Directors' Report and Financial Statements

Financial Ombudsman Service

Report and financial statements

Financial Ombudsman Service Limited
(a company limited by guarantee)

Company registration no. 03725015

Directors
Sir Christopher Kelly KCB - *chairman*
Alan Cook CBE
Joe Garner (to 18 February 2010)
John Howard
Elaine Kempson CBE
Kate Lampard
Julian Lee
Roger Sanders OBE
Maeve Sherlock OBE

Company secretary
Barbara Cheney

Chief executive and chief ombudsman
Natalie Ceeney CBE (from 22 March 2010)
David Thomas (Interim) (1 November 2009 to 21 March 2010)
Walter Merricks CBE (to 31 October 2009)

Registered office
South Quay Plaza 2
183 Marsh Wall
London
E14 9SR

Bankers
Lloyds TSB Bank plc
1st Floor
25 Gresham Street
London
EC2V 7HN

Auditors
Baker Tilly UK Audit LLP
Chartered Accountants and Registered Auditor
St Philips Point
Temple Row
Birmingham
B2 5AF

Directors' report

The directors of the Financial Ombudsman Service Limited present their report for the year ended 31 March 2010 together with audited financial statements of the company for the same period.

Principal activities

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

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

Financial results

The company derives its income from businesses covered by the Financial Ombudsman Service, partly from an annual levy and partly from case fees that are charged to each business for the fourth (and any subsequent) dispute involving them that are settled and closed during the year. The amount of the annual levy paid by each business depends on its size and industry sector. Consumers do not pay to bring a complaint to the Financial Ombudsman Service and the company receives no Government funding.

The company presents its results for the year to 31 March 2010. During the year, the company had a surplus on ordinary activities after tax of £8,503,855 (2009: surplus of £8,233,189).

The surplus, derived from higher than expected case fee income in the year, was partly due to a change in the mix of cases which resulted in fewer "free cases" than anticipated. There was also additional income from the closure of about 15,000 cases concerning unauthorised overdraft charges which had been on hold. In addition, there was a one-off credit of £1.8m relating to the closure of the defined benefit pension scheme to further accrual. This all resulted in the level of the reserves increasing to £14.0m, in excess of the company's normal reserves policy. However, due to the uncertainties about the volumes of casework in 2010/11, especially in relation to payment protection insurance complaints, it will be necessary to retain a higher than normal level of reserves to ensure that the Service is able to fund itself adequately during this period.

Fair review of the business of the company

2009/10
A record 163,012 complaints were received in 2009/10 which represented a 28% increase on the 127,471 complaints received in 2008/09. There were significant increases in complaints about

- payment protection insurance – 49,196, up by 58%
- current accounts – 25,252, up by 85%
- consumer credit – 6,329, up by 110%
- unsecured loans – 6,285, up by 48%

A total of 166,321 complaints were resolved in 2009/10 which was a 46% increase on the 113,949 cases closed in 2008/09. It was also the highest number of complaints resolved since the company was incorporated. Our approach is to resolve complaints informally if at all possible and a large majority are settled in this way. However, 10,730 complaints required a formal ombudsman decision. About half of all complaints resolved were upheld, compared with 57% in 2008/09. This includes about 15,000 current account complaints which had been on hold pending the Supreme Court's ruling on unauthorised overdraft charges.

The time taken to deal with complaints showed some improvement in comparison to 2008/09; 38% were closed within three months (30%: 2008/09), 67% in six months (56%: 2008/09) and 81% within nine months (77%: 2008/09). The recruitment of 300 additional adjudicators during the year as well as more contract and outsourced staff made these improvements possible. Speedier resolution remains a key priority and we aim to improve timeliness further in 2010/11.

We continue to look for better ways of identifying, filtering and 'fast-tracking' the types of complaints where early informal settlement is more feasible. Innovative ways of communicating outcomes have been tried with encouraging results.

The unit cost was £555 compared with the budget of £559 and £508 in 2008/09. This measure is calculated by dividing the total costs before financing charges and any bad debts by the total number of closed cases.

Future
The number of new complaints can vary and change rapidly as a result of many factors, including:

- behaviour of financial businesses;
- the growing impact of proactive intervention by regulators;
- increasing consumer activism.

Our own analysis of trends and discussions with businesses likely to have the largest number of complaints, suggest we should plan for 190,000 new complaints but there could be between 20% more or 15% fewer complaints. In view of the potential volatility in the number and type of new complaints, the budget assumes that we will use our outsource partners to close about one third of complaints.

We plan to resolve 20,000 more complaints than we expect to receive. If our estimates are accurate, we will be able to reduce waiting times. If we can reduce waiting times, we will retrain and redeploy casehandling staff, as required by any significant changes in the proportion of different types of new cases.

In 2010/11 our budget for operating costs is £113.5m. We aim to break even and do not propose to increase either the total of the levy or the amount of the case fee. Our budget for 2010/11 assumes that both productivity and timeliness will improve during the year. This should be achieved as a result of staff recruited in 2009/10 becoming more experienced and the implementation of business-process improvements. We hope to reduce the unit cost in 2010/11, from £555 to £540.

We also aim to meet the needs of our users by working in a way that combines efficiency with quality and customer service. We will begin to implement the recommendations from our business-process improvement project to improve service, efficiency and cost-effectiveness.

Further details can be found in the *annual review 2009/2010*, the *corporate plan & 2010/2011 budget* and associated feedback statement on our website (http://www.financial-ombudsman.org.uk/publications).

