expect to resolve and close 88,000 cases in 2004/05, an increase of 10% compared with the current year. For 2005/06, we expect the number of cases we resolve to increase to 90,000, with no additional increase in case-handling staff.

timeliness

5.4 We intend to maintain the targets we set in 2003/04, despite the exceptional increase in the workload (see table 5.6).

work-in-progress

5.5 Work-in-progress will remain at 23 weeks. However, the time it takes before we can allocate mortgage endowment complaints will increase as staff are redeployed to deal with other types of cases. We are keen to ensure that mortgage endowment complaints do not adversely affect service standards for the rest of our workload.

The recruitment of additional staff in 2003/04 will increase our capacity for resolving cases. However, volumes of new cases are likely to remain high, with mortgage endowment cases forming a significant proportion. The average waiting time before a case (of any type) can be allocated to an adjudicator will have reduced to 6 weeks by the end of this year.

In 2005/06 staffing levels will remain steady and we expect our capacity for resolving cases to significantly exceed the level of new cases reaching us, reducing the work-in-progress by over 25%. The average time before we are able to allocate a case to an adjudicator will have reduced further to 4 weeks by the end of 2005/06.

summary

5.6

	actual 2002/03	forecast 2003/04	budget 2004/05	plan 2005/06
opening work-in-progress	19,793	25,504	43,504	38,504
new complaints	62,170	98,000	83,000	68,000
cases resolved	56,459	80,000	88,000	90,000
closing work-in-progress	25,504	43,504	38,504	16,504
work in hand (weeks)	21	23	23	10
productivity	4.9	4.9	4.4	4.5
resolved within 3 months	44%	44%	45%	45%
resolved within 6 months	76%	81%	80%	80%
resolved within 9 months	90%	93%	90%	90%
resolved within 12 months	all cases reported to the board			

5.7 In our view, these forecasts represent a sound basis for budget planning and service delivery. However, as in previous years, we intend to react flexibly to changes in demand as they arise, and this may involve our needing to recruit further staff in order to keep our work-in-progress to acceptable levels.

chapter six

budget 2004/05

‘we expect our income in 2004/05 to be £43.0m, 4% greater than in 2003/04.’

introduction

6.1 We expect our income in 2004/05 to be £43.0m, 4% greater than in 2003/04. Further analysis is given in chapter 7. Expenditure at £44.9m will be 14% higher than in the current year, reflecting the full annual cost of staff recruited in 2003/04, increased cost of telephone, postage, photocopying, paper *etc,* increased IT costs, and additional accommodation. We have leased an extra half floor at our premises at South Quay Plaza but – because of the very depressed state of the commercial property market – we have been able to obtain this at a rent below the level we originally negotiated four years ago for other floors in the building.

capital expenditure

6.2 Capital expenditure of £1.2m is planned for 2004/05. This consists of £0.5m for IT hardware purchases, £0.5m for software development, and £0.2m for building improvements.

summary of income/expenditure

6.3

	budget 2003/04 £m	**forecast 2003/04 £m**	**budget 2004/05 £m**
income	**34.6**	**41.3**	**43.0**
staff and staff-related costs	24.4	29.2	34.9
professional fees	0.4	0.4	0.4
IT costs	1.4	1.5	1.5
premises and facilities	4.2	4.7	5.1
other costs	0.5	0.4	0.4
depreciation	3.2	3.0	2.3
operating costs	**34.1**	**39.2**	**44.6**
financing costs	0.6	0.3	0.3
total costs	**34.7**	**39.5**	**44.9**
surplus (deficit)	(0.1)	1.8	(1.9)
cases resolved	63,000	80,000	88,000
unit cost	**£541**	**£489**	**£507**

staff numbers

6.4 The full-time equivalent headcount is expected to reach 768 by April 2004. Recruitment will be predominantly in the casework divisions, to help deal with the increasing workload and to reduce the level of work-in-progress.

	budget 2003/04	forecast 2003/04	budget 2004/05
casework divisions and ombudsmen	408	586	580
customer contact division	93	96	96
external liaison/publications	18	18	18
knowledge management & information	12	12	12
support services	53	56	57
total	**584**	**768**	**763**

chapter seven

tariff and case fee information

‘we are proposing that the case fee should remain unchanged at £360.’

