Directors' report and financial statements

financial year 2006/07

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

Company Secretary
Barbara Cheney

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

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

Auditor
Baker Tilly UK Audit LLP
Chartered Accountants
1st Floor
46 Clarendon Road
Watford
Herts
WD17 1JJ

Directors' report

The directors of the Financial Ombudsman Service Limited present their report for the year ended 31 March 2007 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 presents its results for the year to 31 March 2007. The company had a deficit for the year, after tax, of £2,098,349 (2006: £325,615).

The deficits in the last two financial years have reduced the reserves to £1.6m. However, the company has statutory fund raising powers under the Financial Services and Markets Act 2000, and any shortfall in income may be recouped the following year from firms if necessary.

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

The deficit arose largely because income from case fees was £6.9m below budget. This was a result of having fewer staff than planned throughout the year and a higher proportion of more complex and time consuming disputes, many of which involved small businesses which did not pay case fees because they had fewer than three complaints. Additionally, there was a significant amount of non-chargeable work relating to jurisdictional issues about mortgage endowment complaints.

The shortfall in income was partially offset by expenditure being £4.3m below budget, mainly due to staff costs being lower than expected. At the end of March 2007, the number of full time equivalent staff was 956 compared with the budget of 1,015 employees. This was a consequence of the company's policy not to replace staff who left, as part of the plans for dealing with a reduction in the volume of new cases.

Bad debts written off totalled £0.5m as a result of firms going out of business, leaving case fees unpaid with no realistic chance of recovery. As the Financial Ombudsman Service cannot refuse to take complaints relating to businesses covered by the ombudsman service (even if they are a poor credit risk or in administration), the bad debt charge is likely to be higher than in a normal trading company.

Fair review of the business of the company

During the year the Financial Ombudsman Service received 94,392 new complaints, which were 10% fewer than expected and 16% less than in 2005/06. This is the first time that the Service has recorded a reduction in new complaints since it was set up in 2001. Complaints about the mis-sale of mortgage endowments continued to dominate the workload and although the number of new disputes involving mortgage endowments fell by a third – from 69,149 cases to 46,134 – endowment complaints still accounted for half of the new caseload.

A total of 111,673 cases were resolved, which was below the forecast of 116,000 cases and a decrease of 6.5% over the previous year. This was generally due to dealing with a larger proportion of more complex mortgage endowment complaints with smaller businesses, where the benefits of scale we have developed when dealing with larger businesses are more limited.

The productivity of adjudicators, defined as the average number of cases resolved per week, was 4.1 against the budget of 4.4. 61% of cases were resolved within six months compared with 59% in the previous year. Productivity and the time taken to resolve cases have been affected by the increasing complexity of cases and many other factors, such as whether the consumer and the firm are willing to accept a conciliated settlement at an early stage. This has a direct impact on timeliness, productivity, and unit cost figures.

The unit cost was £484 compared with the budget of £472 and the previous year figure of £433. This measure is calculated by dividing the total costs before financing charges and any bad debt charge by the total number of resolved cases. The increase of 12% was due to a combination of the reduced number of case closures and the lower level of productivity. We anticipated this rise in our unit cost, as the benefits of economies of scale linked to the large volumes of mortgage endowment cases now fall away.

Risks and uncertainties

The Financial Ombudsman Service maintains a risk register which identifies key risks to the business and ensures that strategies are prepared to mitigate those risks. The register has identified risks relating to *inter alia:*

- Level and complexity of new complaints,
- The upgrade of our current casework and telephone systems, and
- Quality and timeliness of our decisions.

It has always been difficult to forecast the size and complexity of new complaints with any degree of accuracy. Looking ahead, the future caseload is more uncertain than it has ever been but, for 2007/08, it is expected that the volume of new complaints will continue to fall as the number of new mortgage endowment complaints referred to the Service will almost certainly reduce. As mentioned in our *corporate plan & budget 2007/08*, overall staffing levels are forecast to reduce. However the statutory extension of our remit to cover consumer credit complaints from 6 April 2007, an increase in banking cases and possible rises in loan protection insurance problems are likely to partly offset the reduction in mortgage endowment cases.

The number of cases that are expected to be resolved is also forecast to fall in 2007/08 due to the current policy of not replacing adjudicators who leave. However, as the numbers of cases resolved will continue to be in excess of incoming new complaints, the level of work-in-progress is expected to continue to fall throughout the year.

