



**Annual Report
and Accounts**
for the year ended
31 March 2021



Financial Ombudsman Service Limited

Annual Report and Accounts for the year ended 31 March 2021

Presented to Parliament pursuant to paragraph 7A (3) of
Schedule 17 of the *Financial Services and Markets Act 2000*,
as amended by the *Financial Services Act 2012*.

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Overview

Welcome to our 2020/21 *Annual Report and Accounts*. This overview presents reviews of our year from our Chairman and from our interim Chief Executive and Chief Ombudsman – as well as key information about our performance and our work.

About us

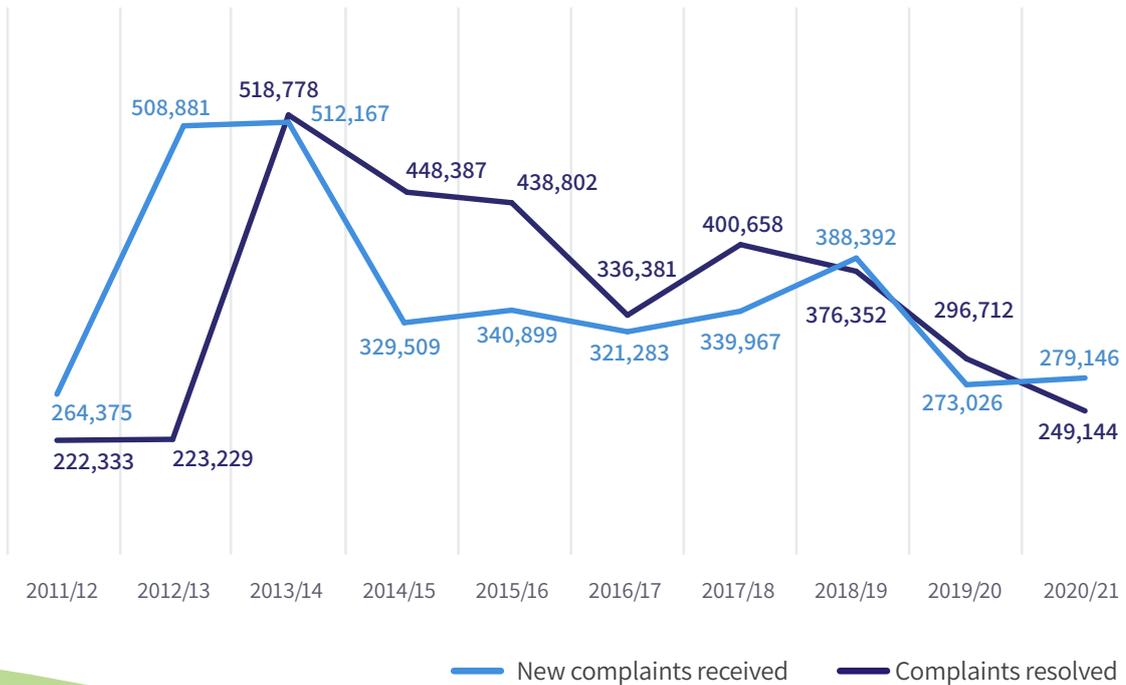
We were set up by Parliament under the *Financial Services and Markets Act 2000* to resolve individual complaints between financial businesses and their customers – fairly and reasonably, quickly and with minimal formality. This includes complaints made by small and medium-sized enterprises (SMEs), and complaints about claims management companies (CMCs).

If a business and their customer can't resolve a problem themselves, we can step in. Independent and unbiased, we'll get to the heart of what's happened and reach an

answer that helps both sides move forward. And if someone's been treated unfairly, we'll use our powers to put things right – telling the business to apologise, to take action or to pay compensation.

As an Ombudsman Service, we have a unique perspective on the causes of complaints, how they arise, and their impact on lives and livelihoods. We're committed to sharing this insight and experience to prevent complaints and unfairness arising – a key part of our strategy to 2025.

Our workload



Since we were established in 2001

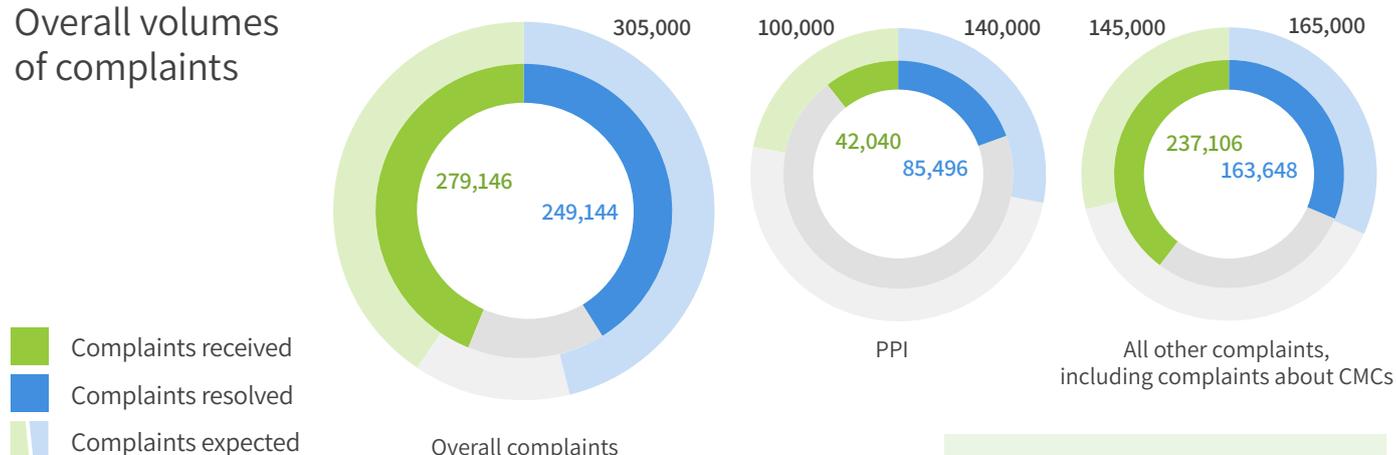
4,177,338
complaints received

4,055,644
complaints resolved

Read more about who we are, what we do and how we make decisions at financial-ombudsman.org.uk/who-we-are

Our performance at a glance

Overall volumes of complaints



We upheld



People and impact



Key outcomes



We allocated 50% of complaints to a case handler in 28 days
Aim: 100%

We resolved 90% of complaints more than 12 months old by 31 March 2021
Aim: 95%
90% in 2019/20

We gave our answer to 36% of complaints within 28 days
Aim: 50%

The aims we refer to are those we set in our plans and budget 2020/21.

Key financials





With a continuing commitment to impartiality and fairness as our foundation principles, we are now entering a new phase for our organisation.

Chairman's foreword

We began the year covered by this annual report as global uncertainty unfolded around us.

We were in no doubt that Covid-19 would impact the Financial Ombudsman – and test our flexibility, adaptability and resilience – even though the nature and scale of those impacts was far from clear.

Eighteen months on, we have been through some previously unimaginable challenges. The Financial Ombudsman can be proud of how it has continued to serve its customers: our people showed steadfast commitment to securing fair outcomes for consumers and businesses navigating the pandemic – while dealing with its impact on their own lives.

With a continuing commitment to impartiality and fairness as our foundation principles, we are now entering a new phase for our organisation.

Reducing queues and bringing down waiting times throughout the customer journey was at the forefront of our commitments even before the pandemic. Having already started 2020/21 with unacceptably long waiting times, Covid-19 not only meant that we could not make the headway we had planned, but increased the number of people seeking our help.

I am determined that we step up our efforts to address this. The Financial Ombudsman's leadership is aligned behind a common vision: to tackle the challenges we face at pace – and deliver value for money, efficiency and operational effectiveness.

It is essential we have the right governance and assurance structures. Over the year, I have been laying the groundwork to set us up for the future. I have refreshed my Board and appointed an interim Chief Executive and Chief Ombudsman, taking the opportunity to step back and look at the skills and experience we need as a governing body and leadership team, against the context of the challenges ahead and our strategic priorities. We are in a good position and we are benefiting from new experiences and fresh perspectives.



The Financial Ombudsman's leadership is aligned behind a common vision: to tackle the challenges we face at pace – and deliver value for money, efficiency and operational effectiveness.

I also commissioned an independent review of our governance, which looked at the effectiveness of our Board sub-committees and enhanced those arrangements to meet best practice. The Board is clear about our ambitions for the Financial Ombudsman.

As we move beyond PPI, we are determined to ensure customers can continue to access the Financial Ombudsman easily and get answers more quickly. And we need to be a modern and agile service, one able to adapt to changing demand and new and emerging issues.

We have been exploring this through our latest independent Board-commissioned periodic review, undertaken in two parts. The first part looked at previous major organisational change during 2015 and 2016 which established our current operating model and it assessed our ability to deliver on our strategic objectives. Part two built on this baseline assessment and looked at what we need to do to become a world-class alternative dispute resolution service. It took into account changes in the external landscape and what they mean for the skills, experience and attributes we need in our workforce, the technology and processes to support the Financial Ombudsman's future delivery model, and the size and shape of the Financial Ombudsman. The periodic review will give us a clear vision and roadmap for change. It will be published in November 2021 and we will look to ensure we have the skills and capabilities to execute it.

BB The Financial Ombudsman is proud of what we have achieved together this year in spite of our many challenges.

Of course, some of the challenges we face, both in our casework and bringing down customer waiting times, are not things we can overcome alone. Regulatory attention must be directed at key areas of risk, businesses need to play their part, and the Financial Ombudsman must be accessible and quick to share the insight from the complaints we see. We will achieve more by working together, ensuring that the wider ecosystem prevents harm and detriment and that we address it swiftly and fairly when it arises. I am hopeful that through our transformational agenda, we will see improvements over the next few years, both within the Financial Ombudsman and in relation to the joint enterprise of the wider regulatory family.

I close with some words of farewell and welcome. After 22 years at the Financial Ombudsman, seven as Chief Executive and Chief Ombudsman, Caroline Wayman stepped down in April 2021. I thank Caroline for her dedication and leadership throughout those years. In May 2021, we welcomed Nausicaa Delfas as interim Chief Executive and Chief Ombudsman. Nausicaa brings with her a wealth of experience and understanding of our environment and together with her senior team, will be working to deliver the findings from the periodic review and make the significant step change that is required to ensure our service delivery is excellent, we provide value for money and we achieve operational efficiency and effectiveness.

BB We need to be a modern and agile service, one able to adapt to changing demand and new and emerging issues.

I mentioned earlier that I have refreshed my Board, the details of which are set out in the Governance section on [page 62](#). I would like to include here my particular thanks to my Board colleague, Alan Jenkins, who stepped down in February 2021, after serving the maximum 10 years permitted under our Articles of Association. Alan's contribution in support of the Financial Ombudsman as a Non-Executive Director, a member of the Audit Committee and as our Senior Independent Director, will leave a lasting legacy for which we are very grateful.

The Financial Ombudsman is proud of what we have achieved together this year in spite of our many challenges. We are building on what we have learned, and we are looking forward with confidence to the next phase in our history.



The Baroness Zahida Manzoor CBE
Chairman
19 October 2021

Chief Ombudsman and Chief Executive's report



The Financial Ombudsman Service plays a vital role in the UK's financial system, and for the customers that it serves – individual consumers, smaller businesses, and regulated businesses.

I have been interim Chief Executive and Chief Ombudsman since 17 May 2021, and this is my report on the past year and expectations for the year ahead.

The Financial Ombudsman Service is at an inflection point. Payment Protection Insurance (PPI) claims are drawing to a close and we need to reset and move forward. The Board-commissioned periodic review that I have initiated will be a springboard for the changes needed to deliver a modern, effective and impartial service.

The last year has been unprecedented. The impact of Covid-19 was profound: we received over 60% more non-PPI complaints than we were resourced to handle. The pandemic also caused operational difficulties across the industry, leading to delays in getting the information we needed to resolve complaints.

In the face of all the upheaval, our organisation and people displayed their resilience. Previous investment in smarter working tools stood us in good stead, and we resolved nearly all the complaints we had committed to for the year. But exceptional in-year demand meant we ended the year with nearly 90,000 complaints waiting to be allocated to an investigator.

We are already taking innovative and ambitious steps to address this challenge, focusing on how our operations can be more efficient and offer better value for money, improving our processes, workflow and productivity. We remain committed to working closely with our stakeholders to prevent and address consumer detriment in a co-ordinated way.

As we move forward, we do not underestimate the scale of the challenges ahead. But I am excited about what we can achieve.

I am grateful to my predecessor, Caroline Wayman, for her leadership over the last seven years. I am particularly grateful for her work in the past year, which was – for everyone – incredibly challenging.

It was clear to me right from the start that we have many capable, hard working and committed colleagues here. I have experienced at first hand the difference we make every day to our customers' lives, particularly through the work we do in supporting our most vulnerable customers. I would like to thank all staff for their dedication over the past year.

While PPI complaints tailed off more quickly than anticipated, the impact of the pandemic on incoming complaints about other financial products and services was significant. Prior to the onset of Covid-19, the Financial Ombudsman Service had a backlog. It began 2020/21 with too many cases waiting to be investigated – approximately 28,000 across all product areas – and its plans and budget centred on achieving a significant reduction in waiting times by the end of the year.

BB | The Financial Ombudsman Service is at an inflection point.

However, the additional in year demand meant we ended the year with more customers waiting for an unacceptably long time. Despite the enormous efforts that colleagues put in, the previous year's backlog, combined with the sheer weight of new claims, made it an extremely difficult task.

A step change is now required.

To understand our starting point, it is important first to take a wider view of the Financial Ombudsman's year.

Complaints in 2020/21

The year 2020/21 brought unimaginable challenges for UK businesses and consumers. As we highlighted in our annual complaints data and insight, the Covid-19 pandemic's repercussions were reflected in both the volume and wide-ranging nature of complaints referred to us.

We faced a significant volume of incoming phone calls, emails and post. In many cases, we were able to help the parties involved with early intervention and without our formal involvement. In total we registered over 454,000 enquiries in 2020/21, and the complaints we took on to investigate numbered over 279,000.

The disputes we investigated included those arising from the pandemic's impact on consumers – for example:

- We helped people who struggled to get money back for holidays and events that had been cancelled.
- Under our small and medium sized enterprises (SME) remit, we were able to investigate customers' concerns about the trouble they had accessing emergency loans, or in claiming on business interruption insurance policies.

But trends we had seen before also continued. A large number of the new complaints we received were rooted in historic lending, and we heard from thousands of victims of fraud and scams who told us they had been wrongly denied refunds. At the same time, while PPI remained the single most complained about product over the year, it accounted for just 15% of complaints, down from 44% in 2019/20, and from 78% at its peak in 2013/14.

Financial businesses' own operational difficulties played a significant part in the challenges we faced. They, like us, had to transition to remote working – and in many cases, diverted resources away from their complaint handling operations in order to prioritise their front line services. This led to delays in getting the information we needed to resolve complaints, with some businesses taking up to 12 weeks to respond to us. It also led to a big increase in complaints where businesses hadn't given their final response within the deadline set out in the complaint handling rules. This was the case for around 30% of complaints we received in our non PPI casework during the early part of the financial year.

 Read more data and detailed insight about the complaints we received in 2020/21 on [page 33](#).

The Financial Ombudsman began the year with the ambition to significantly reduce waiting times.

However, the level of incoming complaints far surpassed what we had been resourced to handle. We received 237,000 non PPI complaints – 92,000, or over 60%, more than the 145,000 that we and our stakeholders anticipated. A sizeable proportion of the additional complaints were linked to the pandemic. The unacceptably long waiting times that resulted are reflected in a decrease in users’ satisfaction with our service.

 [Read about our performance against our commitments in our strategic report.](#)

Reducing these queues and improving satisfaction is at the heart of our casework plans for 2021/22, and we have taken ambitious steps to address it – over and above our original 2021/22 plans. Our focus on waiting times is underpinned by our efficiency and productivity agenda: we continue to invest in our case handling system; to develop plans for delivering customer portals; and to implement our new HR and finance system, Workday, which will replace multiple separate systems and increase our efficiency in support services.

More fundamentally, we have conducted our most recent periodic review which will be published in November and will bring new focus to our ambitions.

Resilience

Delivering our core service to consumers and businesses has been our priority throughout the disruption and uncertainty that 2020/21 brought. The process of navigating these challenges underlined the culture of fairness and inclusion at the heart of the Financial Ombudsman. The way our colleagues took remote working in their stride – despite, in many cases, dealing with their own personal challenges and practical obstacles – speaks not only to their resilience, but to the Financial Ombudsman’s long standing emphasis on flexible working and support for colleagues with caring and parenting responsibilities.

The process of navigating the challenges of 2020/21 underlined the culture of fairness and inclusion at the heart of the Financial Ombudsman.

Previous investment in smarter working tools and technologies also stood us in good stead. With the rollout of these underway before the first national lockdown, many colleagues in support teams were already well equipped to work remotely. When we were able to extend them across the Financial Ombudsman, particularly across case handling teams, we saw a positive impact on productivity. We will draw on our experience as we consider our future ways of working.

 [Read about our commitment to sustainability and smarter working on page 59.](#)

Our commitments to diversity, inclusion and wellbeing were no less important. During the year, we launched a new inclusion and wellbeing action plan, focusing on inclusive leadership and talent management, and published our ethnicity pay gap for the first time, as we set out in our latest report.

 [Read more about our work around diversity, inclusion and wellbeing on page 54.](#)

All of our stakeholder engagement, too, became virtual – as we worked closely with the Financial Conduct Authority (FCA), as well as with the wider regulatory family, government, industry and consumer groups, to share insight and address issues arising from the pandemic. This remains vital work, not least in the context of continued economic uncertainty.

As our PPI casework progressed towards its conclusion, we took the first steps in winding down this area of our operation. In light of the pandemic’s impact on firms’ operations, we now expect to complete it in 2021/22. Around 200 staff from our “mass claims” teams have left the Financial Ombudsman, but we have also taken the opportunity to redeploy some colleagues into our new high volume team, which uses the lessons we’ve learned from mass claims to resolve cohorts of cases at speed.

BB Incoming complaints far surpassed what we had been resourced to handle – over 60% more non-PPI complaints than we anticipated.

I am grateful to Financial Ombudsman Service staff past and present who have seen this decade long challenge through to the brink of its conclusion.

I'm also grateful to the members of the Executive team to whom we have said goodbye. Shortly after the end of the financial year, as well as saying goodbye to Caroline Wayman, Annette Lovell also stepped down as Director of Strategy and Engagement. I would particularly like to record my thanks to Annette for her important work on our strategy and stakeholder engagement. We also said goodbye to Richard Thompson, Principal Ombudsman and Quality Director, after 15 years' service. For much of the last decade Richard led our response to PPI and other mass claims – we thank him for all he has contributed and wish him every success in future. We welcomed Simone Ferreira as interim Chief of Staff in August 2021, and Rae Stewart as interim Director of Communications in September 2021. I look forward to working with them both to deliver on our ambitions.

 Read more about our future plans on [page 37](#).

Our future

The Financial Ombudsman is at an important point in its life. PPI is finally drawing to a close along with the outsize impact it has had on the Financial Ombudsman, and we have to take stock of the significant impact of this last year on our operations.

We are already taking innovative and ambitious steps to address this challenge.

To bring down waiting times, we are focusing on how our operations can be more efficient and offer better value for money – improving our processes, workflow and productivity across all complaints. While we are already exploring and developing new channels and tools, we can do more to harness technology to help us deliver a better service.

We are already taking steps to go further in sharing our insight into complaints, to prevent further complaints arising, and issues from escalating.

And while it is reassuring to see that public trust in our service remains robust, we need to foster greater confidence among some of our stakeholders.

As we move forward, we do so as part of the wider regulatory ecosystem – alongside organisations which are all committed to supporting the innovative, customer focused financial services sector on which UK consumers and businesses rely.

Our periodic review will provide us with a clear set of recommendations that will be the springboard for the changes needed to deliver a modern, effective and impartial service.

As the impact of the pandemic continues to be felt, this has never been more important.



Nausicaa Delfas

Interim Chief Executive and Chief Ombudsman
19 October 2021

Strategic report

In this section, we set out how we performed against the strategic commitments we set at the start of 2020/21.

In a year dominated by Covid-19, we explain the impact of this on the number and nature of complaints referred to us, and the bearing it had on our operations.

Our performance in 2020/21: overview

Each year our plans and budget are informed by our stakeholders' feedback about the volumes of complaints we are likely to receive and the themes and trends we are likely to see. We consulted on our 2020/21 plans and budget from 16 December 2019 until 31 January 2020, and developed plans to focus on:

- Reducing the time people were waiting for our answer to their complaint.
- Bringing PPI complaints to a conclusion.
- Managing growing complexity across other areas of complaints.
- Continuing to shape our strategy to 2025 and plans to support its delivery.

 We've shared more detailed insights into the complaints we saw in 2020/21 at financial-ombudsman.org.uk/data-insight/annual-complaints-data

In March 2020, however, Covid-19 was beginning to cause significant disruption across all aspects of daily life. At this time, our plans and budget were already highly developed. In close consultation with the FCA, we adjusted our funding proposals – reducing our levy and instead drawing on our reserves further than initially planned – to play our part in mitigating the significant economic pressures faced by the businesses we cover, particularly small to medium-sized firms.

 See our financial performance report on [page 45](#) for more information.

Recognising the importance of the commitments we had made, we aimed to do everything we could to deliver on our original plans. But we recognised early in the year that the pandemic would present considerable challenges – and that we would need to navigate the twin priorities of continuing to provide a high-quality, accessible service for consumers and businesses, and ensuring the wellbeing of all our people.

So we began the new financial year having instructed our people to carry out their work from home just two weeks earlier. As we explained in last year's Annual Report and Accounts, our IT team created, almost overnight, capacity for more than 3,000 people to work remotely at the same time. While we have a long-standing commitment to support our people to work flexibly, we were not prepared for such a wholesale shift – either culturally or in terms of our infrastructure. Later in the year, we invested in additional equipment for staff, such as laptops and chairs to help them work remotely.

 Read more about the earlier phases of our organisational response to Covid-19 from pages 34 to 36 of our [2019/20 Annual Report and Accounts](#), published in November 2020.

As the year unfolded, it was apparent that Covid-19 was generating significant and unanticipated additional demand for our help – as consumers and businesses dealt with questions of fairness in respect of cancellations, insurance cover, and the financial hardship it generated and restrictions it made necessary. Of the complaints we received during the year over and above our pre-Covid forecasts, approximately 30% were about historic lending in relation to guarantor loans and home credit.

Among the remaining additional cases, we saw a range of pandemic-related issues, from business interruption insurance claims, cancelled weddings and holidays, coronavirus emergency business loans, through to financial hardship and affordability issues arising from the wider economic repercussions. Financial providers' operational challenges, as well as causing delays in complaint-handling, also themselves generated complaints about standards of customer service.

 Read about the complaints we handled, including those arising from Covid-19, on [page 34](#).

Early on, it became clear that the operations of many businesses had been significantly affected, as they diverted resources away from their complaint-handling operations in order to prioritise customers affected by the pandemic. We saw this in the form of delays in getting the information we needed to resolve complaints that had already been referred to us – with some businesses initially taking up to 12 weeks to respond to us. And it was also reflected in the delays consumers were experiencing in getting businesses' responses to their complaints. In the early part of the year, this resulted in a substantially higher number of cases referred to us where the complaint-handling timeframe had passed but businesses hadn't issued their final response. This was the case for around 30% of complaints we received in our non-PPI casework during the early part of the financial year.

In the face of these challenges, our people showed exceptional resilience in keeping the Financial Ombudsman running for those relying on it. All faced the practical issues of setting themselves up to work remotely full-time, with some people's circumstances meaning their home-working set-up was far from optimal. Many were also juggling new and different personal commitments, such as home-schooling and caring responsibilities.

To help us continue to deliver our service, we accelerated the rollout of remote working technologies – originally part of our smarter working plans, which we outlined in last year's annual report and our 2020/21 plans and budget.

Having planned to invest in our complaint handling capacity in 2020/21 – as part of our plan to address waiting times – we went ahead with recruiting and training over 400 new investigators remotely. We couldn't provide many of our casework teams with smarter working infrastructure until the second half of the financial year – and in the meantime, our people needed to use their own equipment to keep our service running.

In spite of this, bolstered by the interventions we made later in 2020/21, we still resolved 99% of the number of non-PPI complaints we had planned to resolve.

However, the number of new complaints we received outside PPI was 63% higher than our original plans: over 237,000, against the 145,000 we had budgeted for. In other areas of mass claim – short-term lending and packaged bank accounts – our outstanding 'stock' of complaints remained low, with minimal waiting times for allocation. But excluding all three areas of mass claim, the additional number of complaints we received (87,277) over our original expectation (130,000) was equivalent to 98% of the cases waiting to be allocated to an investigator at the end of the year (88,903).

With the additional demand shifting the balance of our casework even further away from PPI, we were not able to benefit from economies of scale to the same degree that we had in previous years. We anticipate this will continue as PPI falls away further.

Taken together, these factors meant we couldn't deliver on our original plans to reduce waiting times across our service. Instead, despite our people's commitment and resilience, we ended the year with unacceptably long waiting times. Given the imperative that we give our answers more quickly – especially in view of the pressures the pandemic has presented for consumers and businesses – during 2021/22 we have put in place a number of additional plans to bring down our queues.

 Read more about our future plans and strategy on [page 38](#).

In our PPI casework, we received just 42% of the number of complaints we had anticipated in our pre-pandemic plans. This meant that we were able to reduce the number of customers waiting by 40,000 more than we originally planned, ending the year with only 14,000 PPI cases remaining (approximately 12 weeks' work in progress).

This meant we were able to move to the next phase of our long-established plan to wind down this part of our operation. In total, we have made around 200 redundancies, both voluntary and compulsory – the vast majority being voluntary. We began our consultation in 2020/21, but the majority of redundancies occurred in 2021/22.

These timescales were slightly different to those in our plan and budget – we paid out some of the payments in 2020/21 and rolled the remainder forward into 2021/22. As we continued to see much higher than expected volumes of enquiries and complaints across many other areas of casework, including complaints that typically turn on similar issues, we retained some of our mass claims capacity as part of our new high-volume team, using the experience we've gained from fairly resolving complaints in cohorts and at scale.

We are pleased that some colleagues have successfully applied for investigation roles elsewhere in our casework. This process has enabled us to right-size our mass claims resource, while also retaining the right capability to help our non-PPI customers.

The rest of this chapter gives more information about how we performed against the specific aims and objectives we set for the year. From [page 38](#), we give an overview of our forward-looking plans, focused on ensuring we're able to provide fair answers to complaints much more quickly, and working together with stakeholders to prevent complaints and detriment at source.

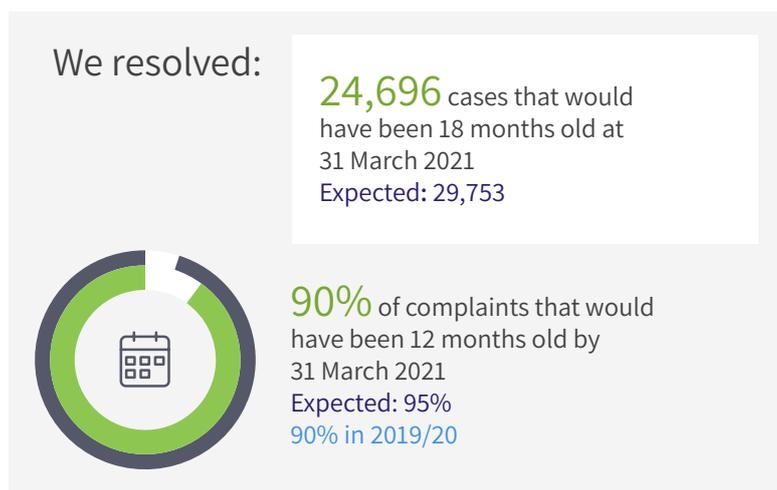
Our performance against our 2020/21 commitments

Our commitments reflect our annual organisational aims and priorities in key strategic areas.

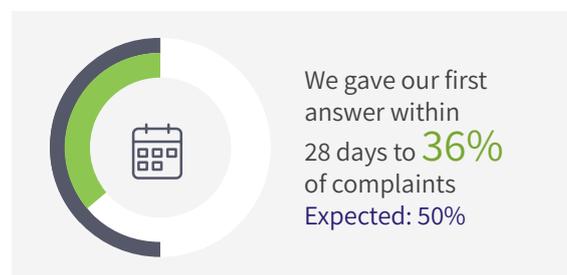


Commitments for our customers

We want to be a service that is trusted and respected by consumers and businesses. The information below shows how quickly we have resolved complaints, consumers' and businesses' level of confidence in us, how we have met customers' needs, what we have done to ensure the quality of our service, and how we have ensured we are accessible to everyone who needs our help.



We allocated **50%** of complaints to a case handler within 28 days
Expected: 100%



How quickly we resolved complaints

	Resolved within 3 months %	Resolved within 6 months %	Resolved within 9 months %	Resolved within 12 months %
2020/21 all cases	44	70	81	87
2019/20 all cases	56	74	84	90
2018/19 all cases	60	80	87	90
2017/18 all cases	50	65	70	74
2016/17 all cases	65	79	84	87

Read our plans in full in our [2020/21 plans and budget](#).

