# directors' report & financial statements

Financial Ombudsman Service

Financial year 2008 | 09

# 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
John Howard
Elaine Kempson CBE
Kate Lampard
Julian Lee
Roger Sanders OBE
Maeve Sherlock 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

**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 2009 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 2009. During the year, the company had a surplus on ordinary activities after tax of £8,233,189 (2008: deficit of £289,455).

The reported surplus was a substantial improvement on the results for 2008, although this was offset by a significant increase in the deficit relating to the closed defined benefit pension scheme of £4.0m. This has resulted in the level of reserves being £6.2m. Our reserving policy is to retain approximately 5% of expected future annual expenditure, for 2009/10 £4.6m, returning any excess surplus to firms in the following year 2010/11.

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 surplus was £5.0m greater than the budget through a combination of higher than expected income from case fees and lower than anticipated expenses.

Overall income was £3.0m above budget. Whilst income for the annual levy was in line with the budget, higher case fee income reflected an increase in the number of case closures, and a reduction in the number of "free" cases given to firms during the year.

Expenditure was £2.0m below budget reflecting lower than expected depreciation from a lower than anticipated asset base, a one-off refund of business rates relating to prior years, and lower financing charges.

Cash flow remained strong throughout the year, significantly reducing the level of borrowing. The cash flow was greater than expected due to the surplus noted above, coupled with higher deferred income, and a one-off payment relating to a reverse premium on a new lease at the company's office in London.

**Fair review of the business of the company**

*2008/09*
A total of 127,471 complaints were received in 2008/09 which was 3.6% higher than the record number of complaints received in 2007/08 (123,089). This unexpected rise in the caseload was driven by large scale complaints about single issue products. There were over 30,000 new cases about payment protection insurance (PPI) and 18,500 complaints about disputed default and interest charges on credit cards. These two issues made up about 40% of the total caseload.

The number of cases resolved in 2008/09 was 113,949 which represented an increase of 14.3% from 2007/08. Just over half the cases were resolved informally by adjudicators, ie by mediation and recommended settlements. About 40% were resolved as a result of an adjudicator's recommendation and, in 8% of cases, an ombudsman's decision was required. About 57% of all cases resolved were upheld in favour of the complainant. The 15,000 complaints about unauthorised overdraft charges that had to be put on hold whilst the outcome of legal proceedings in the High Court was awaited remained in abeyance throughout the year.

The productivity of adjudicators, defined as the average number of cases resolved per adjudicator per week, was 4.8, an increase of 20% compared with 2007/08, and was in line with the budget, despite the need to recruit and train 175 new adjudicators. Approximately one-third of cases were closed within three months (2007/08 - 42%) and nearly 80% in nine months (2007/08 - 81%).

Following the organisational restructure last year, a new business model has been developed for casehandling. This has included the introduction of outsourcing the more straightforward complaints to external providers. Supported by enhanced quality assurance measures, this has enabled us to respond more quickly to fluctuations in the workload. Although the short term costs of outsourcing are comparatively high compared with those of direct employment, long term employment costs are avoided.

The unit cost was £508 (2007/08 - £529) compared with the budget of £542. This measure is calculated by dividing the total costs before financing charges and any bad debts by the total number of closed cases.

*Future*
Due to recent turmoil in the financial markets and the worsening economic climate, it is anticipated that the incoming caseload will increase to 150,000 complaints in 2009/10, which is 18% more than received in 2008/09. Virtually all types of complaints are expected to increase. Consultation with stakeholders and users of the Service about our budget for 2009/10 confirmed this view.

The current high level of new cases has meant that some consumers and businesses have to wait longer than we would like before complaints can be resolved. To address this, and to deal with the expected level of new cases in 2009/10, we aim to resolve 165,000 complaints in the current year. This will require more resources and we will increase our adjudicators (employed and outsourced) to over 800 by March 2010.

