

Approved budget and consultation feedback 2013/2014

20 March 2013

Overview

Each year in January and February the Financial Ombudsman Service consults its stakeholders on its plans and budget for the coming financial year.

The consultation paper we published in January 2013 explained our proposed plans for the 2013/2014 financial year - against the background of what had happened in the first nine months of the financial year 2012/2013.

We invited comments from stakeholders on these plans. We have also had discussions with key trade associations, financial services practitioners and consumer groups.

Our approved budget for 2013/2014

Taking into account the feedback we have received from those who responded to our consultation paper, we have set - with the approval of the Financial Services Authority (FSA) - an operational income budget for 2013/2014 of £283.6 million.

This budget will be funded by a combination of levies and case fees. As we originally proposed, the overall levy for the "compulsory jurisdiction" has been set at £23 million. The levies for the "consumer credit jurisdiction" and the "voluntary jurisdiction" have been set at a combined £1.8 million. The FSA will be consulting separately on the allocation of the levy for the "compulsory jurisdiction".

As proposed, the standard case fee will rise from £500 to £550. The PPI supplementary case fee will remain at £350 for 2013/2014. But we will consider afresh the need for this fee - and its level - when we come to consider our PPI funding needs for 2014/2015 and beyond. The number of "free" cases - where neither the standard case fee nor the PPI supplementary case fee are payable - will rise from three to 25 across the board.

For the four largest banking groups, we will - as proposed - introduce a group account fee, which will help us avoid the need to increase our reserves.

Our approved budget for 2013/2014

Income	<i>£ million</i>
General levy	23.0
Other levy	1.8
Group fees	177.1
Case fees	62.8
Supplementary case fees	21.1
Other income	0.1
Total operating income	285.9
Deferred income	(60.6)
Deferred income release	58.3
Total	283.6

Expenditure	
Staff and staff-related costs	200.5
Professional fees	14.4
It costs	12.8
Premises and facilities	28.9
Other costs	5.2
Depreciation	4.0
Bad debt write-off	1.1
Total operating costs	266.9
Financing costs	0
Surplus/deficit	16.7

Estimated number of new cases	385,000
Estimated number of resolved cases	385,000
Unit cost (£)	690

We have continued to plan on the basis that we will receive around 250,000 PPI cases and 135,000 other cases during 2013/2014. However, there is considerable uncertainty about the number of PPI cases in particular.

Numbers could be affected not only by the way in which businesses themselves deal with complaints - but also by regulatory action, including any steps that may be taken to introduce a "time-bar" for PPI complaints.

Summary of responses to our consultation paper

We summarise below the feedback we received from stakeholders on each of the themes we set out in our consultation paper. We also explain below how we have decided to proceed in the light of this feedback.

Our plans for developing our service

We asked our stakeholders for their views on our plans for developing our service - and what stakeholders believe our priorities should be in the coming year. Stakeholders generally supported our plans. They suggested four areas of particular priority.

The first area of priority was e-enablement - where stakeholders strongly supported further work to enable more cases to be handled primarily online. We are making good progress with many larger businesses, to enable the more efficient transfer of information between us. But more needs to be done to secure the benefits of speed and efficiency that wider e-enablement should provide.

The second area of priority was the timeliness of our case-handling, where stakeholders urged us to make progress in reducing the time taken to deal with cases. Our plan for this year makes further investments to tackle timeliness. However, this will remain a major challenge in our PPI workload.

The third area of priority was the quality of our decision-making, where stakeholders supported our emphasis on better knowledge-sharing. Concerns were also raised by some stakeholders about the quality and consistency of our decisions.

The substantial growth in workload we have experienced over the past two years has inevitably meant that we have needed to recruit large numbers of new staff - particularly in PPI, but also in other casework areas that are seeing significant growth. We are investing heavily in staff training, including further steps on our accredited training programme for adjudicators.

The fourth area of priority was the publication of ombudsman decisions, where stakeholders looked forward to hearing our plans on how this would be done in practice. We have published a separate update on this.

Volumes of new cases

We asked our stakeholders what volumes of new cases they expected to be referred to us in 2013/2014 - and whether the assumptions we had made for case volumes seemed reasonable.

Stakeholders generally agreed with our assumptions. However, some people who responded suggested that we should plan for higher case volumes in certain areas - while some businesses emphasised their own efforts to reduce complaint numbers.