Directors

The only members of the Financial Ombudsman Service are the directors. The Financial Services Authority (FSA) appoints all members of the board, and HM Treasury also approves the appointment of the chairman. The directors are appointed for an initial period of up to three years and may be reappointed for a period of up to a further seven years. The chairman is generally appointed for up to five years initially.

The only change in the membership of the board during 2008/09 was the resignation of Joe Garner in February 2010. The directors of the Financial Ombudsman Service Limited during the year, and a record of their attendance at meetings are shown below:

	board meetings	audit committee	nomination & remuneration	quality committee	appointed from	expiry of current term
Sir Christopher Kelly	*10/10	-	*1/1	-	23.02.02	31.01.11
Alan Cook	10/10	-	-	3/3	23.02.08	22.02.11
Joe Garner	8/9	-	-	3/3	23.02.08	22.02.11
John Howard	9/10	3/4	-	-	23.02.08	22.02.11
Elaine Kempson	10/10	-	-	3/3	23.02.08	22.02.11
Kate Lampard	9/10	*4/4	1/1	-	23.02.02	22.02.11
Julian Lee	10/10	4/4	1/1	*3/3	23.02.05	22.02.12
Roger Sanders	10/10	4/4	-	3/3	23.02.05	22.02.12
Maeve Sherlock	8/10	-	-	3/3	23.02.08	22.02.11

* chairman

No director has any interest in any contract entered into by the company. In the event of the winding up or dissolution of the company, each director’s responsibility for payment of the company’s debts and liabilities is limited to £1.

Details of directors’ remuneration are set out in note 11 to the accounts.

Expenses reimbursed to directors during the year totalled £4,830, as follows:

	travel (£)	accommodation (£)	total reimbursed (£)
Sir Christopher Kelly	-	-	-
Alan Cook	-	-	-
Joe Garner	-	-	-
John Howard	987	174	1,161
Elaine Kempson	430	859	1,289
Kate Lampard	108	-	108
Julian Lee	599	-	599
Roger Sanders	-	-	-
Maeve Sherlock	789	884	1,673
Total	£2,913	£1,917	£4,830

Fixed assets

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

Supplier payment policy

It is the company's policy to agree terms of payment at the commencement of business with a supplier, and pay in accordance with its contractual and other legal obligations. Payments are made within 30 days of the date of the invoice.

Health and safety

The Financial Ombudsman Service is committed to providing a healthy and safe environment for all staff and visitors to its premises. The health and safety policy is reviewed regularly and displayed on the intranet.

Employment policies

The Financial Ombudsman Service continues to monitor its recruitment policies to ensure they provide equal opportunities and fair treatment in all aspects of employment and does not tolerate any form of harassment either by or against employees.
There are opportunities for staff to work part-time, flexible hours, to job share and to work from home. The company provides comprehensive training, mentoring and development programmes involving internal and external courses.

Our equality and diversity policy covers all areas of our responsibilities as an employer – including recruitment, promotion, training, performance management, pay and benefits.

The Financial Ombudsman Service is fully committed to ensuring the fair treatment of all employees, job applicants, contractors, customers and potential customers.
All selection and recruitment decisions, both internal and external, and the progression of employees within the company, are based on merit. We do not tolerate discrimination or harassment on the grounds of age, disability, gender, race, religion or belief, sexual orientation, transgender status, pregnancy, nationality, ethnic or national origins or marital/partnership status.

Disability

The recruitment, career development and training opportunities for disabled employees are reviewed regularly to ensure they comply with statutory requirements. The company:

- has ensured that there is full disabled access to its offices and all its facilities;
- considers all applicants for vacancies on merit. Where necessary, special arrangements are made for interviewing disabled applicants;
- makes reasonable adjustments for disabled employees and for staff who return to work after lengthy absence. This includes the provision of special equipment;
- raises awareness amongst staff of the assistance needed by their disabled colleagues at work and customers; *and*
- makes changes as required by legislation and best practice.

Employee involvement

The company recognises that organisations are most successful where management and staff share a common purpose, work in partnership and communicate openly. The Information and Consultation Council (ICC) provides a means for communication, representation and consultation between staff and the executive team. It consists of 20 elected staff representatives who represent all parts of the organisation at a ratio of about one to 57 members of staff. There are also three executive team members on the ICC.

There are about eight full meetings each year at which the executive fulfils its obligations to inform or consult staff about employee matters. The key objectives of the ICC are:

- to enable staff to participate fully in the development of processes which ensure that the Service reflects good practice and is a progressive employer;
- to encourage an open and caring environment in which the views of staff are sought as part of the decision-making process;
- to ensure full representation of staff views to the executive so that the treatment of the staff is fair and reasonable;
- to canvass and assess the ideas and opinions of staff so that they can be accurately represented to the executive; *and*
- to provide a means for the executive to give fast and accurate feedback on information and progress to staff on topics currently under discussion.

The Service uses a variety of other means of communication, including the intranet, briefings and staff meetings to keep employees up to date with developments. Plans are also in place to enhance internal communication which includes the recruitment of a staff engagement specialist to help staff to feel more involved in the overall aims of the company and with their colleagues.

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

The company acknowledges the importance of supporting its staff in the work environment and helping them to manage difficulties arising at work or at home. An independent confidential employee assistance and counselling helpline service, Care First, is available to staff.

