

Our plans for the year ahead 2004/2005

March 2004

1. In January 2004 we published for consultation our **plan & budget** for the financial year 2004/05. As a result of comments and suggestions we received during the consultation period, we subsequently made some amendments to our budget assumptions. The revised budget was then formally approved by the board of the Financial Services Authority (FSA) at a meeting in March 2004.
2. This feedback statement summarises the final budget and describes the amendments made in the light of the consultation.
3. **Forecast for 2003/04**
We expect 2,000 fewer new cases than originally anticipated - which means we are now planning to receive 96,000 new cases, rather than 98,000. However, we still anticipate receiving 50,000 mortgage endowment cases during the year. We expect to resolve and close a total of 76,000 cases rather than 80,000. This reflects the fact that it has taken us longer than envisaged to recruit the staff we need to help us deal with this level of caseload. However, our productivity and timeliness targets will remain unchanged.
4. **Budget for 2004/05**
Firms that commented on our *plan & budget* during the consultation period thought our assumption that the number of mortgage endowment complaints would decrease in 2004/05 was too optimistic. In the light of this feedback, we have increased the expected number of new mortgage endowment cases by 15,000 to 50,000 (a similar figure to 2003/04) - and at the same time we have increased the number of anticipated complaints about other financial products by 5,000.
5. **This means that the total number of complaints we now expect to deal with in 2004/05 rises to 103,000 - an increase of 20,000 on the figure originally anticipated.** In order to be able to meet our timeliness targets and keep the level of our work-in-progress at an acceptable level, we will:
 - o increase our staffing levels from 763 to 860 by the autumn of 2004; *and*
 - o resolve and close an additional 15,000 cases during the year 2004/05.
6. The additional expenditure that this will involve will be met by the collection of more case fees from the larger than expected number of new complaints. This means that our tariff and case-fee rates can remain unchanged. **These measures will also result in**

our unit cost - the benchmark against which we judge our cost-effectiveness in handling complaints - reducing to £474, largely as a result of our fixed costs being spread over the greater number of complaints.

7. We are committed to keeping our service levels to consumers and firms at an acceptable level - while continuing to manage large and unpredictable flows of new complaints. The recruitment of 76 additional adjudicators should help us to meet our timeliness and productivity targets.
8. The main issues arising from the consultation on our *plan & budget* include:
 - o the general industry view that the number of mortgage endowment complaints in 2004/05 would remain at a similar level to that in 2003/04;
 - o overall satisfaction with the level of our unit cost and with the proportion of our income to be raised from case fees and from the annual levy;
 - o wide support for the proposal to charge *only* for the third and any subsequent cases referred each year to the ombudsman (although a minority were concerned that this could involve an element of cross-subsidisation from large to small firms); *and*
 - o agreement on the proposal for the Financial Ombudsman Service to hold reserves of approximately 5% of its annual expenditure.
9. The proposals to keep the standard case fee at £360 - and to reduce the special case fee to £550 - were approved. The proposed amendments to FSA's DISP 4 rules relating to the collection of the annual levy were also agreed.

Revised financial workload projects summary

	Actual 2002/03	Forecast 2003/04	Original 2004/05	Revised Budget 2004/05	2005/06 revised plan
Opening work-in-progress	19,793	25,504	43,504	45,504	45,504
New cases	62,170	96,000	83,000	103,000	94,000
Cases resolved	56,459	76,000	88,000	103,000	106,000
Closing work-in-progress	25,504	45,504	38,504	45,504	33,504
Work on hand (weeks)	21	24	23	22	16
Productivity*	4.9	4.8	4.4	4.5	4.6
Cases resolved within 3 months	44%	48%	45%	45%	45%

Cases resolved within 6 months	76%	80%	80%	80%	80%
Cases resolved within 9 months	90%	95%	90%	90%	90%
Cases resolved in under 12 months	95%	96%	99%	99%	99%
Cases resolved in over 12 months	Cases not resolved in 12 months are reported to the board				

*average number of cases closed each week by each adjudicator

New complaints by type

	Actual 2002/03	Forecast 2003/04	Original 2004/05	Revised Budget 2004/05	Revised Plan 2005/06
Dual variable-rate mortgages	6,535	150	0	0	0
Endowment policies linked to mortgages	13,570	50,000	35,000	50,000	35,000
Personal pensions	7,233	5,000	5,000	5,500	6,000
Other endowments	5,009	4,000	4,000	4,500	5,000
Mortgage loans	2,903	3,000	3,000	3,000	3,000
Motor insurance	2,372	2,750	3,000	3,500	4,000
Single premium investment bonds	2,631	6,000	4,000	4,000	4,000
Split-capital investment trusts	2,233	2,250	2,000	2,000	2,000
Current accounts	1,602	1,700	1,800	1,800	1,800
Contents/buildings insurance	2,294	2,750	3,000	3,500	4,000
Travel insurance	1,088	1,400	1,400	1,400	1,400
"new" type of complaint	0	0	4,000	5,000	5,000
Complaints involving mortgages and general insurance intermediaries	0	0	0	0	5,000
Other	14,700	17,000	16,800	18,800	17,800
Total	62,170	96,000	83,000	103,000	94,000

Expenses

	Actual 2002/03	Forecast 2003/04	Original Budget 2004/05	Revised Budget 2004/05
Income	35.6	40.7	43.0	47.4
Staff and staff- related costs	20.5	27.1	34.9	37.5
Professional fees	0.5	0.4	0.4	0.4
It costs	1.0	1.7	1.5	1.7
Premises and facilities	4.2	4.5	5.1	5.2
Other costs	3.1	0.4	0.4	0.6
Depreciation	2.5	3.0	2.3	3.1
Operating costs	31.8	37.1	44.6	48.5
Financing costs	0.5	0.3	0.3	0.3
Total costs	32.3	37.4	44.9	48.8
Cases resolved	56,459	76,000	88,000	103,000
Surplus/(deficit)	3.3	3.3	(1.9)	(1.4)
Unit cost*	518	488	507	474

*unit calculated before financing charges

Headcount ('full-time equivalent')

	Actual 2003/04	Forecast 2003/04	Original Budget 2004/05	Revised Budget 2004/05
Casework divisions	408	586	580	669
Customer contact division (front-line enquiries)	93	96	96	101
External liaison/publications	18	17	18	21
Knowledge management	12	12	12	12
Support services	53	56	57	57
Total	584	767	763	860