The financial resources needed to handle our caseload in 2007/08 are expected to decrease in comparison to the budget for 2006/07.

Looking further forward to 2008/09 and beyond becomes increasingly speculative. Mortgage endowment complaints should have declined still further, which may be partially offset by the new consumer credit jurisdiction. Underlying levels of banking, insurance and investment complaints referred to the Service are unlikely to change dramatically. Notwithstanding the above, experience has shown that unexpected surges in the number of complaints about particular products can occur with little warning at any time.

During 2007/08 we will continue to model the assumptions that affect the level of our work in the longer term, and to plan accordingly.

Further information

Further details can be found in the Annual Review 2006/07 available on the website at http://www.financial-ombudsman.org.uk/publications/annual-reviews.htm, and in the Corporate Plan & 2007/08 Budget (to be found on the website at http://www.financial-ombudsman.org.uk/publications/pb06/index.html).

Directors

The only members of the Financial Ombudsman Service are the directors. The Financial Services Authority 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 appointed for up to five years initially. These terms reflect a change to the terms of directors’ appointments that became effective in January 2007.

The directors of the Financial Ombudsman Service Limited during the year, and their attendance at board meetings, are shown below as a proportion of the meetings that were held:

Director	Attendance
Sir Christopher Kelly KCB - chairman	10/10
Caroline Banks	10/10
David Crowther	9/10
Richard Hampton	10/10
Ed Hucks	10/10
Roger Jefferies	10/10
Kate Lampard	9/10
Julian Lee	10/10
Roger Sanders OBE	10/10

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.

Employment policies

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

Diversity

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

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
- 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 15 elected staff representatives who represent all parts of the organisation at a ratio of about one to 65 members of staff. There are also three executive team members on the ICC.

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 team 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 team; and
- to provide a means for the executive team to give fast and accurate feedback on information and progress to staff on topics currently under discussion.

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.

During the year, a staff survey was carried out to provide employees with an opportunity to express their views in confidence about a wide range of aspects of working at the Service. The on-line survey was carried out by a third party market research provider and designed to allow comparisons to be made with other similar organisations. The results achieved ‘best in class’ responses in key areas of employee engagement.

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 Code of Best Practice identified within the *Combined Code*, the Financial Ombudsman Service aims to ensure that it complies with best practice in all relevant areas.

The Financial Ombudsman Service is accountable to the Financial Services Authority. The board consists of the chairman and eight directors, all of whom are non-executive directors. Members of the board are appointed in the public interest and represent a wide range of business, financial and consumer expertise. The role of the board is to establish the corporate strategy, ensuring that the company is properly resourced and able to carry out its functions effectively, impartially and independently - free from any control or influence by those whose disputes are resolved by the Financial

Ombudsman Service. The board has no involvement in considering individual complaints – these are matters reserved exclusively to the ombudsmen.

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 2006 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.

In addition, 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 individually to assess the board's view of the performance of the Financial Ombudsman Service, the operation of the board (including its method of operation, contributions by directors and the sub-committee structure), the role and performance of the executive team and proposals for further development.

Committees

The board has delegated some of its responsibilities and decisions to committees. 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 and financial statements before submission to the board;
- discuss with the auditors issues arising from the external audit;
- receive reports from the internal auditors and approve the internal audit programme;
- ensure compliance with all requirements governing financial reporting; and
- review risk management controls.

Members of the audit committee are:

Director	Attendance
Kate Lampard - chairman	4/4
David Crowther	4/4
Ed Hucks	4/4
Roger Jefferies	4/4
Julian Lee	4/4

The committee reviewed and approved the financial statements and external auditors' report. Risk management controls were maintained and considered with the assistance of the internal auditors. Key risks identified formed the basis for drawing up the internal audit plan for the year. The committee considered various internal audit reports (including reports about enquiries & casework process quality assurance, core financial systems, recruitment retention & training, IT controls and business continuity management) and an internal audit plan for the coming year. The company's tendering policy and insurances were also reviewed.

During the year the committee undertook a self assessment of its performance and that of its auditor in accordance with the *Combined Code Guidance* in the Smith Report.

Remuneration committee

The remuneration 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; and
- advise on any proposals for major changes to employee benefit structures.

