# report & financial statements

**Financial Ombudsman Service Limited**
(a company limited by guarantee)

**company registration no. 03725015**

## directors

Sir Christopher Kelly KCB – *chairman*

Caroline Banks
David Crowther
Richard Hampton
Ed Hucks
Roger Jefferies
Kate Lampard
Julian Lee
Roger Sanders OBE

## company secretary

Barbara Cheney

## registered office

South Quay Plaza
183 Marsh Wall
London
E14 9SR

## bankers

Lloyds TSB Bank plc
London

## auditors

Deloitte & Touche LLP
London

# directors' report

The directors of the Financial Ombudsman Service Limited present their report for the year ended 31 March 2005, together with audited financial statements of the company for the same period.

## principal activities

The principal activity of the Financial Ombudsman Service is the provision of an informal dispute resolution service for consumers and providers of financial products. It was created as part of the government's legislation for the financial services market and derives its statutory authority from the Financial Services and Markets Act 2000. The company was incorporated in 1999 to consolidate into a single statutory body the complaints handling and ombudsman services formerly provided by a number of statutory and voluntary schemes.

The company received its powers as the "scheme operator" provided for in Schedule 17 of the Financial Services and Markets Act 2000 through the enactment of secondary legislation on 1 December 2001.

## financial results

The company presents its results for the year to 31 March 2005. During the year, the company had an operating deficit after tax of £1,791,969 (2004: surplus of £4,533,453). In line with our reserves policy, where any accumulated surplus in excess of 5% of our annual expected expenditure is returned to firms, we had planned for a deficit of £1.4m. However, the deficit for the year was £0.4m higher than expected, largely due to fewer case closures than anticipated.

The company derives its income from firms covered by the Financial Ombudsman Service, partly from an annual levy and partly from case fees, which become payable when chargeable cases are closed. The amount of the annual levy paid by each firm depends on its size and the industry sector. Consumers do not pay to bring a complaint to the Financial Ombudsman Service and the company receives no government funding.

## directors

The Financial Services Authority appoints all members of the board, and HM Treasury also approves the appointment of the chairman. Directors are appointed for a period of up to four years and they may be reappointed for a further term, which must not exceed six years in total. The directors of the Financial Ombudsman Service Ltd during the year, and their attendance at board meetings, are shown below as a proportion of the meetings each director was eligible to attend:

| **director** | | **attendance** |
|---|---|---|
| Sue Slipman OBE | chairman to 3.02.05 | 9/9 |
| Sir Christopher Kelly KCB | chairman from 4.02.05 | 8/10 |
| | | |
| Caroline Banks | from 23.02.05 | 1/1 |
| David Crowther | from 23.02.05 | 1/1 |
| Lawrence Churchill | to 22.02.05 | 9/9 |
| Robert Crawford | to 22.02.05 | 8/9 |
| Richard Hampton | from 23.02.05 | 1/1 |
| Ed Hucks | | 8/10 |
| Roger Jefferies | | 9/10 |
| Kate Lampard | | 9/10 |
| Brian Landers | deputy chairman to 22.02.05 | 8/9 |
| Julian Lee | from 23.02.05 | 1/1 |
| Roger Sanders OBE | from 23.02.05 | 1/1 |
| Helena Wiesner | to 22.02.05 | 8/9 |

No director has any interests in the company. In the event of the winding up or dissolution of the company, each director's responsibility for payment of the company's debts and liabilities is limited to £1 each.

## fixed assets

The movements in fixed assets during the year are set out in note 13 to the accounts.

## supplier payment policy

The company's policy is to pay all suppliers within 30 days of date of invoice.

## employment policies

The Financial Ombudsman Service continues to monitor its recruitment policy to ensure it provides equal opportunities and fair treatment in all aspects of employment and does not tolerate any form of harassment either by or against employees. There are opportunities for staff to work part-time, flexible hours, to job share and to work from home. The company provides a comprehensive training programme involving internal and external courses. A modular qualification for adjudicators has been developed internally to enhance adjudicators' skills, and includes case-handling, product knowledge and management modules.

**diversity**

The Financial Ombudsman Service is fully committed to a policy of treating all employees and job applicants equally. All selection and recruitment decisions, both internal and external, and the progression of employees within the company are based on merit and not on any consideration of race, colour, religion, disability, nationality, ethnic origin, sex, sexual orientation, age, part-time hours or marital status.