How people rated our service in 2020/21

How consumers rated our service	% 2020/21 (2019/20)		
	Agreed	Expressed no view	Disagreed
Cases closed as enquiries			
You gave me clear and honest answers and let me know where I stood	48 (51)	22 (31)	30 (18)
You got to grips with things and used common sense	47 (50)	23 (33)	30 (18)
You listened to me and cared about what I had to say	52 (57)	21 (28)	27 (16)
Cases closed following an investigation, including those where an Ombudsman made a final decision			
You gave me clear and honest answers and let me know where I stood	62 (63)	16 (15)	22 (22)
You got to grips with things and used common sense	53 (56)	17 (15)	30 (29)
You listened to me and cared about what I had to say	58 (61)	14 (13)	28 (26)

Sources: Cases closed as enquiries: enquiry survey of 4,363 consumers.
Cases closed following an investigation or decision: post-conversion survey of 12,485 consumers.
Percentage totals in these tables may not sum to 100% due to rounding.

How complaints handlers at financial businesses rated our service	% 2020/21 (2019/20)		
	Agreed	Expressed no view	Disagreed
You gave me clear and honest answers and let me know where I stood	70 (75)	23 (19)	8 (6)
You got to grips with things and used common sense	83 (77)	6 (15)	11 (8)
You listened to me and cared about what I had to say	64 (73)	26 (20)	10 (7)

Source: Survey of 444 complaints handlers in complaints we resolved.

How managers at financial businesses rated our service	% 2020/21 (2019/20)		
	Agreed	Expressed no view	Disagreed
The financial services industry can have confidence in the Financial Ombudsman	61 (74)	25 (15)	14 (11)
Our service is good value for businesses who pay the levy/case fees that fund us	59 (64)	25 (21)	17 (15)
Our decisions on cases are fair and unbiased	59 (63)	25 (22)	16 (15)
Our decisions are consistent	56 (62)	27 (20)	17 (18)
We provide a good dispute resolution service for businesses	84 (85)	10 (9)	6 (6)

Source: Survey of 458 managers at financial businesses.

About our performance

- **Timeliness.** As explained above, the Covid-19 pandemic materially affected our ability to deliver on our plans to reduce waiting times. Read more about the action we are taking to address our queues on [page 38](#).
- **Resolving our oldest complaints.** Despite the challenges we faced, we made strong headway: resolving 90% of cases that would have been 12 months old at 31 March. We resolved all but 5,057 cases that would have been 18 months old, with the vast majority of the remaining cases affected by a range of complex and often hard-fought policy issues. All these cases are being actively worked, and our progress continues to be tracked by our practice groups – virtual networks of people with expertise in specific areas of our casework – in a process overseen by our Executive team and Board.
- **Customer satisfaction.** Despite the impact delays can have on people’s experience with the Financial Ombudsman, overall consumer confidence, which includes those whose cases we did not uphold, showed that 53% still rated us positively. This compares with an overall uphold rate over the year of 31%. Business complaint handlers’ feedback is generally less sensitive to complaints’ outcome and delays, and tracked closer to our aim of 80%. Although fewer managers at financial businesses rated us positively compared with 2019/20, a majority expressed confidence in the Financial Ombudsman, and 84% agreed we provide a good dispute resolution service.
- **Our customers’ needs and vulnerability.** The impact of the pandemic left many people vulnerable to detriment, and we continued to see this reflected in the cases being referred to us. It is vital all our people recognise and respond to characteristics of vulnerability. We have continued to provide training to support them to do so, including through our casework senior advisers, and our practice group dedicated to supporting our customers. Our Accessibility team supports our people with the practical handling of cases involving vulnerable customers. We also have a specialist team that supports our most vulnerable customers, and in October 2020, we expanded it to 12 investigators with additional training, who provide a flexible and tailored service to customers in the most challenging circumstances.

Our internal ‘flag’ system helped us identify and prioritise the most urgent cases: approximately 6,600 over the year. The Independent Assessor’s (IA) latest report highlights the improvements we have made to the service we provide to those in vulnerable circumstances.



The Financial Ombudsman did take on the feedback provided and made genuine changes to provide a better level of service where vulnerable customers are concerned. The Independent Assessor

We also developed guidance and case studies on complaints involving domestic and economic abuse, to support consumers and businesses to resolve complaints involving these highly sensitive circumstances.

- **Quality assurance.** Our quality assurance processes showed that we were meeting expectations in 98% of cases (aim: 95%+) and exceeding expectations in 87% (aim: 85-95%) (in 2019/20 we were proud of our case handling in 76% of cases). To ensure our approach to quality remains fit for purpose given our future strategy, we carried out a strategic review of our arrangements, covering governance, methodology and systems, which helped shape a new quality framework, bringing together our Quality Assurance, Customer Experience and Internal Service Review teams into one area. We have invested in developing automated data reporting so our Quality team can spend more time focusing on insight and root cause analysis. Building on the progress we have made around the service we provide to vulnerable customers, we continued to learn from the findings of complaints about our service, including those referred to our IA. There is more information about the IA on [page 70](#). We are longstanding members of the Ombudsman Association, and our approach to quality aligns with the Association’s service standards.

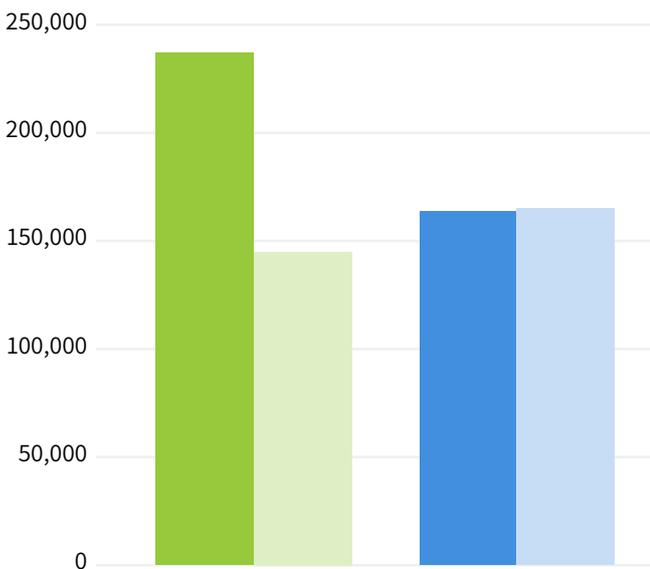
- **Accessibility.** The Covid-19 pandemic generated additional demand for our help, while at the same time requiring us to work remotely. While encouraging consumers to contact us by phone or email, we maintained a postal service for those who couldn't engage with us this way. Our Accessibility team continued to support our casework teams, responding to 10,792 requests to provide information in a wide range of languages and formats, so that no-one who needs our service faces practical barriers to using it. Building on previous years' work, we have developed plans for delivering consumer and business portals, intended to improve customer service and increase our efficiency. We have begun the process of choosing a supplier and establishing our requirements, with a view to being ready to build the portals in 2022/23 – and continued to invest in our case handling system, making it easier for our people to provide good customer service.
- **Small and medium-sized enterprise (SME) customers.** As the Covid-19 pandemic affected the operations of SMEs across the UK, we helped thousands of small businesses and micro-enterprises that were having problems with financial services – including applications for government-backed loan schemes and business interruption insurance claims. Our SME advisory group and expert panel continued to support our SME casework.
- **Our stakeholder relationships.** We maintained and built relationships with a range of stakeholders, exchanging insights and experiences to support our mutual interest in fair outcomes in financial services. This included regular operational contact with businesses we cover and with consumer representatives, and twice-yearly steering group meetings with firms in different sectors and with our consumer liaison group. From [page 40](#) we give more information about these relationships, including our engagement with the FCA. On [pages 41 to 44](#) we highlight how our Board had regard to stakeholders' perspectives in its strategic decision-making.

Commitments for our resilience

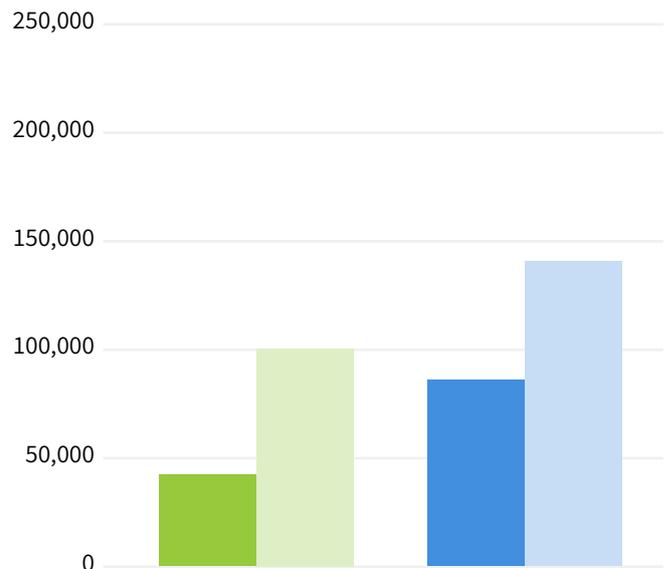
Information here covers how complaint volumes compared with the projections we made, how we performed against our anticipated budget, our casework resourcing and capability, our environmental performance, and wider operational matters such as data governance.

- Complaints received
- Complaints resolved
- Complaints expected

Number of new non-PPI complaints



Number of new PPI complaints



Key financials

£245.1m

our operating income
Expected: £261.3m
£244.1m in 2019/20

£264.5m

our operating expenditure
Expected: £314.5m
£277.5m in 2019/20

35:65

levy:case fee income split
Expected: 30:70
20:80 in 2019/20

£1,040

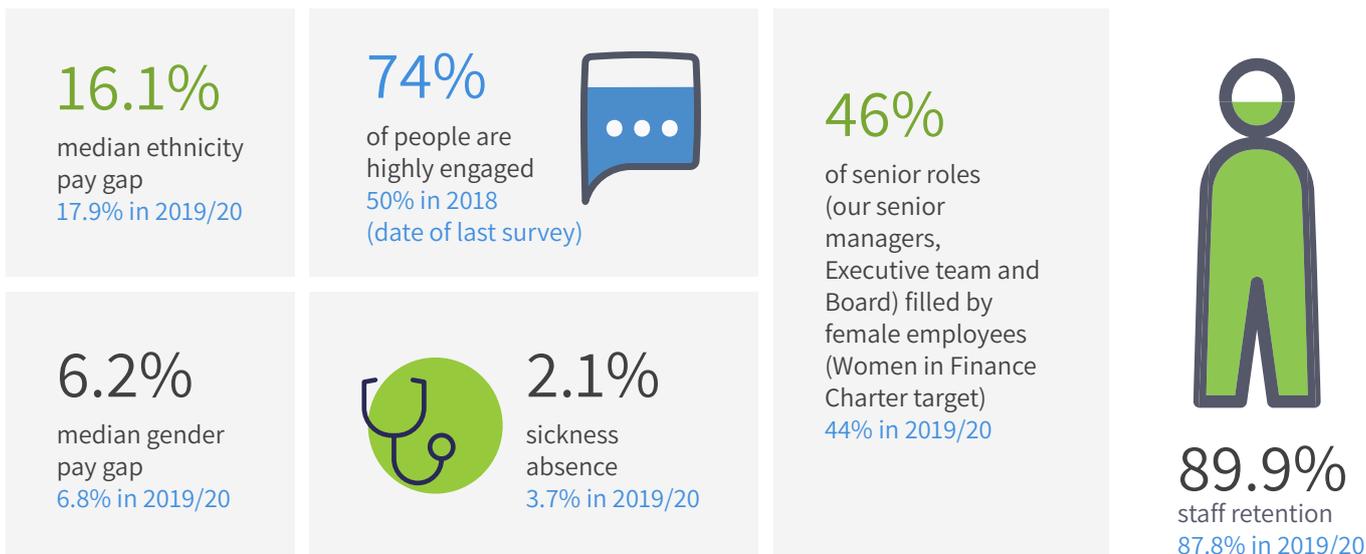
cost per case
(excluding bad debt and one-off PPI costs)
Expected: £926
£924 in 2019/20

About our performance

- Complaint forecasts and planning.** As we explained earlier in this report, we received 63% more non-PPI complaints than we or our stakeholders anticipated during our pre-pandemic consultation process. Despite resolving 99% of the non-PPI complaints we had originally planned to, we ended the year with nearly 89,000 complaints outside our mass claims areas waiting to be allocated to an investigator. There is more information on [page 34](#) about the complaints we received and resolved, and on [page 38](#) we share how we are addressing waiting times.
- Our budget and efficiency.** Resolving fewer PPI complaints than we had budgeted for – because we received fewer than we expected – meant we received less income from case fees relating to these complaints, including from our group-account fee arrangement, with fewer opportunities to realise economies of scale. This was reflected in our cost per case, which was 12% higher than budget. Due to the timing of PPI's conclusion, we hadn't been able to progress enough of our restructuring to utilise more than a fraction of our redundancy provision. We have agreed with stakeholders to carry forward the majority of the provision to 2021/22. As a result, the majority of the costs associated with our restructuring have been deferred into 2021/22. There is more detail about our performance against our budget in our financial performance report on [page 45](#).
- Bringing PPI to a conclusion.** In 2020/21 we received just 42% of the PPI complaints we had anticipated, and were able to put into effect long-standing plans to wind down this area of our work. This involved scaling back our contractor workforce by 250 and making 200 redundancies in our mass claims teams – most of which occurred in financial year 2021/22. There is more information on [page 58](#) about how we supported colleagues who were affected.
- Our case-handling capacity.** Elsewhere in our casework, investigator recruitment was broadly in line with our target. The benefits of this investment in capacity are now being realised, but weren't immediately available in 2020/21 given the lag between recruiting new people, onboarding them, and training and supporting them to be fully productive. We continued to use a workforce of contractor case handlers to help us respond flexibly to changes in demand.
- Our people's knowledge and skills.** Our people undertake rigorous internal training and have access to comprehensive technical notes on our internal online knowledge sharing tool. Our practice groups support technical knowledge, share insight across the organisation and develop our approach to complaints. Our case handlers also have access to specialist legal advice from our in-house legal team. There is more information about learning and development on [page 57](#).
- Working smarter and more sustainably.** With the majority of our people working from home and our continued rollout of smarter working, we exited two floors at our offices in London and are making further reductions. Across 2020/21 and 2021/22, we will have delivered annualised savings of £2.8m, reducing the size of our property estate by 32%. We maintained our commitment to reduce our carbon output as part of our plan with the Carbon Trust. See [page 59](#) for more information.
- Our approach to data.** The integrity of the data we hold is critical to our own operations and to stakeholders who use it to inform their work. We regularly review and assess our data governance arrangements to ensure robust oversight of our approach to managing data. We have continued to provide training and awareness-raising for our staff around data quality across the Financial Ombudsman. We are using our recent investments in data quality tooling to improve our casework data quality.
- Support services and operational planning.** Investments in technology, such as our new HR and finance system, will enable us to provide key support services more efficiently in future. Read more in 'Investing in our systems and technology' on [page 48](#). We have further enhanced our financial and operational planning cycle, making improvements to management assurance, planning and performance, and decision-making. These developments will help reduce the burden on management time and enable us to better anticipate and respond to future fluctuations in complaints.

Commitments for our people

The information here shows how we're progressing against our commitment to be a leading employer, as well as a leading ombudsman service. They include our work to ensure we are diverse and inclusive, our rates of employee retention and sickness absence, how we support our people's wellbeing, employee engagement, and our social responsibility.



About our performance

- Recruitment and retention.** As highlighted above, we continued our planned recruitment remotely during 2020/21, having never done so before. Our staff retention rate rose to 89.9% (2019/20: 87.8%). We recognise that the pandemic, and homeworking, might have had a bearing on people's career decisions and their having less sickness absence. However, we also focused more than ever on supporting our people's wellbeing and offering additional flexibility so they could balance their work and personal responsibilities. Because staff retention is also important for our future plans, we will continue to invest in this and monitor it in 2021/22.
- Skills and expertise.** In addition to the training and support outlined above, we continued to support our people's professional development more broadly. There is more information about our learning and development activities on [page 57](#).
- Working flexibly.** Building on our pre-pandemic investment in smarter working, we continued to roll out technologies including Microsoft Teams and Cisco Webex, so our people could provide an excellent service wherever they worked. In planning for returning to our offices in summer 2020, we ensured our working spaces were compliant with social distancing guidelines and suitable for collaborating face-to-face and remotely – although plans were paused when the new lockdown was announced. We provided additional leave for people with dependents and caring responsibilities, and allowed our people to spread their working hours across a 24-hour day and seven-day working week, as their role allowed. Read more about our latest plans to return to the office on [page 39](#).

- **Employee engagement.** Our previous investments in strengthening our internal communications led to an increase in employee engagement, from 50% in 2018 to 74% in 2020 (based on phased surveys carried out before and during the pandemic). We maintained regular internal communication through the pandemic. There is more detail about our employee engagement activities on [page 58](#).
- **Diversity, inclusion and wellbeing.** We published our fourth diversity, inclusion and wellbeing report in March 2021, reporting on our progress against our previous action plan as we launched our new one, and published our ethnicity pay gap for the first time. Reflecting the particular need to ensure our people's wellbeing during the pandemic, we offered a range of additional support (see above). Across the year, our sickness absence rate fell to 2.1% (2019/20: 3.7%). There is more detail about our work in these areas on [page 54](#).
- **Apprenticeships.** 33 new early career apprentices joined us, and we ranked 51st in Rate My Apprenticeship's Top 100 employers list. There is more detail about our apprenticeship strategy on [page 57](#).
- **Social responsibility.** We maintained our status as a London Living Wage-accredited employer, continuing to ensure we procure services from suppliers that share our values. Our people continued to raise funds for our charity partner, Papyrus, and undertook other work in our local community. There is more detail about this work on [page 57](#).

Commitments for our reach and impact

We are a service for everyone in the UK, and committed to sharing our experience of resolving complaints. Information here includes levels of consumer awareness of and trust in the Financial Ombudsman Service, information about consumers who used us, our engagement with the FCA and other stakeholders, the data and insight we share, the online resources we offer, and the ombudsmen's decisions we publish.



About our performance

- **Consumer awareness.** Nine in ten consumers had some awareness of the Financial Ombudsman (including prompted awareness) (2019/20: 89%). We were mentioned 3,585 times in the media during 2020/21 (2019/20: 5,210 times), and our research showed 78% of the public said they would trust us (2019/20: 77%). In autumn 2020 we carried out a targeted campaign to raise small business customers' awareness of the Financial Ombudsman, using social media posts and features in relevant trade media. We also engaged with the British Chambers of Commerce and the Federation of Small Businesses to help promote awareness of and confidence in the service we offer SME customers.

 Read our plans in full in our [2020/21 plans and budget](#).

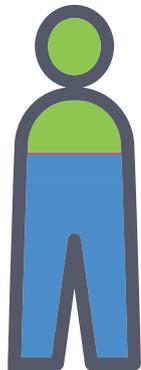
- Our relationship with the FCA and other stakeholders.** We regularly engage with the FCA to share our insight and help inform its programme of work, and discuss complaints trends and our own performance at meetings of the Oversight Committee. We continued to engage with a wide range of government, regulatory and industry stakeholders at regular meetings and forums – including sharing insight about the Covid-19-related challenges that consumers and businesses have faced, and delivering virtual workshops for small regulated businesses. There is more information about our stakeholder engagement on [page 40](#) and in our Section 172 statement on [page 41](#).
 - Our website and online resources.** Our website is a key resource for consumers and financial providers, to help them resolve complaints fairly. During 2020/21 we continued to review and refresh our content to ensure its accuracy, and carried out user testing and surveys in addition to starting a new programme of regular accessibility testing in order to improve people’s experience of using our website. We used web analytics together with insights from our casework to produce a suite of tailored resources for consumers and businesses seeking help with problems arising from Covid-19. The Covid-19 information on our site was visited 79,000 times and updated throughout the year in light of new issues arising.
 - Our insight.** We continued to share regular insight about the complaint trends and issues we are seeing to support our strategic priority of preventing complaints arising. This included
- four sets of quarterly data on complaints about products and services, two sets of half-yearly financial business data, and an annual complaints dataset accompanied by sector-by-sector insight – as well as insight into the complaints we were seeing arising from the pandemic. We shared this insight in nine editions of our recently-refreshed newsletter, Ombudsman News. We also shared our experience to support other organisations’ work: for example, in response to the Lending Standards Board’s review, we highlighted businesses’ inconsistent application of the Contingent Reimbursement Model (CRM) Code. We shared insight into complaints about the affordability of borrowing as the Gambling Commission looked to strengthen consumer protection from gambling-related harm.
 - Our technical desk.** Our free helpline for people working in complaints continued to provide an early steer on fair outcomes in complaints or issues that hadn’t yet been referred to us – handling 12,826 queries over the course of the year (2019/20: 17,571), including those relating to the impact of Covid-19.
 - Publishing ombudsmen’s decisions.** The businesses we cover are required to learn from our decisions to prevent complaints. The 28,053 additional decisions we published brought the total published since 2013 to 246,284.
-  Read more about the ways we share our insight and experience on [page 16](#) of our [2021/22 plans and budget](#).

People who used our service in 2020/21

All percentages shown in brackets apply to financial year 2019/20. Percentage totals may not sum to 100% due to rounding.

The gender of people who complained to us

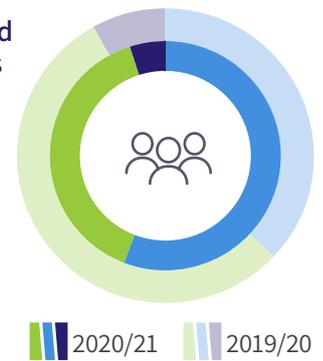
Female **40%** (49%)
 Other (<1% (including transgender, gender fluid, and non-conforming)
 Male **60%** (51%)



Source: Consumer postal survey of 11,177 consumers.

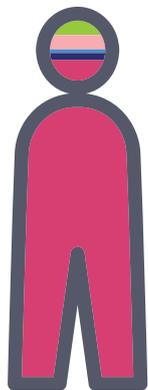
The socio-economic background of people who complained to us

56% (37%)
 Professional and managerial (AB)
39% (55%)
 Skilled and semi-skilled (C1/C2)
5% (8%)
 Unskilled (DE)



Source: Consumer postal survey of 11,177 consumers.

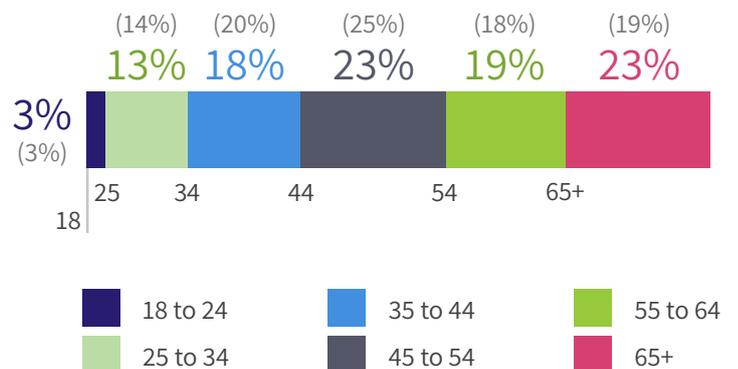
The ethnic backgrounds of people who complained to us



Asian or Asian British **4%** (5%)
 Black or Black British **4%** (3%)
 Mixed **1%** (1%)
 Other ethnic backgrounds including Chinese **2%** (2%)
 White **88%** (89%)

Source: Consumer postal survey of 11,177 consumers.

The ages of people who complained to us



Source: Financial Ombudsman Service management information – 398,878 contacts. Excludes cases where data is unknown.

Where people who complained to us live

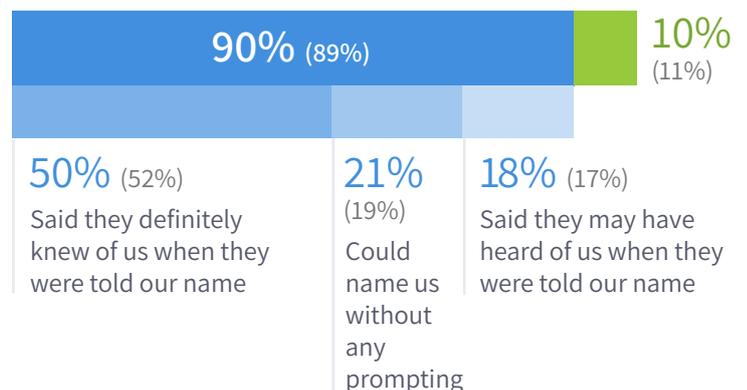
East Anglia **9%** (9%)
 Midlands **18%** (20%)
 N. Ireland **2%** (2%)
 North East **8%** (9%)
 North West **14%** (12%)
 Scotland **9%** (10%)
 South East **28%** (26%) (including Greater London)
 South West **8%** (9%)
 Wales **5%** (5%)



Financial Ombudsman Service management information – 398,878 contacts. Excludes cases where data is other/unknown.

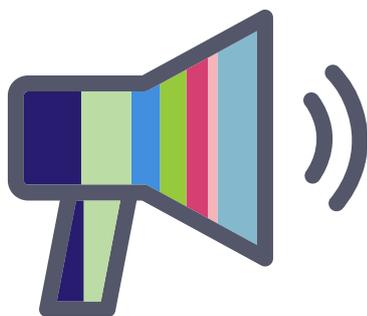
Awareness of the Financial Ombudsman

Total awareness
People who didn't recognise our name or know who we were



Online public awareness survey: carried out in June, September and December 2020, and March 2021. 8,205 responses.

How people heard about us

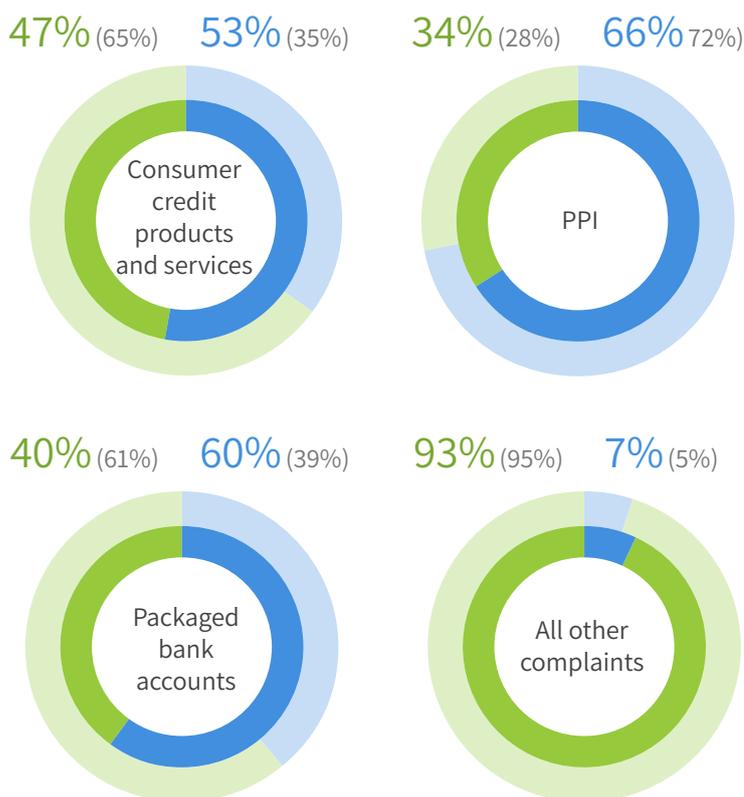


From a financial business	24% (26%)
On the internet	21% (25%)
From a friend, relative or colleague	12% (12%)
In the media	11% (12%)
From a consumer advice agency (eg Trading Standards or Citizens Advice)	9% (7%)
From a claims management company	4% (9%)
Other/unknown	18% (9%)

Source: Consumer postal survey of 11,177 consumers.

How people brought complaints to us

- Complained themselves
- Asked someone to complain on their behalf – including CMCs and other paid-for services; free advice organisations; and friends and family
- 2019/20 figures

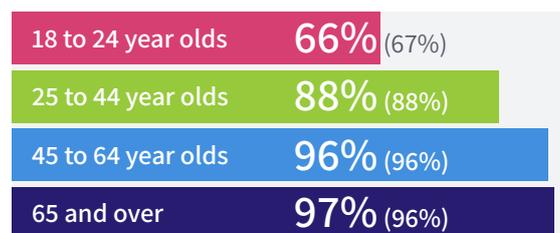


Source: Financial Ombudsman Service management information, 279,146 cases.

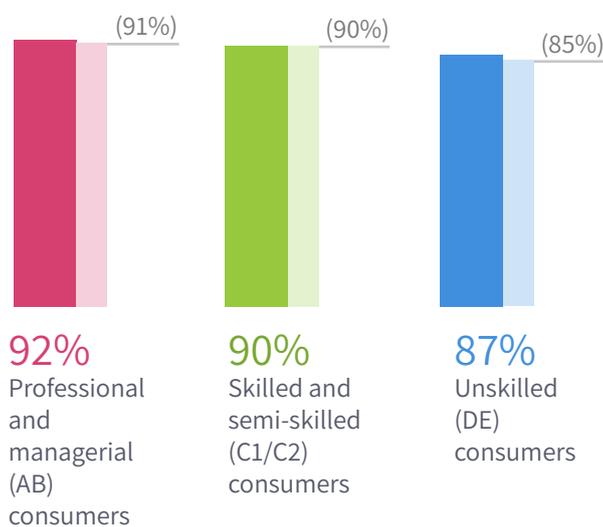
Awareness of the Financial Ombudsman among different groups of people



Women	89% (87%)
Men	91% (92%)



80% (79%)	Asian background
84% (89%)	Black/Black British background
91% (90%)	White background



Online public awareness survey: carried out in June, September and December 2020, and March 2021. 8,205 responses.