Corporate social responsibility

The company aims to provide a service for people from all backgrounds and from all parts of the community. Both the people employed and the work culture reflect and value this diversity and inclusiveness.

Employees are supported and encouraged to undertake a range of public service duties and voluntary work in their communities, such as serving as school governors. As part of our accessibility work, a number of projects are undertaken with local community groups, *eg* staff provide voluntary literacy and numeracy support in schools. We also liaise with local faith and community groups in the neighbourhood, such as initiatives with the Bangladeshi community to promote our role in resolving money transfer disputes.

The Service's environment policy recognises the impact of its work on the environment and sets out the measures being taken to minimise its negative impact. They include energy conservation, recycling and other measures to protect the environment.

Corporate governance

The Financial Ombudsman Service Limited is a company limited by guarantee, without shareholders, which is a common structure for not-for-profit organisations. The directors remain committed to high standards of best practice in corporate governance. Whilst not bound by the provisions of the Combined Code on Corporate Governance, the Financial Ombudsman Service aims to ensure that it complies with best practice in all relevant areas.

The Financial Ombudsman Service is accountable to the Financial Services Authority. The board consists of the chairman and seven members, all of whom are non-executive directors. Their job as 'public interest' directors is to ensure that the Service is properly resourced and able to carry out its work effectively, impartially and independently. The board has no involvement in considering individual complaints.

The board met ten times during the year. Detailed papers were circulated in advance of each meeting to ensure that the directors were able to make informed decisions at meetings. The company secretary attended and minuted all meetings of the board and its committees. The directors believe they have full and timely access to all relevant information required to carry out their functions. Registers of directors' and ombudsmen's interests are maintained. The board meeting in June 2009 was held away from the office over a full day to give the directors an opportunity to review the board's effectiveness, responsibilities, objectives and the strategic direction of the organisation.

Decisions taken by the board include:

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

The chairman met with each director to assess the individual's and the board's view of the performance of the Financial Ombudsman Service, the operation of the board (including its method of operation, the level of involvement of the directors and the sub-committee structure), the role and performance of the executive and proposals for further development.

Committees

The board has delegated some of its responsibilities and decisions to committees. At board meetings the committee chairmen provide oral reports of the key issues considered at earlier committee meetings, and minutes of meetings are circulated to the full board. The terms of reference for the board committees are on the website at http://www.financial-ombudsman.org.uk/about/board.html. Details of the board committees are as follows:

Audit committee

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

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

Members of the audit committee were:

Kate Lampard – chairman
John Howard
Julian Lee
Roger Sanders

The committee reviewed and approved the financial statements and external auditors' report. It also considered the business continuity plan, data security and revisions to the risk management framework. Based on the key risks identified, the internal audit plan for the year was prepared. The internal auditors reported to the committee about the outcome of their audits of –

- complaints about the Service
- IT risks
- HR appraisal process
- casework management: productivity & outsourcing
- incentive schemes review
- information management
- core financial systems
- quality assurance

The internal auditors also tested sample data prior to publication of business-specific complaint data in respect of the number of cases received and resolved in the periods from January to June and from July to December 2009.

Nomination & remuneration committee

The committee met once during the year. Its remit is to:

- consider and agree proposals from the chief ombudsman about the remuneration of senior executive staff and ombudsmen;
- give advice about the policy for, and scope of, pension arrangements for all staff;
- review and note annually the remuneration trends across the organisation;
- advise on any proposals for major changes to employee benefit structures;
- identify and nominate candidates for the FSA to consider when filling board vacancies, as and when they arise; *and*
- formulate succession plans for senior roles.

Members of the nomination & remuneration committee were:

Sir Christopher Kelly - chairman
Kate Lampard
Julian Lee

The committee reviewed, and approved, proposals for the remuneration of senior staff and ombudsmen at the Financial Ombudsman Service.

Quality committee

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

- review the Service's quality assurance procedures and systems;
- receive regular reports about quality assessment findings, satisfaction survey results, complaints about the Service and plans to improve quality;
- in conjunction with the audit committee, commission and/or review internal audit reports relating to quality, and management responses to the recommendations; *and*
- receive and consider six-monthly reports from the Independent Assessor.

Members of the committee were:

Julian Lee – chairman
Alan Cook
Joe Garner (to 18 February 2010)
Elaine Kempson
Roger Sanders
Maeve Sherlock

The committee considered the development of the quality assurance framework and equality & diversity proposals in respect of customer service initiatives to build better understanding among staff of the diverse needs of the Service's users. It also reviewed the two-stage process for considering complaints about the Service by the internal service review team and by the Independent Assessor

The committee also received the Independent Assessor's annual report for 2008/09 and his six-monthly report to 30 September 2009.

Auditor's independence

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

Details of fees payable to Baker Tilly UK Audit LLP are set out in note 12 to the accounts.

Statement as to disclosure of information to auditor

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditor is unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Internal controls

The board of the Financial Ombudsman Service is responsible for establishing and maintaining a system of internal controls that enable the financial and non-financial risks to be assessed and managed. The framework is designed to manage rather than eliminate the risk of failure, and can only provide reasonable and not absolute assurance against material misstatement or loss. As part of this process, the board and audit committee initiate reports from either the executive team or the internal auditors where necessary.

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

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

Monitoring systems
The audit committee reviews regular reports at their meetings from the internal auditors which include recommendations for improvement. The board receives a management information pack of key performance indicators at each of its meetings.