The Financial Ombudsman Service complies as far as possible with the contents and aims of the *Code of Good Practice on the Employment of Disabled People* issued by the Employment Service.

The company:

- has ensured that there is full disabled access to its offices and all its facilities;
- considers all applicants for vacancies on merit. Where necessary, special arrangements are made for interviewing disabled applicants;
- raises awareness amongst staff of the assistance needed by their disabled colleagues at work; *and*
- reviews its policy annually and makes changes as required by legislation and best practice.

**employee involvement**
Senior members of staff meet a representative group of staff, the Employee Communications Forum, every month. The purposes of the meetings are:

- to give all staff an opportunity to raise questions, make suggestions or air matters of concern, through their representative on the forum; *and*
- to allow managers to consult staff on proposals prior to implementation and keep staff informed of the development of the Financial Ombudsman Service.

There is also a subsidised Sports & Social Committee, run by members of staff, which organises a wide range of social and sporting events.

## corporate governance
The Financial Ombudsman Service Ltd is a company limited by guarantee, without shareholders, which is a common structure for not-for-profit organisations. The directors remain committed to high standards of best practice in corporate governance. While not bound by the provisions of the Code of Best Practice identified within the *Combined Code*, the Financial Ombudsman Service aims to ensure that it complies with best practice in all relevant areas.

The board consists of the chairman and eight directors, all of whom are non-executive directors. Members of the board are appointed in the public interest and represent a wide range of business, financial and consumer expertise. The board has no involvement in considering individual complaints. The role of the board is to ensure that the company is properly resourced and is able to carry out its functions effectively, impartially and independently – free from any control or influence by those whose disputes are resolved by the Financial Ombudsman Service.

The board met ten times during the year. Detailed papers were circulated in advance of each meeting to ensure that the directors were able to make informed decisions at meetings. The company secretary attended and minuted all meetings of the board and its committees. The directors believe they have full and timely access to all relevant information required to carry out their functions. Registers of directors' and ombudsmen's interests are maintained. The board meeting in June 2004 was held away from the office over a full day to give the directors an opportunity to review their strategic vision, direction, structure and their responsibilities.

In addition to the provision of strategic direction and management, decisions taken by the board include:

- the appointment of the ombudsmen and the independent assessor;
- the making of rules in respect of the scheme's voluntary jurisdiction, subject to the approval of the Financial Services Authority;
- the making of rules relating to the levying of case fees, subject to the approval of the Financial Services Authority; *and*
- the approval of and recommendation to the Financial Services Authority of the annual budget.

## committees

The terms of reference for the board committees are on the website at www.financial-ombudsman.org.uk/about/board.html. Details of the board committees are as follows:

### audit committee

The audit committee met three times during the year. Its remit is to:

- make recommendations to the board in respect of the external auditors' appointment;
- review the draft report and financial statements before submission to the board;
- discuss with the auditors issues arising from the external audit;
- receive reports from the internal auditors and approve the internal audit programme;
- ensure compliance with all requirements governing financial reporting; *and*
- review risk management controls.

Members of the audit committee were (with attendance at meetings shown in brackets):

Brian Landers – chairman (3/3)
Robert Crawford (2/3)
Ed Hucks (2/3)
Roger Jefferies (3/3)

The committee reviewed and approved the financial statements and external auditors' report. The risk management model was maintained and considered, with the assistance of the internal auditors. Key risks identified formed the basis for drawing up the internal audit plan for the year. The committee considered various internal audit reports (including reports about case-handling, quality assurance, human resources, cash, bank and treasury management) and an internal audit plan for the coming year.

During the year the committee carried out a self-assessment evaluation of its performance, in accordance with the *Combined Code Guidance* in the Smith Report.

**remuneration committee**
The remuneration committee met three times during the year. Its remit is to:

- consider and agree proposals from the chief ombudsman about the remuneration of senior executive staff and ombudsmen;
- give advice about the policy for, and scope of, pension arrangements for all staff;
- review and note annually the remuneration trends across the organisation; *and*
- advise on any proposals for major changes to employee benefit structures.

Members of the remuneration committee were (with attendance at meetings shown in brackets):

Sir Christopher Kelly KCB – chairman (3/3)
Lawrence Churchill (3/3)
Robert Crawford (2/3)
Kate Lampard (2/3)

The committee reviewed, and approved, proposals for remuneration for senior staff and ombudsmen at the Financial Ombudsman Service. It also considered a range of proposals for dealing with the issue of fairness between the final salary and money purchase pension schemes.