As the numbers of cases resolved is expected to be in excess of incoming new complaints, the level of work-in-progress should fall throughout the year. Where there are large numbers of cases about similar issues, there may be opportunities for increased efficiencies. However these gains need to be offset against working practices in financial businesses where disruption from mergers or cutbacks may have an impact on our ability to resolve cases quickly. The increase in our resources should enable an improvement to be made in the time taken to deal with cases by the end of the year.

Due to the higher number of case closures, income from case fees is expected to increase to £73.4m. The total budget income is forecast to rise to £92.8m and with expenditure expected to be £92.5m, a small surplus of £0.3m is anticipated.

Forecasting incoming caseloads is not an exact science and, in the current economic climate, it is even more uncertain. Looking further forward to 2010/11 and beyond is therefore very speculative. Experience has shown that unexpected surges in the number of complaints about particular products can occur with little warning at any time. This requires flexibility in the management of resources to deal with sudden changes in the caseload. We will continue to develop the new business model for casehandling in conjunction with the enhanced quality assurance programme that is under way.

Further details can be found in the *annual review 2008/09*, the *corporate plan & 2009/10 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 appointed for up to five years initially.

Membership of the board remained unchanged during 2008/09. The directors of the Financial Ombudsman Service Limited during the year, and their attendance at meetings, are shown below as a proportion of the meetings they attended:

| | 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 | 7/10 | - | - | 3/3 | 23.02.08 | 22.02.11 |
| Joe Garner | 10/10 | - | - | 3/3 | 23.02.08 | 22.02.11 |
| John Howard | 9/10 | 3/3 | - | - | 23.02.08 | 22.02.11 |
| Elaine Kempson | 9/10 | - | - | 3/3 | 23.02.08 | 22.02.11 |
| Kate Lampard | 10/10 | *3/3 | 1/1 | - | 23.02.02 | 22.02.10 |
| Julian Lee | 10/10 | 3/3 | 1/1 | *3/3 | 23.02.05 | 22.02.12 |
| Roger Sanders | 10/10 | 3/3 | - | 3/3 | 23.02.05 | 22.02.12 |
| Maeve Sherlock | 10/10 | - | - | 2/3 | 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.

## Fixed assets

The movements in fixed assets during the year are set out in note 14 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.

## 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 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 comprehensive training programmes involving internal and external courses.

*Equal opportunities*

The Financial Ombudsman Service is fully committed to ensuring the fair treatment of all employees, job applicants, 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, gender, pregnancy, disability, colour, race, nationality, ethnic or national origins, sex, religion, belief 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
- 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 16 elected staff representatives who represent all parts of the organisation at a ratio of about one to 55 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.

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. A wide range of in-house and external training is available to all staff. 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.

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 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 board has no involvement in considering individual complaints. 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 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 2008 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, 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. 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 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 three 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. A risk review of the Service's participation in the FSA pension plan by external advisors was considered and further advice was sought. The committee also reviewed the systems for control of expenditure and risk management controls. Key risks identified formed the basis for drawing up the internal audit plan for the year. Various internal audit reports were considered, including –

- information for decision making and MI review
- enquiry and casework administration – and follow up of quality processes
- consumer credit jurisdiction complaints handling
- HR
- risk management review
- core financial systems

During the year the committee invited bids from a range of companies to provide internal audit services. Following consideration of presentations from five firms, the committee appointed KPMG as the Service's internal auditors.

*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 was established in April and 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 pertaining 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
Elaine Kempson
Roger Sanders
Maeve Sherlock

The committee considered the quality policy, quality performance indicators, measures in place to ensure consistency, market research activities and the incorporation of equality & diversity issues into the Service's quality initiatives. It received the findings from a quality assurance review that was undertaken by Deloitte and agreed a plan for follow up work. It also received the Independent Assessor's report for the six months to 30 September 2008.