funding 2004/05

7.1 Our funding requirement in 2004/05 will be £45.0m, £30.5m of which we will raise from case fees and the remaining £14.5m through the annual levy.

surplus

7.2 We propose to refund part of the surplus of £4.0m that had accumulated in the period to March 2003. In line with the policyagreed with the FSA, we propose to return to participating firms any surplus in excess of 5% of the annual expenditure. The funding requirement to be raised by the annual levy will therefore be reduced by £2.0m to £12.5m.

income analysis	budget 2003/04 £m	forecast 2003/04 £m	budget 2004/05 £m
levy	11.9	12.5	12.5
case fees	22.7	28.8	30.5
total	**34.6**	**41.3**	**43.0**

levy/case fee split

7.3 Feedback from last year's consultation indicated that firms would prefer us to raise a greater proportion of our income from case fees rather than from the levy. We therefore proposed a budget split – the ratio of income from case fees in relation to income from levy – of 64:36. The forecast outcome for 2003/04 is now for a 69:31 split and, before deducting any credit from the projected surplus, the proposals below for 2004/05 would leave this ratio largely unchanged. This outcome is in line with our aim of ensuring that the split broadly allows us to recover our case-handling costs through case fees and our overhead costs through the levy.

case fees

7.4 On this basis, we are proposing that the case fee should remain unchanged at £360, and that we will not charge firms for the first two of their cases that we deal with (as long as their annual levy has been invoiced and paid). We estimate that the additional sum we would need to collect from the levy as a result of this measure is £1.2m. The "special" case fee (mainly relating to complaints by small businesses and complaints about firms that have resigned from the Financial Ombudsman Service) will be reduced by £50 from £600 to £550.

The advantages of our leaving the level of the case fee unchanged are that:

- There is no need for discussion with firms about the year in which the case should have been closed, and the level at which the charge should be set.
- If complaint levels fall, there is less risk of our having to increase the case fee in 2004/05, which would result in a perceived price "increase".
- Firms do not generally complain about the actual amount of the case fee – only that they have to pay, whatever the outcome.
- Although firms of independent financial advisers (IFAs) have more concerns about the impact of case fees than larger firms do, a recent survey showed that fewer than a quarter of IFAs saw the case fee as a significant business problem, while half said it was not a problem at all. (Source: *Money Marketing,* 11 December 2003).
- Reducing the case fee would mean raising a greater proportion of the funding by the annual levy, which is neither the expressed preference of most firms, nor in line with our policy objective.
- An analysis of the case fees charged in our first full year of operation (2002/03) showed that fees were charged to only 1,500 of the approximately 8,000 firms then covered by our compulsory jurisdiction – while all 8,000 firms paid a general levy contribution. Of the firms that were charged case fees, nearly half had only one or two complaints during the year that resulted in a case fee. It appears that among the 8,000 firms covered by the ombudsman service, some 750 are of a size that means they regularly produce three or more complaints a year. We have termed these 750 or so firms "regular users", while the remainder of firmsare "occasional users". For "regular users", being covered by the ombudsman service and paying a significant number of case fees are facts of business life, for which the firms can make appropriate business plans. However, "occasional users" may go from year to year without having any complaints about them referred to the ombudsman service.

The advantages of our not charging for the first two cases are:

- Potentially, all participating firms would receive a benefit. "Regular user" firms would not be charged for the first two cases, while "occasional users" would have the reassurance that the unlikely occurrence of one, or even two, complaints against them in a year would not impact disproportionately on them.

- It should reduce the sense of unfairness that has been felt in the past by some firms who have chosen to settle cases with the consumer, even where they have felt there was no justification, simply in order to avoid a case fee.