Risk management
The Financial Ombudsman Service operates a risk management process that identifies the key risks facing the company. A risk management model has been developed, which identifies key risks, an impact analysis, the current risk management strategy, its effectiveness, any further action required and the risk owner. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. This model is regularly reviewed by the audit committee and the executive team.

Quality assurance
The quality assurance process has been reviewed and refined to check that the quality of the work being produced is maintained at satisfactory levels. Work in this area is co-ordinated by a team reporting to the director of business planning and assurance. A system to measure quality levels is in place to constantly monitor and compare our output. The quality committee monitors quality assurance and other initiatives to ensure high standards of quality are implemented and maintained. Further details of its work are on page 9.

Going Concern

The accounts have been prepared on a going concern basis. The board of The Financial Ombudsman Service are satisfied that having statutory revenue raising powers under the Financial Services and Markets Act 2000, and having reviewed the current banking facilities, the company has adequate resources to continue in existence for a period of at least 12 months from the date of signing of these accounts.

Auditor

Baker Tilly UK Audit LLP has expressed its willingness to continue in office as auditor of the company and a proposal for its reappointment will be made to the board.

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

Barbara Cheney
company secretary

21 July 2010

Directors’ responsibilities in respect of the financial statements

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. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 surplus or deficit 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Financial Ombudsman Service website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of the Financial Ombudsman Service Limited

We have audited the financial statements on pages 15 to 35. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As more fully explained in the Directors' Responsibilities Statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit
A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on the financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2010 and of its surplus for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; *and*
- have been prepared in accordance with the requirements of the Companies Acts 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report of the following maters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; *or*
- the financial statements are not in agreement with the accounting records and returns; *or*
- certain disclosures of directors' remuneration specified by law are not made; *or*
- we have not received all the information and explanations we require for our audit.

For an on behalf of

BAKER TILLY UK AUDIT LLP, Statutory Auditor
Chartered Accountants
St Philips Point
Temple Row
Birmingham
B2 5AF

21 July 2010

Income and expenditure account
for the year ended 31 March 2010

	Notes	2010 £	2009 £
Turnover	3	99,023,833	65,711,583
Administrative costs, excluding exceptional item		(92,339,630)	(57,823,725)
Exceptional item – curtailment gain	10	1,803,000	0
Total administrative costs		(90,536,630)	(57,823,725)
		8,487,203	7,887,858
Other operating income	4	200,502	144,310
Operating surplus		**8,687,705**	**8,032,168**
Interest receivable	5	(161,647)	311,957
Interest payable and similar charges	6	(953)	(44,429)
Surplus on ordinary activities before taxation	7	**8,525,105**	**8,299,696**
Tax charge on surplus on ordinary activities	8	(21,250)	(66,507)
Surplus on ordinary activities after taxation		**8,503,855**	**8,233,189**

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

Notes a to f to the cash flow statement and notes 1 to 21 to the accounts form an integral part of these financial statements.

Statement of total recognised gains and losses for the year ended 31 March 2010

	Notes	2010 £	2009 £
Surplus for the year		8,503,855	8,233,189
Actuarial losses for the year in respect of the pension scheme	10(i)	(694,000)	(4,460,000)
Total recognised gains for the year		**7,809,855**	**3,773,189**

Reconciliation of movements in reserves for the year ended 31 March 2010

	Notes	2010 £	2009 £
Total recognised gains for the year		7,809,855	3,773,189
Accumulated surplus at 1 April		6,235,962	2,462,773
Accumulated surplus at 31 March		**14,045,817**	**6,235,962**

Notes a to f to the cash flow statement and notes 1 to 21 to the accounts form an integral part of these financial statements.

Balance sheet
as at 31 March 2010

Company number: 03725015

	Notes	2010 £	2010 £	2009 £	2009 £
Fixed assets					
Tangible assets	13		5,073,542		4,213,445
Current assets					
Debtors	14	17,332,245		10,689,236	
Cash at bank and in hand		8,589,159		9,633,255	
		25,921,404		20,322,491	
Current liabilities					
Creditors: amounts falling due within one year	15	(6,930,519)		(6,062,515)	
Net current assets			18,990,885		14,259,976
Total assets less current liabilities			24,064,427		18,473,421
Creditors: amounts falling due after more than one year	16		0		(250,000)
Net assets, excluding pensions liabilities and provisions			**24,064,427**		**18,223,421**
Provision for liabilities and charges	17		(336,428)		(336,428)
Net pensions liabilities	10 (d)		(3,378,000)		(5,212,000)
Deferred income			(6,304,182)		(6,439,031)
Net assets, including pensions liabilities			**14,045,817**		**6,235,962**
Capital and reserves					
Accumulated surplus	21		14,045,817		6,235,962
			14,045,817		**6,235,962**

The financial statements on pages 15 to 35 were approved and authorised for issue by the board of directors on 21 July 2010, and are signed on behalf of the board of directors by:

Sir Christopher Kelly KCB
chairman

21 July 2010

Notes a to f to the cash flow statement and notes 1 to 21 to the accounts form an integral part of these financial statements.