**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 13 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 was also established and 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*

22 July 2009

## 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 on pages 15 to 36.

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 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 of 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. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition, we 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.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

### 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 as at 31 March 2009 and of its surplus 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**
Chartered Accountants and Registered Auditor
St Philips Point
Temple Row
Birmingham
B2 5AF

22 July 2009

## Income and expenditure account
## for the year ended 31 March 2009

| | Notes | 2009<br>£ | 2008<br>£ |
|---|---|---|---|
| Turnover | 2,3 | 65,711,583 | 55,496,304 |
| Administrative costs | | (57,823,725) | (53,316,403) |
| Exceptional item – restructure costs | 4 | 0 | (2,890,102) |
| Total administrative costs | | (57,823,725) | (56,206,505 |
| | | 7,887,858 | (710,201) |
| Other operating income | 5 | 144,310 | 186,561 |
| **Operating surplus/(deficit)** | | **8,032,168** | **(523,640)** |
| Interest receivable | 6 | 311,957 | 459,649 |
| Interest payable and similar charges | 7 | (44,429) | (200,907) |
| **Surplus/(deficit) on ordinary activities before taxation** | 8 | **8,299,696** | **(264,898)** |
| Tax (charge) on surplus/(deficit) on ordinary activities | 9 | (66,507) | (24,557) |
| **Surplus/(deficit) on ordinary activities after taxation** | | **8,233,189** | **(289,455)** |

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

## Statement of total recognised gains and losses for the year ended 31 March 2009

| | Notes | 2009 £ | 2008 £ |
|---|---|---|---|
| Surplus/(deficit) for the year | | 8,233,189 | (289,455) |
| Actuarial (losses)/gains for the year in respect of the pension scheme | 11(i) | (4,460,000) | 1,107,000 |
| **Total recognised gains for the year** | | **3,773,189** | **817,545** |

Notes a to f to the cash flow statement and notes 1 to 23 to the accounts form an integral part of these financial statements.

## Reconciliation of movements in reserves for the year ended 31 March 2009

| | Notes | 2009 £ | 2008 £ |
|---|---|---|---|
| Total recognised gains for the year | | 3,773,189 | 817,545 |
| Accumulated surplus at 1 April | | 2,462,773 | 1,645,228 |
| **Accumulated surplus at 31 March** | | **6,235,962** | **2,462,773** |

Notes a to f to the cash flow statement and notes 1 to 23 to the accounts form an integral part of these financial statements.

## Balance sheet
## as at 31 March 2009

| | Notes | 2009 £ | 2009 £ | 2008 £ | 2008 £ |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible assets | 14 | | 4,213,445 | | 3,587,497 |
| **Current assets** | | | | | |
| Debtors | 15 | 10,689,236 | | 9,030,206 | |
| Cash at bank and in hand | | 9,633,255 | | 5,984,175 | |
| | | 20,322,491 | | 15,014,381 | |
| **Current liabilities** | | | | | |
| Creditors: amounts falling due within one year | 16 | (12,501,546) | | (8,405,105) | |
| **Net current assets** | | | 7,820,945 | | 6,609,276 |
| **Total assets less current liabilities** | | | 12,034,390 | | 10,196,773 |
| Creditors: amounts falling due after more than one year | 17 | | (250,000) | | (6,500,000) |
| **Net assets, excluding pensions liabilities and provisions** | | | **11,784,390** | | **3,696,773** |
| Provision for dilapidations | 18 | | (336,428) | | 0 |
| Net pensions liabilities | 11 (d) | | (5,212,000) | | (1,234,000) |
| **Net assets, including pensions liabilities** | | | **6,235,962** | | **2,462,773** |
| **Capital and reserves** | | | | | |
| Accumulated surplus | 23 | | 6,235,962 | | 2,462,773 |
| | | | **6,235,962** | | **2,462,773** |

Signed on behalf of the board of directors

Sir Christopher Kelly KCB
*chairman*

22 July 2009

Notes a to f to the cash flow statement and notes 1 to 23 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 22 July 2009.