## performance evaluation

The chairman met with each director individually to assess the board's view of the performance of the Financial Ombudsman Service, the operation of the board (including its method of operation, contributions by directors and the sub-committee structure), the role and performance of the executive team and proposals for further development. At its planning meeting, in June 2004, the board discussed the assessment of its performance and agreed a number of measures for further development.

## auditors' independence

The company has reviewed its relationship with its auditors, Deloitte & Touche LLP, and has concluded that there are sufficient controls in place to ensure the required level of independence. During the year no fees, other than for audit and tax advice, were paid to Deloitte & Touche LLP.

## internal controls

The board of the Financial Ombudsman Service has overall responsibility for establishing key procedures designed to achieve a sound system for internal control and reviewing its effectiveness. The system is designed to provide reasonable, but not absolute, assurance against material mis-statement or loss. As part of this process, the board and audit committee initiate reports from either the executive team or the internal auditors where necessary.

The Financial Ombudsman Service's key internal control and monitoring procedures include:

internal controls, continued

**financial reporting**
There is a comprehensive budgeting system, with the annual budget (which sets out workload assumptions, financial plans and priorities) being approved by the boards of both the Financial Ombudsman Service and the Financial Services Authority. Monthly results with revised forecasts are reviewed at each board meeting.

**monitoring systems**
The audit committee reviews regular reports at their meetings from the internal auditors. The board receives a management information pack of key performance indicators at each of its meetings.

**risk management**
The Financial Ombudsman Service operates a risk management process that identifies the key risks facing the company. A risk management model has been developed, which identifies key risks, an impact analysis, the current risk management strategy, its effectiveness, any further action required and the risk owner. This model is reviewed by the audit committee and the executive team.

**quality assurance**
The Kempson review recommended the appointment of a member of the executive team to take responsibility for all aspects of quality control throughout the organisation. A quality director was appointed in January 2005 and is developing our quality assurance initiatives.

## auditors

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors of the company and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the board of directors and signed on behalf of the board.

BCheney

**Barbara Cheney**
*company secretary*
9 June 2005

# directors' responsibilities in respect of the financial statements

United Kingdom company law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company as at the end of the financial year, and of the income and expenditure of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; *and*
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that the financial statements comply with these requirements.

The directors are responsible for ensuring that proper accounting records are kept, which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# independent auditors' report to the members of the Financial Ombudsman Service Limited

We have audited the financial statements of the Financial Ombudsman Service Limited for the year ended 31 March 2005 which comprise the income and expenditure account, the balance sheet, the cash flow statement, notes a to f to the cash flow statement and notes 1 to 19 to the accounts. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent mis-statements.

## basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 2005, its deficit and its cash flow for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**Deloitte & Touche LLP**
Chartered Accountants and Registered Auditors
London

9 June 2005

# income and expenditure account

for the year ended 31 March 2005

| | notes | 2005<br>£'000 | 2004<br>£'000 |
|---|---|---|---|
| turnover | 2, 3 | 43,645 | 40,535 |
| administrative costs | | (45,593) | (36,322) |
| | | (1,948) | 4,213 |
| other operating income | 4 | 147 | 342 |
| **operating (deficit)/surplus** | | **(1,801)** | **4,555** |
| interest receivable | 5 | 234 | 158 |
| interest payable and similar charges | 6 | (214) | (182) |
| **(deficit)/surplus on ordinary activities before taxation** | 7 | **(1,781)** | **4,531** |
| tax (charge)/credit on (deficit)/surplus on ordinary activities | 8 | (11) | 2 |
| **(deficit)/surplus on ordinary activities after taxation** | | **(1,792)** | **4,533** |
| **balance of income over expenditure brought forward at 1 April** | | **8,561** | **4,028** |
| **balance of income over expenditure carried forward at 31 March** | | **6,769** | **8,561** |

All amounts relate to continuing activities in the current and prior year.

There were no recognised gains or losses in either the current or the prior year other than those included in the income and expenditure account above. Accordingly, no statement of total recognised gains and losses has been presented.

Notes a to f to the cash flow statement and notes 1 to 19 to the accounts form an integral part of these financial statements.

