Financial Ombudsman Service

annual report and accounts

for the year ended 31 March 2016

HC 309

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about the financial ombudsman service

we were set up under the Financial Services and Markets Act 2000 to resolve individual disputes between consumers and financial businesses – fairly, reasonably, quickly and informally

we handle complaints about all kinds of money matters – from insurance and mortgages to savings and payday loans

if a financial business isn't able to resolve a customer complaint, we can step in to settle the dispute. But the business should have the chance to sort things out itself first

we're independent and impartial. When we decide a complaint, we look carefully at both sides of the story and weigh up all the facts

if we decide the business has treated its customer fairly, we'll explain why. But if we decide the business has acted wrongly, we can order it to put matters right

our service is free to consumers and we operate on a not-for-profit basis

consumers don't have to accept any decision we make. But if they accept an ombudsman's decision, it's binding both on them and the business

we don't write the rules for financial businesses – or fine them if rules are broken. That's the job of the regulator

everyone can learn somethingfrom complaints – so that what's gone wrong in the past needn't happen again. This is why we have a crucial role in sharing what we see – to help prevent future problems

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keeping fairness at our heart – being fair and feeling fair

introduction

We were set up under the Financial Services and Markets Act 2000, and our job is to resolve individual complaints between financial businesses and their customers – fairly, reasonably, quickly and informally. We can help with concerns and complaints about all kinds of money matters – from insurance and mortgages to savings and payday loans. Our service is free to consumers.

If a financial business can't resolve their customer's complaint, we can step in. But the business must have the chance to sort things out first.

We're independent and unbiased. We listen carefully to different perspectives – look at the facts about what's happened – and find a way forward that helps both sides move on. If we decide that a business has acted fairly, we'll explain why. But if we decide they've acted unfairly, we'll use our power to put things right.

We're committed to working openly and transparently – and we're accountable to the public and our stakeholders in a number of ways. For example, we consult openly on our plans and budget each year; our budget is subject to approval by the Financial Conduct Authority (FCA); and these accounts are laid before Parliament. We're regularly called to give evidence to Parliamentary committees. And we publish significant amounts of information and insight on our website, which is available in a range of accessible formats.

We don't write the rules for financial businesses – or fine them if rules are broken. That's the job of the regulator – the FCA. But we do work closely with the FCA – and with representatives of the financial services industry and of consumers – sharing insight from the complaints we see, to help prevent problems in the future.

our job is to resolve individual complaints between financial businesses and their customers – fairly, reasonably, quickly and informally

2015-2016 – our year at a glance

we answered 1,631,955 enquiries from consumers – over 5,000 each working day

excluding PPI, we resolved two thirds of complaints within three months

we took on one in five of these enquiries for a more detailed investigation – a total of 340,899 new complaints

we resolved 438,802 complaints – almost 100,000 more than we received

75% of people whose complaints we resolved rated us positively. And of those who felt they hadn't got the outcome they'd hoped for, 57% still gave us positive feedback – a rise of 16% on last year

56% of new complaints were about the sale of payment protection insurance (PPI) – 188,712 complaints overall

complaints about packaged bank accounts more than doubled – while complaints about credit broking fell by more than half

more than half of the total number of complaints we dealt with involved four banking groups – while 4,076 financial businesses accounted for just 3% of complaints overall awareness of the ombudsman continued to rise – with nearly nine in ten people having some awareness of our service

the proportion of people from an unskilled background (the DE socio-economic group) who used our service rose by just under half

we operated on a cost base of £259.9 million with 3,676 employees at the end of the year

women accounted for more than half our ombudsmen

more than nine in ten of the businesses and consumer advisers who met us face to face agreed they got clear, useful answers to take back to their organisation

reflecting on the mass mis-selling of payment protection insurance (PPI), the National Audit Office found that *"The Ombudsman has trebled in size in response, without any evidence of a fall in the quality of its decision-making"*

we've continued our focus on efficiency and bearing down on costs – making savings on contracts ranging from stationery to recruitment

we were awarded Public Service Organisation of the Year 2016 by the National Centre for Diversity

chairman's statement

At this time of year we have the opportunity to reflect both on our achievements and on our purpose. The achievements are a tribute to the commitment and professionalism of our people for which I am hugely thankful. The figures show a year of substantial progress in settling complaints, in focusing on customer satisfaction both for consumers and businesses, and in making inroads into the volumes of cases with which the fall-out of payment protection insurance inevitably left us.

But, important though it is that we have resolved almost 100,000 more complaints than we have received this year, this is only part of the picture. In a perfect world nothing would go wrong – and there would be no need for complaints handling at all. But that world does not exist – and probably never will – which brings us back to our purpose.

It would be possible for us to judge complaints on the basis of what is fair and leave it at that. That could be efficiency of a sort, but not of a sort that we would ever espouse. That is why we set such store by our answers not only being fair, but feeling so. And if we can enable consumers and financial providers to identify and focus on the real underlying concerns, and get them resolved quickly and informally, everyone wins.

This is why we have continued to streamline our own internal processes this year; and I have been encouraged by and grateful for the readiness of financial providers to work with us in helping to do this. Results are encouraging. Among consumers whose complaints we have not upheld, a significant majority are satisfied nevertheless, feeling that they have been listened to and that they have received a clear explanation as to how things stand. So often, this satisfaction is just a question of our being able to step in as early as possible – to talk people through the reasons and the complexities behind their problem.

Of course some complaints may still involve reams of paper going back years. But the main thing is that we are more flexible, gearing our approach to the fairest and quickest result. There are lots of issues to be decided along the way, but I believe that we have a genuinely stronger partnership with financial providers than ever before, with the shared aspiration of fairer, quicker outcomes for their customers.

I have also been encouraged by the strength of our relationship with the Financial Conduct Authority (FCA). While respecting our different responsibilities and boundaries, we have continued to work together constructively to address our common concerns, to the advantage of all our customers.

As ever, I should record my gratitude to my board for their unfailing wisdom and support. Gwyn Burr left us during the year, and I thank her for her insights and the customer focus she brought: we were extremely lucky to secure Gill Whitehead as her successor.

Sir Nicholas Montagu KCB
chairman, Financial Ombudsman Service

7 July 2016

fairer, quicker outcomes for customers

chief executive and chief ombudsman's report

In March 2016 we received our one-and-a-half millionth complaint about payment protection insurance (PPI) – accounting for half of all the complaints we've ever received since we were set up. These volumes of complaints – and the rate at which they're still arriving each week – reflect the scale of the challenge that remains, two years after the peak of PPI, of fully restoring trust in financial services.