## Cash flow statement
## for the year ended 31 March 2009

| | Notes | 2009 £ | 2008 £ |
|---|---|---|---|
| Net cash inflow from operating activities | a | 11,731,988 | 3,206,244 |
| Returns on investments and servicing of finance | b | 266,477 | 133,487 |
| Taxation | c | (27,590) | (2,224) |
| Capital expenditure and financial investment | d | (2,071,795) | (1,578,878) |
| Net cash inflow before financing | | 9,899,080 | 1,758,629 |
| *Financing* | | | |
| Movement in long term borrowings | 17 | (6,250,000) | (1,000,000) |
| Increase in cash in the year | e, f | 3,649,080 | 758,629 |

Notes a to f to the cash flow statement and notes 1 to 23 to the accounts form an integral part of these financial statements.

## Notes to the cash flow statement
## for the year ended 31 March 2009

### a. Reconciliation of operating surplus/(deficit) to net cash inflow from operating activities

| | 2009 £ | 2008 £ |
|---|---|---|
| Operating surplus / (deficit) for the year | 8,032,168 | (523,640) |
| Depreciation | 1,445,847 | 1,683,164 |
| Loss on disposal of fixed assets | 0 | 4,489 |
| (Increase) in debtors | (1,659,030) | (1,191,318) |
| Increase in creditors | 4,058,575 | 3,320,549 |
| Increase in provision for dilapidations | 336,428 | 0 |
| Defined benefit pension costs | | |
| Service cost | *746,000* | *1,144,000* |
| Curtailment gain | *0* | *(232,000)* |
| Contributions | | |
| Normal contributions | *(853,000)* | *(849,000)* |
| Additional deficit reduction contributions | *(375,000)* | *(150,000)* |
| | (482,000) | (87,000) |
| **Net cash inflow from operating activities** | **11,731,988** | **3,206,244** |

### b. Returns on investments and servicing of finance

| | 2009 £ | 2008 £ |
|---|---|---|
| Interest received | 311,957 | 335,649 |
| Interest paid | (45,480) | (202,162) |
| | **266,477** | **133,487** |

### c. Taxation

| | 2009 £ | 2008 £ |
|---|---|---|
| UK corporation tax paid | (30,936) | (4,989) |
| UK corporation tax recovered | 3,346 | 2,765 |
| | **(27,590)** | **(2,224)** |

**d. Capital expenditure and financial investment**

| | 2009<br>£ | 2008<br>£ |
|---|---|---|
| Payments to acquire tangible fixed assets | (2,071,975) | (1,579,303) |
| Receipts from sales of tangible fixed assets | 0 | 425 |
| | **(2,071,975)** | **(1,578,878)** |

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

| | 2009<br>£ | 2008<br>£ |
|---|---|---|
| Increase in cash | 9,899,080 | 1,758,629 |
| Movement in net debt for year | 9,899,080 | 1,758,629 |
| Net debt at 1 April | (515,825) | (2,274,454) |
| **Net debt at 31 March** | **9,383,255** | **(515,825)** |

**f. Analysis of changes in net debt**

| | at<br>1 April<br>2008<br>£ | Cash flows<br><br>£ | at<br>31 March<br>2009<br>£ |
|---|---|---|---|
| Cash at bank and in hand | 5,984,175 | 3,649,080 | 9,633,255 |
| Long term loans | (6,500,000) | 6,250,000 | (250,000) |
| | (515,825) | 9,899,080 | 9,383,255 |

## Notes to the accounts
## for the year ended 31 March 2009

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 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). Firms 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 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 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 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

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

Firms 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

| | 2009<br>£ | 2008<br>£ |
|---|---|---|
| Annual levy | 19,279,398 | 19,589,154 |
| Case fees | 46,432,185 | 35,907,150 |
| | **65,711,583** | **55,496,304** |

## 4. Exceptional item – restructure costs

Due to the anticipated reduction in the previously high level of complaints about mortgage endowments, it had become evident by the middle of 2007 that fewer staff were required. A restructure programme was undertaken in full consultation with the staff Information and Consultation Council (ICC) throughout the process. The objective was to maximise the number of voluntary redundancies whilst retaining the skills required for the future. No compulsory redundancies were required and about 150 staff left the Service through voluntary redundancy by 31 March 2008.