# balance sheet as at 31 March 2005

| | notes | 2005 £'000 | 2005 £'000 | 2004 £'000 | 2004 £'000 |
|---|---|---|---|---|---|
| **fixed assets** | | | | | |
| tangible assets | 13 | | 7,382 | | 7,859 |
| **current assets** | | | | | |
| debtors | 14 | 8,064 | | 6,383 | |
| cash at bank and in hand | | 3,780 | | 5,088 | |
| | | 11,844 | | 11,471 | |
| **current liabilities** | | | | | |
| creditors: amounts falling due within one year | 15 | (4,957) | | (3,269) | |
| **net current assets** | | | 6,887 | | 8,202 |
| **total assets less current liabilities** | | | **14,269** | | **16,061** |
| creditors: amounts falling due after more than one year | 16 | | (7,500) | | (7,500) |
| **net assets** | | | **6,769** | | **8,561** |
| **capital and reserves** | | | | | |
| accumulated balance of the income and expenditure account | | | 6,769 | | 8,561 |
| | | | **6,769** | | **8,561** |

signed on behalf of the board of directors

Sir Christopher Kelly KCB
chairman

Notes a to f to the cash flow statement and notes 1 to 19 to the accounts form an integral part of these financial statements.
These financial statements were approved by the board of directors on 9 June 2005.

# cash flow statement

for the year ended 31 March 2005

| | notes | 2005 £'000 | 2004 £'000 |
|---|---|---|---|
| net cash inflow from operating activities | a | 892 | 5,252 |
| returns on investments and servicing of finance | b | 20 | (27) |
| taxation | c | 9 | 7 |
| capital expenditure and financial investment | d | (2,229) | (1,263) |
| net cash (outflow)/inflow before financing | | (1,308) | 3,969 |
| **financing** | | | |
| movement in long-term borrowings | | – | (2,000) |
| **(decrease)/increase in cash in the year** | **e,f** | **(1,308)** | **1,969** |

# notes to the cash flow statement

for the year ended 31 March 2005

## a reconciliation of operating (deficit)/surplus to net cash inflow from operating activities

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| operating (deficit)/surplus for the year | (1,801) | 4,555 |
| depreciation | 2,706 | 2,865 |
| increase in debtors | (1,698) | (1,497) |
| increase/(decrease) in creditors | 1,685 | (671) |
| **net cash inflow from operating activities** | **892** | **5,252** |

## b returns on investments and servicing of finance

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| interest received | 234 | 158 |
| interest paid | (214) | (185) |
| | **20** | **(27)** |

## c taxation

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| UK corporation tax paid | (8) | (15) |
| UK corporation tax recovered | 17 | 22 |
| | **9** | **7** |

## d capital expenditure and financial investment

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| payments to acquire tangible fixed assets | (2,229) | (1,264) |
| receipts from sales of tangible fixed assets | – | 1 |
| | **(2,229)** | **(1,263)** |

## e reconciliation of net cash flow to movement in net debt

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| (decrease)/increase in cash | (1,308) | 1,969 |
| cash inflow from decrease in debt financing | – | 2,000 |
| movement in net debt for year | (1,308) | 3,969 |
| net debt at 1 April | (2,412) | (6,381) |
| **net debt at 31 March** | **(3,720)** | **(2,412)** |

## f analysis of changes in net debt

| | at 1 April 2004 £'000 | cash flows £'000 | at 31 March 2005 £'000 |
|---|---|---|---|
| cash at bank and in hand | 5,088 | (1,308) | 3,780 |
| long-term loans | (7,500) | – | (7,500) |
| | **(2,412)** | **(1,308)** | **(3,720)** |

# notes to the accounts

for the year ended 31 March 2005

## 1 status of the company

Financial Ombudsman Service Limited is a company limited by guarantee and registered in England and Wales (company registration no. 03725015). The liability of each of the members is limited to the amount of £1 guaranteed in the Memorandum of Association.

## 2 principal accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom company law and accounting standards. A summary of the principal accounting policies is set out below.

**turnover**

*annual levy* – each firm that comes under the jurisdiction of the Financial Ombudsman Service is required to pay an annual levy based on the permissions given to that firm by the Financial Services Authority.

*case fees* – each firm that has a chargeable complaint referred for investigation to the Financial Ombudsman Service is required to pay a case fee upon closure of the third and subsequent complaint.

*service charges* – the Financial Ombudsman Service provides accounting and other services to some of the former schemes.