Cash flow statement
for the year ended 31 March 2010

	Notes	2010 £	2009 £
Net cash inflow from operating activities	a	1,917,685	11,731,988
Returns on investments and servicing of finance	b	41,392	266,477
Taxation	c	(65,850)	(27,590)
Capital expenditure and financial investment	d	(2,687,323)	(2,071,795)
Net cash (outflow)/inflow before financing		(794,096)	9,899,080
Financing			
Movement in long term borrowings	16	(250,000)	(6,250,000)
(Decrease)/increase in cash in the year	e, f	(1,044,096)	3,649,080

Notes a to f to the cash flow statement and notes 1 to 21 to the accounts form an integral part of these financial statements.

Notes to the cash flow statement
for the year ended 31 March 2010

a. Reconciliation of operating surplus to net cash inflow from operating activities

	2010 £	2009 £
Operating surplus for the year	8,687,705	8,032,168
Depreciation	1,827,226	1,445,847
Increase in debtors	(6,643,009)	(1,659,030)
Increase in creditors	912,612	2,947,285
Increase in provision for liabilities and charges	0	336,428
(Decrease)/increase in deferred income	(134,849)	1,111,290
Defined benefit pension costs		
Service cost	*830,000*	*746,000*
Curtailment gain	*(1,803,000)*	*0*
Contributions		
Normal contributions	*(859,000)*	*(853,000)*
Additional deficit reduction contributions	*(900,000)*	*(375,000)*
	(2,732,000)	(482,000)
Net cash inflow from operating activities	**1,917,685**	**11,731,988**

b. Returns on investments and servicing of finance

	2010 £	2009 £
Interest received	42,353	311,957
Interest paid	(961)	(45,480)
	41,392	**266,477**

c. Taxation

	2010 £	2009 £
UK corporation tax paid	(65,850)	(30,936)
UK corporation tax recovered	0	3,346
	(65,850)	**(27,590)**

d. Capital expenditure and financial investment

	2010 £	2009 £
Payments to acquire tangible fixed assets	(2,687,323)	(2,071,975)
	(2,687,323)	**(2,071,975)**

e. Reconciliation of net cash flow to movement in net funds

	2010 £	2009 £
(Decrease)/increase in cash	(794,096)	9,899,080
Movement in net funds for year	(794,096)	9,899,080
Net funds/(debt) at 1 April	9,383,255	(515,825)
Net funds at 31 March	**8,589,159**	**9,383,255**

f. Analysis of changes in net funds

	at 1 April 2009 £	Cash flows £	at 31 March 2010 £
Cash at bank and in hand	9,633,255	(1,044,096)	8,589,159
Long term loans	(250,000)	250,000	0
	9,383,255	(794,096)	8,589,159

Notes to the accounts
for the year ended 31 March 2010

1. Status of the company

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

2. Principal accounting policies

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

Turnover

Annual levy - each business that comes within the jurisdiction of the Financial Ombudsman Service is required to pay an annual levy based on the permissions given to that firm by one of the Financial Services Authority (for the Compulsory Jurisdiction), the Financial Ombudsman Service (for the Voluntary Jurisdiction) or The Office of Fair Trading (for the Consumer Credit Jurisdiction). Businesses in the Compulsory and Voluntary jurisdictions pay an annual levy, whilst those in the Consumer Credit jurisdiction pay a levy every five years.

Case fees - each business that has a chargeable complaint referred for investigation to the Financial Ombudsman Service is required to pay a case fee upon closure of the fourth and subsequent complaint in any one financial year.

Recognition of income

- Levy Income

For both the Compulsory and Voluntary Jurisdictions, the levy income is recognised on invoicing for the period to which the invoices relate.

For the Consumer Credit jurisdiction, where firms pay for a five year licence, the income is based on the number of case closures in the financial year, so as to spread the payments received over five years in relation to the amount of work undertaken (see ‘deferred income’ accounting policy).

- Case fee income

Case fee income for all jurisdictions, from 1 April 2002, is recognised at the date when invoices are raised, this being the end of the month in which the case is closed.

Tangible fixed assets

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

Leasehold improvements	Over period of lease
Premises fees and stamp duty	Over five years
Computer hardware	Over three years
Computer software	Over five years
Computer systems development and fees	Over three to five years
Office furniture and equipment	Over five years
Fixtures and fittings	Over ten years
Motor vehicles	Over four years

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

Retirement benefits

During the year the company operated both a defined benefit pension (final salary) scheme and a defined contribution (money purchase) scheme, both being part of the Financial Services Authority tax-approved pension plan.

The costs of the contributions to the defined benefit scheme are accounted for in accordance with FRS 17 so the full service cost of providing the defined benefit scheme, together with the cost of any benefits relating to past service, is charged to the income and expenditure account.

A charge equal to the expected increase in the present value of the scheme liabilities (because the benefits are now closer to settlement) less a sum equal to the equivalent value of the long-term expected return on the defined benefit scheme's assets (based on the market value of those assets at the start of the year), are included in the income and expenditure account in "interest receivable".

The difference between the market value of the assets of the scheme and the present value of accrued pension liabilities is shown as a net liability on the balance sheet.

Any difference between the expected return on assets and that actually achieved is recognised in the statement of total recognised gains and losses, along with differences which arise from experience or assumption changes relating to liabilities.

Gains and losses on curtailments/settlements are recognised when the curtailment/settlement occurs.

The costs of the contributions to the money purchase scheme are charged to the income and expenditure account as incurred.

Operating lease commitments

The annual rentals of operating leases are charged to the income and expenditure account on a “straight line” basis over the lease term.