Total costs for the year ended 31 March 2008 were £2,890,102 which included a curtailment gain of £232,000 in relation to the final salary pension. See note 11(e) and 11 (f).

## 5. Other operating income

| | 2009 £ | 2008 £ |
|---|---|---|
| Publications | 143,242 | 135,520 |
| Miscellaneous | 1,068 | 51,041 |
| | **144,310** | **186,561** |

## 6. Interest receivable and similar income

| | 2009 £ | 2008 £ |
|---|---|---|
| Bank interest | 270,125 | 335,520 |
| Other interest | 41,832 | 129 |
| Interest cost on pension plan liabilities | (891,000) | (800,000) |
| Expected return on pension plan assets | 891,000 | 924,000 |
| | **311,957** | **459,649** |

## 7. Interest payable and similar charges

| | 2009 £ | 2008 £ |
|---|---|---|
| Bank loan and overdraft | 44,429 | 200,907 |
| Other interest | 0 | 0 |
| | **44,429** | **200,907** |

## 8. Surplus/(deficit) on ordinary activities before taxation

| | Notes | 2009 £ | 2008 £ |
|---|---|---|---|
| This is stated after charging: | | | |
| Staff costs | 10 | 37,241,329 | 40,315,935 |
| Depreciation | 14 | 1,445,847 | 1,683,164 |
| Loss on disposal of tangible fixed assets | | 0 | 4,489 |
| Operating lease rentals: premises | | 2,010,242 | 2,058,964 |
| Operating lease rentals: other | | 41,112 | 44,113 |
| Bad debts written off | | 362,858 | 284,776 |
| Auditor's remuneration | 13 | 63,381 | 79,158 |
| Exceptional item – restructure costs | 4 | 0 | 2,890,102 |

These items are included in administrative costs in the income and expenditure account apart from the exceptional item which is separately disclosed.

## 9. Tax (charge) on surplus/(deficit) on ordinary activities

*Analysis of tax (charge) on ordinary activities*

| | 2009 £ | 2008 £ |
|---|---|---|
| United Kingdom corporation tax at 21% (2008:20%) for the year | (66,250) | (30,679) |
| Adjustments in respect of prior years | (257) | 6,122 |
| Current tax (charge) for the current year | (66,507) | (24,557) |

*Factors affecting tax charge for the current year*

The tax assessed for the year is higher than that resulting from applying the standard rate of corporation tax in the UK: 20% (2008: 20%).

The differences are explained below:

| | 2009 £ | 2008 £ |
|---|---|---|
| Surplus/(deficit) on ordinary activities before taxation | 8,299,696 | (264,898) |
| Tax at 21% (2008: 20%) thereon | 1,742,936 | 52,980 |
| Effects of: | | |
| Non taxable income and expenditure | (1,809,186) | (83,659) |
| Prior period adjustments | (257) | 6,122 |
| Current tax (charge) for year | **(66,507)** | **(24,557)** |

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

## 10. Staff costs

| | Notes | 2009 £ | 2008 £ |
|---|---|---|---|
| Salary costs | | 29,203,469 | 31,153,220 |
| Social security costs | | 3,210,115 | 3,465,780 |
| Employer's pension costs | | | |
| Included in administrative costs: | | | |
| Current service costs of final salary scheme | | 746,000 | 1,144,000 |
| Money purchase scheme | | 2,662,931 | 2,761,685 |
| Flexible benefit costs | | 1,418,814 | 1,791,250 |
| | 8 | 37,241,329 | 40,315,935 |
| Salary costs | | | |
| Included in exceptional item – redundancy costs | | 0 | 2,886,021 |
| Employer's pension costs | | | |
| Included in interest receivable | | 0 | (124,000) |
| Included in exceptional item – curtailment gain | | 0 | (232,000) |
| Included in statement of total recognised gains and losses | | 4,460,000 | (1,107,000) |
| Total employment costs | | 41,701,329 | 41,738,956 |