*recognition of income* – levy and service charge income is recognised on invoicing for the period to which the invoices relate. From 1 April 2002, case fee income is recognised at the date when invoices are raised, this being the end of the month in which the case is closed. For cases transferred from the Personal Investment Authority Ombudsman Bureau at 30 November 2001, and for cases billed by the Financial Ombudsman Service, at conversion, between 1 December 2001 and 31 March 2002, income is recognised upon closure of the case (see 'deferred income' accounting policy).

2. principal accounting policies (continued)

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

| | |
|---|---|
| leasehold improvements | over ten years |
| premises fees and stamp duty | over five years |
| computer hardware | over three years |
| computer software | over five years |
| computer systems development and fees | over five years |
| office furniture and equipment | over five years |
| fixtures and fittings | over ten years |

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

**pension scheme payments**
The company operates both a defined benefit pension scheme and a defined contribution (money purchase) scheme, both being part of the Financial Services Authority tax-approved pension plan. The costs of the contributions to the defined benefit scheme are accounted for in accordance with SSAP 24, where the charge to the income and expenditure account relates to the cost of the pension spread over the service life of the employees, and is determined by independent qualified actuaries undertaking a formal valuation every three years. The costs of the contributions to the money purchase scheme are charged to the income and expenditure account as incurred.

**operating lease commitments**
Operating lease costs are charged to the income and expenditure account to reflect usage of the assets leased.

2. principal accounting policies (continued)

**deferred income**

The accounting policy used by the Personal Investment Authority Ombudsman Bureau for billing chargeable cases was continued in the Financial Ombudsman Service from 1 December 2001 to 31 March 2002. Case fees were billed to firms and credited to the deferred income account on the conversion of the case. Amounts are released to case fee income only on closure of the case. The balance in the deferred income account therefore represents the number of open cases being:

- those cases originally converted and billed in the Personal Investment Authority Ombudsman Bureau prior to 1 December 2001 and transferred to the Financial Ombudsman Service at that date; *and*
- those cases converted and billed in the Financial Ombudsman Service between 1 December 2001 and 31 March 2002.

Amounts billed by the Financial Services Authority in advance for levy due for the year from 1 April 2005 are shown as deferred income at 31 March 2005.

## 3 turnover

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| annual levy | 12,408 | 13,112 |
| case fees | 31,222 | 27,398 |
| service charges | 15 | 25 |
| | **43,645** | **40,535** |

The figure for annual levy includes charges of £151 (2004: refunds of £537) representing establishment costs billed (2004: refunded) to firms in the year.

## 4 other operating income

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| conference fees | 20 | 96 |
| publications | 127 | 95 |
| miscellaneous | – | 151 |
| | **147** | **342** |

## 5 interest receivable

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| bank interest | 233 | 158 |
| other interest | 1 | – |
| | **234** | **158** |

## 6 interest payable and similar charges

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| bank loan and overdraft | 214 | 182 |
| other interest | – | – |
| | **214** | **182** |

## 7 (deficit)/surplus on ordinary activities before taxation

| | notes | 2005 £'000 | 2004 £'000 |
|---|---|---|---|
| **this is stated after charging:** | | | |
| staff costs | 9 | 32,899 | 25,642 |
| depreciation | 13 | 2,706 | 2,865 |
| operating lease rentals: | | | |
| premises | | 1,861 | 1,647 |
| other operating lease rentals | | 41 | 25 |
| bad debts written off | | 508 | 186 |
| auditors' remuneration | 12 | 54 | 32 |

## 8 tax (charge)/credit on (deficit)/surplus on ordinary activities

**analysis of tax (charge)/credit on ordinary activities**

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| United Kingdom corporation tax at 19% (2004: 19%) based on the surplus for the year | (10) | (7) |
| adjustment in respect of prior years | (1) | 9 |
| current tax (charge)/credit for the current year | (11) | 2 |

8. tax (charge)/ (deficit)/credit on surplus on ordinary activities (continued)

### factors affecting tax (charge)/credit for the current year

The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK: 19% (2004: 19%). The differences are explained below:

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| (deficit)/surplus on ordinary activities before taxation | (1,781) | 4,531 |
| tax at 19% (2004: 19%) thereon | 338 | (861) |
| effects of: | | |
| non taxable income | (349) | 853 |
| marginal relief | – | 1 |
| prior period adjustments | – | 9 |
| **current tax (charge)/ credit for year** | **(11)** | **2** |