Strategic risks

Our strategic risks relate to our ability to deliver on our strategic plans and commitments.

They cover:

- **Customer service** – including customer confidence, timeliness and accessibility.
- **Flexibility and resilience** – including adapting to change, continuous improvement, operational resilience and prioritisation.
- **Our people** – including retention and recruitment, absence management, staff development and workforce representation.
- **Our stakeholders** – including our external relationships with government, regulators, and the financial services and consumer advice sectors.
- **Running the service** – including support areas' capacity and infrastructure, and supplier and third-party management.
- **Our obligations** – including internal and external legislative obligations across our service.

The Executive team, with support from the rest of the organisation, identifies and monitors potential risks, with the audit committee overseeing this process and the Board setting out its expectations on our tolerance for risk. Before the start of each financial year we typically undertake a “risk refresh” exercise to ensure that our risk coverage and approach remain appropriate.

 Read more about our risk management and internal control from [page 72](#).

As we started 2020/21, however, we were wholly focused on dealing with the ramifications of the recently-imposed national lockdown and how to mitigate the impact on our operations and people. In lieu of the usual annual risk refresh exercise, we produced a Covid-19 risk assessment, summarising the level of risk in relation to our existing risk themes, which was discussed by the Executive team and Board, considering the impact in the short and medium term.

We noted that the role of business continuity and disaster recovery was key – and we had successfully tested our capabilities in this area in our immediate pandemic response. The Board agreed that the current framework and key risks remained appropriate and we would continue to track risks against these.

Our risk reporting from the start of the year through to the end of the first quarter demonstrated our increasing confidence that we had managed key risks arising from the pandemic well, reducing a number of risks from a critical level. As the year progressed, we were able to integrate Covid-19-related risks into our usual framework of reporting. However, the ongoing impacts of the pandemic did mean that two areas of risk increased to critical later in the year:

- In January 2021, we raised our assessment of “health and wellbeing” risk to critical, reflecting the surge in UK Covid-19 infections and the impact of national lockdown – including school closures at the time. We saw a significant increase in Covid-related sickness during January but as this fell, and the wider situation alleviated, we were able to reduce this risk to medium by the end of the year.
- In our year-end assessment, we raised our rating for “cases handled quickly” to critical, reflecting the continued pressures on waiting times arising from the very significant increase in demand we saw during the year. This remains the current rating for this risk, and our increased focus on timeliness as set out in our 2021/22 plans demonstrates how we’ll continue to address this.

Thematic risks for 2020/21

Risk theme	What we did in 2020/21 to address the risk	What more we'll do in 2021/22
<p>Customer service</p> <p>Commitment area:</p> <p>Our resilience</p> <p>Our people</p>	<ul style="list-style-type: none"> • After a brief suspension, we were able to provide a phone service and print capability. We signposted more customers to our online complaint form to reduce pressure on post and phones, and asked people in the office to support the Customer help team to handle a significant increase in post. • We redesigned our training Academy to be remotely-delivered, and increased training back up from four to six months to ensure our new recruits had sufficient training time during the pandemic to be ready to serve our customers. • We launched a new interface for our case management system, improving usability for our case handlers. We provided laptops for our core investigation staff by the end of 2020, improving IT functionality, speed and consistency. • Once our core operational processes had settled, our heightened focus on the decision queue meant that our Ombudsman Managers were able to issue significantly more decisions than before pre-pandemic levels – reducing the number of people waiting for an Ombudsman decision by a third. 	<ul style="list-style-type: none"> • Our new high-volume team will help us deal consistently and quickly with non-PPI complaints with similar characteristics. • We continue to embed performance improvements we have delivered since the start of 2020/21, with an increase in the number of complaints we have been able to resolve for consumers. • We are focusing on reducing the number of oldest cases with the Financial Ombudsman. • The Board and Executive team undertook a thorough review of potential options to exceed the resolutions targeted in our plan and budget for 2021/22 (see page 51 for more details).
<p>Flexibility and resilience</p> <p>Commitment area:</p> <p>Our resilience</p> <p>Our people</p>	<ul style="list-style-type: none"> • We rolled out smarter working technology to an increasing number of staff during the year, so our people could work effectively from home during the pandemic. • We amended flexible working and leave policies relating to our people, to help them serve our customers from home. • We improved our governance arrangements for monitoring and managing our portfolio of change work. 	<ul style="list-style-type: none"> • We are putting in place a new support model for our IT department, enabling us to access additional IT resources and expertise when needed without requiring further recruitment. • We are embedding a three-year financial planning cycle into our end-to-end planning processes to ensure we can maintain a medium-term view of our financial resilience.
<p>Our people</p> <p>Commitment area:</p> <p>Our people</p>	<ul style="list-style-type: none"> • We provided extra support to staff in response to Covid – including more flexible working arrangements, additional dependents leave, equipment for home working and mental health support. • We established a fully remote Academy for new investigators. • We reopened a fully Covid-secure office in autumn 2020 for those that needed it, reducing attendance to essential staff only during periods of higher infections. 	<ul style="list-style-type: none"> • We plan to establish our new hybrid working arrangements from January 2022, having worked with our people to consider suitable working approaches that provide flexibility while meeting customer needs. Our people will have started returning to the office before these arrangements are put in place, from September 2021 onwards. • We will continue to build on our work on inclusion and wellbeing, supporting and promoting an inclusive working culture and providing a great range of wellbeing support for our staff.

Risk theme	What we did in 2020/21 to address the risk	What more we'll do in 2021/22
<p>Our stakeholders</p> <p>Commitment area:</p> <p>Our reach and our impact</p>	<ul style="list-style-type: none"> • We published our strategic priorities on our website, setting out our key areas of focus looking ahead. • We continued our engagement with FCA liaison teams to provide assurance and escalate any issues as required. • We worked with our stakeholders to ensure that necessary liaison could continue safely, using software such as MS Teams. 	<ul style="list-style-type: none"> • Our interim Chief Executive and Chief Ombudsman is leading work on cases with “wider implications” and chairing the relevant group of regulatory organisations. • We are maintaining frequent and transparent engagement with stakeholders (see page 40) around key operational and strategic issues, including in relation to our latest periodic review.
<p>Running the Financial Ombudsman</p> <p>Commitment area:</p> <p>Our resilience Our people</p>	<ul style="list-style-type: none"> • We backfilled key roles in support areas where people were required to support the HR and finance programme (Workday) to ensure continuity of service. • We established a Business Relationship Manager role in IT to manage engagement with the rest of the Financial Ombudsman – helping change activity to develop. • We enhanced our procurement processes, including tools and training on contract management, and embedding corporate social responsibility into our approach. Read more about sustainable procurement on page 60. 	<ul style="list-style-type: none"> • We are implementing Workday, providing a modern, market-leading HR and finance system, reducing our reliance on legacy systems and providing much better functionality to help support the running of the Financial Ombudsman. • We will continue to build on the positive internal audit results and overall opinion we received this year, demonstrating the Financial Ombudsman is well managed and controlled – and continue to implement audit recommendations within agreed timescales.
<p>Our obligations</p> <p>Commitment area:</p> <p>Our resilience</p>	<ul style="list-style-type: none"> • We established a structured sample approach to provide additional assurance around a range of casework obligations. • We established appropriate Covid-secure health and safety arrangements for phased office returns – with arrangements audited. • We established a secure portal to provide office equipment for home workers, with those requiring specialist equipment being identified upfront. 	<ul style="list-style-type: none"> • We will review the Information Commissioner’s Office’s accountability framework to help validate our current approach to management and governance of data protection compliance. • We will embed improved processes and increased team size to support compliance in dealing with subject access requests.

2020/21 complaints insight

In this section, we highlight the themes and trends in the complaints we handled in 2020/21. It draws on the more detailed insights that we shared alongside our annual complaints data in May 2021, which also includes information about the enquiries we received.

Financial product or service	Complaints budgeted to receive	Complaints actually received	Complaints budgeted to resolve	Complaints actually resolved	Complaints upheld %
PPI	100,000	42,040	140,000	85,496	13%
General casework (non-PPI)	145,000	237,106	165,000	163,648	40%
including					
Banking and credit	97,800	170,648	112,400	111,356	46%
of which					
Packaged bank accounts	5,000	6,488	5,000	6,709	9%
Short-term lending (payday and instalment loans)	10,000	13,341	15,000	17,141	65%
Insurance (excluding PPI)	33,400	44,487	37,250	35,535	31%
Investments and pensions	12,500	20,854	13,900	15,521	22%
<i>Complaints from SMEs^{1,2}</i>	<i>1,300</i>	<i>1,376</i>	<i>1,300</i>	<i>768</i>	<i>40%</i>
Complaints about CMCs ^{2,4}	1,300	1,113	1,450	1,228	40%
Other ³	-	<4	-	<10	-
Total	245,000	279,146	305,000	249,144	31%

1 Complaints from SMEs (additional to our micro-enterprise casework) are included within the general casework figures for banking and credit, insurance, and investments and pensions.

2 Our SME and CMC jurisdictions began on 1 April 2019.

3 "Other" includes complaints that hadn't been categorised at 31 March 2021.

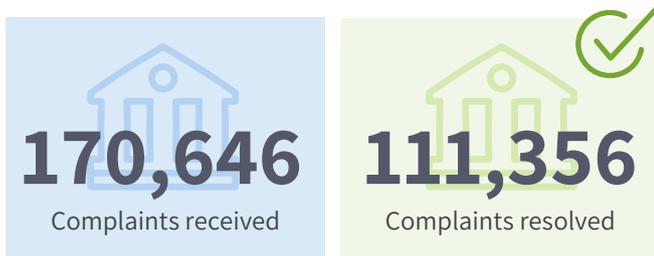
4 CMC complaints are included in the general casework total.

Complaints insight by sector

Enquiries we received

Each year our service deals with a significant volume of incoming phone calls, emails and post – and much of this contact does not result in a complaint being investigated by our service. In many cases, we are able to help the parties involved move forward without our formal involvement. This early intervention includes helping consumers navigate the complaints process, contacting businesses to let them know about their customers’ concerns, and providing general information about our role. Where it is clear consumers’ concerns fall outside our remit – even if they are money-related – we don’t always register an enquiry, but may instead signpost them to other sources of support. In 2020/21, a substantial decrease in enquiries relating to PPI meant we received 29% less enquiries overall – but taken together, enquiries about banking and credit, insurance and investments and pensions rose 35% year-on-year.

Banking and credit



Reflecting the pressure that banks’ operations came under as they managed the impact of Covid-19, we saw many complaints about administration and customer service – and more complaints about online banking than the previous year. We heard from many consumers who had unsuccessfully attempted to reclaim money they had paid for now-cancelled holidays and events – both through credit providers under Section 75 of the *Consumer Credit Act*, and through asking their banks to reverse relevant transactions via the chargeback process.

We continued to uphold a high proportion of complaints about banks’ response to victims of authorised push payment (APP) scams. Although many banks signed up to the Lending Standards Board’s Contingent Reimbursement Model Code in May 2019, we’re still seeing it applied inconsistently.

We also saw a substantial increase in complaints about borrowing – including a high number of complaints about guarantor loans and home credit. These were typically linked to historic lending, with consumers concerned they had been lent money they never could have afforded to repay. We decided in consumers’ favour in a significant majority of cases. Unfortunately, we’ve once again seen lenders encounter financial difficulties themselves due to volumes of complaints against them about their previous lending decisions – which may ultimately mean that consumers will be unable to receive full redress for any upheld complaints and we will be unable to recover significant volumes of our case fees.

Having taken responsibility for complaints from a wider range of small business customers in April 2019, we dealt with complaints from thousands of small businesses that had had applications for coronavirus emergency loan schemes turned down by financial providers, or experienced delays in receiving funds. Over that time, we handled 2,109 complaints from small businesses.

Insurance



As pandemic restrictions resulted in cancellations and limitations on daily life, we saw complaints about travel and specialist insurance (such as cover for events) increase by 240%. Complaints about wedding insurance had the highest uphold rate across all products in our casework at 94%.

We also heard from small business customers whose claims on business interruption insurance policies had been turned down by their insurers. Following the FCA’s decision to take a test case through the courts to resolve some of the complexities involved, the Supreme Court’s judgment in January 2021 provided clarity on some policy wordings. Insurers have since been revisiting rejected claims, and the FCA has provided clear guidance for policyholders and set out its expectations for insurers.

Investments and pensions



While pensions and investments continued to account for the smallest part of our casework, these cases can involve life-changing sums of money. We saw significantly more complaints about pension and investment providers' administration or customer service – such as those centred on delays and communication, with firms giving either little or no explanation about the timescales involved and any impact of Covid-19 on these.

We continued to see a large number of complaints against self-invested personal pension (SIPP) operators, where consumers had transferred their pensions to SIPPs to make unusual unregulated investments. We saw many examples of these transactions resulting in the loss or likely loss of consumers' pensions – and upheld a majority of these complaints.

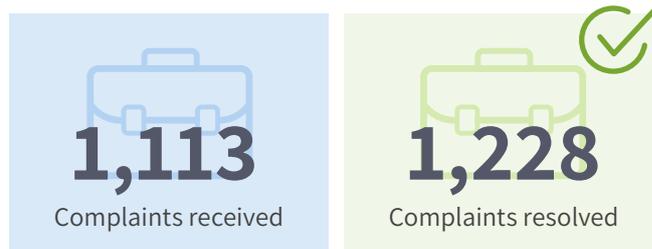
PPI



Following the FCA's 29 August 2019 deadline for PPI complaints, we knew businesses had received extremely high volumes of customer enquiries. We forecast that we might receive up to 100,000 PPI-related complaints in 2020/21, but as the year went on and businesses worked through their backlogs, it became clear we would not see anything like those numbers.

We ultimately received fewer than half the complaints we had anticipated – and although it remained the single most complained-about product, PPI accounted for just 15% of complaints against the approximately 40% we had anticipated, compared with a peak of 78% in 2013/14. We upheld 13% of PPI complaints, showing that businesses have learned from their engagement with us and are now generally reaching fair and reasonable answers.

Complaints about CMCs



In line with the decline we saw in complaints about financial businesses' handling of complaints about mis-sold PPI, we saw far fewer complaints about CMCs' handling of PPI claims. Around half the complaints we received about CMCs centred on administration or customer service, including poor communication around the progress of claims – especially as CMCs, like other businesses, saw their operations impacted by the pandemic. We expect to see complaints linked to mis-sold PPI claims decrease further, but CMCs continue to be active in other financial services, such as consumer credit, investments and mortgages.

 Read more sector-by-sector analysis and case studies in our 2020/21 annual complaints data at financial-ombudsman.org.uk/data-insight/annual-complaints-data

Looking ahead

For many years, we have been planning for a time when PPI no longer dominated our service's work. In 2018/19, we launched a three-year change programme – our Horizons programme – to prepare for a post-PPI future.

As we reported last year, much of the work carried out under this programme is either now complete or embedded in our business-as-usual processes. One area we continued to progress throughout 2020/21, and which has continued into 2021/22, is the conclusion of our mass PPI casework. As we set out earlier in this report, in 2020/21 we saw far fewer PPI complaints than we or our stakeholders expected we might. This meant we began the process of winding down our operations, reducing the size of our flexible contractor workforce, and making redundancies in our mass claims teams. Although we began our consultation in 2020/21, for around

600 roles, the majority of the redundancies we made took place in 2021/22, and around 200 people left the Financial Ombudsman. But with higher than expected volumes of enquiries and complaints in other areas of casework, we have retained some of our mass claims expertise as part of our new high-volume team.

We publicly consulted on our plans and budget for 2021/22 from 16 December 2020 to 31 January 2021 – and published our final plans on 31 March 2021.

These plans set out our core operational priority of bringing down waiting times. We explained that there were a number of plans and activities we had put in train, or had planned, that would help us toward this aim. These included, as our PPI casework finally concludes, retaining capacity to resolve complaints with similar characteristics at scale.

 Read how we engaged with and supported colleagues affected by these changes on [page 58](#).

Our 2021/22 plans and budget: overview

We expect to receive 170,000 complaints



We expect to resolve 220,000 complaints



Projections for both received and resolved complaints include the number of anticipated complaints received and resolved from SMEs and about CMCs.

Our budget



- We will ensure we're equipped to respond to increasing complexity and vulnerability in complaints, including those arising from Covid-19 and its impact.
- We will resolve more complaints than we receive, and invest in capacity to resolve complaints at scale in our general casework – helping to reduce the number of people waiting for our answer.
- We will work together with businesses, the regulator and other stakeholders, sharing our insight to help prevent complaints and unfairness arising.
- We will work to better understand and improve people's experience of using our service, and continue to develop our technology.
- We will continue to invest in our people's knowledge, skills and wellbeing, making the most of opportunities for smarter working.
- We will have set up a high-volume team to look for opportunities to resolve large cohorts of cases with similar root causes, and achieve economies of scale in areas such as guarantor loans, home credit and Covid-19-related cases.

We will publish more about our plans and budget for 2022/23 in our budget consultation in late 2021.

Taking stock of our performance in 2020/21 and the impact of the pandemic, the scale of the challenges we face in our waiting times mean it is essential we are even more ambitious in our plans for 2021/22. We have already put in place, or are considering, a number of other interventions for addressing the length of time people are having to wait for an answer from us – including and additional to those we set out in March 2021, such as our new high-volume team.

These include:

- Providing better signposting to consumers on the situations we can and can't help with, directing them to the right place first time.
- Offering incentive schemes and voluntary overtime to get best use out of our existing resource.
- Training our Customer Help team to help existing consumers with enquiries on the phone, allowing our investigators to focus on resolving cases.
- Progressing initiatives to encourage some of the larger businesses we cover to secure settlements on cases in our queues, based on our established approach, published decisions and engagement – while offering feedback and insight that they can apply to their current front-line complaint handling.

- Exploring how we can better tailor our Academy training to reflect new recruits' differing levels of experience.
- Beginning training in specialist areas right from the start of our Academy.

In the first quarter of 2021/22, we have resolved around 4,500 more cases than we had originally planned to in our general casework. We expect our high-volume team to resolve 32,500 cases relating to two businesses alone, and 10,000 other complaints.

We have also undertaken the latest periodic review of our service – aimed at ensuring we have the right strategies and capabilities in place to deliver the first-class alternative dispute resolution service that consumers and businesses need. The findings of the second phase of our review will bring focus to the challenges ahead, and recommendations for addressing them. As the mass PPI casework finally concludes – having shaped our service for more than a decade – we need to retain the best of what we do, while becoming more efficient, more streamlined and quicker to provide answers to complaints.

 The findings of our periodic review will be published on our website

Our strategy to 2025 – published in June 2020 following consultation with our stakeholders – provides a framework for delivering our future plans, which we will review following the publication of our latest periodic review. We will report on our full year's progress against these priorities in our 2021/22 Annual Report and Accounts.



Our three strategic priorities are:

- Enhancing our service.
- Preventing complaints and unfairness arising.
- Building an organisation with the capabilities it needs for the future.

 Read our strategic measures at financial-ombudsman.org.uk/who-we-are/future-strategy

Returning to our offices and future ways of working

In summer 2021, we announced our plans for returning to the office and our future ways of working. Our plans build on our existing smarter working strategy, using a hybrid model – a split between remote and office work. We believe a hybrid model will allow our people to benefit from the flexibility of home-working balanced against the benefits of face-to-face contact in the office. We also believe that time in the office is important for training and development, teaching soft skills, collaboration and knowledge-sharing.

We are adopting a phased approach to implementing our hybrid model. In order to ensure over 500 new colleagues who have joined since March 2020 can safely be inducted, and to retain some social distancing, we staggered our return from early September 2021. Since then, our people have worked in the office at least one day a month, which will rise to one day a fortnight by November. Subject to the external environment, we expect to have fully established our new hybrid way of working by January 2022, with everyone working at least four days a fortnight in the office, with flexibility according to individual circumstances, and taking account of the needs of the service and our customers.

Stakeholder relationships

We work closely with our stakeholders to shape our strategy, consult on our funding arrangements, share our complaints insight, and coordinate areas of joint working.

Working with the regulator

We are independent from the FCA, and have a distinct and separate role, but work together closely. The FCA is responsible for a number of aspects of our service, detailed in a memorandum of understanding. It determines the rules of our compulsory jurisdiction, approves the rules we make, appoints our Chairman and Board of Non-executive Directors, approves our budget, and acts as our “competent authority” regarding our obligations under the *Alternative Dispute Resolution for Consumer Disputes (Competent Authorities and Information) Regulations 2015* (“ADR regulations”).

We share insight and information with the FCA, and regularly report to its Oversight Committee on issues of strategic importance to the Financial Ombudsman, including our annual budget and performance under the ADR regulations. The information and insight we share on the themes and trends we’re seeing in complaints helps inform the FCA’s current supervisory work and future regulation. We also share information through regular and ad hoc meetings and through exchanging correspondence and data – with more than 2,700 contacts during the year. The issues we engaged with the FCA about in 2020/21 included:

- The conclusion of our PPI casework.
- Complaints arising as a result of the Covid-19 pandemic.
- Complaints about consumer credit and high-cost credit, including implications from schemes of arrangement proposed by some firms.
- Complaints about fraud and scams.
- Complaints from small business customers of financial services.
- “Buy now, pay later” schemes, in advance of these being regulated by the FCA.
- Complaints about pensions.
- Complaints about mortgages.
- Our work with CMCs.

We provide input into the FCA’s upcoming publications, consultations, and rule changes as appropriate. Examples in 2020/21 included its guidance on defined benefit pension transfers and its proposed new consumer duty. We have also been talking to the FCA as we prepare to receive complaints about pre-paid funeral plans from July 2022, after these come into the FCA’s scope.

As part of the wider regulatory family, we regularly meet the FCA, the Financial Services Compensation Scheme, the Money and Pensions Service and the Pensions Regulator at both senior and working level, to identify and discuss shared priorities and areas of joint work.

Section 172(1) statement

The Financial Ombudsman Service plays a key role in the sectors it covers – both by resolving individual disputes and by sharing insight to prevent complaints arising. We’re committed to working transparently and to taking account of the needs of those who use, fund and work for us when making strategic decisions. Our Board has a duty to do so under Section 172 of the *Companies Act 2006*.

As part of this duty, the Board regularly reviews information about the Financial Ombudsman’s progress against its commitments – a combination of specific performance indicators and broader aims and principles, spanning customer confidence, employee engagement, stakeholder relationships and financial and environmental sustainability. The reports come from the Chief Executive and Chief Ombudsman, and the Financial Ombudsman’s wider Executive and Senior Management teams. They cover complaint trends, customer service standards (including waiting times), customer research, awareness and satisfaction surveys, employee feedback, and stakeholder engagement.

The Executive team and other colleagues attend Board and committee meetings to field questions about their areas of responsibility. The Board regularly considers the Financial Ombudsman’s key risks and actions being taken to manage them (see [page 30](#) for more information about our approach to risk management). Our Chairman regularly meets the chairs of the FCA and other members of the financial regulatory family and the firms we cover, to discuss issues and challenges of mutual interest.

The tables below describe how the Board considered key strategic issues in 2020/21, and how it had regard to the areas highlighted in Section 172(1) (a) to (f). It also signposts to other sections of this report that provide more detail about these areas.

Agreeing the Financial Ombudsman's 2021/22 plans and budget

As part of the Financial Ombudsman's usual annual plans and budget-setting process, it engaged with a broad range of stakeholders to inform thinking on the volume and kind of casework that the Financial Ombudsman might expect to receive in 2021/22 and the budget it would need to fund its work.

Key stakeholders	Stakeholder engagement and Section 172(1) matters	Relevant outcome or decision
FCA HM Treasury Financial businesses and their trade associations Consumers and their representative bodies Our people	<ul style="list-style-type: none"> As part of the Financial Ombudsman arriving at the specific plan and budget proposals to be consulted on, the Board received regular updates on the analysis and key assumptions of the likely workload (numbers and case mix) for the following year. The Financial Ombudsman's plans and budget for 2021/22 were consulted on in December 2020. In March, the Board considered the feedback received from a wide range of stakeholders and their views on the assumptions the Financial Ombudsman had made as the basis of their plans and budget. Throughout the year and during the consultation process the Financial Ombudsman engaged with a range of stakeholders to share its emerging plan and budget and to get their views. This included chair-to-chair meetings with large businesses and Industry Steering Groups for banks, insurance companies and trade bodies. The Board also received regular updates from senior level external and internal engagement. 	<ul style="list-style-type: none"> At its March meeting, the Board agreed to adopt the Financial Ombudsman's 2021/22 plans and budget, subject to formal approval by the Board of the FCA. The FCA Board subsequently approved the plans and budget to take effect from 1 April 2021.

Developing the Financial Ombudsman's strategic measures

Having developed its three new strategic priorities to 2025, during the year the Financial Ombudsman agreed the strategic measures against which progress will be measured, to be effective from April 2021. We will report on these publicly (see [page 38](#)) and the relevant measures and targets are on [our website](#).

Key stakeholders	Stakeholder engagement and Section 172(1) matters	Relevant outcome or decision
FCA HM Treasury Businesses we cover and their trade associations Consumers and their representative bodies Our people	<ul style="list-style-type: none"> After extensive stakeholder engagement during 2019/20, the Financial Ombudsman's strategy to 2025 was published in June 2020. In November 2020 the Board began to consider what the key measures for tracking performance against the Financial Ombudsman's strategy should be for 2021/22, taking into account the areas that stakeholders might have a particular interest in and guarding against any unintended consequences. The Board agreed the measures and targets should be reviewed each year taking into account the Financial Ombudsman's plans for the year ahead and any stakeholder feedback. 	<ul style="list-style-type: none"> In November 2020 the Board began to consider what the key measures for tracking performance against the Financial Ombudsman's strategy should be for 2021/22. After further development and iteration of the measures between November 2020 and February 2021 the Board met in March 2021 and agreed the final set of measures and targets to take effect from 1 April 2021 for the 2021/22 financial year.

The future shape and size of our mass claims capability

During the year, in response to the continued decline in its PPI casework, the Financial Ombudsman took the decision to make redundancies in our mass claims areas – following a significant amount of previous engagement with colleagues likely to be affected.

Key stakeholders	Stakeholder engagement and Section 172(1) matters	Relevant outcome or decision
FCA HM Treasury Our people	<ul style="list-style-type: none"> The Board considered the long-term implications of the decision to begin a redundancy consultation including the possibility of stranded costs if redundancies were not made as soon as the decline in work was identified. External stakeholder views were sought on the likely mass claims complaint volumes for the upcoming year in the Financial Ombudsman's plan and budget consultation in December. The staff information and consultation council was increased temporarily to include members affected by the consultation to ensure their views were fully represented. The Board ensured that due consideration was given for re-purposing existing mass claims staff to help tackle large volumes of cases which had been received outside of the mass claims area and those plans were taken forward. The Board ensured that opportunities for those in mass claims to apply for other roles within the organisation were made available. 	<ul style="list-style-type: none"> In November 2020 the Board considered a proposal to significantly reduce the size of the Financial Ombudsman's mass claims operation. The Board also considered a proposal to retain the bulk of its mass claims operation to help work cases of higher volume and invest in developing a well-defined approach in those areas to help resolve more cases. In December 2020 the remuneration committee agreed proposals in principle to re-scope and rebase pay for some legacy ombudsman roles – the same principles would also apply to all roles in mass claims. In February 2021 the remuneration committee considered an equality impact assessment, legal advice and scenario risk planning in relation to the proposed changes to pay for legacy ombudsman roles. On 25 February, the Financial Ombudsman began a formal consultation exercise for all staff in mass claims. The outcome of the exercise was communicated with affected staff in April 2021.

The Financial Ombudsman's evolving response to Covid-19

Throughout the year, in response to changing government guidance, the Financial Ombudsman developed its response to Covid-19 – with an emphasis on our continued ability to meet our customers' needs and the wellbeing of our people.

Key stakeholders	Stakeholder engagement and Section 172(1) matters	Relevant outcome or decision
FCA HM Treasury Businesses we cover and their trade associations Consumers and their representative bodies Our people	<ul style="list-style-type: none"> External engagement continued to be focused on updating stakeholders on how the Financial Ombudsman was being impacted by the Covid-19 pandemic – including higher case volumes – as well as the complaint trends that were emerging. Internal engagement continued to centre on the wellbeing of staff and ensuring they were appropriately supported from a health and wellbeing perspective – particularly through the winter months and two further lockdowns where some staff were juggling homeschooling and other responsibilities. Engagement with staff also centered on keeping them updated on plans for the return to the office and how changing government advice and subsequent lockdowns towards the end of the year would affect that. 	<ul style="list-style-type: none"> The Board was kept informed by way of a fortnightly report drawing out key management information in relation to any operational impacts. The CEO updated the Board on the Financial Ombudsman's Covid-19 response and resilience in April, July, September and November 2020, and in January and February 2021. The Board considered the Financial Ombudsman's scenario planning in light of the Covid-19 pandemic in April 2020 and November 2020.

The Financial Ombudsman's new strategic quality framework

During the year, the Financial Ombudsman reviewed its approach to quality assurance and developed a new quality framework to help it deliver its strategic priorities.