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

| | 2009 | 2008 |
|---|---|---|
| Ombudsmen | 34 | 31 |
| Adjudicators | 410 | 483 |
| Other | 349 | 383 |
| | **793** | **897** |

## 11. 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.

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 2009** | **31 March 2008** | **31 March 2007** |
|---|---|---|---|
| | **% pa** | **% pa** | **% pa** |
| Inflation | 3.7 | 3.7 | 3.2 |
| Rate of general long term increase in salaries | 5.2 | 5.2 | 4.7 |
| Rate of increase to pensions in payment | 3.5 | 3.6 | 3.2 |
| Discount rate for plan liabilities | 6.3 | 6.6 | 5.3 |

*(b)* ***Mortality assumptions***

**Life expectancy at age 60**

| | | **31 March 2009** | **31 March 2008** | **31 March 2007** |
|---|---|---|---|---|
| | | **years** | **years** | **years** |
| Age 60 at the balance sheet date | Males | 27.4 | 26.9 | 26.3 |
| | Females | 29.3 | 29.0 | 28.8 |
| Age 60 in 20 years after the balance sheet date | Males | 29.5 | 29.1 | 27.6 |
| | Females | 31.3 | 30.2 | 29.9 |

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

| | at 31 March 2009 | | at 31 March 2008 | | at 31 March 2007 | |
|---|---|---|---|---|---|---|
| | **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 | 8.0 | 6,610 | 8.0 | 7,817 | 8.1 | 8,027 |
| Property | 7.0 | 794 | 7.0 | 1,099 | 7.7 | 1,063 |
| Corporate bonds | 5.8 | 2,950 | 5.4 | 3,060 | 5.2 | 2,862 |
| Other | 1.6 | 138 | 6.0 | 134 | 5.5 | 99 |
| Combined* | 7.2 | 10,492 | 7.2 | 12,110 | 7.4 | 12,051 |

* 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 2009.

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

| | **Value at 31 March 2009 £'000** | **Value at 31 March 2008 £'000** | **Value at 31 March 2007 £'000** |
|---|---|---|---|
| Fair value of plan assets (see 11 (c)) | 10,492 | 12,110 | 12,051 |
| Present value of funded defined benefit obligations (see 11 (f)) | (15,704) | (13,344) | (14,603) |
| Liability recognised on the balance sheet | (5,212) | (1,234) | (2,552) |
| Related deferred tax | 0 | 0 | 0 |
| Net pension liability | (5,212) | (1,234) | (2,552) |

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

| | For the year ending 31 March 2009 £'000 | For the year ending 31 March 2008 £'000 |
|---|---|---|
| Current service cost | 746 | 1,144 |
| Past service cost | 0 | 0 |
| Interest cost | 891 | 800 |
| Expected return on plan assets | (891) | (924) |
| Curtailment gain | 0 | (232) |
| Charge recognised in income and expenditure account | 746 | 788 |

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

| | For the year ending 31 March 2009 £'000 | For the year ending 31 March 2008 £'000 |
|---|---|---|
| Opening defined benefit obligation | 13,344 | 14,603 |
| Current service cost | 746 | 1,144 |
| Interest cost | 891 | 800 |
| Actuarial losses / (gains) on plan liabilities* | 1,144 | (2,836) |
| Net benefits paid out | (421) | (135) |
| Past service cost | 0 | 0 |
| Curtailment gain | 0 | (232) |
| Closing defined benefit obligation | 15,704 | 13,344 |

* 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 2009 £'000** | **For the year ending 31 March 2008 £'000** |
|---|---|---|
| Opening fair value of plan assets | 12,110 | 12,051 |
| Expected return on plan assets | 891 | 924 |
| Actuarial (losses) on plan assets | (3,316) | (1,729) |
| Contributions by the employer | 1,228 | 999 |
| Net benefits paid out | (421) | (135) |
| Closing fair value of plan assets | 10,492 | 12,110 |