Members of the remuneration committee are:

Director	Attendance
Sir Christopher Kelly KCB - chairman	1/1
Caroline Banks	1/1
Richard Hampton	0/1
Roger Sanders OBE	1/1

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

IT strategy committee

Given the crucial importance of IT to the Financial Ombudsman Service, the board has an IT strategy committee. Its remit is to:

- oversee the development of a long term IT/IS strategy;
- approve significant or high risk IT projects or any significant or high risk changes to existing IT systems;
- optimise IT costs;
- review the high level progress, performance, cost effectiveness, ongoing business relevance, delivery and timeliness of IT projects and systems;
- consider exposure to IT risks (including information security), compliance risk, and the containment of risks; and
- request and review IT internal audit reports.

Members of the committee are:

Director	**Attendance**
Ed Hucks - chairman	2/2
Caroline Banks	2/2
David Crowther	2/2
Richard Hampton	2/2

Executive team member	**Attendance**
Tony Boorman – decisions director	2/2
Nick Clansey – head of IT development	2/2
Estelle Clark – quality director	2/2
Roy Hewlett – operations director	2/2
Jeremy Kean – finance and IT director	2/2

Auditor’s independence

The company has reviewed its relationship with its auditor, Baker Tilly/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/Baker Tilly UK Audit LLP.

Details of fees payable to Baker Tilly/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.

Auditor

The directors, having been notified of the cessation of the partnership known as Baker Tilly, resolved that Baker Tilly UK Audit LLP be appointed successor auditor with effect from 1 April 2007, in accordance with the provisions of the Companies Act 1989, s26(5). Baker Tilly UK Audit LLP has expressed its willingness to continue in office. A resolution to reappoint the firm will be proposed at the forthcoming Annual General Meeting.

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

Barbara Cheney
company secretary

7 June 2007

Directors' responsibilities in respect of the financial statements

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

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

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

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

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reviews 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 of the Financial Ombudsman Service Limited for the year ended 31 March 2007 which comprise the income and expenditure account, the balance sheet, the statement of total recognised gains and losses, the cash flow statement and related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

Basis of audit opinion

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

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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs at 31 March 2007, and of the company's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the directors' report is consistent with the financial statements.

Baker Tilly UK Audit LLP
Registered Auditor
Chartered Accountants
1st Floor
46 Clarendon Road
Watford
Herts
WD17 1JJ

7 June 2007

Income and expenditure account
for the year ended 31 March 2007

	Notes	2007 £	2006 £
Turnover	2,3	52,698,880	51,520,708
Administrative costs		(55,074,487)	(52,054,535)
		(2,375,607)	(533,827)
Other operating income	4	141,103	229,515
Operating deficit		**(2,234,504)**	**(304,312)**
Interest receivable	5	366,324	257,832
Interest payable and similar charges	6	(235,552)	(269,729)
Deficit on ordinary activities before taxation	7	**(2,103,732)**	**(316,209)**
Tax credit/(charge) on deficit on ordinary activities	8	5,383	(9,406)
Deficit on ordinary activities after taxation		**(2,098,349)**	**(325,615)**

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 20 to the accounts form an integral part of these financial statements.

Statement of total recognised gains and losses for the year ended 31 March 2007

	Notes	2007 £	2006 £
Deficit for the year		(2,098,349)	(325,615)
Actuarial losses for the year in respect of the pension scheme		(173,000)	(247,000)
Total recognised losses for the year		**(2,271,349)**	**(572,615)**

Notes a to f to the cash flow statement and notes 1 to 20 to the accounts form an integral part of these financial statements.

Reconciliation of movements in reserves for the year ended 31 March 2007

	Notes	2007 £	2006 £
Total recognised losses for the year		(2,271,349)	(572,615)
Accumulated surplus at 1 April		3,916,577	4,489,192
Accumulated surplus at 31 March		**1,645,228**	**3,916,577**

Notes a to f to the cash flow statement and notes 1 to 20 to the accounts form an integral part of these financial statements.

Balance sheet
as at 31 March 2007

	Notes	2007 £	2007 £	2006 £	2006 £
Fixed assets					
Tangible assets	13		3,696,272		5,209,725
Current assets					
Debtors	14	7,838,888		8,615,230	
Cash at bank and in hand		5,225,546		4,674,045	
		13,064,434		13,289,275	
Current liabilities					
Creditors: amounts falling due within one year	15	(5,063,478)		(4,810,423)	
Net current assets			8,000,956		8,478,852
Total assets less current liabilities			11,697,228		13,688,577
Creditors: amounts falling due after more than one year	16		(7,500,000)		(7,500,000)
Net assets, excluding pensions liabilities			**4,197,228**		**6,188,577**
Net pensions liabilities	10 (d)		(2,552,000)		(2,272,000)
Net assets, including pensions liabilities			**1,645,228**		**3,916,577**
Capital and reserves					
Accumulated surplus	20		1,645,228		3,916,577
			1,645,228		**3,916,577**

Signed on behalf of the board of directors

Sir Christopher Kelly KCB
chairman

7 June 2007

Notes a to f to the cash flow statement and notes 1 to 20 to the accounts form an integral part of these financial statements. These financial statements were approved and authorised for issue by the board of directors on 7 June 2007.