Key stakeholders	Stakeholder engagement and Section 172(1) matters	Relevant outcome or decision
FCA HM Treasury Businesses we cover and their trade associations Consumers and their representative bodies Our people	<ul style="list-style-type: none"> Key stakeholders from around the Financial Ombudsman were asked for their views on quality governance, methodology and systems to help shape the new framework. The Board ensured that the new framework would deliver significant cost savings compared to the existing structure. The Board ensured that the new quality checks and surveys would be statistically meaningful and include assessing the level of service provided to consumers and businesses. 	<ul style="list-style-type: none"> The Board received progress updates on the strategic review of quality assurance at its meetings in September and November 2020, and February, April, and May 2021. In March 2021, the remuneration committee considered proposals for the new Quality team structure including possible synergies and cost savings that could be achieved by bringing different teams together. A Non-executive Director acted as a 'critical friend' for the strategic review of quality assurance. In June 2021, the Board agreed it should establish a new formal Board sub-committee to oversee quality, acknowledging its importance to the role of the Financial Ombudsman.

Agreeing the scope and remit of the Board's next periodic review

The Board periodically commissions a review to be carried out by an external reviewer. The scope of the next periodic review was agreed by the Board during the 2020/21 financial year.

Key stakeholders	Stakeholder engagement and Section 172(1) matters	Relevant outcome or decision
FCA HM Treasury Businesses we cover and their trade associations Consumers and their representative bodies Our people	<ul style="list-style-type: none"> The terms of reference were drawn up with a view to ensuring that stakeholder input would play a significant part in informing the outputs from the review. As part of the tender process, suppliers were asked how they would incorporate seeking stakeholder views into the review, including those of customers and employees. 	<ul style="list-style-type: none"> At its September 2020 Board away day, the Board discussed options for topics to be considered under the next periodic review. In early November the Board agreed the subject for its review as 'The future environment in which the service will be operating and what this means for its customers, its people and the evolution of its operating model'. In January 2021, the Board agreed to split the review into two parts – phase one to create a 'baseline' view of the current operation and phase two to look at the future environment and art of the possible. This work will be taken forward in 2021/22. The findings of the periodic review will be published in November 2021.

By order of the Board



Julia Cavanagh
 Company Secretary
 19 October 2021

Our financial performance

The Financial Ombudsman Service is funded by a combination of levies, individual case fees and income from our group-account fee arrangements paid by the financial businesses we cover. Over recent years, we have engaged extensively with stakeholders about our future funding. This includes ensuring we remain sustainably funded now our casework is no longer dominated by PPI.

Overview

In December 2019, we proposed a series of funding changes that would be effective from 1 April 2020. These took into account a range of factors – including our ability to deliver the service people expect; the need for our wider work, including complaints prevention, to be fairly funded; the importance of giving firms certainty over their contribution to our funding; and our broader funding principles.

We set out our plans and priorities in more detail in our 2020/21 budget consultation and final plans and budget. Key features of the final financial plans included:

- An overall increase in people-related costs, both employees and contractors – reflecting a further investment in case handlers to focus on reducing waiting times and to help move PPI towards a conclusion, from which we also expected to incur one-off costs.
- Bad debt provision of £12m, reflecting the ongoing potential financial vulnerability of a range of firms in our jurisdiction – rising from £2m in our consultation budget.
- A decrease in property costs on 2019/20 figures although slightly higher than our 2020/21 consultation budget due to our decision to increase our budget for PPI resolutions, which resulted in a 12-month extension of a lease that we'd previously expected to terminate.

In March 2020, shortly before our budget was due for approval by the FCA, it became clear that Covid-19 would significantly alter the economic landscape. In discussion with the FCA, we decided to freeze the minimum levy payment and reduce our overall levy from the £106m we had consulted on, to £84m – and instead to use our reserves to absorb some of our costs, with a smaller portion of our funding (32%) coming from the levy than planned (40%). To alleviate the pressure on smaller firms in particular, we maintained the number of free cases at 25, having initially proposed to reduce it to 10. Taken together, these changes meant that we originally expected to end the year with a budget deficit of £53.2m, higher than originally anticipated. At the end of March 2021, we had an operating deficit of £19.6m: £34m less than our original expectations, primarily due to lower bad debts, contingency and restructuring costs, with lower PPI income mostly offset by lower contractor resource.

The rest of this chapter explains our financial performance in more detail, including how far our actual performance aligned with our expectations.

Key factors that affected our financial performance:

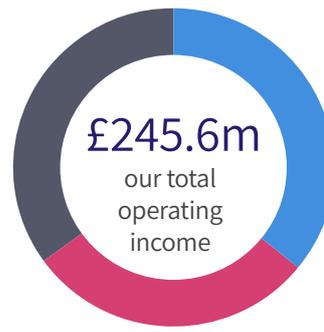
- Spikes in complaints about guarantor loans and home credit providers, and complaints arising from the impact on consumers of Covid-19, meant we ended the year with higher queues than anticipated.
- PPI complaints were lower than expected, which impacted both our income and expenditure, while conversions (new complaints we took on to investigate) in non-PPI areas were significantly higher than anticipated.
- Due to the impact of Covid-19 on firms' operations, many of our PPI conversions were back-weighted to the second half of the year, impacting our in-year operational efficiency, delaying our wind-down of PPI operations and leading us to carry costs associated with PPI and its closedown into 2021/22.
- Despite the impact of the pandemic, particularly in the first half of the year, resolutions outside PPI were only 1% below the budget assumptions we set before the impact became clear. PPI resolutions were lower as a direct result of receiving fewer of these cases.
- Average FTE (how many people worked for us) was lower than budgeted for, primarily due to reductions in our PPI contractor workforce.

In summary:

- Our operating revenue was £245.1m (£242.6m in 2019/20) with a cost base of £264.5m (£276.4m in 2019/20).
- Our income and expenditure were £16m (£54.4m) and £50m (£55.4m) below budget, respectively.
- We made an operating deficit of £19.6m after tax (£33.5m in 2019/20).
- £13m of restructuring cost – relating to the wind-down of our PPI operations – has been deferred into 2021/22.
- Total expense recognised for leaving payments in 2020/21: £5.3m, of which £1.3m was paid out during the year, and £4m has been provided for restructuring deferred to 2021/22, of which £3.7m relates to PPI.

Income

The Financial Ombudsman is funded by a combination of levies, individual case fees and income from our group-account fee arrangements paid by the financial businesses we cover.

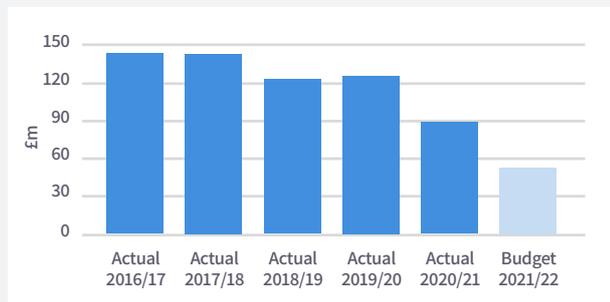


36% group-account fee arrangement
52% in 2019/20

29% case fees
28% in 2019/20

35% levy and other income
20% in 2019/20

Group-account fee arrangement



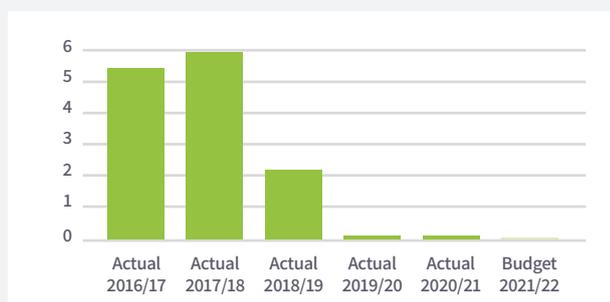
Our group-account fee arrangement covers eight financial services groups – Lloyds, Barclays, HSBC, NatWest, Nationwide, Santander, Aviva and Direct Line Group – and helps provide predictability and stability in our funding. Groups’ fees are calculated in advance based on their share of our overall workload, taking into account our existing “stock” of complaints, and cases we’ve budgeted to deal with.

Case fees



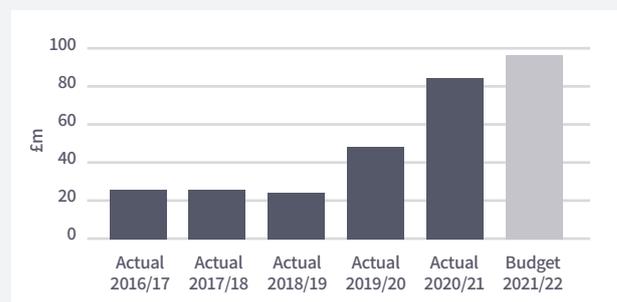
Our case fee was £650 per case, with a free case allowance of 25 cases per firm, meaning firms outside the group-account fee arrangement are charged for the 26th and each subsequent complaint. This meant nine in ten businesses whose customers referred complaints to us didn’t pay any case fees at all in 2020/21.

Deferred income release



During the year we released £0.1m (2019/20: £0.1m) of deferred income in relation to PPI cases received between 2012 and 2014. As at 31 March 2021, the balance remaining was £NIL (2019/20: £0.1m).

Levy and other income



The compulsory jurisdiction levy is charged and collected by the FCA according to the amount of work we expect from each industry sector. In 2020/21, our compulsory jurisdiction levy was £84m (2019/20: £48m), and £1.1m (2019/20: £1.1m) of levy income related to our voluntary jurisdiction. We also generate income from interest receivable and publications.

Operating expenditure

Our overall spend for the year was £264.5m (2019/20: £276.4m), which was £50m (2019/20: £55.4m) below budget. The key variances were:

- Operating costs – £13.5m less than budget, primarily due to lower contractor staff as a result of lower incoming PPI demand. We reduced our use of contractors in our casework areas, partially offset by our new finance and HR system (see ‘Investing in our systems and technology’ below).
- Contingency – £10m less than budget. Utilised to fund the investment above, a one-off payment to staff (see below), and other initiatives.
- Bad debt – £11.4m less than budget. See ‘bad debt’ below.
- Restructuring costs – £15.2m less than budget. Delays in receiving new PPI cases led to the longer close-out of PPI. As a result, £13m of restructuring costs have been deferred into 2021/22.

People costs

As in previous years, people costs represented the majority of our expenditure – approximately 80% of the total, excluding restructuring costs (80% in 2019/20). Our 2020/21 spend included a series of one-off costs relating to our employees:

- An increase in holiday pay accrual relating to our decision, in view of the disruption caused by the Covid-19 pandemic, to allow our people to carry over more leave into the new leave year (beginning 1 January 2021).
- An increase in the cost of flexible benefits relating to a higher than planned increase in prices from 1 January 2021 and the mix of benefits taken.
- A £1.5m additional one-off payment to staff.

We continued to use a workforce of contractor case handlers to give us flexibility to scale up and down in response to changes in demand for our service. With lower than expected new case volumes in PPI, we reduced our spend on contractors by £12m against our original budget. We also spent less on contractors elsewhere in our casework as a result of contractor attrition.

Investing in our systems and technology

We continued to invest in technology as a key element of redesigning our service for the future.

Our investment plans remain focused on building our data insights capability, providing digital channels for consumers and businesses to engage with us, and exploring the opportunities for automation to support our drive for efficiency. We are developing integrated teams to manage the impact of technology on process, organisation design and our people.

Last year we concluded our smarter working programme, which has allowed our staff to work remotely and flexibly, and we continue to support them by providing monitors and keyboards, as well as chairs from our vacated properties. We are driving our investment in the Microsoft Office 365 product suite to support collaboration and personal productivity. In addition, we launched our finance and HR system programme, to implement market-leading software Workday, which we plan to launch in November 2021 with our partners IBM. We are also making further progress in improving our employee experience, and we implemented a new intranet in September 2021 to support engagement, and are renewing our telephony technology, which will support an improved customer and employee experience.

Our IT strategy includes adopting cloud-based technologies and exiting our data centres by the end of 2022. This will allow us to focus on leveraging the opportunities that arise from regular functional improvements from our Software as a Service (SaaS) solutions. In early 2021/22 we launched our procurement process for a partner to support our digital plans and developed our initial scope focused on supporting customer experience and transparency. We plan to commence delivery of our consumer and business portals next fiscal year, following the award of our contract.

Cost efficiencies

An important element of our budgeting and forecasting cycle is a review of our cost base to identify opportunities for efficiencies as well as areas for investment. With people-related costs accounting for around 80% of our cost base, and premises and depreciation charges accounting for a further 9.5%, it’s important to ensure we deliver good value for money for third-party goods and services.

Over the financial year 2020/21, the Procurement team has delivered efficiency savings of over £5m, as a result of effective competition and cost-avoidance measures on a wide range of goods and services. Savings have primarily been delivered across IT licence contract renewals and tenders, together with a new portal for staff to purchase working from home equipment.

We have continued to work closely with suppliers, contractors and landlords to deliver services that represent value for money. We have continued to utilise the flexibility of our property leases by exiting another building in London and a further two floors in Exchange Tower, which will deliver annualised savings of £2.8m. We will drive forward our property strategy over the coming years with a view to making further savings.

In order to maintain a high-quality service while working remotely, we invested £1.2m in building resilience into our IT connectivity and telephony systems, providing collaboration tools for our people to create a home workstation that suited their needs, and improving communication and knowledge-sharing.

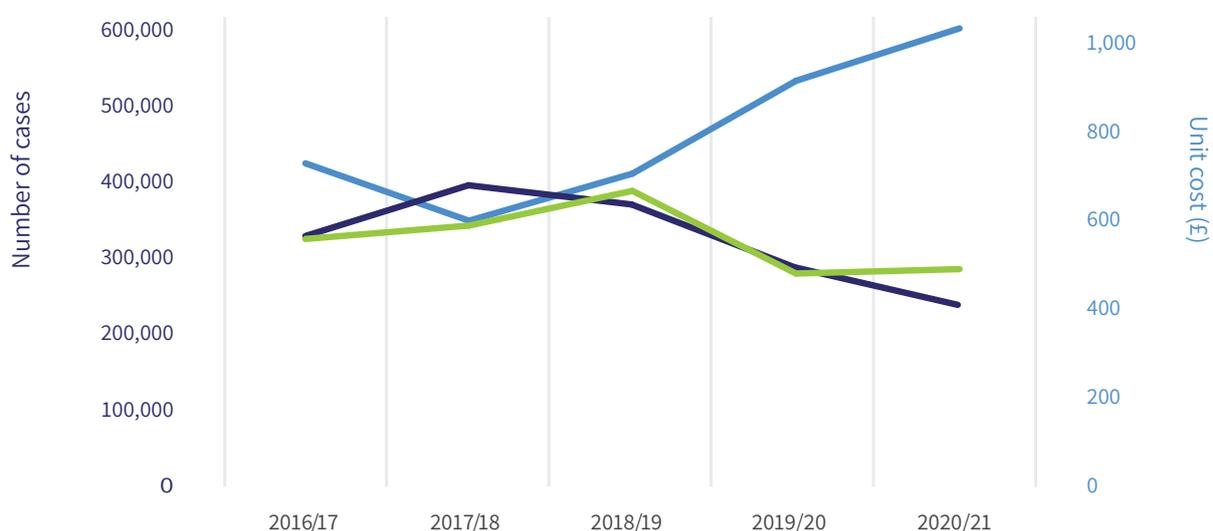
The monthly rent, rates and service charges associated with our empty buildings since the start of the pandemic was £1.3m, and continued to be payable throughout the period we worked remotely. From April 2020, a small number of colleagues attended our offices each week to carry out activities which couldn't be done remotely, such as handling incoming post, ensuring our buildings remained compliant, and dealing with ad-hoc IT matters.

During the year we began a phased return to our offices. See [page 39](#) for more detail about our plans and future ways of working.

We have retained security in our buildings throughout the pandemic, and contractors providing property services have been undertaking essential works in accordance with our health and safety obligations.

Unit cost

Unit cost against complaints resolved and received



Bad debt

In our 2020/21 budget, we made allowances for bad debt-related expense of £12m, reflecting the ongoing potential financial vulnerability of a range of firms in our jurisdiction – rising from £2m in our consultation budget. The total cost of bad debt for the 2020/21 financial year was approximately £5.3m, of which £0.6m was recognised as bad debt, and £4.7m of income de-recognised as firms entered into an insolvency process prior to final invoices being issued. Whilst our bad debt experience was not as high as we had budgeted, we ended the year with 40,000 open cases relating to the mis-sale of short term credit products. We made allowances of £20m in our 2021/22 budget to reflect that this revenue was at risk.

In August 2021, a significant portion of that risk crystallised when one business entered a scheme of arrangement, resulting in 17,800 cases being entered into the scheme. We will now only receive a fraction of the £13.4m of revenue these cases would have generated.

In 2020/21, our cost per case was 12% higher than budget because lower PPI resolutions resulted in reduced economies of scale. We received and resolved fewer PPI cases, and received higher than expected general casework complaints, and the delays in PPI volumes caused delays in our PPI wind-down and redundancy programme, which meant we were unable to release PPI-related costs as planned.

We calculate the unit cost of resolving a complaint by dividing our total running costs (less financing costs, bad debts and significant one-off costs, such as those relating to restructuring) by the total number of complaints we resolve in the year. As we've explained previously, it isn't in itself an adequate measure of efficiency. It can be affected by factors outside our control, such as the complexity of our casework, and it also disguises differences in the cost of handling different types of complaints.

Reserves

Under our long-standing reserves strategy, we've used the funds we received from a special PPI levy (2011/12) and supplementary PPI case fees (2012/13 and 2013/14) to help us gear up our PPI operations, and provide stability in the context of volatile demand.

Eventually, it was to absorb the costs associated with winding down our PPI operations, and to set ourselves up to be efficient and cost-effective in a post-PPI world. This strategy has resulted in a multi-year financial story, moving from surplus in the early years to deficit in the latter. Our closing reserves for the year finished at £134.2m against a budget of £106.2m as a result of the lower deficit from continuing operations in the year, partially offset by higher final salary pension scheme deficit.

Cash management

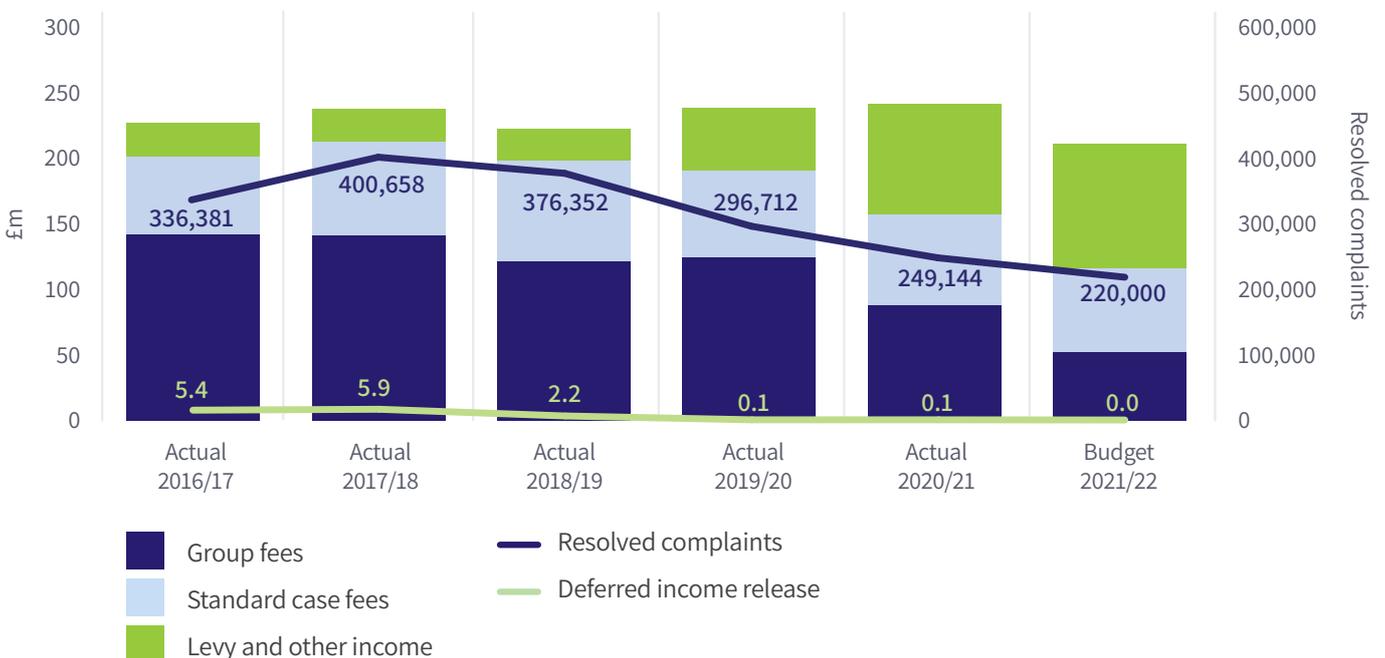
We review our cash balances daily and update our forecasts on a quarterly basis. Our closing cash balance at 31 March 2021 was £193m, £7m higher than at the end of the previous financial year. The increase was driven by £60m of compulsory jurisdiction levy income received in respect of the levy for 2021/22 towards the end of the year. In accordance with the investment strategy approved by the audit committee, at 31 March 2021 we had £145m of our funds invested between six institutions for periods for up to eight months at rates between 0.05% and 0.345%, and £48m overnight. Total interest received over the year amounted to £0.6m (£1.6m in 2019/20).

Creditors' payment terms

We have a policy to pay creditors within agreed terms.

Outlook

Operating income against complaints resolved



Our 2021/22 budget and future funding

As outlined above, in March 2020, in view of the emerging Covid-19 pandemic, we delayed taking some of the action we had planned to evolve our funding model. This was the right and fair thing to do in such a challenging environment – but equally, the repercussions of Covid-19 make certainty and stability increasingly important both for the firms that fund us and our Service.

Throughout our engagement with stakeholders around our 2021/22 budget, areas of broad consensus included that:

- Our funding must allow us to deal effectively with the current challenges in our casework, including the ongoing impact of Covid-19 and the potential for heightened complexity and vulnerability.
- Certainty around the cost of our Service is important, and we should minimise the risk of needing to ask for more funding during the year.
- Our case fee represents an important incentive to prevent complaints. The concept that firms' contribution to our funding should be linked to the volume of customers who complain to us – which some stakeholders refer to as “polluter pays” – should remain a key part of our funding arrangements.
- The stability and resilience our reserves bring are important, though must be balanced against the economic pressures the pandemic continues to present for the firms we cover.
- There's strong support for our focus on efficiency, with an appetite from firms both for more detail about our plans and for working with us to achieve efficiencies.

We recognised that, given the continued impact of the pandemic, it would be appropriate to continue to run a larger deficit than previously anticipated. Following approval of our budget by the FCA, our final arrangements for 2021/22 involved for firms:

- A compulsory jurisdiction levy of £96m. While this is a smaller increase than we initially proposed, it maintains some increase to ensure we are able to deliver the service people need from us, and our wider strategic objectives. We estimated, based on our forecasts and prevailing plans at the time, that taken together with our case fee increase, this level of levy should allow us to hold the levy and case

fee flat for the next three years. Over the same time period, we would gradually reduce our reserves until we reach a break-even position, while making further efficiencies and cost savings.

- An increase of £100 in our case fee to £750 for cases resolved after 1 April 2021 – helping us achieve the level of funding we need and recognising the important complaints-prevention incentive the fee provides.
- Maintaining our free case allowance for individual firms, meaning we again expect that nine in ten firms whose customers complain to us will pay no case fees.
- No change to our group-account fee arrangement, which is again be made up of eight large business groups – each with a free case allowance of 50.
- Freezing the minimum levy paid by the smallest firms we cover.
- A voluntary jurisdiction (VJ) levy of £1m. We explained in our budget consultation what the end of the UK's transition period for leaving the EU would mean for VJ participants going forward. 0.4% of our budget expenditure will relate to our voluntary jurisdiction.

For our budget, this meant:

- Year-on-year “business as usual” costs staying flat – with a cost base of £246m, excluding one-off restructuring costs associated with the conclusion of our mass PPI casework, which have shifted from 2020/21 into 2021/22. Including these costs, our cost base would be £260m.
- An investment of £10m in maintaining capacity to resolve complaints in high volumes – to support the aim we set out of resolving 45,000 more complaints than we did in 2020/21 and 40,000 more than we receive in non-PPI areas.
- A reduction of £5m in our cost base from our consultation budget.
- An appropriate revenue provision in relation to case closures in the high cost credit sector.
- Drawing further on our reserves, reflecting the need once again to absorb some of our cost to firms. By the end of 2021/22 we expected to have approximately four months' operating costs held as reserves – and as we formally review our reserves policy during the year, we expected to manage our reserves down over the next three years to a level of three months' operating costs.

Despite our ongoing focus on efficiency and cost saving, and the increase we anticipate in productivity, we expect that our unit cost will rise in 2021/22 – as we see a rebalancing of resolutions away from mass complaints such as PPI, to a different case mix including more complex complaints. We expect PPI to account for just 9% of resolutions in 2021/22 compared with 34% in 2020/21 and 42% in 2019/20.

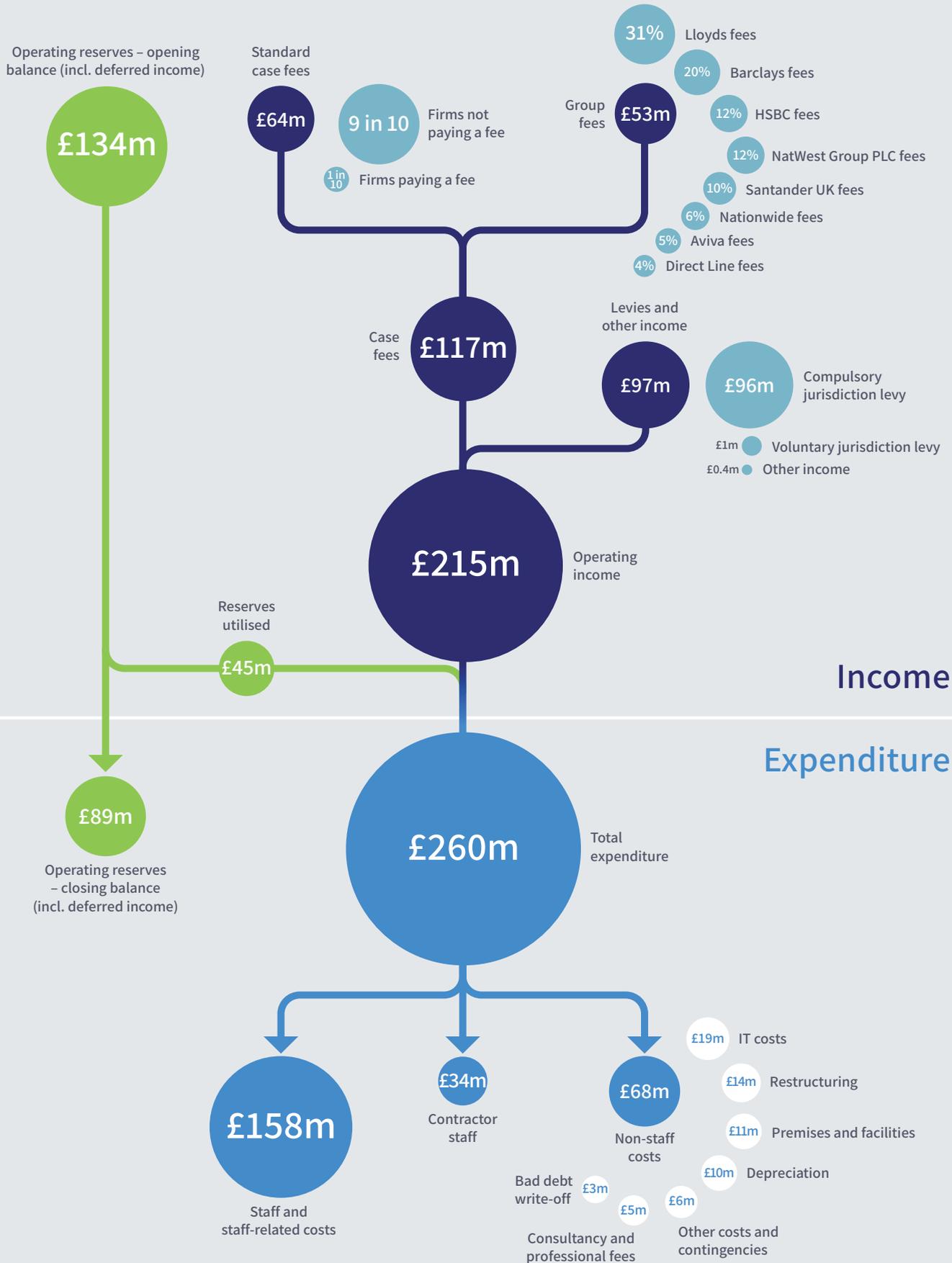
Fixed costs such as property, depreciation and some IT services will also increase as a proportion of the overall cost of our service as our casework volumes fall, increasing the overall unit cost from £1,040 in 2020/21 to £1,103 in 2021/22. If the unit cost was recalculated to exclude PPI, the underlying cost per case is expected to fall by 14% from £1,343 to £1,158.

By order of the Board



Julia Cavanagh
Company Secretary
19 October 2021

The financial flow of our resources in 2021/22



Figures rounded to the nearest million.

Directors' report

This report covers a range of wider information about our operations – including our environmental impact and sustainability, our approach to diversity, inclusion and wellbeing, the learning and development we offer, how we engage with our people, and how we manage data.

Diversity, inclusion and wellbeing

We are committed to attracting and developing people from a wide range of backgrounds. We want to reflect the diversity of our customers and the population as a whole. Being diverse and inclusive means that we can better understand people's different perspectives and backgrounds, which is fundamental to our job resolving financial complaints.