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

| | **For the year ending 31 March 2009 £'000** | **For the year ending 31 March 2008 £'000** |
|---|---|---|
| Expected return on plan assets | 891 | 924 |
| Actuarial (loss) on plan assets | (3,316) | (1,729) |
| Actual return on plan assets | (2,425) | (805) |

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

| | **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** | **For the year ending 31 March 2005 £'000** |
|---|---|---|---|---|---|
| Total actuarial (losses)/gains | (4,460) | 1,107 | (173) | (247) | (1,270) |
| Cumulative amounts of losses recognised in STRGL | (6,643) | (2,183) | (3,290) | (3,117) | (2,870) |

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

| | 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 | For the year ending 31 March 2005 £'000 |
|---|---|---|---|---|---|
| Fair value of plan assets* | 10,492 | 12,110 | 12,051 | 10,737 | 7,360 |
| Defined benefit obligation | (15,704) | (13,344) | (14,603) | (13,009) | (9,640) |
| Deficit in plan | (5,212) | (1,234) | (2,552) | (2,272) | (2,280) |

* The asset values at 31 March 2009, 31 March 2008, 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 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 | For the year ending 31 March 2005 £'000 |
|---|---|---|---|---|---|
| Experience (losses)/gains on plan assets | (3,316) | (1,729) | (467) | 1,563 | 70 |
| Experience (losses)/gains on plan liabilities** | (62) | 121 | (38) | (31) | (200) |

** 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 £853,000 (2008: £849,000) at the agreed rate of 29.5% (2008: 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 £375,000 (2008: £150,000) to the plan towards funding the deficit.

For the year ended 31 March 2010, the Financial Ombudsman Service estimates that it will make regular contributions totalling £860,000 and lump sum contributions of £400,000 towards funding the deficit.

*Defined contribution scheme*

The Financial Ombudsman Service made regular contributions totalling £2,662,931 (2008: £2,761,685) to the defined contribution scheme.

## 12. Directors' remuneration

Directors' remuneration payable during the year amounted to £251,000 (2008: £234,500). The chairman, who is also the highest paid director, was paid £73,500 (2008: £70,000), the audit committee chairman was paid £25,750 (2008: £24,500), the quality committee chairman was paid £25,750 (2008: £20,000) and the other directors £21,000 (2008: £20,000).

## 13. Auditor's remuneration

| | **2009** £ | **2008** £ |
|---|---|---|
| Audit | 54,501 | 59,156 |
| Tax | 8,880 | 20,002 |
| | **63,381** | **79,158** |

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

## 14. Tangible assets

| | **Leasehold improvements and premises fees** £ | **Computer equipment and software** £ | **Furniture and equipment** £ | **Motor Vehicles** £ | **Total** £ |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2008 | 4,900,241 | 10,674,114 | 2,487,002 | 9,181 | 18,070,538 |
| Additions | 78,294 | 1,385,657 | 607,844 | 0 | 2,071,795 |
| Disposals | 0 | 0 | 0 | 0 | 0 |
| At 31 March 2009 | 4,978,535 | 12,059,771 | 3,094,846 | 9,181 | 20,142,333 |
| **Depreciation** | | | | | |
| At 1 April 2008 | 3,790,424 | 8,551,925 | 2,136,441 | 4,251 | 14,483,041 |
| Charge for year | 375,169 | 919,592 | 148,667 | 2,419 | 1,445,847 |
| Disposals | 0 | 0 | 0 | 0 | 0 |
| At 31 March 2009 | 4,165,593 | 9,471,517 | 2,285,108 | 6,670 | 15,928,888 |
| **Net book value At 31 March 2009** | **812,942** | **2,588,254** | **809,738** | **2,511** | **4,213,445** |
| **At 31 March 2008** | **1,109,817** | **2,122,189** | **350,561** | **4,930** | **3,587,497** |