I'm encouraged that the recent Financial Advice Market Review, carried out by HM Treasury and the Financial Conduct Authority (FCA), is supportive of our role in resolving complaints, as well as the wider work we do. And I'm confident that we've largely met the challenges we set ourselves at the beginning of the year – helping people move on from past unfairness, while building a service that's fit for the future.

Fairness is fundamental to our work at the ombudsman. It's something that's continued to guide us throughout 2015/2016 – from the way we've approached each problem that consumers have referred to us, to the way we've managed and developed our service, and the way we've shared our insight and experience.

"... keeping fairness at our heart – being fair and feeling fair ..."

But if one thing's clear from the problems we see, it's that there's no set formula for fairness. And for our answers to feel fair, we need to show we've understood what really matters to the individual people involved. So it's reassuring that, once again this year, a significant majority of businesses and consumers agreed that we got to grips with the problem they brought to us.

"... providing insight to encourage fairness ..."

Maintaining our customers' confidence in our service depends on our answers being clearly and consistently fair. To give greater clarity and certainty around what we believe fairness looks like, during 2015/2016 we published around 35,000 of our ombudsmen's decisions. And we've continued to provide insight and promote discussion around problems we're consistently seeing – including ageing and vulnerability, small businesses' experience of financial services, and the never-ending evolution of scams.

We hear both sides of every story – in hundreds of thousands of individual circumstances each year. The window this gives us into changing attitudes and wider concerns – together with our horizon-scanning work – means we're often able to identify emerging patterns and trends.

So it's essential that we maintain our close relationship with the FCA, who can take action to prevent problems from escalating. Over the last year, we've supported the FCA's work around a wide range of key issues and themes. Following the Financial Advice Market Review setup to help stimulate the development of a market which delivers affordable advice and guidance to everyone, over the coming months we'll be ensuring we're making the very best contribution we can towards fairness in this area.

And in response to the persistent activity of claims managers, our relationship with the Ministry of Justice and the Claims Management Regulator – as well as our frank dialogue with claims managers themselves – has helped to reduce the unfair burden of inappropriate claims, on us as well as on financial businesses.

"… be trusted and respected – we're the people who listen and know what to do …"

It's essential that our approach is understood and applied on the complaints front-line – where millions of individual decisions about fairness are made every day. So once again this year, at our workshops for businesses, we've challenged complaints handlers to find fair answers to some of the toughest disputes we see.

We've met hundreds of small financial businesses – who may not know the ins-and-outs of the ombudsman, because their customers rarely, if ever, complain. And we've continued to engage with trade associations and networks – who've again helped us to identify and respond to their members' questions and concerns. The volumes of calls to our technical helpline – more than 23,000 in 2015/2016 – are a good reflection that people on the frontline of financial services continue to look to us for clarity and common sense.

To make sure this continues to be the case, this year we've continued to support our people to gain, collectively, hundreds of industry-recognised qualifications. And to make sure we're able to respond flexibly to changes in demand on our service, we've focused on developing our capability and capacity to handle a greater breadth of problems – which increasingly cut across traditional categories of financial services.

I know that our stakeholders – and particularly the financial businesses who fund us – expect a service that's value for money, as well as having expertise. Our focus on efficiency means that, over the course of 2015/2016, we've provided our

"… be recognised as well run and efficient …"

service at a lower cost than budgeted, at the same time as resolving more complaints than we'd planned. Two thirds of our work was again paid for by the largest businesses whose customers use us the most. So while we once again froze our individual case fees for businesses, more than nine in ten businesses whose customers complained to us didn't actually pay any case fee at all.

Unfortunately, we've still needed to invest considerable resources to put right the mis-selling problems of the past. Years after the peak of the scandal, the fall-out of mis-sold PPI has continued to have an impact on our work. And uncertainty resulting from the Supreme Court case of *Plevin vs Paragon Finance* – involving the level of commission on a PPI policy – meant we haven't been able to progress a significant number of cases as quickly as we would have liked.

This is clearly disappointing – and I'm grateful for our customers' ongoing patience and cooperation. I'm determined to make sure we continue to use our experience of PPI to prevent unfairness on this scale in the future.

But despite the continuing challenge presented by PPI, we've remained focused on ensuring we're ready for the future. In 2015/2016, the new ways of working that we've been trialing over recent years have helped us to give fair answers increasingly quickly and informally – meaning we can continue to provide a relevant, accessible service. In all our work other than PPI, we've resolved two thirds of

"… making sure we reach and help those who need us …"

complaints within three months. We've also shown we can reach the standards expected of us under the EU directive on alternative dispute resolution (ADR) – after being approved as an official ADR provider in July 2015.

These improvements are crucial if we're to reach people who are turned off by the perceived bureaucracy of the "complaints process". As we've continued to develop our digital services this year, thousands more people have got in touch directly with us from a mobile device.

We've continued to develop our online resources – helping people to find fair answers without our direct involvement. And with people increasingly using social media to complain, during the year we provided answers and direction in thousands of online conversations.

But we recognise that not everyone is – or wants to be – online. Reflecting this, over the course of the year we received over 1.6 million enquiries from people who wanted to talk through the problem they were having. We've looked for new ways to engage with local communities – including meeting hundreds of local people and businesses in Birmingham's Bullring shopping centre.

We've again shared our experience with front-line consumer advisers – who help us reach people who may not know about us, or feel confident contacting us themselves. Together with featuring in thousands of media stories, this means we've been able to encourage fairness without the costs of local offices – giving practical support to communities across the UK. While public trust in financial services remains a work in progress, it's reassuring that consumer confidence in us has grown– with three in four UK adults now saying they trust us.

The diversity of the communities who rely on us continues to be reflected in the backgrounds and experience that our people bring to their everyday

"… remembering what matters …"

work. And at a time when, disappointingly, women still remain under-represented in senior roles in many areas of business, I'm pleased that women account for half our professional leaders at the ombudsman.

But true diversity has to be more than just quotas and figures. For us it's part of our commitment to making fairness central to everything we do.