A number of larger businesses also shared their own caseload assumptions with us. We are grateful for this, as it helps us in our own workload planning.

On the basis of this feedback, we have continued to use the caseload assumptions we originally made. But we will keep the assumptions under review as the year progresses.

Volumes of PPI cases

We asked our stakeholders for their views on the number of complaints about mis-sold PPI that we would be likely to receive in 2013/2014 - and whether our plans for dealing with this level of cases were realistic.

Stakeholders generally said that our plans for dealing with our PPI caseload were realistic. A majority of them thought our assumptions on the number of cases we would receive were reasonable.

However, many stakeholders also pointed to the significant uncertainties involved in PPI - for example, uncertainties about the level and nature of the activities of claims-management companies and about whether a "time bar" might be introduced for these complaints.

On the basis of this feedback, we have continued to use the assumptions we originally made about the number of PPI cases we are likely to receive. But we agree that there is considerable uncertainty about these forecasts - and our plans take account of this.

Funding proposals

We also asked stakeholders about our proposals to:

- increase the levy to £23m and the standard case fee to £550;
- retain the PPI supplementary case fee at £350;
- increase the number of "free" cases to 25 for each business; *and*
- introduce a group account fee.

Most stakeholders agreed that the levy had to be increased - as it had been frozen for four years and needed to stay in closer balance with the amount of our funding we receive from case fees. For similar reasons, most stakeholders accepted our proposal to increase the standard case fee.

There was almost total support from stakeholders for our proposal to increase the number of "free" cases. However, a small number asked that, in the case of networks of agents, the "free" case threshold should be applied at the level of the agent rather than at the level of the authorised network.

Stakeholders accepted our proposals to introduce a group account fee for the four largest banking groups. Some were concerned that these new arrangements should ensure that businesses would continue to pay their fair share of our costs - whether they were paying the group account fee or not. Those who would pay the fee were also keen that our dialogue with them should continue, in order to ensure that the arrangements worked effectively in practice.

Most stakeholders reluctantly accepted the need for the PPI supplementary case fee to continue. While they recognised that we were facing extraordinary challenges on PPI - which had to be dealt with - they hoped that in future years we would be able to make proposals to reduce or remove the fee.

In the light of this feedback, we have set the levy for the "compulsory jurisdiction" at £23.0m; increased the standard case fee to £550; retained the PPI supplementary case fee at £350; increased the number of "free" cases to 25 for each business; and introduced the group account fee.

We will continue our dialogue with the larger business groups on the detailed operation and calculation of the group account fee. In the light of experience, we may consider making proposals in future years to broaden the scope of the fee - or to refine the way it is calculated.

We accept that keeping the PPI supplementary case fee at its current level for a further year is likely to disappoint some stakeholders. But we are committed - as we were last year - to considering afresh the need for the fee, and its level, when we come to consider our funding needs for 2014/2015 and beyond. In the event that our PPI caseload stabilises - which we hope it will - we expect to be able to make proposals to reduce the fee, and eventually to remove it.

We consulted widely during the year on the overall structure of our fees. The introduction of the group account fee, the modest increases in case fees and levies after four years of frozen charges, and the increase in "free" cases to 25 provide a framework within which charges are allocated fairly across the sectors - and the burden on smaller businesses is limited. The framework also allows us to deal with the uncertainty introduced by the volume of PPI cases - without raising additional reserves from all businesses.

List of organisations that responded

The following organisations responded to our consultation paper. A further six organisations, who are not listed, also provided responses but requested that these be kept confidential.

- Association of British Insurers
- Association of Mortgage Intermediaries
- Association of Private Client Investment Managers and Stockbrokers
- Association of Professional Financial Advisers
- Barclays Group
- British Bankers' Association
- Building Societies Association
- Consumer Council of Northern Ireland
- Co-operative Banking Group
- Council of Mortgage Lenders
- Direct Line Group
- Finance and Leasing Association
- Financial Services Consumer Panel
- Friends Life
- Legal Ombudsman
- Lloyds Banking Group
- Lloyds Market Association
- National Franchised Dealers Association
- Paul Raymond
- Royal & Sun Alliance
- Society of Lloyds
- St James's Place
- UK Cards Association
- Vanquis Bank
- Yorkshire Building Society