Building on our progress under our previous diversity, inclusion and wellbeing action plan, in 2020/21 we:

- Published our fourth annual report on diversity, inclusion and wellbeing.
- Published our ethnicity pay gap for the first time and before it becomes mandatory. Based on an April 2020 snapshot date, our median pay gap was 16.1%.
- Further narrowed our gender pay gap to a median of 6.2%.
- Won HR Excellence's award for best diversity and inclusion strategy – commended for our senior-level buy-in, and for linking our action plan to our service-wide strategy.
- In light of the Black Lives Matter protests worldwide, ran a series of 'Let's talk about race' sessions, led by our HR team and Embrace, our award-winning ethnic minority employee network, including one in partnership with the wider regulatory family.
- Launched our new inclusion and wellbeing action plan, building on the successes of our first (covering 2016 to 2020).

- Launched new networks for neurodiversity and cancer support.
- Reviewed our recruitment and development approaches.

At the time of writing, nearly four in ten of all our people are from ethnic minority backgrounds and over half of our Board and Executive team are female. These figures are higher than many public and private organisations and something that we are proud of. But the pay gaps we have published this year show we need to improve our diversity at senior levels.

We have offered flexible working for many years – recognising how much our people value the work/life balance it can support, and how it enables us to attract a broader spectrum of talented people from a diverse range of backgrounds. But the pandemic created wholly new challenges. Even with the benefit of smarter working technology, the significant differences in people's home circumstances had a big impact on their ability to work remotely. This meant we had to do as much as we could to level the playing field – and help our people to continue to perform at their best, during the most difficult time we and our customers had ever faced. There is more information on [page 56](#) about the action we took.

Our new action plan focuses on leadership, talent management, resourcing, community, and the wellbeing of our people. We will continue to measure and report on the impact of our interventions.

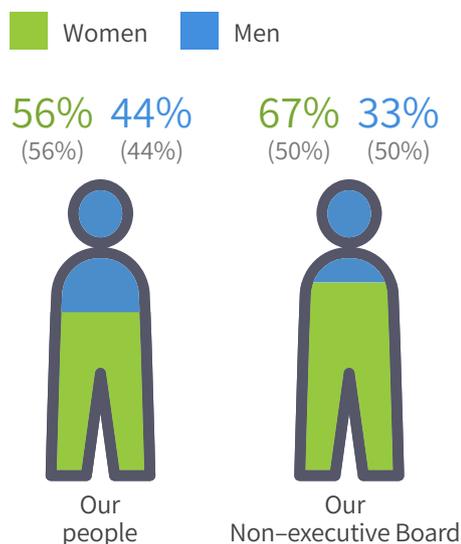


Read more about our diversity, inclusion and wellbeing commitments and actions in our most recent [report](#).

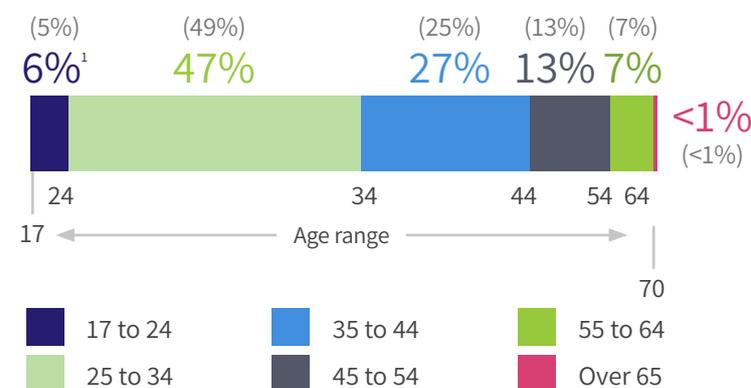
Our diversity in 2020/21

At the end of 2020/21 (2019/20):

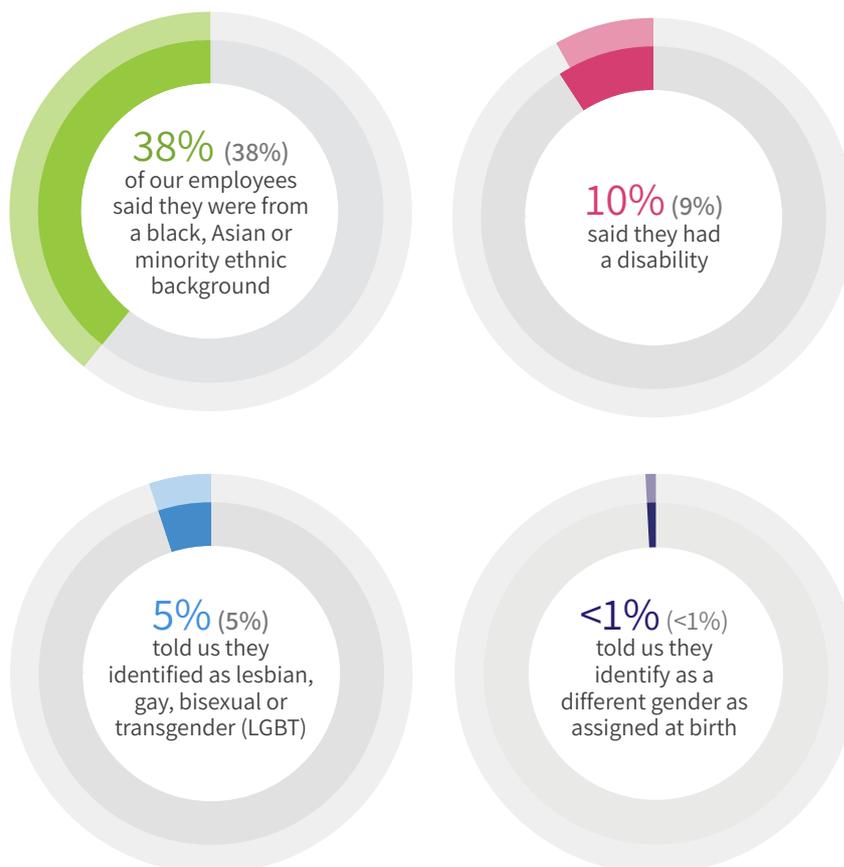
Gender split



Ages ranged from 17 to 70¹



Our people



72% (70%) of our people had completed diversity records²

1 In 2019/20, 5% of people were aged between 18 and 24 – we have since taken on younger people as apprentices.
 2 This is the percentage of staff who answered all diversity questions on ethnicity, religion, sexual orientation, disability and gender identity. Excluding gender identity, 78% of our people had completed diversity records – this was the same as in 2019/20.

Health and safety

We're committed to protecting the health, safety and wellbeing of everyone who works for us and with us. In a year when most of our people were working remotely, it was important for us to ensure this extended to their own homes. For those who worked in our offices, we implemented a Covid-secure environment.

In 2020/21, we:

- Reviewed our health and safety policy and incorporated our commitments on Covid-19 and staff safety.
- Created a Covid-19 risk assessment in line with government and Health and Safety Executive guidance, taking steps to protect our people from the virus.
- Provided personal protective equipment for staff attending our offices.
- Created e-learning videos for people working remotely and those returning to our offices.
- Reviewed our fire risk assessments, working closely with building management and other tenants across our buildings.
- Continued to update our e-learning training to include manual handling, work at heights, and fire marshal and managers' health and safety training. Our first aiders could continue training online while working remotely, and mental health first aid continued to be delivered remotely.

We provided:

- Over 400 virtual assessments to ensure our people were safe and comfortable working at home.
- Over 900 office chairs.
- Over 1,900 monitors and 1,700 mice and keyboards.
- Specific equipment for employees requiring adjustments.
- 200 wellbeing check-in calls.
- Wellbeing webinars.
- Online mental health first aid drop-in sessions.
- A one-stop shop on our intranet.

In 2020/21, we made no reports to the Health and Safety Executive under RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013). Incidents are reported in the normal way whether people are working in the office or from home.

Sickness absence

The Office for National Statistics has noted that social distancing, shielding and increased homeworking reduced causes of sickness absence this year, despite the pandemic. Our sickness absence fell to 2.1% – the equivalent of 5.3 days lost per person (2019/20: 3.7%, or 9.6 days).

As our people dealt with a range of new and different personal challenges – including illness, bereavement, childcare and other caring responsibilities – we implemented and promoted:

- Flexible working hours, so employees could work over a 24-hour, 7-day a week period.
- Combined time off for dependents and carers' leave: giving parents and carers paid leave to deal with childcare or caring.
- The use of annual leave, even in view of restrictions on daily life.
- Parental leave (unpaid) for those with children under 18.
- Unpaid leave.
- Allowing employees to temporarily change their contracts to increase or decrease their working hours.
- Unpaid sabbatical leave of between 4 and 12 weeks. We relaxed the qualifying criteria to request a sabbatical, so anyone with childcare or caring responsibilities could apply.
- Virtual gym classes.

We promoted the use of our healthcare benefits such as our employee assistance programme, virtual GP, private medical insurance, and access to occupational health. The virtual GP service has been welcomed by colleagues who have used the service this year as in-person healthcare was impacted or complicated by the pandemic.

Benefits and financial wellbeing

We offer a wide range of benefits to make our employees' money go further, and to help protect them from financial hardship in times of need or crisis.

We offer critical illness cover, income protection and life assurance, personal accident cover, and optional benefits, including travel and dental insurance, and a technology scheme. For employees who have passed probation, we also offer private medical insurance and a virtual GP (see above).

Our pension for all employees is non-contributory up to 12% of salary (depending on age), and increases up to a further 3% matched. We offer regular pension and retirement workshops throughout the year.

Corporate social responsibility

Since our service was established, our people have come together to give back to our local communities and support our charity partners. These activities are coordinated by our employee-led Giving Something Back Committee, which facilitates and champions opportunities to work with partner organisations. Our current charity partner is Papyrus, a national charity dedicated to the prevention of young suicide. We work with East London Business Alliance (ELBA) on giving our people opportunities to volunteer in the local community.

While Covid-19 has limited in-person and group volunteering, our people redirected their efforts toward virtual or distanced fundraising events and activities – including online craft auctions and virtual marathons. We raised £5,923.86 for Papyrus, and have extended our partnership for another year.

Our people also responded to the impact of the pandemic in our local area – reaching out to isolated members of the community in partnership with ELBA, and donating toys to local children through its Christmas toy appeal. As we rolled out new smarter working technology, we donated older computers and IT equipment to schools and community organisations to tackle the impact of the pandemic on pupils with limited IT access. We also extended our volunteering policy during the pandemic to give four paid days off for those helping support the administering of the Covid-19 vaccine.

Learning and development

Covid-19 changed the focus of our learning and development this year. Our immediate priority became ensuring people could get up and running to work remotely, and all our training was run virtually. We designed e-learning modules on the launch of Microsoft Teams, on data protection and security, and on continued remote working. We offered managers tools for managing remote teams, and a refresher of our absence management e-learning.

The induction programme for new investigators joining our Academy was redesigned and delivered virtually, and we continued to offer early career apprenticeships while maintaining our wider apprenticeship programme across many roles. We continued to train investigators in enhancing our customer experience, through developing skills in managing customer calls. We offered sponsorship for activities, courses or qualifications to people whose development needs were best met by an external provider.

For our more experienced senior investigators and advisers, we designed a bespoke programme on developing key skills to help them become an Ombudsman Manager. We helped our senior leaders identify strengths and development areas in their leadership style, and continued our reverse mentoring initiative, where senior colleagues are mentored by junior colleagues to help promote inclusive leadership.

Responding to the wind-down of our PPI operations, we supported colleagues in our mass claims teams affected by redundancy through an online programme to help develop their career, which included CV reviews and tools for successful interviews.

Our work was recognised this year by the HR Excellence Awards, where we were shortlisted for the Best Learning and Development Strategy award.

Apprenticeships

As an organisation with more than 250 employees, we are in the scope of the Government's public sector apprenticeship target, which means we should employ at least 2.3% of our workforce as new apprenticeship starts from 1 April 2017 to 31 March 2021.

This year, we continued to embed our apprentice programme, taking on our second cohort of early careers apprentices while working remotely. Highlights from 2020/21 include:

- 33 people starting new early careers apprenticeships.
- 73% of apprentices being retained in new roles in the organisation after completing their apprenticeship.
- Achieving 51st place in Rate My Apprenticeship's Top 100 employers, rated by apprentices.

Despite these positives, we haven't been able to extend apprenticeship opportunities to as many people as we had wanted to, and haven't met the Government's target this year. Of our 2,957 employees at the end of March 2021, 33, or 1%, were new apprenticeship starts (including both new and existing employees).

Reflecting our commentary in previous years, the primary challenge we're facing is that there isn't yet a suitable apprenticeship standard that covers our investigators' full development. We are now focused on exploring other avenues for developing our apprenticeship offer.

 [Read more about our approach to apprenticeships and our full data report on our website.](#)

Employee engagement

The impact of Covid-19 shaped much of our staff communication and engagement activities this year. With most of us working remotely, our employee communications and engagement have been vital to keeping everyone feel connected to our service – and to each other.

From the outset of the pandemic, our Executive team shared regular updates to help our people understand what government restrictions meant for us. It was also important to us to know what our people needed to help them work remotely, so we created a new intranet microsite dedicated to this, bringing together relevant information and support available to help colleagues work effectively while looking after their wellbeing. Our online feedback platform helped us understand how people were doing, what was working well, and what additional support we needed to put in place.

We also increased our engagement to help people to continue to feel connected to the Financial Ombudsman and our strategic priorities. Monthly 'Tea with the Exec' sessions took place, where people could meet our Executive team informally to share thoughts and ideas and have open discussions. In December 2020, virtual engagement events brought our people together to recognise our achievements during an extraordinary and challenging year.

Equipping managers with the tools and knowledge to lead and engage their teams was a particular focus. Senior managers came together approximately every month to discuss and help shape our strategic priorities, and introducing fortnightly informal senior manager chats with our Executive team allowed for more focused conversations. As well as sharing key communications with managers, we increased the frequency of our Managers' Bulletin newsletter.

Despite the challenges faced by our people over the year, staff engagement increased, compared to our last survey in 2018, by 24 percentage points to 74% in 2020 (our phased survey began before the pandemic and has continued throughout it). This reflects our service-wide commitment to employee engagement – supported by our established internal communications and engagement channels and technology.

As we look ahead, we'll build on our work to keep our people connected and engaging everyone in our strategy. We will maintain our focus on improving staff engagement still further, as we return to our offices and adapt to new ways of working and as we consider any changes from our periodic review.

Our people and the end of PPI

For the past few years, we've kept in close communication with the people whose roles were likely to be affected by the conclusion of PPI, recognising the ongoing uncertainty they'd experience, and helping them gain skills for roles at our service or elsewhere, while maintaining their commitment to resolving complaints.

In late November 2020, we said we were likely to make redundancies in the 2021/22 financial year, and in February 2021 started a formal collective consultation with around 600 people in our mass claims teams. We announced in May 2021 that around 200 people would be leaving the Financial Ombudsman through redundancy, and that 40 people had successfully applied for a new internal role or were on a development programme.

Although we have been preparing for the end of our mass PPI casework for some time, we didn't expect it to take place in the context of the pandemic. We know this created extra uncertainty for our people, and are grateful for the professionalism and commitment they've shown throughout. We're continuing to support people to take the next steps.

Environmental performance and sustainability

Transforming from a predominantly office-based to a mostly remote operation had profound effects on our environmental performance and sustainability this year. Many of the measures we report on here – relating to our offices – will look much lower than in previous years.

We are working with the Carbon Trust to further develop our understanding of how hybrid working will be reflected in our future reporting. We encourage our people to continue to recycle and reduce consumption regardless of where they are working.

During the year we continued to focus on ways we can reduce our carbon footprint now, and how we can sustain this shift once our people are working more regularly in our offices again. This includes continued investment in smarter working technology and spaces, improvements to energy efficiency, and making the most of flexibility in our property leases while we consider our future property needs.

Highlights from 2020/21 include:

- Continuing to work through our five-year carbon management plan, with a target of a 45% reduction from our 2017 baseline by March 2022.
- Reducing our physical office presence (see 'Our properties' below).
- Completing the rollout of smarter working to over 2,200 colleagues and lowering carbon emissions with more efficient desktop monitors.
- Shifting to using telephone software on laptops, instead of powering desk phones, and so increasing our energy efficiency.
- Encouraging our customers where possible to contact us by email or use our online complaint form, to reduce the emissions associated with producing, sending and processing post.
- Replacing our lighting with LEDs at the end of life.
- Receiving 89,373 business files electronically.

In 2021/22, we will:

- Further reduce our electricity usage through using smarter working tools and technology.
- Continue to contact our customers digitally while remaining accessible to those who can't contact us this way.

- Introduce 'follow-me' printing – a confidential roaming printing service, which puts a print job in a queue, until the user authenticates it. This will reduce electricity use, unnecessary printouts, and the number of devices we have across our buildings.
- Carry out an energy audit across our properties.
- Install energy-efficient ZIP taps in our kitchens.
- Further reduce our physical office presence (see 'Our properties' below).

We're now looking to learn from this year's data to help us reach our longer-term strategic aims. We know our future carbon footprint will depend on a range of factors, such as people's working patterns, commutes, and our own processes. We will continue to engage with our people and follow any future government guidance – as part of considering how a flexible approach to working locations and patterns can help us deliver a better service for our customers.

Our properties

We regularly review our property portfolio and approach to ensure it helps us maintain cost-efficiency, allows us to be more sustainable, and reduces our carbon footprint. Figures in this section combine estimates received from the landlord at our office in Exchange Tower, Tower Hamlets, and our own estimations for our Friargate office in Coventry.

We are continuing a phased return to the office, and we will adopt a hybrid approach (see [page 39](#) for more details). Having already made some reductions to our property portfolio in 2019/20, we have made further reductions of 27,000 sq.ft. (one floor at Exchange Tower and two at The Walbrook Building). In 2021/22 we plan to reduce our portfolio by another 30,000 sq. ft. across two floors in Exchange Tower – so will have reduced it by nearly 60,000 sq. ft, or 32%, across 2020/21 and 2021/22.

Property performance

Electricity	2020/21	2019/20	2018/19
Non-financial indicators (kWhs)	2,083,881	3,414,541	3,944,364
Financial indicators (excl. VAT)	£328,051	£481,889	£491,371

Business travel

Personal mileage amounts	2020/21	2019/20	2018/19
Mileage	154	17,147	37,751
CO ₂ e kg*	0.0343	5,034	11,083

* CO₂ calculated using the National Energy Foundation formula.

Paper consumption

	2020/21	2019/20	2018/19
Sheets of paper	1m	3.6m	12.85m
Cost of paper	£5,100	£17,729	£60,648
Scanned correspondence – number of pages	826,183	3.3m	4.7m

Sustainable procurement

We review our suppliers' compliance with the *Modern Slavery Act (MSA)*, and review our MSA policies annually. This year, we strengthened our internal procurement documentation and included guidance on the *Social Value Act* and the *Equality Act*. We updated our procurement processes, including tools and training on contract management, to put a

greater emphasis on social responsibility and equality, diversity and inclusion – introducing a “right to review” clause in contracts where we have questions around suppliers' commitments to these values.

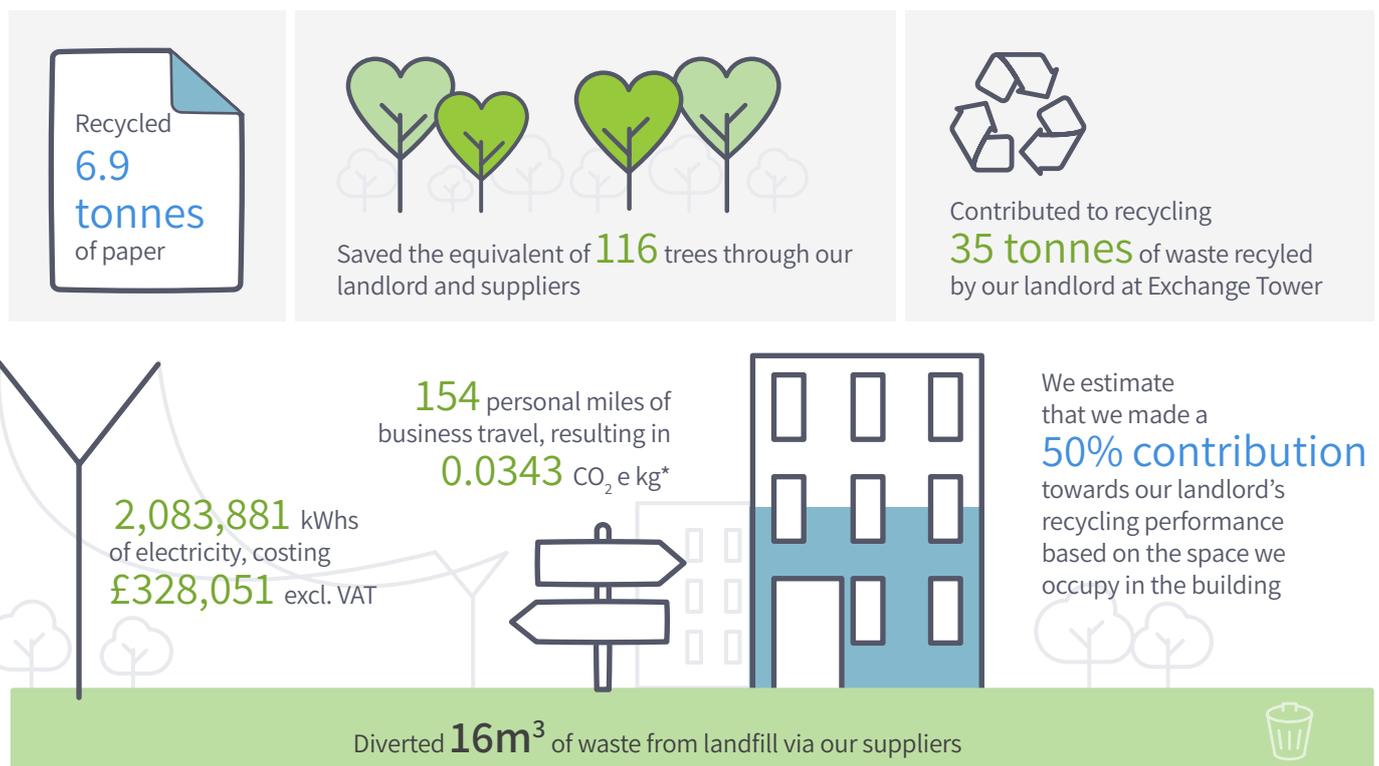
Our waste



We contributed around half of the 35 tonnes of waste recycled by our landlord at Exchange Tower (279 tonnes in 2019/20). We recycled 6.9 tonnes of paper, saved 116 trees, and diverted 16m³ of waste from landfill via our suppliers.

We recycle confidential papers and any written correspondence we receive through our suppliers.

	2020/21	2019/20	2018/19
Paper recycled (kg)	6,937	216,910	264,380
Waste diverted from landfill (cubic metres)	16	894	1,131



Managing information and protecting personal data

This year has been pivotal for data protection, compliance and awareness throughout the Financial Ombudsman. We've delivered new processes and policies as well as driving necessary culture change to maintain a focus on data protection, at the same time as meeting the challenges of the sudden shift to almost entirely remote working, for the whole financial year.

We put measures in place to reduce risks of our employees being overheard or overseen when working with our consumer and employee data at home, by providing privacy screens and headsets with integrated microphones to enable lower speaking volumes. We had been working on secure video conferencing to facilitate more remote work under our smarter working plans, so were able to quickly upscale Cisco Webex and Microsoft Teams to the whole organisation.

We engaged with employees regularly to promote the responsible use of our consumer and employee data and how to keep it safe. We delivered targeted refresher training, designed and rolled out a new data protection induction for all new starters, and ran a series of well-attended events and communications for data protection and security week.

Freedom of Information

We received 455 Freedom of Information requests in 2020/21. We responded to 87% of these within 20 working days, compared to 73% the year before. This was achieved by improving the efficiency of our internal handling procedures.

The most common requests continue to be for information about volumes and outcomes of complaints that isn't available in our regular data publication, and for information relating to our publications, processes or guidance.

We have maintained our commitment to publishing information in our regular publications and on our website. We will be updating our publication scheme in 2021/22. This scheme is mandated by the *Freedom of Information Act* for public authorities and sets out our commitment to make certain classes of information routinely available. We have also started publishing on our website information about the number of Freedom of Information requests we receive and respond to each quarter.

By order of the Board



Julia Cavanagh
Company Secretary
19 October 2021

Governance

Members of our Board are appointed under Schedule 17 of the *Financial Services and Markets Act 2000* – which provides that “the Chairman and other members of the Board must be persons appointed, and liable to removal from office” by the FCA. In the case of the Chairman, the appointment must also be approved by HM Treasury. The legislation also provides that “the terms of their appointment must be such as to secure their independence”.

The Chairman and members of the Board are appointed in the public interest, not as individual representatives of any particular group or sector – and they’re not involved in considering the individual complaints that are brought to us. In line with the legislation mentioned above, all Board members are independent.

Under our articles of association, the Board must consist of a minimum of three Directors. On 31 March 2021, the Board consisted of six Non-executive Directors. Members of the Board are required to complete an annual declaration about their current interests and those of people connected with them – and to confirm that those interests don’t conflict with their position as a Director of the Financial Ombudsman Service (see ‘Conflicts of interest’ on [page 66](#)).

Recruitment

The recruitment process for non-executive positions is open and transparent, with advertisements running in the national media. We make appointments as an equal opportunities employer, in line with the principles of fairness and impartiality and our commitment to diversity and inclusion. Board appointments are made by the FCA, and in the case of the Chairman, with HM Treasury approval.

As noted under the section on changes to Board appointments, during the year four Board members reached the end of their terms, two in August, one in December 2020, and another in February 2021. A fifth member of the Board stepped down on 31 March 2021 after providing their notice to the Chairman of the Board and the FCA. A recruitment process began in December 2020 to fill the vacancies left by departing Board members and to bring the Board size back up to seven. Odgers Berndtson, who had an existing contract with the Financial Ombudsman, helped support the search. Adverts were placed in the national media and on a number of online platforms to ensure a wide and inclusive search.

Since the 2020/21 year end, two Board members have stepped down and a further recruitment process was undertaken to fill the vacancies they left. The process was again supported by Odgers Berndtson who were awarded the contract following a new open tender process. See [page 64](#) for details of new Board members.

More generally, all Non-executive Directors go through an extensive induction programme to introduce them to the Financial Ombudsman – which this year was all done online. This includes meeting our Executive team, being guided through the way we resolve complaints, familiarisation with our wider support framework, and receiving a Directors’ handbook of information about the Board and the Financial Ombudsman. Throughout the year, both as a group and individually, the Board undertakes a number of activities to maintain and enhance their knowledge of our work.

Board membership during 2020/21



**Baroness
Zahida Manzoor CBE**

Chairman

Appointed 1 August 2019

Term expires 1 August 2022

Baroness Manzoor was appointed to the House of Lords in 2013. Her wider roles include: the Legal Services Ombudsman for England and Wales from 2003 to 2011, and the Legal Services Complaints Commissioner from 2004 to 2010. From 1997 to 2001, she was the Chairman of the Northern and Yorkshire Regions and a Policy Board Member of the NHS. She also served as a Trustee of the NSPCC Board from 1997 to 2003.



Bill Castell

Non-executive Director

Appointed 12 October 2020

Term expires 11 October 2023

Bill is a chartered accountant and is Group Chief Financial Officer and a member of the Board at OVO Energy. He is also on the Board of Governors at Whitgift School and sits on its finance committee.



Sarah Lee

Non-executive Director

Appointed 4 January 2021

Term expires 3 January 2024

Sarah's wider work includes her role as Solicitor Commissioner of the Judicial Appointments Commission and until 2018 she was a Trustee and Board member of the Royal Courts of Justice and Citizens Advice Islington.



Graham Brammer CBE

Non-executive Director

Appointed 1 September 2020

Term ended 30 June 2021



Heather Lauder

Non-executive Director

Appointed 1 September 2020

Term ended 31 July 2021



Jenny Watson CBE

Member of the Board

Appointed 1 June 2017

Term ended 31 March 2021



Baroness (Diana) Warwick

Non-executive Director

Appointed 1 September 2017

Term ended 31 August 2020



Gerard Connell

Non-executive Director

Appointed 11 December 2014

Term ended 11 December 2020



Alan Jenkins

Non-executive Director

Appointed 23 February 2011

Term ended 22 February 2021



Sienne Veit

Non-executive Director

Appointed 1 September 2017

Term ended 31 August 2020

More detail about our Board members' background and experience is available at financial-ombudsman.org.uk/who-we-are/staff/Board-Directors

Board members in post at 31 March 2021 are highlighted in grey.

Changes to Board appointments

On 31 August Baroness Diana Warwick and Sienna Veit stepped down from the Board when their terms came to an end. On 12 December 2020 and 22 February 2021 respectively Gerard Connell and Alan Jenkins stepped down from the Board when their terms came to an end. Jenny Watson stepped down from the Board on 31 March 2021 after serving notice to the Chairman and FCA.

Following a recruitment process that began in May 2020, Graham Brammer CBE and Heather Lauder joined the Board on 1 September 2020. Graham Brammer stood down from the Board on 30 June 2021, and Heather Lauder stood down on 31 July 2021. Bill Castell joined on 12 October 2020, and Sarah Lee joined the Board on 3 January 2021. Following a recruitment process in December 2020, Ruth Leak and Jacob Abboud joined the Board from 1 April 2021. Following a further recruitment process, which began in June 2021, Nigel Fretwell and Shrinivas Honap joined the Board on 30 September 2021. New Board members' biographies are available on our website from their start date.