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

## 9 staff costs

| | note | 2005 £'000 | 2004 £'000 |
|---|---|---|---|
| salary costs | | 25,321 | 20,119 |
| social security costs | | 2,835 | 2,189 |
| other pension costs | 10 | 3,545 | 2,460 |
| flexible benefit costs | | 1,198 | 874 |
| | | **32,899** | **25,642** |

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

| | 2005 | 2004 |
|---|---|---|
| adjudicators | 397 | 301 |
| other | 429 | 333 |
| | **826** | **634** |

## 10 pension costs

The Financial Ombudsman Service is part of the Financial Services Authority's (FSA) tax-approved pension plan open to permanent employees. The pension plan was established on 1 April 1998 and operates on both a defined benefit and defined contribution (money purchase scheme) basis. Since 1 April 2000, all employees joining the Financial Ombudsman Service have been eligible only for the defined contribution section of the plan. The defined benefit section of the plan is non-contributory for members. The defined contribution section is part of a flexible benefits programme and members can, within limits, select the amount of their overall benefits allowance that is directed to the pension plan.

For the three years ended 31 March 2005 the company has accounted for pensions in accordance with Statement of Standard Accounting Practice No 24 'Accounting for Pension Costs' and followed the transitional arrangements permitted by FRS 17 under which disclosure on retirement benefits is given by way of a note in the financial statements.

The latest full actuarial valuation of the FSA pension plan was carried out as at 1 April 2002 by an independent actuary using the projected unit method. Independent actuarial advice has been obtained in order to calculate the share of the assets and liabilities of the FSA scheme relating to those present and past employees of the Financial Ombudsman Service.

The Financial Ombudsman Service made regular contributions totalling £790,998 at the agreed rate of 21.3% of pensionable salaries for final salary section benefits and, in addition, contributed towards the insurance cost of death benefits payable from the plan and the expenses of administering the plan. In addition, the Financial Ombudsman Service made lump sum contributions totalling £1,000,000 to the plan towards funding the deficit. However, due largely to worsening actuarial assumptions for both withdrawal and mortality rates, the overall deficit increased by £0.3m.

The figures below relate solely to the obligations of the Financial Ombudsman Service in respect of the defined benefit section of the FSA pension plan, had FRS 17 been implemented in the year.

The principal assumptions used by the independent qualified actuaries in updating this valuation for FRS 17 purposes are shown below:

### (a) main financial assumptions

| | 31 March 2005 (%pa) | 31 March 2004 (%pa) | 31 March 2003 (%pa) |
|---|---|---|---|
| inflation | 2.9 | 2.9 | 2.5 |
| rate of general long-term increase in salaries | 4.4 | 4.4 | 4.0 |
| rate of increase to pensions in payment | 2.8 | 2.8 | 2.5 |
| discount rate for plan liabilities | 5.4 | 5.5 | 5.4 |

10. pension costs (continued)

## (b) expected return on assets

| | at 31 March 2005 long-term rate of return expected (%pa) | value (£m) | at 31 March 2004 long-term rate of return expected (%pa) | value (£m) | at 31 March 2003 long-term rate of return expected (%pa) | value (£m) |
|---|---|---|---|---|---|---|
| equities | 7.7 | 5.81 | 7.7 | 4.01 | 7.5 | 2.37 |
| government bonds | 4.7 | 0.00 | 4.7 | 0.96 | 4.5 | 0.68 |
| corporate bonds | 5.2 | 1.48 | 5.2 | 0.05 | 5.4 | 0.00 |
| other | 4.8 | 0.07 | 4.2 | 0.04 | 4.0 | 0.03 |
| **total market value of assets** | | **7.36** | | **5.06** | | **3.08** |

## (c) analysis of amount charged to operating (deficit)/ surplus

| | for the year 31 March 2005 (£m) | for the 31 March 2004 (£m) |
|---|---|---|
| current service cost | 0.83 | 0.75 |
| past service costs | 0.00 | 0.00 |
| **total operating charge** | **0.83** | **0.75** |

## (d) analysis of amount credited to other finance income

| | for the year ending 31 March 2005 (£m) | for the year ending 31 March 2004 (£m) |
|---|---|---|
| expected return on pension plan assets | 0.42 | 0.26 |
| interest on pension plan liabilities | (0.41) | (0.30) |
| **net return** | **0.01** | **(0.04)** |

10. pension costs (continued)