Deferred income

Businesses in the Consumer Credit Jurisdiction buy a five year licence.
In order to spread the income over the period of the licence, only part of the cash received is taken as income. This is based on the number of cases that are closed in the year. The balance of income not taken to the income & expenditure account is shown in the deferred income account.

Amounts billed and collected by the Financial Services Authority in advance for levy due the following year are treated as deferred income.

Taxation

The tax charge represents the sum of tax currently payable.

3. Turnover

	2010 £	2009 £
Annual levy	20,585,708	19,279,398
Case fees	78,438,125	46,432,185
	99,023,833	**65,711,583**

4. Other operating income

	2010 £	2009 £
Publications	193,510	143,242
Miscellaneous	6,992	1,068
	200,502	**144,310**

5. Interest receivable and similar income

	2010 £	2009 £
Bank interest	42,346	270,125
Other interest	7	41,832
Interest cost on pension plan liabilities	(1,011,000)	(891,000)
Expected return on pension plan assets	807,000	891,000
	(161,647)	**311,957**

6. Interest payable and similar charges

	2010 £	2009 £
Bank loan and overdraft	314	44,429
Other interest	639	0
	953	**44,429**

7. Surplus on ordinary activities before taxation

	Notes	2010 £	2009 £
This is stated after charging/(crediting):			
Staff costs	9	47,438,449	37,241,329
Depreciation	13	1,827,226	1,445,847
Loss on disposal of tangible fixed assets		0	0
Operating lease rentals: premises		3,147,703	2,010,242
Operating lease rentals: other		70,953	41,112
Bad debts written off		495,687	362,858
Auditor’s remuneration	12	68,750	63,381
Exceptional item – curtailment gain	10	(1,803,000)	0

8. Tax charge on surplus on ordinary activities

Analysis of tax charge on ordinary activities

	2010 £	2009 £
United Kingdom corporation tax at 21% (2009:21%) for the year	(21,650)	(66,250)
Adjustments in respect of prior years	400	(257)
Current tax charge for the current year	(21,250)	(66,507)

Factors affecting tax charge for the current year

The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK: 21% (2009: 21%).

The differences are explained below:

	2010 £	2009 £
Surplus on ordinary activities before taxation	8,525,105	8,299,696
Tax at 21% (2009: 21%) thereon	(1,790,272)	(1,742,936)
Effects of:		
Non taxable income and expenditure	1,768,622	1,676,686
Prior period adjustments	400	(257)
Current tax charge for year	**(21,250)**	**(66,507)**

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

9. Staff costs

	Notes	2010 £	2009 £
Salary costs		37,200,503	29,203,469
Social security costs		4,045,650	3,210,115
Employer's pension costs			
Included in administrative costs:			
Current service costs of final salary scheme		830,000	746,000
Money purchase scheme		3,380,795	2,662,931
Flexible benefit costs		1,981,501	1,418,814
	7	47,438,449	37,241,329
Salary costs			
Employer's pension costs			
Included in interest receivable		204,000	0
Included in exceptional item – curtailment gain		(1,803,000)	0
Included in statement of total recognised gains and losses		694,000	4,460,000
Total employment costs		46,533,449	41,701,329

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

	2010	2009
Ombudsmen	42	34
Adjudicators	579	410
Other	430	349
	1,051	**793**

10. Pension costs

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

Defined benefit scheme

The latest full actuarial valuation of the FSA pension plan was carried out as at 1 April 2007 by an independent actuary using the current unit method. Independent actuarial advice has been obtained in order to calculate the share of the assets and liabilities of the FSA scheme relating to those present and past employees of the Financial Ombudsman Service.

With effect from 1 April 2010, defined benefit accrual ceased in the plan and all members who were accruing additional service immediately before 1 April 2010 became deferred members. These employees have the option to earn benefits under the defined contribution section after 1 April 2010. The impact of the closure of the plan has been accounted for in the financial statements for the year ended 31 March 2010. The closure of the plan represents a curtailment event which generates an actuarial gain. This has been measured as at 31 March 2010 using the assumptions at this date. The curtailment gain has been calculated as £1,803,000 which has been shown as an exceptional item in the income and expenditure account for the year.

The figures below relate solely to the obligations of the Financial Ombudsman Service in respect of the defined benefit section of the FSA pension plan.

The principal assumptions agreed by the board and used by the independent qualified actuaries in updating this valuation for FRS 17 purposes are shown below together with additional information:

(a) ***Main financial assumptions***

	31 March 2010	31 March 2009	31 March 2008
	% pa	**% pa**	**% pa**
Inflation	4.0	3.7	3.7
Rate of general long term increase in salaries	N/A	5.2	5.2
Rate of increase to pensions in payment	3.7	3.5	3.6
Discount rate for plan liabilities	5.6	6.3	6.6

(b) ***Mortality assumptions***

Life expectancy at age 60

		31 March 2010	31 March 2009	31 March 2008
		years	**years**	**years**
Age 60 at the balance sheet date	Males	27.5	27.4	26.9
	Females	29.4	29.3	29.0
Age 60 in 20 years after the balance sheet date	Males	29.6	29.5	29.1
	Females	31.4	31.3	30.2

(c) ***Expected return on assets***

	at 31 March 2010		at 31 March 2009		at 31 March 2008	
	Long-term rate of return expected % pa	**Value £'000**	**Long-term rate of return expected % pa**	**Value £'000**	**Long-term rate of return expected % pa**	**Value £'000**
Equities	8.5	9,479	8.0	6,610	8.0	7,817
Property	9.0	1,220	7.0	794	7.0	1,099
Corporate bonds	5.5	5,124	5.8	2,950	5.4	3,060
Other	0.6	269	1.6	138	6.0	134
Combined*	7.5	16,092	7.2	10,492	7.2	12,110

* The overall expected rate of return on plan assets is a weighted average of the individual expected rates of return on each asset class.