Secretariat support

The Company Secretary – with the help of the Board Secretary – supports the Board, its committees and the Executive team and ensures all relevant procedures are followed. The Company and Board Secretaries are available to provide independent advice to Directors on issues relating to their responsibilities.

Julia Cavanagh, our Chief Financial Officer, is the Company Secretary. Alison Hoyland, our Head of Board and Executive Secretariat, is the Board Secretary.

The strategic role of the Board

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

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

- Ensure that the Financial Ombudsman is properly resourced and able to carry out its work effectively and independently.
- Agree the strategic direction of the Financial Ombudsman and its key commitments.
- Oversee and monitor the Financial Ombudsman's operational and financial performance.
- Appoint the Chief Ombudsman and the panel of ombudsmen under paragraphs 4 and 5 of Schedule 17 of the *Financial Services and Markets Act 2000* (which the Board has delegated to the Chairman, apart from in the case of the appointment of the Chief Ombudsman).
- Appoint the Independent Assessor – who deals with complaints about the level of customer service we provide in our work resolving consumers' complaints about financial businesses.
- Approve the draft budget each year for recommendation to the FCA.
- Approve (with the FCA) appropriate rules in the Dispute Resolution: Complaints (DISP) and Fees Manual (FEES) sections of the FCA's Handbook.
- Prepare and approve an annual plan that sets out how resources will be used.
- Approve the annual report and financial statements.

The Board is made up entirely of Non-executive Directors. Members of the Executive team attend Board meetings on the invitation of the Chairman. The Board combines executive and non-executive insight to govern the Financial Ombudsman effectively.

The Chairman ensures that the Financial Ombudsman has a clear strategy and direction – with effective management for its current and future needs. She leads the Board and ensures it meets its statutory and corporate responsibilities and is effective in its corporate decision-making.

The Chairman provides oversight to ensure the information provided to the Board is of sufficient accuracy and quality, including in terms of the clarity of content and the purpose and action required. The Chairman has an important role in role-modelling the Financial Ombudsman's culture and values and its commitment to diversity and inclusion, as well as acting as an ambassador for the Financial Ombudsman externally. The Chairman and Chief Executive and Chief Ombudsman meet weekly to discuss the operation and development of the Financial Ombudsman, and the Chairman meets other members of the Executive team on a one-to-one basis at regular intervals.

The Chief Executive and Chief Ombudsman is responsible for leading the Financial Ombudsman's strategy and overseeing the delivery of its commitments. The role involves leading the executive in making and implementing operational decisions, and ensuring that the Board has high quality, clear, timely and accurate information about operational and financial performance. They are responsible for providing leadership across the Financial Ombudsman, and together with the Chairman, the Board and the Executive team, role-modelling the Financial Ombudsman's culture and values.

The Chairman and the Chief Executive and Chief Ombudsman set Board agendas in advance, ensuring an appropriate balance between strategic matters and operational and assurance business. The schedule of matters reserved for the Board sets out the key areas on which the Board and its committees receive assurance during the course of the year – including the Financial Ombudsman's performance, management of corporate risks and the effectiveness of internal systems and controls.

Board meetings

Discussions on key strategic issues have continued to focus on maintaining operational resilience during the Covid-19 pandemic – in particular during the periods of lockdown throughout the year which meant staff and customers faced considerable pressure in their work and personal lives – as well as maintaining a service to its customers, modernising and developing the Financial Ombudsman and ensuring it is right-sized for a post-PPI world. During 2019/20, financial businesses started to report that they had completed or nearly completed working through most of their PPI complaint backlogs – a clear signal that the Financial Ombudsman was

nearing the end of needing to handle large volumes of PPI cases. Board discussions in relation to this centred on the timing of when to release mass claims resource and how to retain the capabilities and capacity the Financial Ombudsman needed in order to tackle the challenge of increased waiting times in general casework as a result of the Covid-19 pandemic. Although the Financial Ombudsman had met almost all of its operational objectives for 2020/21, significantly higher than forecast incoming case volumes as a result of the pandemic meant that despite its previous plans to build capacity and capability beginning to bear fruit, timeliness remained under pressure going into the 2021/22 financial year. The Board agreed a plan and budget which reflected the continuing economic uncertainty. The minimum levy for smaller firms was retained at 2019/20 levels, and reflected that the Financial Ombudsman expected to deal with more complex casework in future but with an underlying commitment to achieve price stability for the next three years, with a view to returning to a break-even financial performance and reserves of around three months, while consulting on our assumptions every year.

The Board also agreed the topic for the next Board-commissioned independent periodic review to be carried out during 2021/22, to focus on the future environment in which the Financial Ombudsman will be operating and what this means for its customers, its people and the evolution of its operating model. The Board continued to oversee the development of new strategic measures which would replace its commitments reporting, and be reported against publicly from the 2021/22 financial year to help track how the Financial Ombudsman is delivering against its published strategy to 2025. The Board also oversaw the development of five supporting strategies to strengthen the overall strategic ambitions set out to 'prevent', 'enhance' and 'build'.

As noted in last year's report, the impact of Covid-19 will continue to be felt for some considerable time yet, and will provide a backdrop to Board discussions on both operational and strategic matters throughout 2021/22 and possibly into future years.



Minutes of Board meetings are available on our website at financial-ombudsman.org.uk/publications/Board-meetings

Conflicts of interest

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

Tenure policy

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

Non-executive Directors may be reappointed by the FCA. In the case of the Chairman, the reappointment has to be approved by HM Treasury. Any Non-executive Director can be reappointed, but they can't serve for more than a total of ten years. For the Chairman, this ten-year period includes any time during which they acted as a Non-executive Director. A Non-executive Director who wants to resign before their term of office would otherwise be due to end must give at least three months' notice in writing, both to the Chairman and to the FCA.

Performance evaluation

Usually the Board carries out a formal evaluation of its own performance and that of its committees each year. In this evaluation, the Board considers the balance of its skills, experience and knowledge of the Financial Ombudsman, its diversity, how it works together as a unit, and other factors that influence its effectiveness. As part of the evaluation, the Senior Independent Director (who acts as an alternative point of contact to the Chairman) meets with members of the Board on a one-to-one basis to discuss the performance of the Board and the Chairman. Until February 2021, the Senior Independent Director was Alan Jenkins. From 1 July 2021, the Senior Independent Director has been Sarah Lee.

Good governance practice recommends an independent evaluation every three years. The next external evaluation was due to take place during 2020/21. During the year the Chairman of the Board commissioned an independent two-part

governance review as a health check on the existing Board governance arrangements and to make recommendations for how they might be enhanced. Part one comprised a review of the Board sub-committee structure and associated governance arrangements and an independent Board effectiveness review will be carried out under part two.

Part one of the review was undertaken by independent reviewer, Board Alchemy, and was conducted by way of a review of key standing information and documents, and one-to-one interviews with Non-executive Directors and a number of members of the Executive team, including the then Chief Executive and Chief Ombudsman.

The independent review concluded that the governance arrangements under the Board sub-committee framework are generally fit for purpose and the committees by and large meet the requirements of best practice. The review made a number of recommendations to enhance the arrangements further which broadly fell into three categories – administration, scope and extending the sub-committee framework.

The Board considered the recommendations at its meeting in June 2021 and agreed the majority of them, including the creation of a Quality Committee, agreeing that it was important for the Board to have oversight of quality given its importance for the role of the Financial Ombudsman. The formal Board sub-committee will replace the current 'critical friend' forum for quality assurance oversight and ensure a clearer line of sight and accountability to the Board.

The timetable for the Board effectiveness review under part two is dependent on embedding the recommendations from part one. It will reflect the timing of Non-executive Director appointments to the Board, and the recent appointment of the interim Chief Executive and Chief Ombudsman, but is currently expected to be completed during 2021/22.

Indemnity of Directors

Directors' and officers' liability insurance cover is in place for Non-executive Directors. Subject to the provisions of UK legislation, the company's articles of association provide an indemnity for Non-executive Directors for any costs that they may incur in defending any proceedings brought against them that arise from their positions as Non-executive Directors. This applies if they are acquitted or if the court rules in their favour.

Corporate governance

As a company limited by guarantee, the Financial Ombudsman Service is committed to maintaining the highest standards of corporate governance in line with best practice.

Under changes introduced in the *Financial Services Act 2012*, the Comptroller and Auditor General is responsible for the audit of our annual accounts. Like the other members of our regulatory family, the Ombudsman Service is subject to an annual accounts direction from HM Treasury.

The company has no share capital and no shareholders – and we exercise our right under the *Companies Act 2006* not to hold annual general meetings. Our Non-executive Directors aren't submitted annually for re-election. But we continuously engage with a wide range of people who have an interest in our work – including, where appropriate, at chair-to-chair level. These stakeholders include financial businesses and trade bodies, consumer groups, regulators and government, parliamentarians, claims management companies and the media. The sections on our commitments on [page 17](#), and our stakeholder relationships on [page 40](#), highlight examples of our key engagement during the year.

Appointment of Ombudsmen

Our Board is responsible for appointing ombudsmen on terms that guarantee their independence. As at 31 March 2021, the Ombudsman panel was led by Caroline Wayman, as Chief Executive and Chief Ombudsman – supported by two Principal Ombudsmen, six Lead Ombudsmen and Directors of Casework, two Lead Ombudsmen, 31 Ombudsman Leaders, 240 Ombudsman Managers, 73 other Ombudsmen and 105 Associate (contractor) Ombudsmen. Each member of the panel is appointed by the Board under paragraphs 4 and 5 to Schedule 17 of the *Financial Services and Markets Act 2000*. On 17 May 2021, Nausicaa Delfas was appointed interim Chief Executive and Chief Ombudsman.

Our ombudsmen's professional qualifications and experience reflect the diversity of our customers and the problems people ask us to resolve. Their wide-ranging backgrounds include financial services, law, teaching, local government, human resources, and charities and the third sector. We publish brief career histories on our website at financial-ombudsman.org.uk/who-we-are/staff/ombudsmen

Time commitment and attendance at Board meetings

On average, the Chairman spends two days each week on Ombudsman Service business. The time commitment of other Board members amounts to around two to three days each month. The Executive team is grateful to the Chairman and Board members for the additional time they give to support our strategic development.

In these tables, each Board members' meeting attendance is given as a share of the number for which they were in post.

	Board meetings
Baroness Zahida Manzoor	8/8
Graham Brammer	6/6
Bill Castell	5/5
Gerard Connell	5/5
Alan Jenkins	7/7
Heather Lauder	5/6
Sarah Lee	3/3
Diana Warwick	2/2
Jenny Watson	7/8
Sienne Veit	2/2

Board committees:

Audit committee

This committee considers matters relating to:

- Financial reporting
- Internal controls and risk-management
- Compliance, whistleblowing and fraud
- Internal audit
- External audit

Its full terms of reference are available at financial-ombudsman.org.uk/files/2630/audit_committee.pdf

Total meetings: 5	Meetings attended
Graham Brammer (chair from 12 December 2020)	2/2
Bill Castell	2/2
Gerard Connell, chair (until 11 December 2020)	3/3
Alan Jenkins	5/5
Jenny Watson	5/5

The Board is satisfied that the combined knowledge and experience of the audit committee members ensures that it can fulfil its responsibilities effectively. The Chief Executive and Chief Ombudsman, Chief Financial Officer, Financial Controller and Head of Risk and Governance are invited to attend all audit committee meetings. The NAO and the Financial Ombudsman’s internal auditors are also invited to attend the meetings. The chair updates the Board on the committee’s activities and the minutes are also shared.

During the year, as well as its review of the Directors’ report and financial statements, the committee’s main business included:

- Reviewing the key corporate risks and progress in reaching tolerance levels, including noting a “deep-dive” risk review focused on the risk theme of “running the Financial Ombudsman” – primarily looking at the support capabilities in place to help run the organisation.
- Considering updates on the procurement of a new HR and Finance system, Workday, and the technological maturity and future technology outlook for the Financial Ombudsman.
- Reviewing assumptions and detail of the 2021/22 draft budget ahead of it being presented to the Board for consideration.
- Noting an analysis of consultancy costs over the last five years.
- Reviewing updated policies on revenue recognition, investments, capitalisation and impairments and the resilience of the Financial Ombudsman’s investment strategy.
- Noting updates on various pension matters, including the triennial pension review and valuation and relevant changes as a result of the *Pensions Act 2020*.
- Agreeing the in-year internal audit plan and any amendments.
- Monitoring progress against the annual internal audit plan and reviewing all the findings from completed internal audits in the year.
- Reviewing advisory reports undertaken by the internal auditors, including IT Strategic Management, Initial Customer Contact and the control measures to reduce the risk and impact of the Covid-19 pandemic.
- Noting the corporate risk register, and entries on registers covering gifts and hospitality, single tender actions, fraud, whistleblowing, investment and data protection.
- Reviewing and/or investigating the findings from whistleblowing referrals, as appropriate, whether raised through the formal ‘speak up’ process or through other relevant informal channels.
- Agreeing the external audit and production of the Annual Report and Accounts.

Remuneration committee

This committee considers matters relating to:

- Remuneration strategy
- Executive remuneration
- Overall remuneration
- Employee reward and benefits

Its full terms of reference are available at financial-ombudsman.org.uk/files/2632/remuneration_committee.pdf

Total meetings: 4	Meetings attended
Jenny Watson – Chair (until 31 December 2020)	2/2
Baroness Zahida Manzoor	4/4
Gerard Connell	1/2
Heather Lauder – Chair (from 1 January 2021)	3/3
Sarah Lee	2/2
Diana Warwick	1/1

During the year, the committee's main business included:

- Agreeing changes to the remuneration for legacy Ombudsman roles.
- Agreeing a recommendation for a one-off payment in the 2020/21 year to recognise the commitment shown by staff to continue to provide a service to customers while dealing with a range of personal and professional challenges brought about by the pandemic.
- Agreeing recommendations on the annual pay review and executive salary at risk payments.
- Agreeing the Financial Ombudsman's approach and framework for talent and succession planning.
- Considering synergies to leverage in relation to a new quality assurance framework and management structure.

The Chief Executive and Chief Ombudsman, and the Director of HR, are routinely invited to attend the remuneration committee meetings. However, neither attends when their own individual performance is due to be discussed. The chair updates the Board on the committee's activities and the minutes are also shared.

Nomination committee

This committee considers matters relating to:

- Board composition
- Board sub-committees
- Chief Executive and Chief Ombudsman appointment
- Recruitment

Its full terms of reference are available at financial-ombudsman.org.uk/files/2631/nomination_committee.pdf

Total meetings: 1	Meetings attended
Baroness Zahida Manzoor (Chair)	1/1
Graham Brammer	1/1
Bill Castell	1/1
Heather Lauder	1/1
Sarah Lee	1/1
Jenny Watson	0/1

The nomination committee formally met once during 2020/21 to discuss the process and timetable for appointing the interim Chief Executive and Chief Ombudsman. Some nomination matters, such as the appointment of new committee memberships and appointment of Chairs, were picked up during the course of relevant discussions at Board meetings and via email. All members of the Board are on the nomination committee.

The Independent Assessor

Our Independent Assessor (IA) considers complaints from consumers and businesses about the level of customer service we've provided, rather than whether it was right for us to uphold or reject a consumer's complaint about a business. The role of the IA is a Board appointment, and its remit is governed by formal terms of reference.

Amerdeep Somal came to the end of her term as IA in September 2020. Her successor, Dame Gillian Guy, was appointed in October 2020.

The IA meets formally with members of the Executive team and the Board on a quarterly basis, and at other times as appropriate. During these meetings, the IA's feedback and recommendations are discussed, as well as any underlying themes in the complaints the IA has received and the action that's being taken to address them.

Over the financial year we received 4,186 service complaints – the equivalent of 1.68% of our overall resolutions. The IA went on to review 516 of those service complaints (0.2% of our resolutions). The IA's 2020/21 annual report was published on our website in July 2021, together with our response.

The Executive team

The Board is supported by the Executive team, who are responsible for the day-to-day management of the Ombudsman Service. They:

- Propose and manage the budget, and approve major expenditure.
- Plan, prioritise and oversee the delivery of the organisation's strategy and commitments.
- Ensure the organisation is running effectively and efficiently.
- Manage risks.

As at 31 March 2021, our Executive team were:

- Caroline Wayman, Chief Executive and Chief Ombudsman.
- Julia Cavanagh, Chief Financial Officer/Company Secretary.
- Annette Lovell, Director of Strategy and Engagement.
- Caroline Nugent, Director of Human Resources.
- Richard Thompson, Principal Ombudsman and Quality Director.
- Garry Wilkinson, Principal Ombudsman and Director of Investigation.
- Nicola Wadham, Chief Information Officer.

Since the year end, there have been a number of changes to the Executive team.

- Caroline Wayman, Chief Executive and Chief Ombudsman, left the Financial Ombudsman on 16 April 2021.
- Annette Lovell, Director of Strategy and Engagement, left the Financial Ombudsman on 30 June 2021.
- Nausicaa Delfas was appointed interim Chief Executive and Chief Ombudsman on secondment from the FCA on 17 May 2021.
- Simone Ferreira was appointed interim Chief of Staff on secondment from the FCA on 16 August 2021.
- Rae Stewart was appointed interim Director of Communications on 1 September 2021.
- Richard Thompson, Principal Ombudsman and Quality Director, will leave the Financial Ombudsman on 5 November 2021.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. They have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS).

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company, and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the financial accounts.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that:

- Are sufficient to show and explain the company's transactions.
- Disclose with reasonable accuracy, at any time, the financial position of the company.
- Enable them to ensure that the financial statements comply with the *Companies Act 2006* and are in accordance with the accounts direction given by HM Treasury under paragraph 7(5) of Schedule 17 to the *Financial Services and Markets Act 2000*.

The Directors have general responsibility for taking whatever steps are reasonably open to them to safeguard the assets of the company, and to prevent and detect fraud and other irregularities.

Going concern

The Directors are satisfied that the Financial Ombudsman Service is in a position to meet its obligations as they fall due, and is therefore a going concern. We have prepared budgets and cash flows for 2021/22 and 2022/23, which show year end reserves of £88.8m and £96.9m in the bank at 31 March 2022, reducing on a planned basis to £63.1m and £62.3m respectively by 31 March 2023. The financial statements have accordingly been prepared under the going concern accounting convention.

Statement of disclosure of information to auditor

Each Director confirms that:

- To the best of their knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and
- They have taken all steps a Director might reasonably be expected to have taken, to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

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

By order of the Board



Julia Cavanagh
Company Secretary
19 October 2021

Risk management and internal control

Our risk management framework focuses on ensuring that the right people are having the right conversations about risk. To achieve this, and manage risks appropriately, it's important we identify key risks for the Financial Ombudsman and agree how to respond to them, bearing in mind our statutory objectives and the resources we have.

The Board has overall responsibility for our risk management framework. It sets the risk appetite for the Financial Ombudsman and agrees our corporate risk themes. Each quarter, the Risk and Governance team brings together updated risk information from across the Financial Ombudsman to support any analysis relating to each theme.

Our Executive team sets the risk tolerance for their areas of responsibility, reviews mitigation plans and monitors risk movements. The Risk and Governance team engages with the executive and risk owners to discuss their current risks, their target levels of risk, what they need to do to reach them, and their timings. As risk analysis is compiled it is discussed at the appropriate level, either with individual Directors responsible for the areas concerned, or at appropriate governance committees.

The quarterly risk reports for the Executive team and Board provide summary ratings for each risk theme, supported in each case by category level assessments, all derived from the individual risks identified and owned through the Financial Ombudsman. The audit committee also reviews the overall risk picture each quarter, considering each theme with reference to both completed and planned internal audits. The audit committee chair updates the Board regularly on these discussions to inform their perspective on risk, and produces an assurance report to the Board setting out how the committee has discharged its delegated responsibility.

The Risk and Governance team is responsible for assessing the extent and quality of risk coverage across the Financial Ombudsman. It provides independent challenge on risk assessments; collates risk information; monitors risk movement, and agrees the quarterly risk report with the Executive team for the Board.

Internal audit

As part of our “three lines of defence” model, we contract out our internal audit function to RSM, and in 2020/21

RSM delivered the second year of its audit plan, following its previous appointment through an open procurement process.

As in 2019/20, the RSM partner on the contract operated as a head of internal audit. Internal audit is responsible for reviewing the risk management activities of various business areas, taking an independent view of the operational effectiveness and efficiency of our internal controls. Audit findings include an overall assurance assessment of significant findings, including associated risks.

The audit plan for 2020/21 was presented as scheduled at the April 2020 audit committee, but given the backdrop at the time in relation to the Covid-19 pandemic, the committee agreed to take a more flexible approach to forward planning in 2020/21, considering planned audits on a quarterly basis as the Financial Ombudsman's understanding of near- and medium-term risks developed. This gave the Financial Ombudsman and RSM more scope to ensure that audit work was appropriately targeted as the situation developed.

RSM delivered 13 audit reports and advisory reviews from the 2020/21 audit plan, with four delivered after year-end but with fieldwork carried out in-year. These covered core operations, IT, risk management, supplier management, and people and culture.

Two advisory reviews were delivered, looking specifically at aspects of the Financial Ombudsman's Covid-19 response – both in the immediate aftermath of the onset of the crisis, and our plans for a phased return to the office in September 2020 as restrictions eased. While a number of recommendations for improvement were made across these audits, overall the results were positive, with multiple good practice findings noted in relation to our Covid response, the Financial Ombudsman's work around supporting its people, and information security – with the latter two receiving the highest “substantial assurance” opinion and with no control weaknesses identified. No “partial assurance” opinions were provided (compared to one the previous year). The audit committee continues to monitor implementation of agreed actions arising from internal audit reports.

Internal audit opinion

The head of internal audit provides an annual internal audit opinion based on the work undertaken each financial year. This is based on an assessment of the adequacy and effectiveness of our governance, risk and control environment, and whether these are sufficient to help us achieve our commitments. The head of internal audit's opinion was that the Financial Ombudsman has an adequate and effective framework for risk management, governance and internal control. Audit work identified further enhancements that could be made to the framework of risk management, governance and internal control to ensure that it remains adequate and effective, and the opinion noted that all agreed actions were implemented within the agreed timescales.

External audit

The Comptroller and Auditor General, head of the NAO, was appointed as our external auditor in April 2013 under the *Financial Services Act 2012*. The NAO liaise directly with internal audit as appropriate. They attend our audit committee and have direct access to the chair of the audit committee to discuss financial reporting matters.

Remuneration report

The Board consists entirely of Non-executive Directors who don't participate in the reward, pension or benefit schemes that we run for our employees. The fees paid to Directors aren't specifically related to individual or collective performance, and Directors aren't entitled to compensation for loss of office.

Non-executive Directors' fees are set annually by the Financial Conduct Authority and adopted by the Board. The remuneration committee considers and approves executive remuneration.

The Chairman received an annual fee of £75,000. During 2019/20 the outgoing chair received an annual fee of £74,970. A fee of £24,500 was paid to each of the other Non-executive Directors and an additional fee of £5,000 was paid to the chair of the audit committee, the chair of the remuneration committee and the Senior Independent Director. Fees paid to Non-executive Directors will remain unchanged in 2021/22. Apart from the small increase for the new chair, fees have been unchanged since April 2012.

In this report, the disclosures on Board fees, remuneration, expenses, benefits for the Executive team, Hutton fair pay ratio and exit packages have been audited. Other disclosures haven't been audited.

Fees for the Board (audited)	Notes	Total fees for year ended 31/03/21 £	Total fees for year ended 31/03/20 £
Sir Nicholas Montagu	1	-	25,278
Baroness Zahida Manzoor	2	75,000	50,000
Gerard Connell	3	20,688	29,500
Alan Jenkins	4	26,399	29,500
Jenny Watson	5	28,232	29,500
Diana Warwick	6	10,208	24,500
Sienne Veit	7	10,208	6,125
Heather Lauder	8	15,542	-
Bill Castell	9	11,622	-
Graham Brammer	10	15,795	-
Sarah Lee	11	5,968	-
Total		219,662	194,403

Notes

- Nicholas Montagu's term in office ended on 1 August 2019.
- Zahida Manzoor's term of office commenced on 1 August 2019.
- Gerard Connell's fee includes an additional fee for chairing the audit committee. Gerard Connell left the Financial Ombudsman on 12 December 2020.
- Alan Jenkins' fee includes an additional fee as the Senior Independent Director. Alan Jenkins left the Financial Ombudsman on 22 February 2021.
- Jenny Watson's fee includes an additional fee for chairing the remuneration committee until 31 December 2020. Jenny Watson left the Financial Ombudsman on 31 March 2021.
- Diana Warwick left the Financial Ombudsman on 31 August 2020.
- Sienne Veit elected to receive a fee from 1 January 2020. Sienne Veit left the Financial Ombudsman on 31 August 2020.
- Heather Lauder joined the Financial Ombudsman on 1 September 2020. Heather Lauder's fee includes an additional fee for chairing the remuneration committee from 1 January 2021. Heather Lauder left the Financial Ombudsman on 31 July 2021.
- Bill Castell joined the Financial Ombudsman 12 October 2020.
- Graham Brammer joined the Financial Ombudsman on 1 September 2020. His fee includes an additional fee for chairing the audit committee from 12 December 2020 until 30 April 2021. Graham Brammer left the Financial Ombudsman on 30 June 2021.
- Sarah Lee joined the Financial Ombudsman on 4 January 2021. Sarah Lee was appointed Senior Independent Director from 1 July 2021.

Our current Independent Assessor, Dame Gillian Guy, was paid at a rate of £106,500 for 4 days a week (2019/20: £Nil). During the year, she received salary of £46,423 (2019/20: £Nil), pension contributions of £5,571 (2019/20: £Nil) and other benefits amounting to £1,234 (2019/20: £Nil). Dame Gillian Guy joined the Financial Ombudsman on 26 October 2020.

Our former Independent Assessor, Amerdeep Somal, was paid at a rate of £105,966 for 4 days a week (2019/20: £105,535). During the year, she received salary of £54,647 (2019/20: £103,382), pension contributions of £7,683 (2019/20: £15,830) and other benefits amounting to £1,933 (2019/20: £3,702). Amerdeep Somal left the Financial Ombudsman on 22 September 2020.

Expenses incurred by Board members (audited)

In line with the memorandum of association, the Directors are entitled to be paid travel, hotel and other expenses which are reasonable and have been properly incurred. The expenses incurred by, or on behalf of, the Directors as at 31 March 2021 are shown in the table.

Baroness Zahida Manzoor	-	62	-	62
Gerard Connell	-	62	-	62
Alan Jenkins	-	62	-	62
Jenny Watson	-	62	-	62
Diana Warwick	-	-	-	-
Sienna Veit	-	-	-	-
Heather Lauder	214	151	-	365
Bill Castell	-	-	-	-
Graham Brammer	45	62	-	107
Sarah Lee	-	-	-	-
Total	259	461	-	720

Executive remuneration

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

Salaries

Salaries for members of the Executive team are reviewed annually by the remuneration committee. Any increases reflect changes in responsibility, inflation, market movements and individual performance.

Reward scheme

In line with the recommendations of the Hutton Review into Fair Pay in the Public Sector (March 2011), all members of the Executive team have their remuneration structured so that an element of their salary is “at risk”. This means that 15% of their salary is held back until the end of the year – and is paid only if the Board agrees that the organisation’s performance is satisfactory.

The level of payment is determined by the remuneration committee, who can also award up to an additional 5% of salary to individual executives for exceptional performance. Reward payments are also considered in line with our progress against the Women in Finance Charter commitments.

Pensions

Members of the Executive team are eligible to join the non-contributory defined-contribution FCA pension scheme, which is open to all employees except Non-executive Directors. The employer makes a core contribution to the scheme calculated as a percentage of salary linked to age, at the rates in the table below. In addition, employees can make extra contributions from their flexible cash benefit allowance and salary up to a maximum of 40% of their salary. For employees who choose to do this, the employer makes a matched contribution to the scheme up to 3% of the employee's pensionable salary.

In 2016, the remuneration committee approved an alternative cash arrangement of 13% for those employees on higher salaries, including the Executive team, who want to leave the pension scheme. This alternative arrangement was introduced as a result of the reduction in the tax-free pension allowances that became effective from 6 April 2016.

There are further details about the cost of the pension scheme in note 26 to the financial statements.

Age	Contribution rate
16 to 29	8% of pensionable salary
30 to 34	10% of pensionable salary
35 and over	12% of pensionable salary

Other benefits

Members of the Executive team are eligible to take part in the flexible benefit arrangements, which are open to all employees except Non-executive Directors. The Executive team arrangements include life assurance, income protection cover, critical illness cover, personal accident insurance, health screening, virtual GP and a private medical insurance plan, including family cover. All employees – including the Executive team – receive an £800 cash benefit allowance each year, which they can spend on other benefits available under the flexible benefit plan.

Remuneration and benefits for the Executive team (audited)

Executive team members	Notes	Salary* £	Pension** £	Other benefits*** £	Total for year ended 31/03/21 £	Total for year ended 31/03/20 £
Caroline Wayman	1/2/4	439,650	31,155	7,570	478,375	306,841
Julia Cavanagh	2	208,425	23,544	12,829	244,798	238,061
David Cresswell	3	-	-	-	-	5,686
Annette Lovell	1/5	178,223	18,584	5,742	202,549	197,755
Caroline Nugent	1/2	163,772	18,500	5,669	187,941	182,356
Richard Thompson	2/7	174,792	18,131	5,727	198,650	193,459
Nicola Wadham	6	161,000	16,800	6,781	184,581	76,452
Garry Wilkinson		180,869	18,860	7,464	207,193	202,054
Total		1,506,731	145,574	51,782	1,704,087	1,402,664

* Salary cost comprises base salary including salary at risk.