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

| | for the year ending 31 March 2005 (£m) | for the year ending 31 March 2004 (£m) |
|---|---|---|
| actual return less expected return on pension plan assets | 0.07 | 0.60 |
| experience gains and losses arising on the plan liabilities | (0.20) | (0.47) |
| changes in assumptions underlying the present value of the plan liabilities | (1.14) | (0.54) |
| **actuarial loss recognised in STRGL** | **(1.27)** | **(0.41)** |

### (f) reconciliation to balance sheet

| | value at 31 March 2005 (£m) | value at 31 March 2004 (£m) | value at 31 March 2003 (£m) |
|---|---|---|---|
| total market value of assets | 7.36 | 5.06 | 3.08 |
| present value of plan liabilities | (9.64) | (7.06) | (5.25) |
| deficit in plan | (2.28) | (2.00) | (2.17) |
| related deferred tax liability | 0.00 | 0.00 | 0.00 |
| **net pension liability** | **(2.28)** | **(2.00)** | **(2.17)** |

### (g) analysis of movement in deficit during the year

| | for the year ending 31 March 2005 (£m) | for the year ending 31 March 2004 (£m) |
|---|---|---|
| deficit in plan at beginning of the year | (2.00) | (2.17) |
| current service cost | (0.83) | (0.75) |
| contributions and expenses | 1.81 | 1.37 |
| past service costs | 0.00 | 0.00 |
| other finance income | 0.01 | (0.04) |
| actuarial loss | (1.27) | (0.41) |
| **deficit in plan at end of the year** | **(2.28)** | **(2.00)** |

10. pension costs (continued)

### (h) history of experience gains and losses

| | for the year ending 31 March 2005 (£m) | for the year ending 31 March 2004 (£m) | for the year ending 31 March 2003 (£m) |
|---|---|---|---|
| difference between expected and actual return on plan assets: | | | |
| ■ amount (£m) | 0.07 | 0.60 | (1.12) |
| ■ percentage of plan assets | 1% | 12% | (36%) |
| experience gains/(losses) on plan liabilities: | | | |
| ■ amount (£m) | (0.20) | (0.47) | 0.12 |
| ■ percentage of the present value of the plan liabilities | (2%) | (7%) | 2% |
| total amount recognised in STRGL: | | | |
| ■ amount (£m) | (1.27) | (0.41) | (1.20) |
| ■ percentage of the present value of the plan liabilities | (13%) | (6%) | (23%) |

## 11 directors' remuneration

Directors' remuneration payable during the year amounted to £157,603 (2004: £147,000). The chairman, who was also the highest paid director, was paid £45,000 per annum from 1 April 2004 to 31 January 2005 and £65,000 per annum from 1 February 2005 to 31 March 2005 (2004: £45,000 per annum). The deputy chairman was paid £18,000 per annum from 1 April 2004 to 30 September 2004 and £21,000 per annum from 1 October 2004 to 28 February 2005 (2004: £18,000 per annum) and the other directors £12,000 per annum from 1 April 2004 to 30 September 2004 and £14,000 per annum from 1 October 2004 to 31 March 2005 (2004: £12,000 per annum).

## 12 auditors' remuneration

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| audit fee | 42 | 32 |
| other non-audit services | 12 | – |
| | **54** | **32** |

## 13 tangible assets

| cost | premises and leasehold improvements £'000 | computer equipment and software £'000 | furniture and equipment £'000 | total £'000 |
|---|---|---|---|---|
| at 1 April 2004 | 4,618 | 8,290 | 1,916 | 14,824 |
| additions | 264 | 1,585 | 380 | 2,229 |
| **at 31 March 2005** | **4,882** | **9,875** | **2,296** | **17,053** |
| **depreciation** | | | | |
| at 1 April 2004 | 1,643 | 4,460 | 862 | 6,965 |
| charge for year | 625 | 1,654 | 427 | 2,706 |
| **at 31 March 2005** | **2,268** | **6,114** | **1,289** | **9,671** |
| **net book value** | | | | |
| **at 31 March 2005** | **2,614** | **3,761** | **1,007** | **7,382** |
| **at 31 March 2004** | **2,975** | **3,830** | **1,054** | **7,859** |

## 14 debtors

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| trade debtors | 5,876 | 5,340 |
| other debtors | 1,116 | 288 |
| prepayments | 1,072 | 755 |
| | **8,064** | **6,383** |