7.5 The levy funding requirement for 2004/05 will be £14.5m, an increase of 22% over 2003/04 (10% of this increase relates to the cost of offering firms two "free" cases). We propose to use £2.0m of the surplus from previous years to lower the budget proposals for the levy funding requirement by reducing the tariff rates uniformly over all the industry blocks. This would then give an overall increase of 5% in the tariff rates.

annual levy

7.6 The FSA is consulting in CP208 on plans to change the way in which the general levy is invoiced and collected. It is proposed that the FSA should assume responsibility for this invoicing and collection. This change would necessitate changes to DISP 5. The proposed amendments are set out in Annex 5 in CP208. These amendments will be determined by the FSA and approved by the Financial Ombudsman Service. The revised invoicing and collection arrangements will not apply to the voluntary jurisdiction or to case fees.

As a result of the proposed amendments to DISP 5, it has been necessary to make some consequential amendments to DISP 4. These are set out in appendix D of this *plan & budget*. DISP 4 sets out the standard terms of the voluntary jurisdiction of the Financial Ombudsman Service. The Financial Ombudsman Service is empowered by schedule 17, paragraph 18(3), to make the rules regarding payments by firms that participate in the voluntary jurisdiction of the Financial Ombudsman Service. The FSA is required to approve these rules.

overall impact on firms

7.7 The proposals for the levy (reproduced in appendix A), on which the FSA is presently consulting in CP208, would have the following impact on firms, assuming constant business year-on-year. The methodology for allocating expenditure to blocks, consulted on in CP74, is based on the number of case-handling staff required to handle the complaints expected in that block. The increase in the tariff rates for advisory firms therefore reflects the increase in the workload relating to mortgage endowment complaints, compared with the workload assumed in the budget for 2003/04.

- A bank or building society with 2 million accounts would pay a levy of £13,800 in 2004/05, compared with £25,000 in 2003/04.
- A general insurer with £100 million of relevant premium income would pay a levy of £8,100 in 2004/05, compared with £11,600 in 2003/04.
- A life office with £200 million of relevant premium income would pay a levy of £18,600 in 2004/05, compared with £18,400 in 2003/04.
- An adviser who holds client money with 50 approved persons would pay a levy of £3,250 in 2004/05, compared with £1,750 in 2003/04.
- A three-partner firm of IFAs (independent financial advisers) not holding client money would pay a levy of £90 in 2004/05, compared with £75 in 2003/04.

unit cost

7.8 We expect the unit cost to fall to £489 in 2003/04 – £52 below budget – because of the increased volume of cases. However, this cost will rise to £507 in 2004/05, because of the full-year impact of the additional casework staff recruited in 2003/04, together with additional accommodation costs.

mortgage and insurance intermediary firms

7.9 We remain uncertain about the volume of complaints that we will receive in 2004/05 involving mortgage and insurance intermediaries. The fact that we do not know how many of these firms will join our voluntary jurisdiction, before they are required to join our compulsory jurisdiction later in the year, makes this particularly difficult to estimate. We have therefore concluded that it is not sensible to calculate a levy for these firms this year. Instead, we propose to charge them the full case fee of £550 for each case closed in 2004/05. This proposal will be included in the consultation mentioned at paragraph 3.3 on page 13. However, we also propose that, as for other firms, the case fee should apply only to the third and any subsequent complaints about them that are closed during a year.

appendix A

compulsory jurisdiction – general levy table

ompulsory jurisdiction – overview of general levy for 2003/04 and 2004/05

his table is included for information only, and is part of the FSA's consultation paper CP208)