Cash flow statement
for the year ended 31 March 2007

	Notes	2007 £	2006 £
Net cash inflow from operating activities	a	1,564,979	1,703,768
Returns on investments and servicing of finance	b	(4,891)	(46,953)
Taxation	c	14	(9,444)
Capital expenditure and financial investment	d	(1,008,601)	(753,427)
Net cash inflow before financing		551,501	893,944
Financing			
Movement in long term borrowings		0	0
Increase in cash in the year	e,f	551,501	893,944

Notes a to f to the cash flow statement and notes 1 to 20 to the accounts form an integral part of these financial statements.

Notes to the cash flow statement
for the year ended 31 March 2007

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

	2007 £	2006 £
Operating deficit for the year	(2,234,504)	(304,312)
Depreciation	2,522,054	2,925,971
Decrease/(increase) in debtors	776,342	(551,419)
Increase/(decrease) in creditors	257,087	(146,472)
Defined benefit pension costs		
Service cost	*1,253,000*	*1,027,000*
Contributions		
Normal contributions	*(879,000)*	*(870,000)*
Additional deficit reduction contributions	*(130,000)*	*(377,000)*
	244,000	(220,000)
Net cash inflow from operating activities	**1,564,979**	**1,703,768**

b. Returns on investments and servicing of finance

	2007 £	2006 £
Interest received	229,324	222,832
Interest paid	(234,215)	(269,785)
	(4,891)	**(46,953)**

c. Taxation

	2007 £	2006 £
UK corporation tax paid	0	(9,444)
UK corporation tax recovered	14	0
	14	**(9,444)**

d. Capital expenditure and financial investment

	2007 £	2006 £
Payments to acquire tangible fixed assets	(1,008,601)	(753,427)
	(1,008,601)	**(753,427)**

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

	2007 £	2006 £
Increase in cash	551,501	893,944
Movement in net debt for year	551,501	893,944
Net debt at 1 April	(2,825,955)	(3,719,899)
Net debt at 31 March	**(2,274,454)**	**(2,825,955)**

f. Analysis of changes in net debt

	At 1 April 2006 £	Cash flows £	At 31 March 2007 £
Cash at bank and in hand	4,674,045	551,501	5,225,546
Long term loans	(7,500,000)	0	(7,500,000)
	(2,825,955)	551,501	(2,274,454)

Notes to the accounts for the year ended 31 March 2007

1. Status of the company

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

2. Principal accounting policies

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

Turnover

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

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

Service charges – the Financial Ombudsman Service provided accounting and other services to some of the former schemes prior to 1 April 2006.

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

Tangible fixed assets

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

Leasehold improvements	Over ten years
Premises fees and stamp duty	Over five years
Computer hardware	Over three years
Computer software	Over five years
Computer systems development and fees	Over 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

The company operates 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.

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

Operating lease commitments

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

Deferred income

Amounts billed 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

	2007 £	2006 £
Annual levy	16,642,926	11,710,240
Case fees	36,055,954	39,799,218
Service charges	0	11,250
	52,698,880	**51,520,708**

4. Other operating income

	2007 £	2006 £
Conference fees	0	47,877
Publications	111,604	174,873
Miscellaneous	29,499	6,765
	141,103	**229,515**

5. Interest receivable

	2007 £	2006 £
Bank interest	229,321	222,824
Other interest	3	8
Interest cost on pension plan liabilities	(667,000)	(548,000)
Expected return on pension plan assets	804,000	583,000
	366,324	**257,832**

6. Interest payable and similar charges

	2007 £	2006 £
Bank loan and overdraft	235,508	268,731
Other interest	44	998
	235,552	**269,729**

7. Deficit on ordinary activities before taxation

	Notes	2007 £	2006 £
This is stated after charging:			
Staff costs	9	41,724,027	39,008,402
Depreciation	13	2,522,054	2,925,971
Operating lease rentals: premises		2,057,798	1,918,213
Other operating lease rentals		43,849	43,861
Bad debts written off		494,402	635,811
Auditor's remuneration	12	54,115	217,001

These items are included in administrative costs in the income and expenditure account.