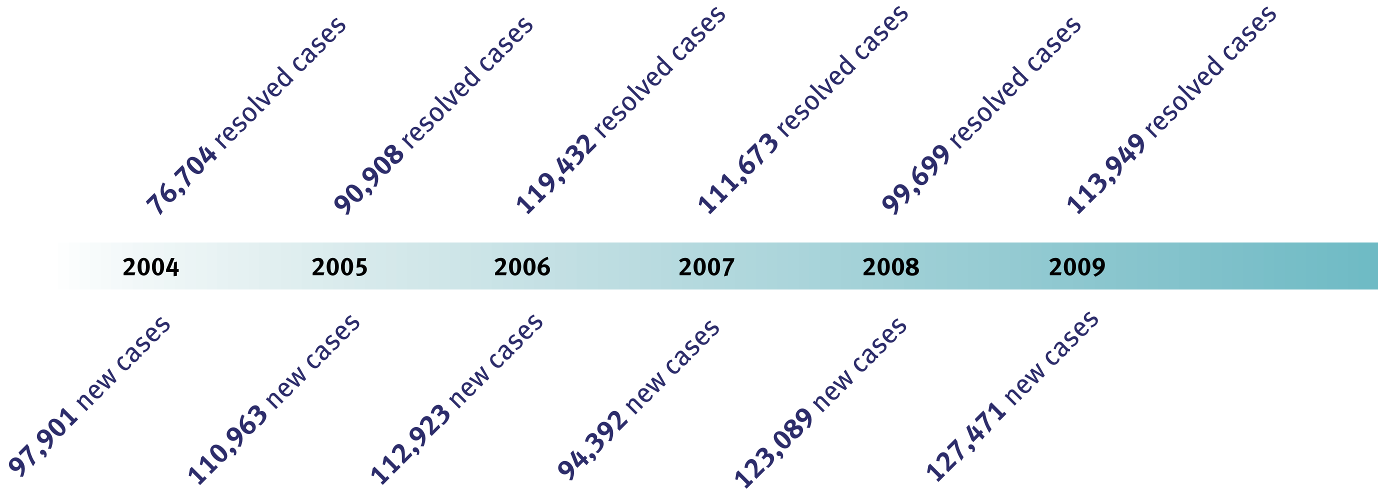
It's clear there's still a lot of hard work to be done before we can all finally move on from PPI. The progress we've made speaks to the enthusiasm and hard work of the people who work here – for which, once again, I'm incredibly grateful.

As financial businesses look to innovate and adapt, new questions about fairness will be asked. As this happens, the types of conversations we've been having this year – sharing our experience and providing common sense and clarity – will become only more important.

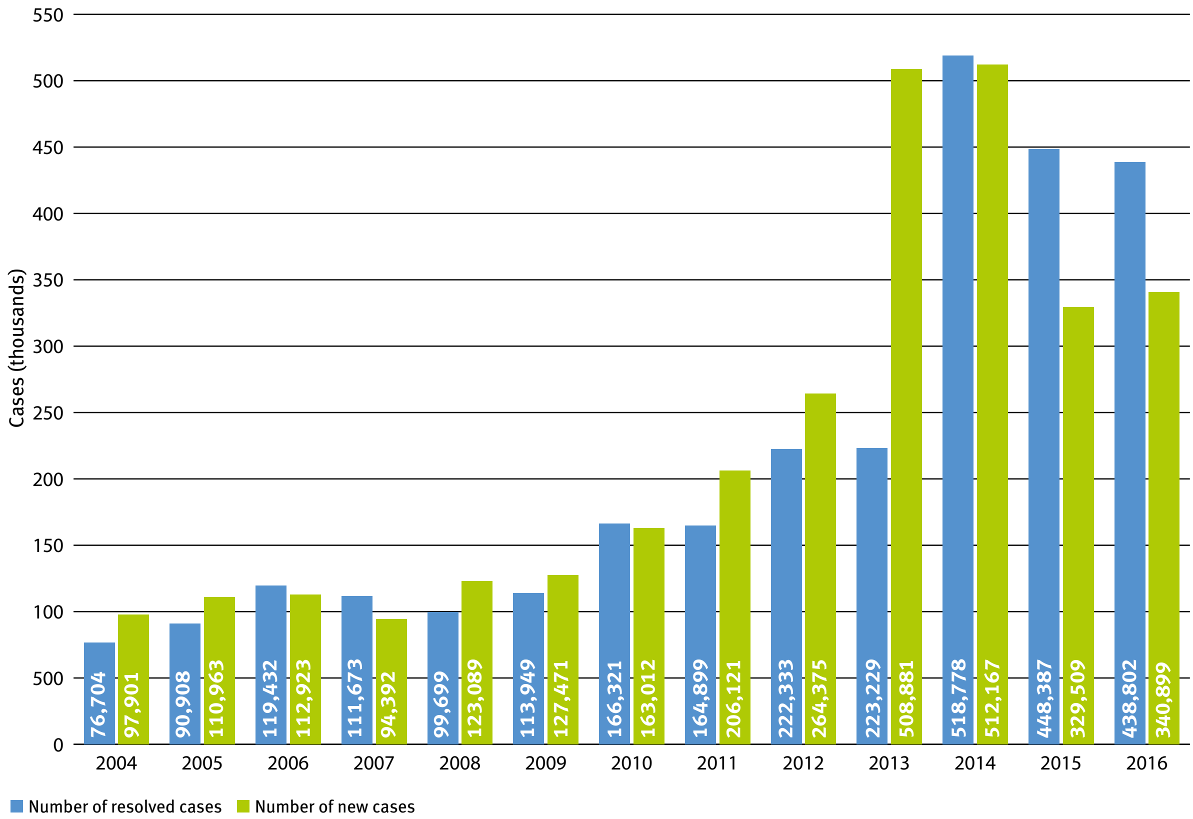
That's a big responsibility. But I'm confident that we're on a sure footing to find answers to those questions – encouraging fairness and confidence into the future.