dustry ock	description	tariff basis	proposed tariff rate £	2003/04 tariff rate £	proposed minimum levy per firm £	proposed total £	2003/04 total £	proposed contributions by block %	contribution by block % 2003/04
	Deposit acceptors, mortgage lenders and administrators (excluding firms in block 14)	Per relevant account	0.0069	0.0125	200	£1,642,886	£2,618,000	13.14%	21.95%
	Firms that undertake insurance activities subject to prudential regulation only (excluding firms in blocks 13 & 15)	Per £1,000 of relevant annual gross premium income	0.081	0.116	200	£1,569,393	£2,113,440	12.55%	17.71%
	Society of Lloyds		n/a	n/a	n/a	£47,266	£88,060	0.38%	0.74%
	Firms that undertake insurance activities subject to both prudential and conduct of business regulation (long-term life insurers) (excluding firms in block 15)	Per £1,000 of relevant adjusted annual gross premium income	0.093	0.092	100	£4,654,804	£4,522,000	37.24%	37.91%
	Fund managers (including those holding client money/assets and not holding client money/assets)	Per £1,000 relevant funds under management	0.00188	0.00187	100	£805,275	£880,600	6.44%	7.38%
	Operators, Trustees & Depositaries of collective investment schemes	Per £1,000 relevant annual gross Income	0.193	0	75	£284,716	£28,875	2.28%	0.24%
	Dealers as Principal	Per relevant trader	0	0	75	£16,950	£35,100	0.14%	0.29%
	Advisory Arrangers, dealers or brokers holding and controlling client money and/or assets	Per relevant approved person	65	35	75	£2,233,820	£833,000	17.87%	6.98%
	Advisory Arrangers, dealers or brokers NOT holding and controlling client money and/or assets	Per relevant approved person	30	20	75	£1,163,790	£714,000	9.31%	6.00%
	Corporate Finance Advisors	Per relevant approved person	0	0	75	£41,850	£46,350	0.33%	0.39%
	NOT APPLICABLE IN 2004/05		0	0	0	£0	£3,225	0.00%	0.03%
	NOT APPLICABLE IN 2004/05								
	Cash Plan Health Providers	Per £1,000 of relevant annual gross premium income	0	0	50	£900	£1,150	0.01%	0.01%
	Credit Unions	Per £ gross assets	0	0	50	£28,750	£34,400	0.23%	0.29%
	Friendly Societies whose tax-exempt business represents 95% or more of their total relevant business	Per £ relevant annual gross premium income	0	0	50	£9,600	£9,350	0.08%	0.08%
					Total – all blocks	£12,500,000	£11,927,550	100.00%	100.00%

appendix B

compulsory jurisdiction – case fee table

compulsory jurisdiction – case fee table

case fee

standard case fee	£360	(for the third and subsequent chargeable complaint for each authorised firm, subject to the annual levy being invoiced and paid within our normal credit terms)
special case fee	£550	(for the third and subsequent chargeable complaint for each authorised firm)

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

appendix C

voluntary jurisdiction – general levy tariff and case fee table

voluntary jurisdiction – general levy tariff and case fee table

industry block and business activity		tariff basis	tariff rate	minimum levy	case fee*
1V	mortgage lenders and administrators	number of relevant accounts	£0.0069	£200	£360
2V	firms undertaking insurance activities subject only to prudential regulation	relevant annual gross premium income	£0.081 per £1,000	£200	£360
3V	firms undertaking insurance activities subject to prudential and conduct of business regulation	relevant adjusted annual gross premium income	£0.093 per £1,000	£100	£360
4V	mortgage intermediaries	n/a	n/a	n/a	£550
5V	insurance intermediaries	n/a	n/a	n/a	£550
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	£550

***note on case fees**

As for the compulsory jurisdiction, firms will only be charged for the third and subsequent chargeable case in any financial year, subject to the annual levy being invoiced and paid, where applicable.

appendix D

proposed amendments to DISP 4 rules

(reflecting proposed changes to the invoicing and collection arrangements for the general levy)

proposed amendments to DISP 4 rules

4.2.12 R ...

(1) DISP 5.4.6R (*general levy*) subject to substituting the words '*Voluntary Jurisdiction*' for '*Compulsory Jurisdiction*' and substituting the words 'FOS Ltd' for 'the FSA' ;

(6) DISP 5.7.5R subject to substituting *'to FOS Ltd*' for '*to the FSA*' and DISP 5.7.6R (*supplementary levy* for establishment costs) subject to substituting '*Part 4*' for '*Part 2*';

(7) DISP 5.8.1R subject to substituting '*to FOS Ltd*' for '*to the FSA*' and *'by FOS Ltd*' for '*by the FSA*', DISP 5.8.2R to DISP 5.8.4R, DISP 5.8.5G subject to substituting '*FOS Ltd* will' for '*FSA* will', DISP 5.8.6R, DISP 5.8.8R and DISP 5.8.9 (payment).

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