## 15 creditors: amounts falling due within one year

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| trade creditors | 797 | 422 |
| UK corporation tax | 10 | 7 |
| other taxes and social security | 832 | 646 |
| other creditors | 304 | 165 |
| accruals and deferred income | 3,014 | 2,029 |
| | **4,957** | **3,269** |

## 16 creditors: amounts falling due after one year

| | 2005<br>£'000 | 2004<br>£'000 |
|---|---|---|
| bank loan | 7,500 | 7,500 |
| | **7,500** | **7,500** |

The company took out a revolving loan facility of £25m on 30 March 2000, which was available for draw-down until 30 September 2001 and was fully repayable by means of variable annual tranches from 31 March 2002, to be fully repaid by 31 March 2011. The facility was varied by means of an Amendment Letter dated 21 May 2001 amending the revolving loan facility to £18m, which was available for draw-down until 30 September 2002 and which was repayable by means of variable annual tranches from 31 March 2003, but still to be fully repaid by 31 March 2011. This facility was replaced by a new revolving loan facility of £15m dated 24 January 2003. The amount drawn down at 31 March 2005 was £7.5m (2004: £7.5m).
The interest rate payable is 0.15% per annum above London interbank offered rates. A commitment fee of 0.08% is charged on the outstanding sum on the revolving loan facility not yet drawn down. The Financial Services Authority has guaranteed the loan facility.

## 17 operating lease commitments

The company entered into a fifteen-year lease for four floors at South Quay Plaza in November 1999, with a rent review every five years. Under the lease the company was entitled to a one-year rent free period. The Financial Services Authority is a party to the lease agreement for the four floors as guarantor of performance of the lease in the sum of £1,089,798 per annum. On 6 July 2001, the company entered into a thirteen-year lease for the sixth floor with a break clause and rent review in 2004. For both leases, rent has been charged from the date at which the premises became available for occupation. On 23 December 2003, the company entered into a five-year lease for half of the seventh floor. Under the lease the company was entitled to a one-year rent free period. On 5 May 2004, the company exchanged contracts on the lease for the ninth floor of South Quay Plaza. The lease runs until July 2009, with a break clause in December 2006 and a rent review in September 2008. On 27 April 2005, the company entered into a lease for half of the eighth floor. The lease runs until 24 June 2010 with break clauses in March 2007 and in March 2008. As at 31 March 2005, the company was committed to making the following payments during the next year, in respect of operating leases:

| | premises<br>2005<br>£'000 | other<br>2005<br>£'000 | premises<br>2004<br>£'000 | other<br>2004<br>£'000 |
|---|---|---|---|---|
| leases which expire: | | | | |
| within one year | – | 2 | – | 2 |
| between two and five years | 318 | 40 | 106 | 24 |
| after five years | 1,666 | – | 1,530 | – |

## 18 contingent liabilities

Following the detailed review of a number of complaints referred to in note 18 to the financial statements for the year ended 31 March 2004, which has been completed for 92% of the cases and which did not give rise to any rectification cost, there remain a small number of cases for which the review is expected to be completed within the next few months. It is not possible to quantify with any certainty what costs may be incurred in rectification and therefore the level of any financial provision that may be required but the effect, if any, on the financial position of the company would not, in the opinion of the directors, be material. These costs, if any, are expected to be paid in the current financial year.

## 19 related party transactions

The Financial Ombudsman Service, together with the Financial Services Authority, was created as part of the government's legislation for the financial services market and derives its statutory authority from the Financial Services and Markets Act 2000. The Financial Services Authority is regarded as a related party.

The Financial Ombudsman Service has entered into an an agency agreement with the Financial Services Authority whereby, with effect from 1 April 2004, the Financial Services Authority will collect tariff data, issue levy invoices and collect levy monies on behalf of the Financial Ombudsman Service, at a cost of £52,875 for the year ended 31 March 2005.

An amount of £820,281 was due from the Financial Services Authority at 31 March 2005 (2004: £26,038 due to the Financial Services Authority). This was the net balance due following the billing of levies to firms and is included in 'Other debtors' (see note 14).

The Financial Services Authority is a guarantor of the loan facility in the sum of £7,500,000 at 31 March 2005 (see note 16), and also is a party to the lease agreement for four floors at South Quay Plaza as guarantor of performance of the lease in the sum of £1,089,798 per annum (see note 17).

Other than disclosed above, there were no related party transactions during the year (2004: none).