Caroline Wayman
chief executive and chief ombudsman

7 July 2016



our workload year by year



2010	2011	2012	2013	2014	2015	2016
166,321 resolved cases	164,899 resolved cases	222,333 resolved cases	223,229 resolved cases	518,778 resolved cases	448,387 resolved cases	438,802 resolved cases
163,012 new cases	206,121 new cases	264,375 new cases	508,881 new cases	512,167 new cases	329,509 new cases	340,899 new cases

strategic report

This strategic report includes information about our objectives, our approach to managing risks, our performance, and other information about our organisation. This is in line with the requirements of the *Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013*.

our commitments for 2015/2016

At the start of 2015/2016 we published our plans and commitments for the year ahead. As our chief executive & chief ombudsman's report highlights, we've made good progress in meeting all five of the commitments we made.

commitment 1: keeping fairness at our heart – being fair and feeling fair

Fairness is fundamental to our role at the ombudsman – but it isn't something that's easy to define. For our answers to *feel* fair, we need to show we've understood what matters to the people involved. In 2015/2016:

- A significant majority of our customers – up to nine in ten in some complaint areas – agreed that we'd listened to them; that we'd got to grips with their problem; and that we'd given clear answers so they knew where they stood.
- Three quarters of people gave us positive feedback about our service, whether their complaint was upheld or not.
- To give greater certainty and clarity about what we believe fairness looks like, we published around 35,000 ombudsmen's final decisions – bringing the total to 100,000 – and improved the accessibility of our online database of decisions.
- We made it easier to access our service online – with tens of thousands of people contacting us direct from our website or a mobile device, minimising paperwork and process.
- We provided practical problem-solving support with more than 1.6 million written and phone enquiries.
- After carrying out the *Financial Advice Market Review*, HM Treasury and the Financial Conduct Authority (FCA) said they are supportive of our role in resolving complaints, as well as the wider work we do.

commitment 2: be trusted and respected – we're the people who listen and know what to do

We want to be trusted and respected – and to maintain our customers' confidence, we put knowledge and professionalism at the heart of everything we do. In 2015/2016:

- 75% of adults across the UK said they would trust us – up from 71% last year. In comparison, research suggests that trust in financial services remains at just over 50%.
- We continued to invest in our people's skills and expertise – supporting our people to gain, in total, nearly 700 industry-recognised qualifications.
- We continued to improve the way we share our knowledge – with all our case handlers now using our new online knowledge platform – helping them to effectively find and apply knowledge that's relevant to the problem they're resolving.
- We continued to strengthen our ombudsmen's coaching and mentoring role – at the core of the professional leadership of our service.
- More than seven in ten of the businesses who dealt with us agreed that we'd listened to them; that we'd got to grips with their problem; and that we'd given clear answers so they knew where they stood.
- We met hundreds of small financial businesses and continued to engage with trade associations and networks, who have helped us to identify and respond to their members' questions and concerns.

commitment 3: be recognised as well run and efficient

As a demand-led service, it's difficult to forecast accurately the number and nature of complaints that will be referred to us in the future. Even so, we want to demonstrate to our stakeholders – particularly the businesses who fund us – that our service is well-run and provides them with value for money. In 2015/2016:

- We've focused on building our people's capability and capacity to handle a greater breadth of complaints – so we can respond flexibly to future demand on our service, and resolve problems that increasingly cut across the traditional categories of financial services.

- We've developed and extended new ways of working – challenging red tape, improving technology, and streamlining processes to resolve problems at an earlier stage – which have significantly reduced customer waiting times.
- We've continued to develop our horizon-scanning capability, so we're able to identify and address trends in the issues we're seeing.
- We were approved by the FCA as an official provider of alternative dispute resolution (ADR) – after showing we could meet the required standard under the EU directive on ADR.
- In all our work other than PPI, we've resolved two thirds of complaints within three months. And within PPI, despite the significant uncertainty highlighted on page 21, we resolved over 70,000 more complaints than we received this year.
- We've reviewed our support areas, identifying a number of efficiencies – ranging from process improvements and increased use of technology, to cost savings through re-procuring contracts such as our contingent labour contract, where we hope to save around £4m over the life of the contract.

commitment 4: providing insight to encourage fairness

As well as putting right what's already gone wrong, we're committed to sharing what we've seen – to stop the same thing happening again, and to encourage fairness more widely. In 2015/2016:

- As well as publishing around 35,000 ombudsmen's decisions, we published a further eight editions of *ombudsman news* – covering issues including customer vulnerability, ageing and debt.
- We've continued to build on our relationship with the FCA – regularly sharing information about problems we're seeing and helping to inform the FCA's work around key issues ranging from debt management to smaller businesses' experience of financial services.
- In light of persistent activity in the claims management sector, we continued to work closely with the Claims Management Regulator – helping to identify and address unhelpful practice among claims management companies, including formally referring eight companies.
- We maintained our engagement with our stakeholders – from holding our industry steering group meetings, to meeting smaller businesses and frontline consumer advisers across the UK. More than nine in ten of the businesses and consumer advisers who met us face to face agreed they got clear, useful answers to take back to their organisation.

commitment 5: making sure we reach and help those who need us

As a service for everyone in the UK, we need to ensure we remain accessible and relevant to people's lives today. In 2015/2016:

- We continued our UK-wide awareness-raising work – encouraging fairness without the costs of local offices, by meeting people where they live and work. We've seen particular increases in awareness of the ombudsman among young people, Asian communities and in Northern Ireland – with nearly nine in ten UK adults now having some awareness of our service.
- We engaged in thousands of conversations on social media – answering questions directly and providing signposting and support – and improved our range of online problem-solving resources, from car insurance to equity release.
- We've continued to work on our online presence, with more than 50,000 people bringing their complaint to us online.
- We've continued to tailor and adapt our service to meet our customers' individual needs. We translated around 4,000 written documents and spoke to people through our phone-based interpreter service over 800 times. Between these two services, we used more than 40 different languages, including British Sign Language.

our commitments for 2016/2017

We've built upon the improvements and successes of 2015/2016 in setting our commitments for the coming year. Details of our plans for next year can be found in *our plans for the year ahead*, which are published on our website.

Based on the strategic themes within our commitments, we've agreed a range of measures to track the impact we're having on our customers, as well as more widely. By March 2017 our achievements should include:

- Customer confidence in our service – measured by how well consumers and businesses rate us on listening, on getting to grips with their case, and on giving clear, honest answers – averaging over 75%.

- Two-thirds of our customers saying they'd recommend our service to friends and family – whatever the outcome of their own personal complaint.
- 9 out of 10 complaints about issues other than PPI answered within 3 months – and an increasing number of customers given fair, pragmatic answers within 30 days.
- 100,000 older PPI cases settled – depending on the uncertainties described on page 21 being resolved.
- Our service being provided across a range of languages and formats, including British Sign Language, to meet the specific needs of individual customers.
- A wide diversity of people using our service – reflecting our work to engage with people who know less about us.
- An increasing number of businesses using our electronic platform for sharing information more quickly and efficiently. And more people using our mobile-friendly platforms to register enquiries and problems – rather than downloading the traditional complaint form.
- More of our case handlers trained and experienced in working across a wide range of problem solving – rather than having narrow expertise in just a single area of work.
- Investing and developing our service and our use of technology, allowing us to be more responsive to our customers' needs and to work more efficiently.
- Feedback from our engagement with consumer advisers and small businesses across the UK that the ombudsman's approach is understood and being applied widely on the front-line.
- A reduction in the cost of our service to the financial services sector through:
- freezing the case fee paid by businesses at £550 for the fourth year running;
- maintaining the levy paid by financial businesses at the same level;
- continuing to give businesses 25 free cases; *and*
- reducing the cost of our support functions.