8. Tax credit/(charge) on deficit on ordinary activities

Analysis of tax credit/(charge) on ordinary activities

	2007 £	2006 £
United Kingdom corporation tax at 19% (2006:19%) for the year	(5,000)	(10,370)
Adjustments in respect of prior years	10,383	964
Current tax credit/(charge) for the current year	5,383	(9,406)

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: 19% (2006: 19%).

The differences are explained below:

	2007 £	2006 £
Deficit on ordinary activities before taxation	(2,103,732)	(316,209)
Tax at 19% (2006: 19%) thereon	399,709	60,080
Effects of:		
Non taxable income and expenditure	(404,709)	(70,450)
Prior period adjustments	10,383	964
Current tax credit/(charge) for year	**5,383**	**(9,406)**

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	2007 £	2006 £
Salary costs		32,545,384	30,725,870
Social security costs		3,578,413	3,460,117
Employer's pension costs			
Included in administrative costs:			
Current service costs of final salary scheme		1,253,000	1,027,000
Money purchase scheme		2,563,055	2,199,335
Flexible benefit costs		1,784,175	1,596,080
	7	41,724,027	39,008,402
Employer's pension costs			
Included in interest receivable		(137,000)	(35,000)
Included in statement of total recognised gains and losses		173,000	247,000
Total employment costs		41,760,027	39,220,402

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

	2007	2006
Ombudsmen	32	30
Adjudicators	521	510
Other	447	447
	1,000	**987**

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 2004 by an independent actuary using the projected unit method. The valuation due at 1 April 2007 is in the course of preparation and will be available during the year 2007-2008. Independent actuarial advice has been obtained in order to calculate the share of the assets and liabilities of the FSA scheme relating to those present and past employees of the Financial Ombudsman Service.

The 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 2007	**31 March 2006**	**31 March 2005**
	% pa	**% pa**	**% pa**
Inflation	3.2	3.0	2.9
Rate of general long term increase in salaries	4.7	4.5	4.4
Rate of increase to pensions in payment	3.2	2.9	2.8
Discount rate for plan liabilities	5.3	4.9	5.4

(b) ***Mortality assumptions***

Life expectancy at age 60

		31 March 2007 years	31 March 2006 years	31 March 2005 years
Retiring today:	Males	26.3	25.6	25.5
	Females	28.8	28.4	28.3
Retiring in 20 years:	Males	27.6	26.3	26.2
	Females	29.9	29.1	29.1

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

	At 31 March 2007		At 31 March 2006		At 31 March 2005	
	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	8.1	8,027	7.7	8,775	7.7	5,810
Property	7.7	1,063	-	0	-	0
Government bonds	4.7	0	4.3	0	4.7	0
Corporate bonds	5.2	2,862	4.7	1,962	5.2	1,480
Other	5.5	99	4.5	0	4.8	70
Average expected long term rate of return** / Total fair value of assets	7.4	12,051		10,737		7,360

* The asset values at 31 March 2007 and 31 March 2006 use the bid value of assets whereas previous years use the mid value of assets.

** The overall average expected long term 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 rate of return on pension plan assets as advised by our independent actuaries. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed 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 2007.

(d) ***Reconciliation of funded status to balance sheet***

	Value at 31 March 2007 £'000	Value at 31 March 2006 £'000	Value at 31 March 2005 £'000
Fair value of plan assets (see 10 (c)*	12,051	10,737	7,360
Present value of funded plan liabilities (see 10 (f)	(14,603)	(13,009)	(9,640)
Liability recognised on the balance sheet	(2,552)	(2,272)	(2,280)
Related deferred tax	0	0	0
Net pension liability	(2,552)	(2,272)	(2,280)

* The asset values at 31 March 2007 and 31 March 2006 use the bid value of assets whereas previous years use the mid value of assets.