The Financial Ombudsman Service employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the plan at 31 March 2010.

(d) Reconciliation of funded status to balance sheet

	Value at 31 March 2010 £'000	**Value at 31 March 2009 £'000**	**Value at 31 March 2008 £'000**
Fair value of plan assets (see 10 (c))	16,092	10,492	12,110
Present value of funded defined benefit obligations (see 10 (f))	(19,470)	(15,704)	(13,344)
Liability recognised on the balance sheet	(3,378)	(5,212)	(1,234)
Related deferred tax	0	0	0
Net pension liability	(3,378)	(5,212)	(1,234)

(e) Analysis of income and expenditure account charge

	For the year ending 31 March 2010 £'000	**For the year ending 31 March 2009 £'000**
Current service cost	830	746
Interest cost	1,011	891
Expected return on plan assets	(807)	(891)
Curtailment gain	(1,803)	0
(Charge) / credit recognised in income and expenditure account	(769)	746

(f) ***Changes to the present value of the defined benefit obligation during the year***

	For the year ending 31 March 2010 £'000	For the year ending 31 March 2009 £'000
Opening defined benefit obligation	15,704	13,344
Current service cost	830	746
Interest cost	1,011	891
Actuarial losses on plan liabilities*	3,856	1,144
Net benefits paid out	(128)	(421)
Curtailment gain	(1,803)	0
Closing defined benefit obligation	19,470	15,704

* includes changes to the actuarial assumptions.

(g) ***Changes to the fair value of the plan assets during the year***

	For the year ending 31 March 2010 £'000	For the year ending 31 March 2009 £'000
Opening fair value of plan assets	10,492	12,110
Expected return on plan assets	807	891
Actuarial gains/(losses) on plan assets	3,162	(3,316)
Contributions by the employer	1,759	1,228
Net benefits paid out	(128)	(421)
Closing fair value of plan assets	16,092	10,492

(h) ***Actual return on plan assets***

	For the year ending 31 March 2010 £'000	For the year ending 31 March 2009 £'000
Expected return on plan assets	807	891
Actuarial gain/(loss) on plan assets	3,162	(3,316)
Actual return on plan assets	3,969	(2,425)

(h) Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	For the year ending 31 March 2010 £'000	For the year ending 31 March 2009 £'000	For the year ending 31 March 2008 £'000	For the year ending 31 March 2007 £'000	For the year ending 31 March 2006 £'000
Total actuarial (losses)/gains	(694)	(4,460)	1,107	(173)	(247)
Cumulative amounts of losses recognised in STRGL	(7,337)	(6,643)	(2,183)	(3,290)	(3,117)

(i) History of asset values, defined benefit obligation and surplus/deficit in the plan

	For the year ending 31 March 2010 £'000	For the year ending 31 March 2009 £'000	For the year ending 31 March 2008 £'000	For the year ending 31 March 2007 £'000	For the year ending 31 March 2006 £'000
Fair value of plan assets*	16,092	10,492	12,110	12,051	10,737
Defined benefit obligation	(19,470)	(15,704)	(13,344)	(14,603)	(13,009)
Deficit in plan	(3,378)	(5,212)	(1,234)	(2,552)	(2,272)

* The asset values use the bid value of assets.

	For the year ending 31 March 2010 £'000	For the year ending 31 March 2009 £'000	For the year ending 31 March 2008 £'000	For the year ending 31 March 2007 £'000	For the year ending 31 March 2006 £'000
Experience gains/(losses) on plan assets	3,162	(3,316)	(1,729)	(467)	1,563
Experience gains/(losses) on plan liabilities**	635	(62)	121	(38)	(31)

** This item consists of gains/(losses) in respect of liability experience only and excludes any change in liabilities in respect of changes to the actuarial assumptions used.

(k) ***Contributions***

Defined benefit scheme

The Financial Ombudsman Service made regular contributions totalling £859,000 (2009: £853,000) at the agreed rate of 29.5% (2009: 29.5%) of pensionable salaries for final salary section benefits and, in addition, contributed towards the expenses of administering the plan. In addition, the Financial Ombudsman Service made lump sum contributions totalling £900,000 (2009: £375,000) to the plan towards funding the deficit.

For the year ended 31 March 2011, the Financial Ombudsman Service estimates that it will make regular contributions totalling £Nil and lump sum contributions of £250,000 towards funding the deficit.

Defined contribution scheme

The Financial Ombudsman Service made regular contributions totalling £3,380,794 (2009: £2,662,931) to the defined contribution scheme.

11. Directors' remuneration

Directors' remuneration payable during the year amounted to £249,250 (2009: £251,000). The chairman, who is also the highest paid director, was paid £73,500 (2009: £73,500), the audit committee chairman was paid £25,750 (2009: £25,750), the quality committee chairman was paid £25,750 (2009: £25,750) and the other directors £21,000 (2009: £21,000).

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

12. Auditor's remuneration

	2010	**2009**
	£	**£**
Audit	57,790	54,501
Tax	10,960	8,880
	68,750	**63,381**

All fees payable to the auditor are stated inclusive of VAT, as VAT is not generally recoverable by the Financial Ombudsman Service.