In achieving these commitments, we'll ensure we can continue to provide a high level of service – resolving 406,000 complaints and answering 1.7m consumer enquiries.

risks to meeting our commitments

We manage our service through a governance framework which includes corporate commitments, risk registers and related analyses, and a number of governance boards and committees. The executive team, with the support from the rest of the organisation, identifies and monitors potential risks to achieving our commitments. The board oversees this process and sets out its expectations on our tolerance for risk.

Throughout 2015/2016 we continued to embed the risk-management framework we introduced in 2014/2015 – reporting to the executive team and the board in five thematic areas which are listed overleaf. In February 2016 we added an additional risk theme relating to our plans to keep our service relevant and sustainable into the future.

our thematic risks

The executive team takes collective responsibility for ensuring we have appropriate responses in place to deal with these risks. They agree and monitor risk levels and our proposed tolerance for risk with their senior managers and teams.

Risk owners update their risk assessment on, at minimum, a quarterly basis. These assessments are subject to independent review by the risk and governance team each quarter as part of the formal reporting process to the executive team and board.

The board receives a risk report for each meeting, which summarises the status for each strategic risk – linked to current performance or other relevant information – and gives sources of further information.

In 2016/2017 the audit committee will undertake in-depth reviews of each thematic risk. More information on our risk-management and internal control can be found in our directors' report on pages 47-48.

The key risks we identified to meeting our commitments for 2015/2016 were:

what's the risk?	how are we dealing with it?
We lose our **relevance** and **meaningfulness** – we are unable to continue to meet our customers' needs *we fail to provide a service that can help the full range of consumers who have concerns about financial services, or that can work effectively with the financial services industry to resolve those concerns.*	We engage with consumers and businesses to raise awareness about our role and approach. We've met customers face to face to ensure we reach people within their own communities where they live and work. We monitor public and customer confidence in a range of ways and use feedback to make improvements. We provide dedicated accessibility support for consumers with different needs and tailor our ways of working and communication to meet those needs. In recognition of this, we won the National Centre for Diversity's Public Sector Organisation of the Year award. We have increased our online presence – so people can contact us directly through our website or a mobile device at a time that's convenient for them, and minimising process and paperwork. Our senior leaders, including our chief executive & chief ombudsman, are available to talk to our customers face to face during core business hours. We continue to work with businesses to challenge and improve our ways of working together, so we can resolve the problems people bring to us at the earliest possible stage. We have a flexible workforce, and are available on Saturdays and during the evening so people can engage with us at a time that's suitable for them.
We're impacted by **external** factors – for example, those of a regulatory, political, legal or societal nature.	We regularly monitor the external environment to understand changes which could impact the service. We have a strong working relationship with the Financial Conduct Authority (FCA), discussing matters of mutual interest and reporting patterns and trends in the complaints we're seeing. The FCA also has responsibility for assessing whether we comply with the requirements of the Alternative Dispute Resolution (ADR) Directive and implementing regulations. We engage with the Claims Management Regulator to understand and respond to developments in this sector. We also engage with industry and consumer groups through formal and informal networks and forums, sharing our insight and learning from insight they share with us. Our chief executive & chief ombudsman is a regular speaker and panel member of key industry events including the Association of British Insurers, the Ombudsman Association, The Chartered Banker Institute, the British Bankers' Association, and Money Advice Liaison Group. We review legislative and judicial developments and monitor trends in consumer and industry behaviour. We also engage with other stakeholders, including the Department for Business, Innovation and Skills and HM Treasury.

what's the risk?	how are we dealing with it?
Our **service delivery** falls significantly below the expectations of our customers – consumers, businesses or both.	We measure performance against meeting our commitments and share this across the organisation. We give customers regular opportunities to give feedback on their experience with us, which we measure ourselves against and use to improve our service. We exceeded our customer confidence targets for 2015/2016. We assess how we've dealt with customers against a quality framework, reviewing and benchmarking in line with our commitment to fairness. We have a data protection officer, responsible for overseeing our data protection policy to help ensure we safeguard personal data.
Our **support functions** are not effective – undermining our ability to meet our commitments – *renamed (previously known as "our* systems *fail or our* controls *are ineffective").*	We monitor and review the effectiveness of key systems using in-house expertise and some external support from third party providers. We have made improvements to our IT infrastructure, including using two off-site data centres, which brings flexibility in the event of a significant data outage. We have improved our HR systems by automating processes that were previously manual. We have also made similar improvements in our finance department by upgrading one of our main accounting tools, Microsoft Dynamics GP. Internal audit independently review the controls we have in place to manage our risks. The risk and governance team also provide independent challenge as a second line of defence. In 2015/2016 internal audit reviewed our HR information systems, IT general controls, and key financial controls. No significant control weaknesses were identified.
We are unable to successfully implement **new ways of working** and make our service more **sustainable** for the future.	We're working towards a flexible working model, aimed at resolving customers' problems more quickly and efficiently. We're also updating the technology related to our casework systems. We manage the implementation of our new ways of working through a change-management programme with executive oversight. We've consolidated some of our support functions to promote efficiency and knowledge sharing. This has helped us to reduce internal budgets – and we've also managed to procure better deals with our suppliers. For example, re-tendering to find a supplier to support one of our casework areas has enabled us to generate significant cost savings.