** Pension cost comprises employer pension contributions paid to the pension scheme on behalf of the individual together with any payments made to the individual in lieu of pension following the changes in pension legislation described above.

*** Other benefits comprise the cost of providing core benefits through the flexible benefits scheme. Benefits provided include personal accident insurance, life assurance, private medical insurance, income protection and flex benefits.

Notes

- Executive Directors are required to seek approval for, and declare, any other non-executive positions they hold. Caroline Wayman became a member of the Board of Governors at Nottingham Trent University in September 2020. She was a Non-executive Director at the Crown Prosecution Service (CPS), holding the role of Senior Independent Director. Caroline was also Chairman of their nominations and governance committee. The role paid a fee of £13,040 per annum. Annette Lovell was a Lay Member of the Office for Legal Complaints (OLC). Her appointment was originally for three years to 28 February 2021 and continued from 1 March 2021 to her date of leaving. The role paid a fee of £10,000 a year. Caroline Nugent is on the Board of the Chartered Institute of Personnel and Development (CIPD); this is a non-fee-paying position.
- Caroline Wayman, Julia Cavanagh, Richard Thompson and Caroline Nugent elected to allocate £10,000 of the employer pension contribution into the pension scheme. The remaining employer contribution is paid as a non-pensionable cash supplement. The combined value of these amounts is calculated as 13% of the pensionable salary. Both amounts are included under "pension" in the table above.
- David Cresswell left the Financial Ombudsman Service on 8 April 2019.
- Caroline Wayman left the Financial Ombudsman Service on 16 April 2021. Her salary for 2020/21 includes leaving payments accrued at 31 March 2021 totalling £184,258 which comprised £120,473 for pay in lieu of notice and £63,785 for loss of office.
- Annette Lovell left the Financial Ombudsman Service on 30 June 2021.
- Nicola Wadham joined the Financial Ombudsman Service on 1 November 2019.
- Richard Thompson leaves the Financial Ombudsman Service on 5 November 2021.

Expenses incurred by, or on behalf of, members of the Executive team (audited)

Executive team members	Travel £	Accommodation and subsistence £	Entertaining £	Professional subscriptions £	Total for the year ended 31/03/21
Caroline Wayman	-	62	-	-	62
Julia Cavanagh	-	62	-	501	563
Annette Lovell	96	62	-	-	158
Caroline Nugent	-	62	-	216	278
Richard Thompson	-	62	-	328	390
Garry Wilkinson	-	62	-	-	62
Nicola Wadham	-	62	-	-	62
Total	96	434	-	1,045	1,575

Hutton fair pay ratio (audited)

Organisations with a requirement to report must disclose the relationship between the remuneration of the highest-paid Director in their organisation and the median remuneration of the organisation's workforce.

The remuneration* of the highest-paid Director** in the Financial Ombudsman Service in the financial year 2020/21 was £262,962 (2019/20: £276,379). This was 6.30 times (2019/20: 6.54 times) the median remuneration of the workforce, which was £41,719 (2019/20: £42,289). No employee received remuneration in excess of the highest paid Director. If the calculation is amended to include employees only, rather than total workforce, the ratio between the highest paid Director and the median pay of employees in 2020/21 was 6.60 times, compared to 7.04 in 2019/20.

* Remuneration includes salary, salary at risk, and benefits-in-kind. It doesn't include severance payments, pension related allowances and employer pension contributions.

** For the purpose of this note, Director refers to both Non-executive Directors and members of the Executive team.

Exit packages (audited)

Exit packages by cost band	2020/21 number (redundancy – compulsory*)	2020/21 number (other**)	2019/20 number (redundancy – compulsory*)	2019/20 number (other**)
Less than £2,000	-	9	-	17
£2,001 to £5,000	-	43	2	31
£5,001 to £10,000	-	8	11	16
£10,001 to £25,000	1	6	25	16
£25,001 to £50,000	4	4	26	34
£50,001 to £100,000	1	6	3	8
£100,001 to £125,000	-	2	-	-
£125,001 to £150,000	-	1	-	1
Total	6	79	67	123
Total payments (£)	£212,249	£1,126,757	£1,628,465	£2,324,624

* Compulsory redundancy payments include any associated payments, for example pay in lieu of notice.

** Other exit packages comprise payments in respect of voluntary redundancy, non-redundancy severance payments and pay in lieu of notice.

The table above comprises the exit packages for leavers for 2020/21. Further amounts totalling £3,953,519 have been accrued at 31 March 2021 for leavers in 2021/22 of which £3,683,183 relates to the wind down of our PPI operation (31 March 2020: £Nil for leavers in 2020/21). The highest payment made during the year was £135,927 (2019/20: £137,202). The total charged within the financial statements for 2020/21 relating to exit packages is £5,292,525 (2019/20: £2,008,297).

The certificate and report of the Comptroller and Auditor General to the Houses of Parliament

Opinion on financial statements

I certify that I have audited the financial statements of the Financial Ombudsman Service for the year ended 31 March 2021 under the *Financial Services and Markets Act 2000*. The financial statements comprise: Statements of Comprehensive Income, Other Comprehensive Income, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. The financial reporting framework that has been applied in their preparation is applicable law, and International Accounting Standards in conformity with the requirements of the *Companies Act 2006*.

I have also audited the information in the Remuneration Report that is described in that report as having been audited.

In my opinion, the financial statements:

- give a true and fair view of the state of the Financial Ombudsman Service's affairs as at 31 March 2021 and of the company's deficit for the year then ended;
- the financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the *Companies Act 2006*; and
- have been properly prepared in accordance with HM Treasury directions under the *Financial Services and Markets Act 2000*.

Opinion on regularity

In my opinion, in all material respects, the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), applicable law and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the Financial Ombudsman Service in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the Financial Ombudsman Service's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Financial Ombudsman Service's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this certificate.

Other information

The other information comprises information included in the annual report, but does not include the parts of the Remuneration Report described in that report as having been audited, the financial statements and my auditor's certificate thereon. The Directors are responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters

In my opinion, based on the work undertaken in the course of the audit:

- the parts of the Remuneration Report to be audited have been properly prepared in accordance with the accounts direction issued by HM Treasury under the *Financial Services and Markets Act 2000*;
- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which I report by exception

In the light of the knowledge and understanding of the Financial Ombudsman Service and its environment obtained in the course of the audit, I have not identified material misstatements in the Strategic Report and the Directors' report.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of remuneration specified by the accounts direction issued by HM Treasury under the *Financial Services and Markets Act 2000* are not made; or
- I have not received all of the information and explanations I require for my audit.

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for:

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as the Directors determine necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error.
- assessing the Financial Ombudsman Service's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the *Financial Services and Markets Act 2000*.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- inquiring of management, the Financial Ombudsman Service's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Financial Ombudsman Service's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Financial Ombudsman Service's controls relating to the *Financial Services and Markets Act 2000*;
- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition and posting of unusual journals; and

- obtaining an understanding of the Financial Ombudsman Service's framework of authority as well as other legal and regulatory frameworks that the Financial Ombudsman Service operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Financial Ombudsman Service. The key laws and regulations I considered in this context included the *Financial Services and Markets Act 2000*, the *Financial Services Act 2012* and relevant employment law and tax legislation.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report

I have no observations to make on these financial statements.

Gareth Davies

Comptroller and Auditor General
25 October 2021

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Financial statements

Statement of comprehensive income for the 12 months ended 31 March 2021

	Notes	2021 £000	2020 £000
Continuing operations			
Revenue	4	245,083	242,604
Administrative expenses	5	(264,472)	(276,405)
Operating (deficit)		(19,389)	(33,801)
Finance income	6	590	1,571
Finance costs	6	(774)	(937)
(Deficit) before income tax		(19,573)	(33,167)
Corporation tax expense		(59)	(317)
(Deficit) for the year from continuing operations		(19,632)	(33,484)

Statement of other comprehensive income for the 12 months ended 31 March 2021

	Notes	2021 £000	2020 £000
(Deficit) for the year		(19,632)	(33,484)
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Re-measurements of post-employment benefit obligations	26	(5,582)	2,356
Total other comprehensive (expense)/income		(5,582)	2,356
Total comprehensive (expense) for the year		(25,214)	(31,128)
All operations are continuing			

Statement of changes in equity

	Notes	Accumulated surplus
Balance as at 31 March 2020	24	159,428
Total comprehensive (expense) for the year		(25,214)
Balance as at 31 March 2021	24	134,214

Statement of financial position as at 31 March 2021

	Notes	2021 £000	2020 £000
Non-current assets			
Property, plant and equipment	9	3,224	3,254
Right of use assets	10	37,134	43,395
Investment in sub lease	11	253	-
Intangible assets	12	14,253	13,851
Trade and other receivables	13	673	266
		55,537	60,766
Current assets			
Trade and other receivables	13	21,721	23,605
Short-term deposits	14	67,000	46,000
Cash and cash equivalents	15	126,107	139,567
		214,828	209,172
Total assets		270,365	269,938
Current liabilities			
Trade and other payables	16	88,620	61,144
Lease liabilities	17	6,345	8,335
Provisions for other liabilities and charges	19	1,941	1,451
Current corporation tax liability		56	157
		96,962	71,087
Non-current liabilities			
Trade and other payables	16	649	598
Lease liabilities	17	29,009	34,246
Provisions for other liabilities and charges	19	4,248	3,848
Post-employment benefits	26	5,283	731
		39,189	39,423
Total liabilities		136,151	110,510
Total equity			
Accumulated surplus	24	134,214	159,428
Total equity and liabilities		270,365	269,938

The notes on pages 87 to 113 are an integral part of these financial statements.

The company is exempt from the requirement of part 16 of the *Companies Act 2006* as stipulated in schedule 17, s.7A of the *Financial Services and Markets Act 2000*.

The financial statements on pages 84 to 87 were approved by the Board of Directors on 19 October 2021, and are signed on behalf of the Board of Directors by:



The Baroness Zahida Manzoor CBE
Chairman
19 October 2021

Company number: 03725015

Statement of cash flows

for the 12 months ended 31 March 2021

	Notes	2021 £000	2020 £000
Cash flows from operating activities			
Cash inflow from operations		20,929	412
Corporation tax paid		(160)	(350)
Net cash inflow from operating activities		20,769	62
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(903)	(225)
Purchase of intangible assets	12	(2,962)	(370)
Decrease in short-term deposits	14	(21,000)	18,000
Interest received		802	1,741
Net cash used in investing activities		(24,063)	19,146
Cash flows from financing activities			
Lease liability payments – principal		(9,503)	(5,892)
Lease liability payments – interest		(663)	(783)
Movement in long-term borrowings		-	-
Net cash used in financing activities		(10,166)	(6,675)
Net (decrease)/increase in cash and cash equivalents	15	(13,460)	12,533
Cash and cash equivalents at beginning of the year	15	139,567	127,034
Cash and cash equivalents at end of the year	15	126,107	139,567

Notes to the statement of cash flows for the 12 months ended 31 March 2021

	Notes	2021 £000	2020 £000
(Deficit) for the year from operations before financing and corporation tax		(19,389)	(33,801)
Adjustment for:			
Depreciation – property, plant and equipment	9	933	1,552
Depreciation – right of use assets	10	8,610	8,907
Amortisation – intangible assets	12	2,510	2,636
Interest expense – lease liabilities	17	663	783
Interest expense – dilapidations provision	19	111	66
Loss on disposal of intangible assets	12	50	181
Impairment of intangible assets	12	-	1,789
(Decrease) in provisions		(310)	(1,000)
Defined benefit pension costs	26	(1,035)	(1,035)
Defined benefit pension past Financial Ombudsman costs	26	-	-
Changes in working capital			
Decrease in receivables		1,259	1,542
Increase in payables		27,527	18,792
Cash inflow from operations		20,929	412

Notes to the financial statements for the year ended 31 March 2021

1. Status of the company

Financial Ombudsman Service Limited (the “Financial Ombudsman”) is a company incorporated and domiciled in the United Kingdom under the *Companies Act 2006* and is a company limited by guarantee with no share capital (company registration no: 03725015). The members of the company have agreed to contribute £1 each to the assets of the company in the event of it being wound up, as detailed in the Company’s Memorandum of Association.

The nature of the Financial Ombudsman’s operations is set out in the Strategic Report.

The address of its registered office is Exchange Tower, London, E14 9SR.

2. Significant accounting policies

Basis of preparation

The financial statements have been prepared on a going concern basis, under the historical cost convention in accordance with International Accounting Standards in conformity with the requirements of the *Companies Act 2006* and those parts of the *Companies Act 2006* applicable to companies reporting under IFRS.

The financial statements are also prepared in accordance with provisions of any applicable HM Treasury Accounts Direction under paragraph 7(5) of Schedule 17 to the *Financial Services and Markets Act 2000*.

The financial statements are presented in pounds sterling which is the currency of the primary economic environment in which the Financial Ombudsman operates.

A summary of the principal accounting policies is set out below.

Revenue recognition

The intent underpinning the design of the Financial Ombudsman's funding model is to charge on a basis that is transparent and fair, where firms pay broadly in proportion to their share of the Financial Ombudsman's workload. Group fees and case fees are designed to achieve that aim. Case fees are charged on a fixed basis irrespective of the time and costs incurred relating to the specific case. Costs directly incurred in dealing with cases are expensed as incurred.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services rendered. Under IFRS 15, there are five criteria that need to be met in order for revenue to be recognised:

- identify the contract and customer;
- identify the performance obligations;
- determine the transaction price;
- allocate the transaction price to the performance obligations; and
- recognise revenue when the performance obligations are satisfied.

Sources of revenue

Annual levy

Each business that comes within the jurisdiction of the Financial Ombudsman is required to pay an annual levy based on the permissions given to that firm by one of:

- the Financial Conduct Authority (for the Compulsory Jurisdiction); or
- the Financial Ombudsman (for the Voluntary Jurisdiction).

For both the Compulsory and Voluntary Jurisdictions performance obligations are satisfied over the course of the year. Therefore, levy income is recognised in the period to which the levy relates.

Group fees

The members of the group fee arrangement remained unchanged and comprised of Lloyds Banking Group, Royal Bank of Scotland Group, Barclays Banking Group, HSBC Group, Aviva Group, Direct Line Group, Santander Group and Nationwide Group. Group fees are calculated as an annual charge for each group on the basis of their estimated proportion of the total work carried out by the Financial Ombudsman, with reference to recent usage volume patterns.

The group fee mechanism makes provision for a year end adjustment if a group's new PPI case volumes exceed the original budget estimate by more than 15% (and exceeds 10,000 cases) and if general casework resolution activity varies by more than 15% from the original estimate for any individual group. The component of the fee relating to resolved general casework and resolved PPI activity is recognised in the period charged as it represents a fee for work conducted within the year and is not directly connected with individual performance obligations.

The supplementary fee component of the group fee remains more closely associated with individual cases. As such we have applied the same approach taken for non-group supplementary case fees, with the income being released in the month in which the case is resolved – the point at which performance obligations are met. The vast majority of these cases have now been resolved and we have now released the remaining revenue in 2020/21.

Standard case fees

Businesses that fall outside the group fee arrangement are required to pay a standard case fee of £650 upon closure of the twenty-sixth chargeable complaint referred for investigation to the Financial Ombudsman and each subsequent complaint in any one financial year. IFRS 15 dictates that revenue should be recognised once performance obligations have been satisfied. From 1 April 2021, the standard case fee has been set at £750.

- **General casework** – for cases in progress at the end of the year an adjustment is made to revenue to reflect instances where our performance obligations have been met but we have not billed.
- **PPI casework** – the uncertainty around our PPI workload means there is less certainty around whether cases will close shortly after we have made our first assessment or whether additional work will be required. As a result, we only recognise revenue once our performance obligation of resolving and closing the complaint has been fulfilled.

Supplementary case fees

The supplementary case fee was designed to collect sufficient funds to manage the costs associated with handling the unprecedented high volumes of PPI cases over multiple years. Businesses that fell outside the group fee arrangement and had chargeable PPI complaints referred to the Financial Ombudsman were required to pay a supplementary case fee for the twenty-sixth and all subsequent complaints formally taken on for investigation in the two financial years 1 April 2012 to 31 March 2014. The supplementary case fee was set at £350 for the two years 1 April 2012 to 31 March 2014. From 1 April 2014, the supplementary case fee has been set at £0. These fees are treated in a similar way to PPI case fees and recognised in the month when our performance obligations are met, and the cases are resolved. The vast majority of these cases have now been resolved and we released the remaining revenue in 2020/21.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated so as to write off the cost less estimated residual value on a straight-line basis over the expected useful economic lives. The principal lives used for this purpose are:

Leasehold improvements and premises fees	Over the remaining period of the lease
Computer equipment	Over three years
Furniture and equipment	Over three to five years
Fixtures and fittings	Over the remaining period of the lease
Motor vehicles	Over four years
Right of use assets	Over the remaining period of the lease

The assets' residual values and useful lives are reviewed and adjusted if appropriate at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable value.

Subsequent expenditure is only capitalised when it increases the future economic benefits embodied in the specific assets to which it relates, and the cost

of the item can be measured reliably. The carrying amount of the replaced part is written off. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposals or retirements of an asset are determined as the difference between the sales proceeds and the carrying amount of the asset and are recognised in the income statement.

Right of use assets

IFRS 16 "Leases" deals with accounting for leases and requires companies to take account of future lease commitments by recognising the asset and the liability on their balance sheets.

IFRS 16 came into effect for accounting periods beginning on or after 1 January 2019 and replaced IAS 17 "Leases". The new standard includes criteria for identifying a lease. Paragraph 9 states that 'a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration'. Applying paragraph B9, to meet the definition of a lease the customer must have both the right to obtain substantially all the economic benefits from use of an identified asset throughout the period of use and the right to direct the use of the identified asset throughout the period of use.

The standard specifies how companies should recognise, measure, present and disclose their leases and provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

The Financial Ombudsman has applied the following practical expedients:

- At 1 April 2019 we applied the transition requirements to those leases that were previously identified as leases under IAS 17 and IFRIC 4 "Determining whether an arrangement contains a lease";
- We did not apply the requirement to recognise lease liabilities with a remaining lease term of less than 12 months as at 1 April 2019. The Financial Ombudsman continued to recognise the lease payments in respect of these leases as an operating expense; and
- Initial direct costs were excluded from the measurement of the right-of-use asset at the date of initial application.

We did not use the practical expedient of using an assessment of onerous leases as an alternative to performing an impairment review at the application date.

The majority of the leases relate to three buildings partly occupied by the Financial Ombudsman, Exchange Tower and Walbrook in London and Friargate in Coventry. The Walbrook leases came to an end on 30 November 2020 and 31 March 2021. The Friargate lease comprising of two floors ends in October 2027 with a break clause in October 2022. For Exchange Tower, with a lease for each floor, there are a number of end dates, the latest being in August 2029. Leases for Exchange Tower and Friargate also include rent review dates. See note 22 for more detail. The Financial Ombudsman also leases items of equipment and a van, all with terms of under five years.

In the 2020/21 accounts we have included an additional Exchange Tower lease as an investment in a sub-lease. The Financial Ombudsman has sub-let this floor until 23 February 2023. The head lease ends on 23 March 2023. In the 2019/20 accounts we accounted for this arrangement as rental expense and rental income both for £123,337. The net impact of the change in accounting treatment is not material. See note 11 for more detail.

There are a number of equipment leases which have been excluded as they are “low value” (defined as being less than \$5,000). Costs are not material and are included in ‘lease rentals – other’ disclosed in note 5.

The following table shows the various disclosures required under the standard with a cross-reference to the relevant note to the financial statements on [pages 84 to 87](#).

Disclosure	Note
The nature of our leasing activities	2a and 22
Potential exposure to future cash flows not reflected in the lease liabilities	3
Calculation of discounted cash flows	3
Leases not included in the right of use calculations	2a
Movement in right of use assets	10
Movement in lease liabilities	17
Maturity analysis of contracted undiscounted lease liabilities	17
Dilapidation provisions	19
Lease commitments	22

Intangible assets

In accordance with IAS 38 “Intangible assets”, costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design, developing and testing of identifiable and unique software products controlled by the Financial Ombudsman are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future benefits to the Financial Ombudsman;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Only costs that are directly attributable to bringing the asset to working condition for its intended use are included in the measurement of the intangible asset. These costs include all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in a manner intended by management.

Intangible assets are amortised on a straight-line basis over their expected useful lives, with the expense reported as an administration expense in the income statement. The expected useful lives for intangible assets are:

Computer software and licences	Over five years
Internally generated software	Over two to seven years

Subsequent expenditure is only capitalised when it increases the future economic benefits embodied in the specific asset to which it relates.

When software is not an integral part of the related hardware, it is treated as an intangible asset.

Other development expenditure that does not meet the above criteria is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Impairment of property, plant and equipment, right of use assets and intangible assets

During the financial year the Financial Ombudsman reviews the carrying value of its property, plant and equipment, right of use assets and intangible assets to determine whether there is any indication that those assets have suffered any impairment in value. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment.

The recoverable amount is the higher of the fair value less costs to sell and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment is immediately recognised as an expense.

When an impairment subsequently reverses, the carrying amount is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised for the asset in prior years. A reversal of an impairment is immediately recognised as income. Prior impairment losses are reviewed for possible reversal at each reporting date.

Financial instruments

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method where felt appropriate. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that an asset is impaired. The allowance recognised is measured as the difference between an asset's carrying value and the estimated future cash-flows deriving from the continued use of that asset, discounted if the effect is material.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised costs using the effective interest method, where felt appropriate.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits and other short-term liquid investments that are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

Leasing

From 1 April 2019, the Financial Ombudsman has applied the accounting standard, IFRS 16 "Leases". This standard requires companies to take account of future lease commitments by recognising the asset and the liability on their balance sheets. The majority of the Financial Ombudsman's leases are covered by this standard. However, there are some short term and low value leases that are being treated as operating leases and payments made will be charged to the income statement on a straight-line basis over the period of the lease.

Provisions

The company exercises judgement in measuring and recognising a number of provisions – for bad debts and credit notes (see note 18.2) and for dilapidations (see note 19). The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Employee benefits

The Financial Ombudsman is part of the Financial Conduct Authority (FCA) HMRC-approved pension plan which is open to permanent employees (the 'Plan'). The Plan was established on 1 April 1998 and has both a defined benefit (final salary) and defined contribution (money purchase) section. The final salary section was closed with effect from 1 April 2010 to future accruals.

Money purchase scheme (defined contribution)

The money purchase section of the Plan is a defined contribution plan where the Financial Ombudsman pays contributions at defined rates to a separate entity.

Payments to the money purchase section of the Plan are recognised as an expense in the income statement, as they fall due. Prepaid contributions are recognised as an asset to the extent that a cost refund or reduction in future payments is available.

Final salary section (defined benefit)

The final salary section of the Plan is a defined benefit plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement usually dependent on rate of accrual, age, years of service in the plan and compensation.

The net liabilities of the final salary section of the Plan are calculated by deducting the fair value of the assets from the present value of its obligations and they are disclosed as a non-current liability on the balance sheet.

The obligation of the final salary section of the Plan represents the present value of future benefits owed to employees in respect of their service in prior periods. The discount rate used to calculate the present value of those liabilities is the market rate at the balance sheet date of high-quality corporate bonds having maturity dates approximating to the terms of those liabilities. The calculation is performed by a qualified actuary using the projected unit credit method at each reporting date.

Actuarial gains and losses arising in the final salary section of the Plan (for example, the difference between actual and expected returns on assets, effects of changes in assumptions and experience losses arising on scheme liabilities) are recognised in full in the statement of other comprehensive income in the period they are incurred.

Past service cost (including unvested past service cost) is recognised immediately in the income statement.

Changes in accounting policy and disclosures

a) New standards, amendments and interpretations adopted by the company

No new standards, amendments or interpretations were adopted in the year.

b) New standards, amendments and interpretations not yet adopted

There are no IFRS or IFRIC interpretations that are not yet effective but would be expected to have a material impact on the Financial Ombudsman.

3. Significant accounting judgements, estimates and assumptions

Accounting judgements

In the process of applying the Financial Ombudsman's significant accounting policies as described in note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimates, which are explained below):

- **Revenue** – in accordance with IFRS 15 income can only be recognised once performance obligations have been satisfied. We have determined that only one performance obligation exists – being the resolution of a case.
- **Intangible assets** – under IAS 38, internal software development costs of £2,962k (2020: £263k) have been capitalised as additions during the period. Internally-generated software is designed to support the Financial Ombudsman carry out its statutory functions. These functions are particular to the Financial Ombudsman, so this internally-generated software has no market value. Management have made judgements over the service potential and expected benefits of the assets. These expected benefits relate to the fact that such software allows the Financial Ombudsman to carry out its functions more efficiently than before by using alternative approaches. It will also make it easier to develop and maintain the software.
- **Leases** – we adopted IFRS 16 during the previous accounting period. As outlined in the standard we are required to account for future lease commitments by recognising a right of use asset and the corresponding liability arising over the term of the lease.

The standard assumes that if a lease contains a break clause, the break will be exercised unless it is reasonably certain that the break clause will not be exercised. The Financial Ombudsman has seven leases that contain such clauses.

Management conducted an assessment of each lease considering the prevailing conditions i.e. future demand for our services, the roll out of smarter working, our goal of maximising utilisation of our office space, the anticipation of more home working and the financial implications of breaking each lease. This included the impact of a review of dilapidation liabilities carried out in 2020/21. Management will conduct a similar exercise to look at our position each year.

The majority of the property leases contain provisions for rent reviews. The lease liabilities at 31 March 2020 included the impact of all rent reviews which took place in that year and included annual increases up to the next rent review. For the majority of these leases the next rent review will be on 31 August 2024.

We carried out a sensitivity analysis at 31 March 2021 looking at the impact on cash outflows for the remaining leases in place at 1 September 2024 assuming rent increase of 5%, 10% and 15%.

Percentage	Current cash outflow £000	Rent increase £000	Revised cash outflow £000
5%	13,631	682	14,313
10%	13,631	1,363	14,994
15%	13,631	2,045	15,676

The Financial Ombudsman is using the Public Works Loan Board (PWLB) Standard rates to calculate the discounted cash flows on the remaining lease terms. The Service believes this is the most appropriate proxy for the incremental borrowing rate. Our funding is based

on statute (the Financial Services and Markets Act) and it is reasonable to assume that the Financial Ombudsman would be able to meet its loan repayments over the period of any loan. The Service carried out a sensitivity analysis at 31 March 2021 looking at other proxies for the incremental borrowing rate, as follows.

Proxy	Right of use assets £000	Lease liabilities £000	Net impact £000
PWLB	52,482	47,728	4,754
Public Expenditure System (PES)	55,437	50,257	5,180
Bank of England base rate	56,565	51,212	5,353

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date are discussed below:

- Defined benefit pension obligations** – the quantification of the pension deficit is determined on an actuarial basis based upon a number of assumptions made by the Directors (as listed in note 26) relating to the discount rate, inflation and retail price index (RPI), future pension increases and life expectancy. Any changes in these assumptions will impact the carrying amount of the pension obligation.
- Provision for bad debts** – under IFRS 9 we use the expected loss model which means we recognise potential bad debts at the point we recognise the receivable.
- Provision for credit notes** – the provision for standard credit notes is calculated with reference to the historical volume of invoices and credit notes and the supplementary provision is calculated based on the volumes of cases in particular categories where there is a likelihood of credits being requested and approved for those cases. The vast majority of cases that were charged a supplementary case fee have now been resolved and we have now released the remaining provision in 2020/21.

4. Revenue

	Notes	2021 £000	2020 £000
Annual levy		84,671	48,530
Standard case fees			
Gross fees		70,633	67,542
Movement in credit note provision		(49)	(147)
Movement in general casework stock		378	(404)
Supplementary case fees			
Gross (credits)/fees		-	-
Movement in credit note provision		-	106
Movement in deferred income		51	16
Group fees			
Gross fees		89,031	126,195
Transfer to deferred income		-	-
Release from deferred income		76	42
Other income		292	724
		245,083	242,604

5. Administrative expenses

5.1. Expenses by nature	Notes	2021 £000	2020 £000
Staff payroll costs	7	166,074	149,386
Contractor and temporary staff costs*		47,961	69,426
Other staff costs		3,114	3,054
Consultancy and other professional costs**		9,887	8,947
Lease rentals: premises		1,073	2,595
Lease rentals: other		122	94
Other premises and facilities costs		11,914	12,457
IT running costs		10,837	10,700
Depreciation and amortisation	9,10,12	12,053	13,095
Loss on disposal of fixed assets	10,12	78	181
Impairment of fixed assets		-	1,789
Bad debts		585	3,480
Other costs		676	1,127
		264,374	276,331

* Contractor and temporary staff costs are shown net of £308k costs capitalised as internally generated software costs (2020: £3k).

** Consultancy costs are shown net of £2,241k costs capitalised as internally generated software costs (2020: £36k).

5.2. Auditors' remuneration	Notes	2021 £000	2020 £000
External audit fee			
National Audit Office		98	74
Total		264,472	276,405

The charge for 2020/21 includes £22k in respect of the 2019/20 audit. The National Audit Office has not provided any other services to the Financial Ombudsman other than external audit.