## 15. Debtors

| | 2009<br>£ | 2008<br>£ |
|---|---|---|
| Trade debtors | 7,432,266 | 4,895,740 |
| Other debtors | 2,229,995 | 3,283,204 |
| Prepayments | 1,026,975 | 851,262 |
| | **10,689,236** | **9,030,206** |

## 16. Creditors: amounts falling due within one year

| | 2009<br>£ | 2008<br>£ |
|---|---|---|
| Trade creditors | 1,828,180 | 566,699 |
| UK corporation tax | 66,250 | 27,333 |
| Other taxes and social security | 930,654 | 925,187 |
| Other creditors | 12,229 | 10,186 |
| Accruals and deferred income | 9,664,233 | 6,875,700 |
| | **12,501,546** | **8,405,105** |

## 17. Creditors: amounts falling due after one year

| | 2009<br>£ | 2008<br>£ |
|---|---|---|
| Bank loan | 250,000 | 6,500,000 |
| | **250,000** | **6,500,000** |

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. 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 2009 was £0.25m (2008: £6.5m). 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 had previously guaranteed the loan facility but were released from this guarantee in February 2008.

## 18. Provision for dilapidations

| | 2009<br>£ | 2008<br>£ |
|---|---|---|
| Provision for dilapidations | 336,428 | 0 |
| | **336,428** | **0** |

The Financial Ombudsman Service received an amount of £336,428 from the former tenant of the 7th floor of South Quay Plaza 2, 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.

## 19. Financial commitments

Capital commitments are as follows:

| | 2009<br>£ | 2008<br>£ |
|---|---|---|
| Contracted for but not provided | 0 | 0 |
| | **0** | **0** |

## 20. Operating lease commitments

As at 31 March 2009, the company was committed to making the following payments during the next year, in respect of operating leases:

| | Premises<br>2009<br>£ | Other<br>2009<br>£ | Premises<br>2008<br>£ | Other<br>2008<br>£ |
|---|---|---|---|---|
| Leases which expire: | | | | |
| Within one year | 0 | 14,139 | 99,171 | 12,594 |
| Between two and five years | 606,813 | 12,294 | 282,780 | 11,086 |
| After five years | 1,733,110 | 0 | 1,529,648 | 0 |

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

| Floor | Start of lease | Future break clauses | Future and ongoing rent reviews | End of lease |
|---|---|---|---|---|
| 1 – 4 | November 1999 | | November 2009 | November 2014 |
| 6 | July 2001 | | February 2009 | February 2014 |
| 7 | December 2008 | | September 2010 | November 2014 |
| 9 | September 2008 | | | September 2013 |

## 21. 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 £74,800 for the year ended 31 March 2009 (2008: £71,910).

(b) The Financial Ombudsman Service entered into a secondment agreement with the Financial Services Authority whereby an employee of the Financial Ombudsman Service was seconded to the Financial Services Authority for the year 1 October 2006 to 30 September 2007 which period was subsequently extended to 31 March 2008. The employee left employment at 31 January 2008. The total billed in the year was £Nil (2008: £47,351) which is included in "Other operating income" (see note 5). The balance due at 31 March 2009 is £Nil (2008: £6,900) and is included in "Other Debtors" (see note 15).

(c) 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 2009 is £113,320 (2008: £116,102).

(d) An amount of £1,764,120 was due from the Financial Services Authority at 31 March 2009 (2008: £2,781,198). This was the net balance due following the billing of levies to firms and is included in 'Other debtors' (see note 15).

(e) 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 (2008: none).

## 22. Post balance sheet events

The Financial Ombudsman Service entered into a contract in June 2009 for the use of two floors of South Quay Plaza 3 at a rent of £1,056,011 per annum. The lease runs until 24 June 2012 with a break clause in June 2011.

## 23. Accumulated surplus

| | 2009 | 2008 |
|---|---|---|
| | £ | £ |
| Accumulated surplus before net pensions liabilities | 11,447,962 | 3,696,773 |
| Net pensions liabilities | (5,212,000) | (1,234,000) |
| Accumulated surplus after net pensions liabilities | **6,235,962** | **2,462,773** |