the complaints we resolved

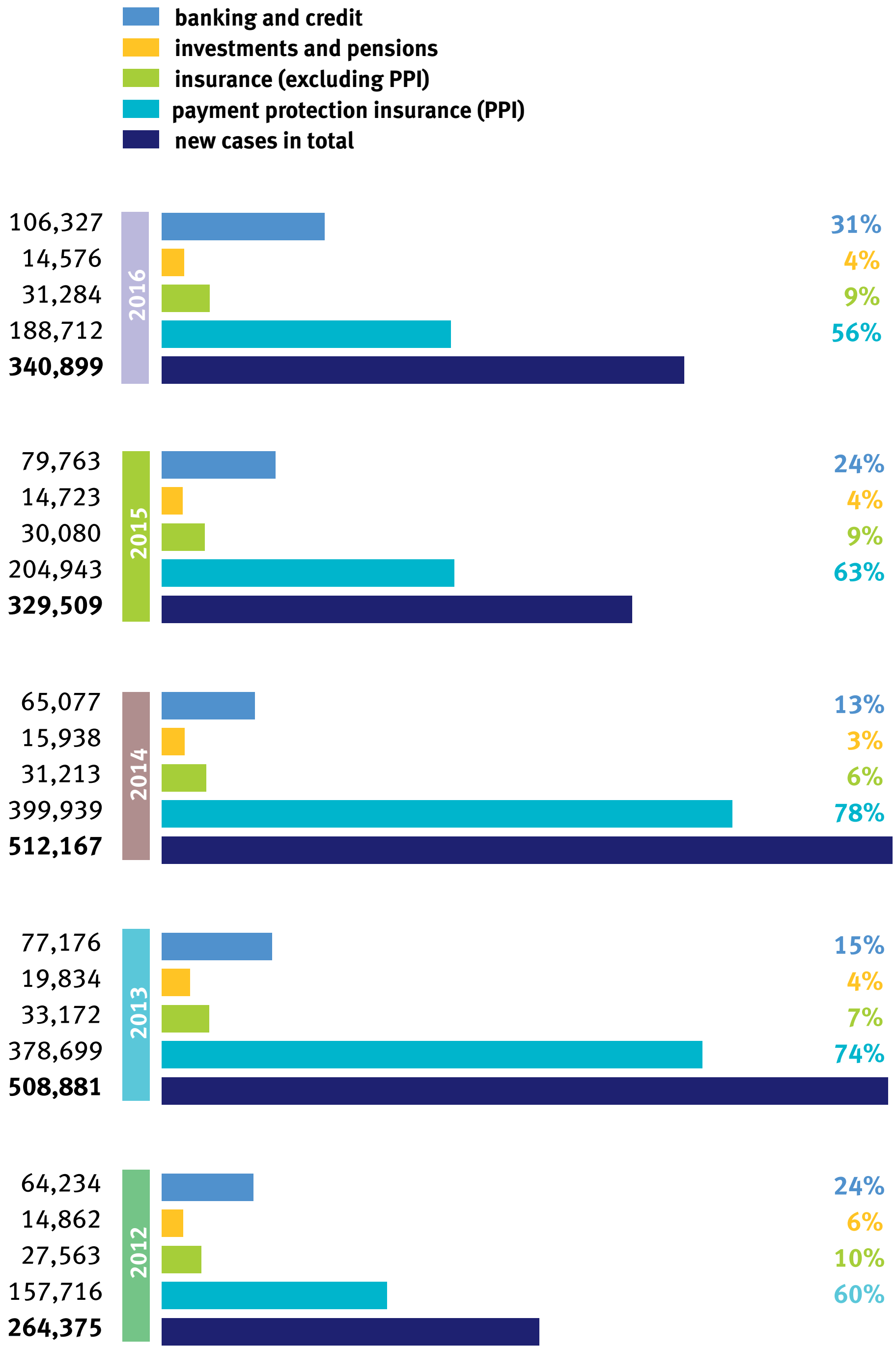
At the start of the year we expected to receive 286,000 complaints and set a target to resolve 398,000 complaints. We actually received 340,899 complaints – almost 20% more than expected – and were able to resolve 438,802 cases, almost 100,000 more than we received.

This highlights the challenge we have in forecasting demand for our service. For example, following our consultation for 2015/2016 we expected to receive 30,000 complaints about packaged bank accounts – but we actually received 44,244 and resolved 55,650.

Similar to last year, we were able to resolve nine in ten complaints informally, following our initial investigation. In the other 10% of cases, the people involved chose to pursue the complaint to the final stage of our process – asking for one of our ombudsmen to make a decision. Like last year, around a third of these requests were made by financial businesses and two thirds by consumers.

While we upheld an average of 51% of complaints this year – slightly lower than last year's 55% – the proportion continues to vary significantly depending on what the problem is about. For example, we upheld 66% of complaints about PPI, 21% about whole-of-life policies and just 14% about packaged bank accounts.

new cases by area of complaint



year ended 31 March

our response to PPI

Since we were set up in 2000, people have referred a total of 3,128,550 complaints to us. PPI accounts for half of these – and since 2011 the majority of complaints referred to us each year have involved PPI. In total, we've now received more than one and a half million complaints about PPI. In 2015/2016, we received 188,712 new PPI complaints – compared with 204,943 last year.

As we explained in *our plans for the year ahead* – published at the start of the financial year in March 2016 – volumes of PPI complaints have remained at higher levels than we or our stakeholders originally expected. Despite the total number of PPI complaints being 6% lower than the previous year, PPI still accounts for 56% of the total complaints we received in 2015/2016.

During the year the National Audit Office (NAO) reported that "*The Ombudsman has trebled in size in response, without any evidence of a fall in the quality of its decision-making*" (NAO, *Financial services mis-selling: regulation and redress,* February 2016).

Looking ahead, a number of factors – including a proposed time limit for complaining about mis-sold PPI – could mean we see higher volumes of complaints once more, at least in the short term.

The FCA's draft proposals on PPI complaints – on which consultation closed at the end of February 2016 – also included rules and guidance in light of the judgment by the Supreme Court in the case of *Plevin* v *Paragon Personal Finance*. *Plevin* – and the FCA's response to it – was relevant to a significant number of PPI complaints we looked at during the year. Unfortunately, this resulted in delays for our customers – as uncertainties resulting from the ongoing regulatory and legal developments meant we were unable to progress cases as quickly as we'd hoped. Despite these challenges, we still managed to resolve over 260,000 PPI complaints in 2015/2016, over 10,000 more than we'd budgeted for.

during the year we:

- Continued to update people on their PPI complaints through a dedicated part of our website and with a regular e-newsletter.
- Invited people who had been waiting more than a year for an answer to visit us – so they could ask us their questions face to face, and see at first hand the efforts we're making to sort things out fairly and quickly.
- Worked with claims management companies and their regulator – helping to ensure we receive specific information about individual customers and reporting unhelpful practices that hinder our ability to find fair answers to complaints at the earliest possible stage.