6. Finance and income costs

	Notes	2021 £000	2020 £000
Finance income			
Bank interest		584	1,571
Interest from sub-lease		6	-
Total finance income		590	1,571
Finance costs			
Interest on lease liabilities		(769)	(849)
Interest on net defined benefit liability		(5)	(88)
Total finance cost		(774)	(937)
Net finance (costs)/income		(184)	634

7. Employees

7.1. Employee benefit expense	Notes	2021 £000	2020 £000
Wages and salaries		130,795	117,262
Social security costs		14,454	13,068
Apprenticeship levy		421	398
Other employer's pension costs – money purchase scheme	26	13,994	13,111
Flexible benefit costs		6,705	5,771
Staff costs capitalised as internally-generated software costs		(295)	(224)
		166,074	149,386
Other employer's pension costs – defined benefit scheme Included in interest payable	26	5	88
Total employment costs		166,079	149,474
7.2. Monthly average number of people employed	Notes	2021 no.	2020 no.
Ombudsmen		382	381
Case-handlers		1,525	1,395
Other		999	1,009
		2,906	2,785

8. Board remuneration

The Board consists entirely of Non-executive Directors.

Board remuneration payable to Directors during the year amounted to £219,662 (2020: £194,403).

The Chairman, who is also the highest paid Director, was paid at a rate of £75,000 per annum (2020: the former Chairman was paid at a rate of £74,970 per annum), the Senior Independent Director, the Audit Committee Chair and the Remuneration Committee Chair were paid at a rate of £29,500 per annum (2020: £29,500) and the other Directors were paid at a rate of £24,500 per annum (2020: £24,500). Further details are provided in the remuneration report on [page 74](#).

No payments were made on behalf of any of the above Directors in respect of pension plan contributions and no Directors are accruing any benefits within the pension plan.

9. Property, plant and equipment

	Leasehold improvements and premises fees £000	Computer equipment £000	Furniture and equipment £000	Total £000
Cost				
At 1 April 2020	3,325	10,769	9,462	23,556
Additions	-	168	735	903
Disposals	(66)	(9,633)	(5,594)	(15,293)
At 31 March 2021	3,259	1,304	4,603	9,166
Accumulated depreciation				
At 1 April 2020	1,642	9,978	8,682	20,302
Charge for the year	200	487	246	933
Disposals	(66)	(9,633)	(5,594)	(15,293)
At 31 March 2021	1,776	832	3,334	5,942
Net book value at 31 March 2021	1,483	472	1,269	3,224
At 31 March 2020	1,683	791	780	3,254

The fair value of property, plant and equipment does not materially differ from the carrying amount of property, plant and equipment disclosed above.

10. Right of use assets

	Property leases £000	Equipment leases £000	Van lease £000	Total £000
Cost				
At 1 April 2020	51,684	606	12	52,302
Additions	1,311	1,276	-	2,587
Movements and changes in lease terms	(210)	-	-	(210)
Disposals	(715)	(125)	-	(840)
At 31 March 2021	52,070	1,757	12	53,839
Accumulated depreciation				
At 1 April 2020	8,659	244	4	8,907
Charge for the year	8,268	340	2	8,610
Disposals	(687)	(125)	-	(812)
At 31 March 2021	16,240	459	6	16,705
Net book value at 31 March 2021	35,830	1,298	6	37,134
At 31 March 2020	43,025	362	8	43,395

The fair value of right of use assets does not materially differ from the carrying amount of right of use assets disclosed above.

11. Investment in sub-lease

	2021 £000	2020 £000
Initial recognition of investment	372	0
Less: rental income	(125)	0
Add: interest income	6	0
At 31 March 2021	253	0

The Financial Ombudsman holds a sub-lease for part of one floor of Exchange Tower with a lease expiry date of February 2023. The head lease ends on 23 March 2023. In 2019/20 we accounted for the rent on the head lease as 'lease rentals – premises' disclosed in note 5 and the income arising was accounted for as 'other income' and included in the figure disclosed in note 4. In 2020/21, we have accounted for the sub-lease under IFRS 16 by creating a new asset category "Investment in sub-lease".

12. Intangible assets

	Computer software and licences £000	Internally-generated software £000	Work in progress* £000	Total £000
Cost				
At 1 April 2020	4,003	25,686	-	29,689
Additions	-	-	2,962	2,962
Transfers	-	-	-	-
Impairments	-	-	-	-
Disposals	(3,757)	(9,764)	-	(13,521)
At 31 March 2021	246	15,922	2,962	19,130
Accumulated amortisation				
At 1 April 2020	3,764	12,074	-	15,838
Charge for the year	90	2,420	-	2,510
Disposals	(3,707)	(9,764)	-	(13,471)
At 31 March 2021	147	4,730	-	4,877
Net book value at 31 March 2021	99	11,192	2,962	14,253
At 31 March 2020	239	13,612	-	13,851

* Work in progress comprises direct staff costs and sub-contractor costs used to develop software for the Financial Ombudsman's use. When the asset is ready for use, the associated costs are transferred from work in progress to the appropriate asset category. Of the additions in the period of £2,962k, £2,881k relates to Workday Implementation and £81k relates to a Data Quality tool. More detail can be found in 'Our financial performance' on [page 45](#).

13. Trade and other receivables

	2021 £000	2020 £000
Trade and other receivables due within one year		
Trade receivables	4,690	9,462
Less: provision for bad debts	(1,024)	(1,081)
Less: provision for credit notes	(542)	(492)
Trade receivables – net	3,124	7,889
Prepayments	7,904	5,542
Other receivables	244	810
Accrued income	10,449	9,364
Trade and other receivables due within one year	21,721	23,605
Trade and other receivables due after more than one year		
Prepayments – after more than one year	673	266
Trade and other receivables due after more than one year	673	266

14. Short-term deposits

	2021 £000	2020 £000
Short-term Treasury deposits	67,000	46,000
Short-term deposits	67,000	46,000

As at 31 March 2021, the Financial Ombudsman held Treasury deposits with a maturity of greater than three months with five different institutions (31 March 2020: six) for periods between six and eight months maturing between 23 September 2021 and 26 November 2021.

15. Cash and cash equivalents

	2021 £000	2020 £000
Cash at bank and in hand	48,107	7,567
Short-term Treasury deposits (deposits with a maturity of less than three months)	78,000	132,000
Cash and cash equivalents	126,107	139,567

As at 31 March 2021, the Financial Ombudsman held Treasury deposits with a maturity of less than three months with six different institutions (31 March 2020: nine) for periods between one and three months maturing between 1 April 2021 and 11 June 2021.

16. Trade and other payables

	2021 £000	2020 £000
Trade and other payables due within one year		
Trade payables	2,023	5,437
Other taxes and social security	3,390	3,185
Deferred income		
Supplementary case fees	-	51
Group fees	-	76
Compulsory Jurisdiction levy billed in advance	54,477	27,819
Other creditors	581	1,230
Accruals	28,149	23,346
Trade and other payables due within one year	88,620	61,144
Trade and other payables due after more than one year		
Accruals	649	598
Trade and other payables due after more than one year	649	598

17. Lease liabilities

	2021	2020
	£000	£000
Lease liabilities due within one year		
Property	5,780	8,059
Equipment	562	270
Van	3	6
Lease liabilities due within one year	6,345	8,335
Lease liabilities due after more than one year		
Property	28,305	33,992
Equipment	701	248
Van	3	6
Lease liabilities due after more than one year	29,009	34,246

Movement in lease liabilities in the year

	Property	Equipment	Van	Total
	£000	£000	£000	£000
Total discounted liabilities at 1 April 2020	42,051	518	12	42,581
Discounted additions in the year	1,646	1,276	-	2,922
Rent reviews and changes in lease terms	(1,191)	-	-	(1,191)
Interest in the year	655	15	-	670
Disposals in the year	(28)	-	-	(28)
Repayments in the year	(9,049)	(545)	(6)	(9,600)
Total discounted liabilities at 31 March 2021	34,084	1,264	6	35,354

A maturity analysis of lease liabilities based on undiscounted gross cash flows is reported in the table below. Amounts exclude VAT.

Maturity analysis – contracted undiscounted cash flows

	Premises	Other	Premises	Other
	2021	2021	2020	2020
	£000	£000	£000	£000
Payments due:				
Not later than 1 year	7,727	570	8,601	238
Later than 1 year and not later than 5 years	21,892	721	21,439	155
Later than 5 years	9,818	-	14,756	-
Total contracted undiscounted cash flows at 31 March 2021	39,437	1,291	44,796	393

18. Financial instruments

Financial risk management

Financial risk management is carried out by the Financial Ombudsman's central finance department under policies approved by the Board to minimise potential adverse effects of risks on the Financial Ombudsman's financial performance. The Financial Ombudsman's investment policy provides written principles covering market, credit and liquidity risk.

a) Market risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks.

The Financial Ombudsman's financial instruments do not expose it to market risks. In line with the Financial Ombudsman's investment policy, investments are only made through sterling fixed term deposits, which are not subject to price or foreign exchange risk. Furthermore, the Financial Ombudsman's operations are carried out in sterling and there is no exposure to foreign exchange from currency exposures.

The Financial Ombudsman does not have borrowings and therefore is not exposed to cash flow and interest rate risk in respect of borrowings.

b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation.

The Financial Ombudsman is exposed to credit risk through its cash and short-term deposits with financial institutions and credit exposure to customers through outstanding receivables. The Financial Ombudsman monitors credit ratings daily to ensure the banks continue to meet our investment criteria. On an annual basis, the counterparty list is reviewed, revised and presented to the Financial Ombudsman's audit committee for approval. To further manage credit risk, the maximum total principal that can be invested in a single counterparty or multiple counterparties that are under common ownership is based on Standard & Poor's rating of the counterparty. The Financial Ombudsman monitors the collection of receivables from its customers, the ageing of debts and the industry sectors they operate in.

c) Liquidity risk

Liquidity risk is the risk that an entity will have difficulties in paying its financial liabilities.

The Financial Ombudsman monitors its cash balance on a daily basis. Cash flow forecasting is performed and monitored on a monthly basis to ensure the Financial Ombudsman has sufficient liquid cash to meet its operational needs. Surplus cash held above that needed for operating purposes is held on call or in short-term deposit accounts with financial institutions in line with the Financial Ombudsman's investment policy. Such cash is only invested in sterling investments with approved financial instruments. At the reporting date, the Financial Ombudsman held money market funds of £67,000k (2020: £46,000k) and other liquid assets of £126,107k (2020: £139,567k) that are expected to readily generate cash inflows for managing liquidity risk.

18.1 Financial instruments by category

As at 31 March 2021, trade and other receivables, short term deposits and cash and cash equivalent balances of £215,501k were classified as loans and receivables (2020: £209,438k).

As at 31 March 2021, trade and other payables of £124,623k were classified as loans and payables (2020: £104,323k).

Balances are recognised at their amortised costs and are held as level 1 financial instruments.

18.2 Credit quality of financial assets

Credit quality of financial assets

The fair value of the trade and other receivables, cash at bank and short-term deposits and borrowings is equivalent to the amortised cost balances presented in the financial statements.

The total of past due receivables are £3,075k (2020: £3,945k).

The Financial Ombudsman makes provision for impairment as follows:

(a) Provision for credit notes – this is calculated with reference to the past 12 months actual credit notes issued.

Movement in the Financial Ombudsman’s provision for credit notes is as follows:

Movement in the Financial Ombudsman’s provision for credit notes	2021 £000	2020 £000
At 1 April 2020	492	361
Change in provision for the year	50	131
At 31 March 2021	542	492

(b) Provision for bad debts – the ledger is reviewed for bad and doubtful debts using the expected loss model.

Movement in the Financial Ombudsman’s provision for bad debts is as follows:

Movement in the Financial Ombudsman’s provision for bad debts	2021 £000	2020 £000
At 1 April 2020	1,081	1,358
Change in provision for the year	(57)	(277)
At 31 March 2021	1,024	1,081

The carrying amount of the receivables is all denominated in pounds sterling.

The creation and release of provision for impaired receivables have been included in ‘administrative expenses’ in the income statement (note 5).

Amounts are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Financial Ombudsman does not hold any collateral as security.

19. Provision for liabilities

	2021 £000	2020 £000
Provision brought forward at 1 April 2020	5,299	3,963
Payments in the year	(199)	(408)
New provision in the year	978	1,678
Interest accrued during the year	111	66
Provision carried forward at 31 March 2021	6,189	5,299

This note refers to provision for dilapidations only. The provision for dilapidations at 31 March 2021 and 31 March 2020 reflects the recommendations made following property reviews undertaken by external consultants in 2021 and 2017 respectively. Provisions exist for all the properties we currently occupy as set out below.

Due within one year	2021 £000	2020 £000
Independent House*	1,030	1,030
South Quay Building*	27	157
Walbrook House	117	116
Exchange Tower	767	148
	1,941	1,451

* Discussions are continuing with the landlords for Independent House and South Quay Building, until they are concluded the review by the external consultants remains management's best estimate.

Due after one year	2021 £000	2020 £000
Exchange Tower	4,053	3,747
Friargate	195	101
	4,248	3,848

20. Financial commitments

As at 31 March 2021 there were no capital commitments contracted for but not provided (31 March 2020: £Nil).

21. Events after the reporting period

There are no other events after the reporting period that require disclosure. These financial statements were authorised for issue on the date certified by the Comptroller and Auditor General.

22. Operating lease commitments

The Financial Ombudsman leases its operating premises. The length of these leases varies from between 1 and 10 years. These leases are renewable at the end of the lease period at a market rate.

The Financial Ombudsman also has a sub-lease for a part floor in Exchange Tower. The Financial Ombudsman also leases various items of equipment, plant and machinery under operating agreements.

From 1 April 2019, the Financial Ombudsman adopted IFRS 16 "Leases" whereby right of use (ROU) assets have been created and the total discounted lease liabilities are included in the balance sheet. There are a small number of leases which are excluded from the ROU calculation and will continue to be accounted for as lease rentals.

The expenditure classified as lease rentals is charged to the income statement during the year and is disclosed in note 5.

The future commitments (excluding payments included in the ROU calculation) at 31 March 2021 were as follows:

	Premises 2021 £000	Other 2021 £000	Premises* 2020 £000	Other 2020 £000
Payments due				
Not later than 1 year	-	1	123	1
Later than 1 year and not later than 5 years	-	-	247	-
Later than 5 years	-	-	-	-
Total	-	1	370	1

These amounts are all stated exclusive of VAT.

* The 2019/20 premises disclosures are for the sub-lease commitments. In 2020/21, we have accounted for the sub-lease under IFRS 16 as a separate asset category "Investment in sub-lease".

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

Building	Floor	Start of current lease	End of lease	Future break clauses
Exchange Tower	Various	Various between March 2013 and April 2020	March 2023 (3 leases)	N/A
			September 2023 (1 lease)	N/A
			September 2024 (1 lease)	N/A
			April 2025 (1 lease)	April 2023
			March 2029 (1 lease)	March 2023 and March 2025
		August 2029** (13 leases)	September 2019 to August 2024* September 2024 to August 2029*	
Friargate	2	October 2017	October 2027	October 2022
	3	October 2017	October 2027	October 2022

* Four leases in the Exchange Tower premises include variable break clauses.

** We have exercised the lease breaks on levels ET1 10 and ET2 11 – our liabilities ceased on 21 May 2021.

23. Related party transactions

a) The Financial Conduct Authority is required under various statutes to ensure the Financial Ombudsman can carry out its functions. The Financial Conduct Authority has to ensure that the terms of appointment of the Directors secure their operational independence from the Financial Conduct Authority. Accordingly, the Financial Ombudsman is not controlled by the Financial Conduct Authority but considers it to be a related party.

b) The Financial Ombudsman entered into an agency agreement with the Financial Conduct Authority whereby, with effect from 1 April 2004, the Financial Conduct Authority collected tariff data, issued levy invoices and collected levy monies on behalf of the Financial Ombudsman, at a cost of £168k for the period ended 31 March 2021 (2020: £139k).

c) At 31 March 2021 the net balance due to the Financial Conduct Authority is £54,477k which includes payments received for the 2021/22 levy (31 March 2020: £9,689k). This balance has been included in “trade and other payables” (see Note 16).

d) The Financial Conduct Authority bill the Financial Ombudsman administration charges in respect of the pension scheme. The charge for the period ended 31 March 2021 was £406k (2020: £278k).

e) The Financial Conduct Authority bill the Financial Ombudsman administration charges in respect of the Alternative Dispute Resolution (ADR) Competent Authority. The charge for the year ended 31 March 2021 was £Nil (2020: £8k).

f) The Financial Conduct Authority is a party to the lease agreements for Exchange Tower as guarantor of performance from 1 September 2014 for a lease term of 15 years.

Other than disclosed above, there were no related party transactions during the year (31 March 2020: nil).

24. Accumulated surplus

	2021 £000	2020 £000
Accumulated surplus before net pension liability	139,497	160,159
Net pension liability	(5,283)	(731)
Accumulated surplus after net pension liability	134,214	159,428

25. Losses and special payments

	2021 £000	2020 £000
Losses	643	5,544
Special payments	1,020	968
Total	1,663	6,512

Included in “Losses” is one firm where the balance written off in the year was over £300k (31 March 2020: three firms and impairment of the portal).

31 March 2021	Loss	31 March 2020	Loss
Elevate Credit International	£452k	Casheuronet UK LLC	£2,208k
		MEM Consumer Finance Ltd	£523k
		Instant Cash Loans Ltd	£497k
		Portal impairment	£1,789k

More detail can be found in ‘Our financial performance’ on [page 45](#).

26. Pension costs

Introduction

The Financial Ombudsman is part of the Financial Conduct Authority's (FCA) HM Revenue & Customs-approved pension plan open to permanent employees. The pension plan was established on 1 April 1998 and has both a defined benefit (final salary) and defined contribution (money purchase) section. The plan is administered by a separate board of trustees which is legally separate from the company. The trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets plus the day to day administration of the benefits.

Since 1 April 2000, all employees joining the Financial Ombudsman have been eligible only for the defined contribution section of the plan. On 1 April 2010 the defined benefit section of the plan closed and those members who were previously earning final salary benefits had the option to earn future benefits under the defined contribution section. Members with a defined benefit pension are entitled to annual pensions on retirement at age 60, the majority of which increases with RPI inflation, subject to a cap of 5% per annum. Benefits are also payable on death and following other events. No other post-retirement benefits are provided to these employees.

The following table provides an analysis of the defined benefit obligation:

Analysis of defined benefit obligation by membership category	2021 £000	2020 £000
Deferred members benefits	32,747	27,863
Pensioner members benefits	9,782	7,951
Total defined benefit obligation	42,529	35,814

The plan duration is an indicator of the weighted-average time until benefit payments are made. For the plan as a whole, the duration is around 21 years reflecting the approximate split of the defined benefit obligation between deferred members (duration of 23 years) and current pensioners (duration of 13 years).

Funding requirements

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the plan was carried out by a qualified actuary as at 31 March 2019.

Profile of the plan

Defined contribution scheme

The Financial Ombudsman's core contributions (ranging from 8% - 12% of the employee's pensionable salary) to the defined contribution section depend on the employee's age. The defined contribution section is part of a flexible benefits programme and members can, within limits, select the amount of their overall benefits allowance that is directed to the pension plan. The Financial Ombudsman will pay matching contributions up to a maximum of 3% of the employee's pensionable salary.

Defined benefit scheme

Independent actuarial advice has been obtained in order to calculate the share of the assets and liabilities of the FCA plan relating to those present and past employees of the Financial Ombudsman.

The defined benefit obligation includes benefits for deferred members of the plan and current pensioners. At 31 December 2020 there are 86 (31 December 2019: 89) deferred members and 44 (31 December 2019: 41) pensioners.

To correct the funding deficit, the Financial Ombudsman is paying deficit contributions of £1,035k per annum until 1 April 2021 and £1,600k per annum thereafter. Along with investment returns from return-seeking assets, this contribution is expected to make good this shortfall by 31 March 2027. The next funding valuation is due no later than 31 March 2022, at which progress towards full-funding will be reviewed.

A contribution of £1,600k is expected to be paid by the Financial Ombudsman during the year ending 31 March 2022.

Risks associated with the plan

The plan exposes the Financial Ombudsman to a number of risks, the most significant of which are set out below:

Asset volatility	<p>The defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields. If assets underperform this yield, this will create a deficit.</p> <p>The Plan holds a significant proportion of growth assets (equities, diversified growth fund and global absolute return fund) which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the Plan's long-term objectives.</p>
Changes in bond yields	<p>A decrease in corporate bond yields will increase the value placed on the plan's defined benefit obligation for accounting purposes, although this will be partially offset by an increase in the value of the plan's bond holdings.</p>
Inflation risk	<p>The majority of the plan's defined benefit obligation is linked to inflation, and higher inflation will lead to higher defined benefit obligations (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). Some of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.</p>
Life expectancy	<p>The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the defined benefit obligation.</p>

Risk management

The Financial Ombudsman and the plan's trustees have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes a significant proportion of growth assets (equities and property) which, though expected to out-perform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the plan's long-term objectives.

GMP equalisation

In past years, the Financial Ombudsman has made reference to a contingent liability in relation to the equalisation of Guaranteed Minimum Payment (GMP). GMP is the minimum pension which a United Kingdom occupational pension scheme has to provide for those who were contracted out of the State Earnings Related Pensions Scheme (SERPS). SERPS was a UK Government pension arrangement, to which employees and employers contributed between 6 April 1978 and 5 April 2002, when it was replaced by the State Second Pension.

Where pension schemes have members with a GMP, the GMP accrual rate for females is generally higher than for males which has caused unequal benefits between males and females.

2018 court case

Guaranteed Minimum Pension (“GMP”) is a portion of pension that was accrued by individuals who were contracted out of the State Second Pension prior to 6 April 1997. Historically, there was an inequality of benefits between male and female members who have GMP. A High Court case concluded on 26 October 2018 which confirmed that GMPs need to be equalised.

An estimate of the additional liabilities in respect of GMP Equalisation was allowed for in the 31 March 2019 balance sheet defined benefit obligation and was recognised in full as a past service cost.

There are no updates to this estimate and the defined benefit obligation at 31 March 2021 continues to make allowance for these liabilities, consistent with last year.

2020 court case

A further court case was heard in 2020 concerning whether historic statutory transfer values paid out of the plan before 2018 need to be equalised. The court ruling, made on 20 November 2020 confirmed that all transfers with GMPs built up between 17 May 1990 and 5 April 1997 need to be equalised.

The 2018 ruling covered the current members in the plan at that time. The 2020 ruling concerns a different population of former members that have transferred out, meaning the 2020 equalisation is a further additional liability to be recognised.

The additional liabilities brought about by this second ruling have been estimated as around £2k. The approach taken when calculating this cost is extremely prudent and we would expect the real cost to be lower than £2k. This additional liability is considered not material and therefore excluded from the calculations.

Reporting at 31 March 2021

The calculations are based on an approximate valuation of the benefits payable in respect of the Financial Ombudsman’s members of the final salary section of the plan at 31 March 2021, based on data and financial conditions at 31 December 2020. These benefits include retirement pensions and non-lump sum benefits on members’ death. The present value of the defined benefit obligation was measured using the projected unit credit method.

The principal assumptions agreed by the Board and used by the independent qualified actuaries to calculate the liabilities under IAS 19 are set out below:

Main financial assumptions	31/03/2021 % pa	31/03/2020 % pa	31/03/2019 % pa
Discount rate for plan liabilities	2.1	2.3	2.5
Retail price index (RPI) inflation	3.3	2.6	3.2
Consumer price index (CPI) inflation	2.6	1.8	2.1
Excess pension increases	3.2	2.5	3.1
Post 88 GMP pension increases	2.1	1.6	1.8

The financial assumptions reflect the nature and term of the plan’s liabilities.

The main demographic assumptions are set out below:

Main demographic assumptions		31/03/2021 Years	31/03/2020 Years	31/03/2019 Years
Life expectancy for member aged 60 at the balance sheet date	Males	28.6	28.6	27.8
	Females	30.4	29.8	29.0
Life expectancy at age 60 for member aged 40 at the balance sheet date	Males	30.0	30.0	29.2
	Females	31.7	31.3	30.5

Main demographic assumptions	31/03/2021	31/03/2020	31/03/2019
Mortality base table adopted	SAPS S3 light tables for normal health retirees with a scaling factor 100%	SAPS S1 light tables for normal health retirees with a scaling factor 100%	SAPS S1 light tables for normal health retirees with a scaling factor 100%
Mortality future improvements adopted	Future improvements assumed to be in line with the CMI 2019 projections model with an addition to improvements of 0.5% p.a. and a long-term rate of improvement of 1.25%	Future improvements assumed to be on line with CMI 2018 projections model and a long-term rate of improvement of 1.25%	Future improvements assumed to be on line with CMI 2017 projections model and a long-term rate of improvement of 1.25%
Cash commutation	Members assumed to exchange 17.5% of their pension for a cash lump sum at retirement	Members assumed to exchange 20% of their pension for a cash lump sum at retirement	Members assumed to exchange 20% of their pension for a cash lump sum at retirement

The plan assets are invested in the following asset classes. All assets have a quoted market value in an active market except the annuity policies.

Asset allocation	Value at 31/03/2021 £000	Value at 31/03/2020 £000
Equity	4,686	3,266
Property	2,042	2,780
Corporate bonds	-	6,168
Liability-driven investment funds (LDI)	22,065	16,243
Diversified funds*	4,707	3,921
Bought-in annuity policies*	1,893	1,726
Other	1,853	979
Total market value of assets	37,246	35,083

* The plan has invested in individual annuity policies in respect of certain pensioner members in the plan. These annuity policies are held in trustees' name and are an investment asset of the plan. These assets have been valued using assumptions consistent with those used to value liabilities.

There are no deferred tax implications of the above deficit as corporation tax is only payable by the Financial Ombudsman on activities not directly related to its statutory activities.

The plan assets do not include any of the Financial Ombudsman's own financial instruments, nor any property occupied by, or other assets used by the Financial Ombudsman.

The amounts recognised in the statement of financial position are set out below:

Reconciliation of funded status to statement of financial position	Value at 31/03/2021 £000	Value at 31/03/2020 £000	Value at 31/03/2019 £000
Fair value of plan assets	37,246	35,083	33,240
Present value of defined benefit funded obligation	(42,529)	(35,814)	(37,274)
Net pension liability recognised on the statement of financial position	(5,283)	(731)	(4,034)

The amounts recognised in comprehensive income are set out below:

Breakdown of amounts recognised in the statement of comprehensive income and the statement of other comprehensive income	Year ending 31/03/2021 £000	Year ending 31/03/2020 £000
Operating cost		
Service cost	-	-
Past service cost (including curtailments)	-	-
Financing cost		
Interest on net defined benefit liability	5	88
Pension expense recognised in the statement of comprehensive income	5	88
Re-measurements in other comprehensive income		
Returns on plan assets (in excess of) that recognised in net interest	(907)	(549)
Actuarial losses/(gains) due to changes in financial assumptions	6,900	(2,933)
Actuarial losses due to changes in demographic assumptions	243	1,338
Actuarial (gains) due to liability experience	(654)	(212)
Total amount recognised in the statement of other comprehensive income	5,582	(2,356)
Total amount recognised in the statement of comprehensive income and other comprehensive income	5,587	(2,268)

Changes in the present value of the defined benefit obligation during the year are set out below:

	Year ending 31/03/2021 £000	Year ending 31/03/2020 £000
Opening defined benefit obligation	35,814	37,274
Interest cost on defined benefit obligation	817	925
Actuarial losses on plan liabilities arising from changes in demographic assumptions	244	1,338
Actuarial losses/(gains) on plan liabilities arising from changes in financial assumptions	6,900	(2,933)
Actuarial (gains) on plan liabilities arising from experience	(654)	(212)
Net benefits paid out	(592)	(578)
Closing defined benefit obligation	42,529	35,814

Changes to the fair value of plan assets during the year are set out below:

	Year ending 31/03/2021 £000	Year ending 31/03/2020 £000
Opening fair value of plan assets	35,083	33,240
Interest income on plan assets	812	837
Re-measurement gains on plan assets	908	549
Contributions by the employer	1,035	1,035
Net benefits paid out	(592)	(578)
Closing fair value of plan assets	37,246	35,083

Actual return on plan assets is set out below:

	Year ending 31/03/2021 £000	Year ending 31/03/2020 £000
Interest income on plan assets	812	837
Re-measurement gains on plan assets	908	549
Actual return on plan assets	1,720	1,386

Analysis of amounts recognised in statement of other comprehensive income:

	Year ending 31/03/2021 £000	Year ending 31/03/2020 £000
Total re-measurement (losses)/gains	(5,582)	2,356
Total (losses)/gains	(5,582)	2,356

Sensitivity to key assumptions

The key assumptions used for IAS 19 are discount rate, inflation and mortality. If different assumptions were used, this could have a material effect on the results disclosed. The increase to the net pension liability as a result of changes to the assumptions used is set out below:

	Current value £000	Change in asset £000	Change in defined benefit obligation £000	New value £000
Following a 0.1% decrease in the discount rate	(5,283)	27	(897)	(6,153)
Following a 0.1% increase in the inflation assumption	(5,283)	26	(880)	(6,137)
Following a 1-year increase in life expectancy	(5,283)	86	(1,525)	(6,722)

The change in asset values shown above are as a result of the changes to the assumptions also leading to a different valuation of the annuity policies held in the plan.

Money purchase section (defined contribution scheme)

The total expense recognised in the income statement £13,994k (2020: £13,111k) represents contributions payable to the plan by the Financial Ombudsman at rates specified in the rules of the defined contribution scheme.

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