(e) ***Analysis of income and expenditure account charge***

	For the year ending 31 March 2007 £'000	For the year ending 31 March 2006 £'000
Current service cost	1,253	1,027
Past service cost	0	0
Interest cost	667	548
Expected return on pension plan assets	(804)	(583)
Charge recognised in income and expenditure account	1,116	992

(f) ***Changes to the present value of the plan liabilities during the year***

	For the year ending 31 March 2007 £'000	For the year ending 31 March 2006 £'000
Opening present value of plan liabilities	13,009	9,640
Current service cost	1,253	1,027
Interest cost	667	548
Actuarial (gains) / losses on plan liabilities*	(294)	1,810
Net benefits paid out	(32)	(16)
Past service cost	0	0
Closing present value of plan liabilities	14,603	13,009

* 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 2007 £'000	For the year ending 31 March 2006 £'000
Opening fair value of plan assets*	10,737	7,360
Expected return on plan assets	804	583
Actuarial (losses)/gains on plan assets	(467)	1,563
Contributions by the employer	1,009	1,247
Net benefits paid out	(32)	(16)
Closing fair value of plan assets*	12,051	10,737

* The asset values at 31 March 2007 and 31 March 2006 use the bid value of assets whereas previous years use the mid value of assets.

(h) Actual return on plan assets

	For the year ending 31 March 2007 £'000	For the year ending 31 March 2006 £'000
Expected return on plan assets	804	583
Actuarial (loss)/gain on plan assets	(467)	1,563
Actual return on plan assets	337	2,146

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

	For the year ending 31 March 2007 £'000	For the year ending 31 March 2006 £'000	For the year ending 31 March 2005 £'000	For the year ending 31 March 2004 £'000	For the year ending 31 March 2003 £'000
Total actuarial losses	(173)	(247)	(1,270)	(400)	(1,200)
Cumulative amounts of losses recognised in STRGL	(3,290)	(3,117)	(2,870)	(1,600)	(1,200)

(j) ***History of asset values, present value of liabilities, surplus/deficit in the plan and experience gains and losses***

	For the year ending 31 March 2007 £'000	For the year ending 31 March 2006 £'000	For the year ending 31 March 2005 £'000	For the year ending 31 March 2004 £'000	For the year ending 31 March 2003 £'000
Fair value of plan assets*	12,051	10,737	7,360	5,060	3,080
Present value of plan liabilities	(14,603)	(13,009)	(9,640)	(7,060)	(5,250)
Deficit in plan	(2,552)	(2,272)	(2,280)	(2,000)	(2,170)

* The asset values at 31 March 2007 and 31 March 2006 use the bid value of assets whereas previous years use the mid value of assets.

	For the year ending 31 March 2007 £'000	For the year ending 31 March 2006 £'000	For the year ending 31 March 2005 £'000	For the year ending 31 March 2004 £'000	For the year ending 31 March 2003 £'000
Experience (losses) /gains on plan assets	(467)	1,563	70	600	(1,120)
Experience (losses) / gains on plan liabilities**	(38)	(31)	(200)	(470)	120

** This item consists of (losses)/gains 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 £879,000 (2006: £870,000) at the agreed rate of 23.0% (2006: 23.0%) 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 £130,000 (2006: £377,000) to the plan towards funding the deficit.

Defined contribution scheme

The Financial Ombudsman Service made regular contributions totalling £2,563,055 (2006: £2,199,335) to the defined contribution scheme.

11. Directors' remuneration

Directors' remuneration payable during the year amounted to £213,000 (2006: £213,000). The chairman, who is also the highest paid director, was paid £65,000 (2006: £65,000), the audit committee chairman was paid £22,000 (2006: £22,000) and the other directors £18,000 (2006: £18,000).

12. Auditor remuneration

	2007 £	2006 £
Audit	47,712	44,891
Tax	6,403	20,916
Consultancy	0	151,194
	54,115	**217,001**

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

A breakdown of the fees between the former auditor (Deloitte & Touche LLP) and the current auditor (Baker Tilly/Baker Tilly UK Audit LLP) is as follows:

	2007 £	2006 £
Deloitte & Touche LLP		
Audit	0	241
Tax	0	13,916
Consultancy	0	151,194
	0	**165,351**
Baker Tilly/Baker Tilly UK Audit LLP		
Audit	47,712	44,650
Tax	6,403	7,000
Consultancy	0	0
	54,115	**51,650**