At the end of the year we had around 190,000 open PPI cases progressed to various stages – of which around 93,000 are impacted by the judgement in *Plevin* and the FCA's response to this. We'll continue to focus our attention on resolving as many PPI cases as possible, and will update our approach when the FCA's response is finalised. Mindful of this ongoing risk, we continue to work with stakeholders to ensure we and they are prepared for the potential operational impact of these developments.

packaged bank accounts

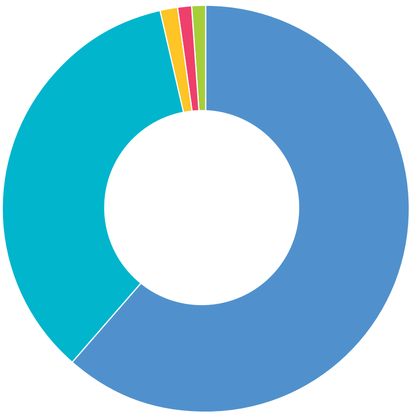
As with PPI complaints, a large proportion of the cases we see involving packaged bank accounts are referred to us by commercial claims management companies. More than 60% of complaints about packaged accounts are referred to us this way – whereas outside PPI and packaged accounts, only around 5% of people pay a claims manager to bring a complaint to us.

This year we've continued to push back where claims managers refer clients to us who clearly haven't lost out. At the same time, we've helped businesses who sold (and sell) packaged bank accounts to understand and apply our approach to complaints.

In most cases we've seen involving packaged bank accounts, we've decided that, overall, the package of extras that came with someone's account has been useful to them – or has saved them money. This is often the case even if they can't use all the extras.

However, in some cases we've decided that some customers had been sold accounts that they didn't want or need. Some people couldn't have used any of the account's extras – or couldn't use the extras they'd specifically opened it for.

how complaints about packaged bank accounts were brought to us



complaints made on behalf of consumers by claims management companies	61.5%
complaints made by consumers themselves	35%
complaints made on behalf of consumers by free consumer advice agencies (*eg* Trading Standards and Citizens Advice)	1.5%
complaints made on behalf of consumers by professionals like lawyers and accountants	1%
complaints made on behalf of consumers by friends and family	1%

our financial performance

We consult publicly on our plans and budget each year, giving our stakeholders the opportunity to comment on our priorities, forecasts, assumptions and financial budgets. Following the consultation in December and January, our board recommends a final budget for approval by the FCA board shortly before the start of the financial year.

Our operating revenue (total revenue excluding net released deferred income) in 2015/2016 was £238m, with 89% generated from case-fee and group-fee income. At the same time as continuing to invest in our people – as well as developing and improving our technology and ways of working – we spent less than we initially anticipated, with an overall operating expenditure for the year of £260m.

Our operating deficit (excluding net released deferred income) was £22m. This is significantly less than the £46m deficit we expected, with additional case closures generating a further £14m of operating income and costs £10m lower than budget. The deficits we are now incurring are in line with our expectations and our medium term financial plans – after we built up significant surpluses from 2013/2014 to 2014/2015 as a result of our multi-year approach to dealing with the fallout of mis-sold PPI.

There are further details on our operating plans and our reserves policy to fund the deficit on page 26.

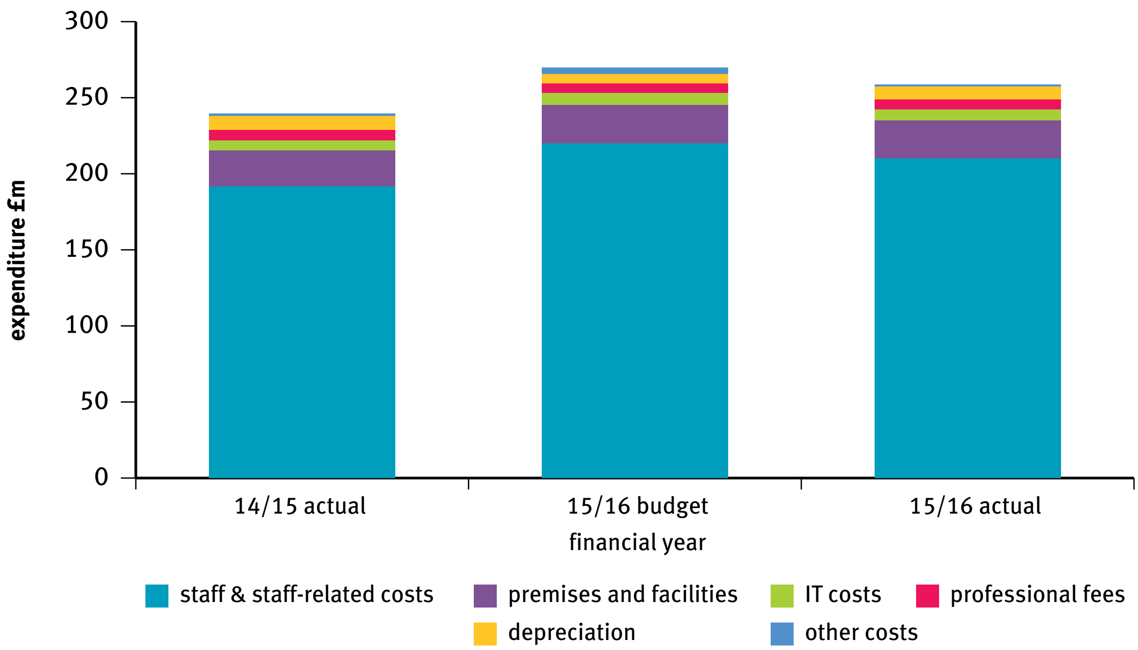
During the year, following approval by the audit committee, we've transitioned from UK generally accepted accounting practice (UKGAAP) to international financial reporting standards (IFRS). The conversion aligns our accounting approach with the government and other financial services bodies. Details of the adjustments made have been included in Note 24 of the financial statements.

income

The ombudsman service is funded by a combination of levies, case fees and group account arrangements paid by the financial businesses we cover. In 2015/2016 over 75% of our revenue came from the group-fee arrangement, which is paid by eight large financial groups, and annual levy charges. This gives us a level of financial predictability and stability – helping us to plan our budget while responding flexibly to demands on our service.

levy income

Our levy income – arising from our compulsory, voluntary and consumer credit jurisdictions – has remained at approximately £25m for the last three years. The compulsory jurisdiction levy has remained at £23.3m and is charged and collected by the FCA according to the amount of work we expect from each industry sector. A further £0.8m was collected from businesses new to the compulsory jurisdiction this year. £0.6m of levy income related to our voluntary jurisdiction.



strategic report

The remaining £0.3m related to net levy income from the consumer credit jurisdiction – which has now been transitioned into the compulsory jurisdiction levy.

case fees

For the third year in a row our case fee was £550 per case, with a "free case" allowance of 25 cases per firm. This means that firms were only charged a case fee for the 26th and subsequent complaint about them that we resolved. During the year nine out of ten businesses whose customers referred complaints to us didn't pay any case fees at all. We will keep this case fee arrangement in 2016/2017.

group fee arrangement

We have a group fee arrangement in place to cover eight financial services groups – Lloyds, Barclays, HSBC, RBS, Nationwide, Santander, Aviva and Direct Line.