13. Tangible assets

	Leasehold improvements and premises fees	Computer equipment and software	Furniture and equipment	Motor Vehicle	Total
	£	£	£	£	£
Cost					
At 1 April 2009	4,978,535	12,059,771	3,094,846	9,181	20,142,333
Additions	332,756	2,089,924	264,643	0	2,687,323
At 31 March 2010	5,311,291	14,149,695	3,359,489	9,181	22,829,656
Depreciation					
At 1 April 2009	4,165,593	9,471,517	2,285,108	6,670	15,928,888
Charge for year	474,153	1,152,724	197,931	2,418	1,827,226
At 31 March 2010	4,639,746	10,624,241	2,483,039	9,088	17,756,114
Net book value					
At 31 March 2010	**671,545**	**3,525,454**	**876,450**	**93**	**5,073,542**
At 31 March 2009	**812,942**	**2,588,254**	**809,738**	**2,511**	**4,213,445**

14. Debtors

	2010	2009
	£	£
Trade debtors	13,395,084	7,432,266
Other debtors	2,146,114	2,229.995
Prepayments	1,791,047	1,026,975
	17,332,245	**10,689,236**

15. Creditors: amounts falling due within one year

	2010	2009
	£	£
Trade creditors	503,826	1,828,180
UK corporation tax	21,650	66,250
Other taxes and social security	1,116,589	930,654
Other creditors	16,829	12,229
Accruals	5,271,625	3,225,202
	6,930,519	**6,062,515**

16. Creditors: amounts falling due after one year

	2010 £	2009 £
Bank loan	0	250,000
	0	**250,000**

The company took out a revolving loan facility of £15m dated 24 January 2003. The facility was originally available for a period of five years. This has been extended each year by a further year and the facility will now end in January 2013. The amount drawn-down at 31 March 2010 was £Nil (2009: £0.25m). The interest rate payable is 0.15% per annum above London interbank offered rates. A commitment fee of 0.08% is charged on the outstanding sum on the revolving loan facility not yet drawn down. The Financial Services Authority had previously guaranteed the loan facility but were released from this guarantee in February 2008.

17. Provision for liabilities and charges

	2010 £	2009 £
Provision for dilapidations	336,428	336,428
	336,428	**336,428**

The Financial Ombudsman Service received an amount of £336,428 from the former tenant of the 7th floor of South Quay Plaza 2 in the year ended 31 March 2009, being the discounted estimated cost of future dilapidations under their lease which was assigned to the Financial Ombudsman Service on 23 December 2008.

No provision has been made for dilapidations on any of the floors of South Quay Plaza 2, including any additional costs in respect of the 7th floor, as no reliable estimate of the amount of any obligation can be made.

18. Financial commitments

Capital commitments are as follows:

	2010 £	2009 £
Contracted for but not provided	0	0
	0	**0**

19. Operating lease commitments

As at 31 March 2010, the company was committed to making the following payments during the next year, in respect of operating leases:

	Premises 2010 £	Other 2010 £	Premises 2009 £	Other 2009 £
Leases which expire:				
Within one year	0	11,313	0	14,139
Between two and five years	3,570,827	63,082	606,813	12,294
After five years	0	0	1,733,110	0

Details of the terms of the leases of the South Quay Plaza 2 and 3 premises are as follows:

Floor	Start of lease	Future break clauses	Future and ongoing rent reviews	End of lease
SQP 2				
1 – 4	November 1999		November 2009	November 2014
6	July 2001			February 2014
7	December 2008		September 2010	November 2014
9	September 2008			September 2013
SQP 3				
12	June 2009	June 2011		June 2012
13	June 2009	June 2011		June 2012

20. Related party transactions

The Financial Ombudsman Service, together with the Financial Services Authority, was created as part of the Government's legislation for the financial services market and derives its statutory authority from the Financial Services and Markets Act 2000. The Financial Services Authority has to ensure that the terms of appointment of the directors secure their operational independence from the Financial Services Authority. Accordingly, the Financial Ombudsman Service is not controlled by the Financial Services Authority but considers the Financial Services Authority a related party.

(a) The Financial Ombudsman Service has entered into an agency agreement with the Financial Services Authority whereby, with effect from 1 April 2004, the Financial Services Authority will collect tariff data, issue levy invoices and collect levy monies on behalf of the Financial Ombudsman Service, at a net cost of £34,149 for the year ended 31 March 2010 (2009: £74,800).

(b) The Financial Services Authority bill the Financial Ombudsman Service administration charges in respect of the pension scheme. The charge for the year ended 31 March 2010 is £52,529 (2009: £113,320).

(c) An amount of £1,678,516 was due from the Financial Services Authority at 31 March 2010 (2009: £1,764,120). This was the net balance due following the billing of levies to firms and is included in 'Other debtors' (see note 14).

(d) The Financial Services Authority is a party to the lease agreement for four floors at South Quay Plaza 2 as guarantor of performance of the lease in the sum of £1,089,798 per annum.

Other than disclosed above, there were no related party transactions during the year (2009: none).

21. Accumulated surplus

	2010	**2009**
	£	**£**
Accumulated surplus before net pensions liabilities	17,423,817	11,447,962
Net pensions liabilities	(3,378,000)	(5,212,000)
Accumulated surplus after net pensions liabilities	**14,045,817**	**6,235,962**