13. Tangible assets

	Premises and leasehold improvements	Computer equipment and software	Furniture and equipment	Motor Vehicles	Total
	£	£	£	£	£
Cost					
At 1 April 2006	4,900,241	8,830,998	2,388,403	0	16,119,642
Additions	0	902,730	96,690	9,181	1,008,601
Disposals	0	0	0	0	0
At 31 March 2007	4,900,241	9,733,728	2,485,093	9,181	17,128,243
Depreciation					
At 1 April 2006	2,923,894	6,234,555	1,751,468	0	10,909,917
Charge for year	479,022	1,817,259	223,947	1,826	2,522,054
Disposals	0	0	0	0	0
At 31 March 2007	3,402,916	8,051,814	1,975,415	1,826	13,431,971
Net book value					
At 31 March 2007	**1,497,325**	**1,681,914**	**509,678**	**7,355**	**3,696,272**
At 31 March 2006	**1,976,347**	**2,596,443**	**636,935**	**0**	**5,209,725**

14. Debtors

	2007	2006
	£	£
Trade debtors	4,824,101	6,261,004
Other debtors	1,463,490	1,336,482
Prepayments	1,551,297	1,017,744
	7,838,888	**8,615,230**

15. Creditors: amounts falling due within one year

	2007	2006
	£	£
Trade creditors	611,651	461,480
UK corporation tax	5,000	10,370
Other taxes and social security	983,361	921,886
Other creditors	28,446	147,774
Accruals and deferred income	3,435,020	3,268,913
	5,063,478	**4,810,423**

16. Creditors: amounts falling due after one year

	2007 £	2006 £
Bank loan	7,500,000	7,500,000
	7,500,000	**7,500,000**

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 but this is extended each year by a further year, The amount drawn-down at 31 March 2007 was £7.5m (2006: £7.5m). The interest rate payable is 0.15% per annum above London interbank offered rates. A commitment fee of 0.08% is charged on the outstanding sum on the revolving loan facility not yet drawn down. The Financial Services Authority has guaranteed the loan facility.

17. Financial commitments

Capital commitments are as follows:

	2007 £	2006 £
Contracted for but not provided	659,353	0
	659,353	**0**

The company has entered into a contract for the purchase of a new telephone system to be delivered after 31 March 2007.

18. Operating lease commitments

As at 31 March 2007, the company was committed to making the following payments during the next year, in respect of operating leases:

	Premises 2007 £	Other 2007 £	Premises 2006 £	Other 2006 £
Leases which expire:				
Within one year	0	5,620	0	2,651
Between two and five years	589,495	25,712	132,228	37,363
After five years	1,529,648	0	1,960,928	0

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

Floor	Start of lease	Future break clauses	Future rent reviews	End of lease
1 – 4	November 1999		November 2009	November 2014
6	July 2001		February 2009	February 2014
7 part	December 2003			December 2008
8 part	April 2005	March 2008	December 2009	June 2010
9	May 2004		September 2008	July 2009

19. Related party transactions

The Financial Ombudsman Service, together with the Financial Services Authority, was created as part of the Government's legislation for the financial services market and derives its statutory authority from the Financial Services and Markets Act 2000. The Financial Services Authority has to ensure that the terms of appointment of the directors procure 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 cost of £68,761 for the year ended 31 March 2007 (2006: £65,800).

(b) The Financial Ombudsman Service has entered into a secondment agreement with the Financial Services Authority whereby an employee of the Financial Ombudsman Service has been seconded to the Financial Services Authority for the year 1 October 2006 to 30 September 2007 with an option to extend. The total billed in the year was £24,948 which is included in "Other operating income" (see note 4) of which £4,886 was due at 31 March 2007 and is included in "Other Debtors" (see note 14).

(c) The Financial Services Authority have billed the Financial Ombudsman Service pension scheme administration charges of £109,093 in the year, of which £32,312 related to the year ended 31 March 2006 and £76,781 to the year ended 31 March 2007.

(d) An amount of £1,072,257 was due from the Financial Services Authority at 31 March 2007 (2006: £1,027,563). This was the net balance due following the billing of levies to firms and is included in 'Other debtors' (see note 14).

(e) The Financial Services Authority is the guarantor of the loan facility in the sum of £7,500,000 at 31 March 2007 (see note 16), and also is a party to the lease agreement for four floors at South Quay Plaza as guarantor of performance of the lease in the sum of £1,089,798 per annum.

Other than disclosed above, there were no related party transactions during the year (2006: none).

20. Accumulated surplus

	2007 £	2006 £
Accumulated surplus before net pensions liabilities	4,197,228	6,188,577
Net pensions liabilities	(2,552,000)	(2,272,000)
Accumulated surplus after net pensions liabilities	**1,645,228**	**3,916,577**