Group fees are calculated in advance based on a published formula. We calculate each group's share of our overall workload – taking into account our existing "stock" of complaints, recent case volumes and the number of cases we've budgeted to deal with. The formula includes maximum and minimum thresholds for some aspects if volumes are outside certain tolerance levels.

This arrangement gives a level of certainty about our income and the likely costs for the financial groups involved. Quarterly invoicing also minimises administration burdens – both for us and the businesses involved. An extra £11m was billed as the end of year adjustment as a result of receiving and closing significantly more complaints than we'd originally budgeted for.

deferred income release

In 2012/2013 we introduced a supplementary case fee as a way of funding the upfront investment that we needed to make to deal with the fall-out of mis-sold PPI. It has also helped us to ensure the costs involved in dealing with our PPI workload over many years are paid in a fair way – that's also as stable as possible.

Between 2012 and 2014, we raised approximately £159m (net of credits) in income from supplementary fees – which were charged when we formally took on a case for investigation. Our group fee formula also includes an element relating to new PPI cases. In 2014/2015, and again in 2015/2016, we set the supplementary fee charge and the group fee element relating to new PPI cases to zero. However, significantly higher volumes of new PPI cases from two business groups (under the group fee structure) resulted in additional revenue for 2015/16 of £2m (£1m in 2014/2015), which was subsequently deferred in accordance with our accounting policy.

In accordance with our accounting policies, supplementary fee income and the PPI element of the group fee income are both held as deferred income on the balance sheet until the closure of the complaint it relates to – at which point revenue is released to the income statement. As at 31 March 2016 we were holding approximately £14m as deferred income – of which £5m relates to supplementary fees and £9m to the group fee arrangement. We expect this to be substantially released during 2016/2017.

operating expenditure

Staff and staff-related costs (excluding contractors) continue to make up the majority of our cost-base – accounting for about 66% of our overall spend in 2015/2016. During the year we continued to recruit complaint handlers and ombudsmen to deal with a sustained volume of PPI complaints and increasing numbers of complaints about packaged bank accounts.

By the end of the year, we had 235 full time equivalent ombudsmen (excluding fee-paid ombudsmen), compared with 210 last year. We also have a flexible element of 70 ombudsmen (fee paid) and 422 other complaint handlers, who are paid an agreed daily rate.

Our ombudsmen are our service's professional leaders. So having a larger number of ombudsmen means we have a greater capacity for providing professional leadership and guidance to our complaint handlers, as well as for resolving complaints. Having ombudsmen at the heart of our service allows us to benefit from their experience and expertise as soon as problems are brought to us.

As we've continued to invest in recruitment and employee development, our staff and staff-related costs have increased by 7% from 2014/2015. However, these costs were lower than we anticipated in our budget – due to the ongoing review of our cost base, as well as underspending as a result of staff vacancies.

Other costs – including property, professional fees and IT costs – are broadly in line with our expectations. We remain focused on making efficiencies across all areas of our work – and during the year we've continued to make our procurement more cost-effective. For example, retendering our contingent labour contract resulted in a substantial reduction in the management fee – and negotiations with our IT provider around licence fees also delivered significant savings.

capital expenditure and depreciation

The move to IFRS in the year has resulted in a total of £10.4m costs being classified as systems development. Previously, these costs were not required to be capitalised under UK GAAP. £7.3m of this related to costs previously charged as operating expenditure in 2013/2014 and 2014/2015. The total amortisation charge for these two years is £1.9m. Notes 10 and 24 to the financial statements provide further detail. The net book value of intangible assets was £7.6m as at 31 March 2016.

unit cost

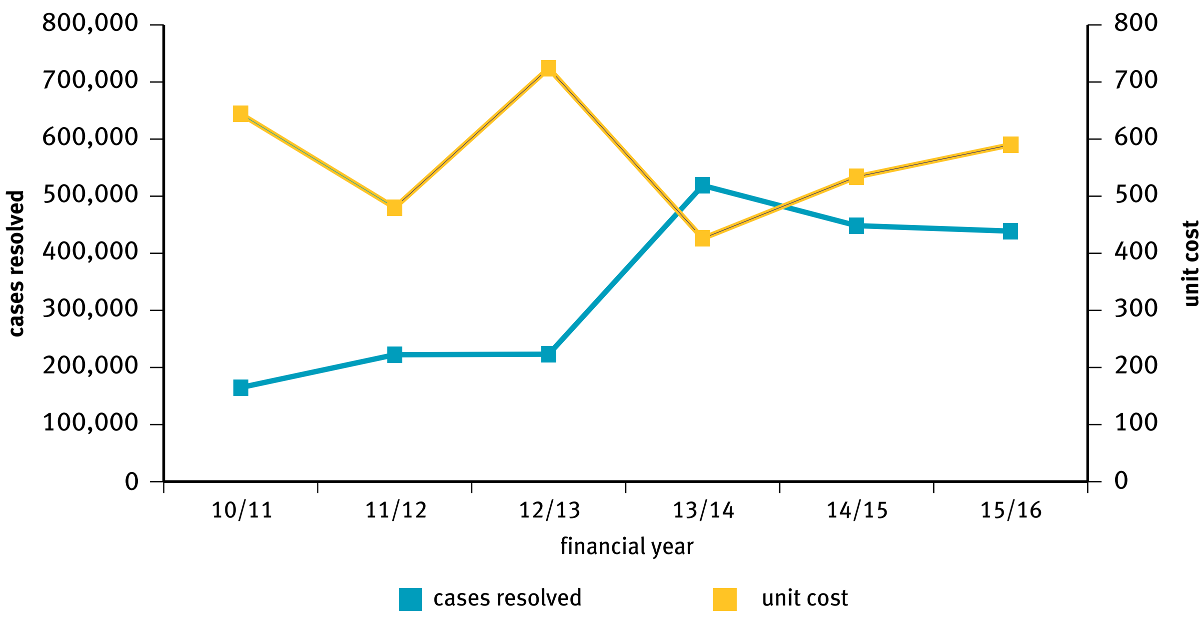
We calculate the "unit cost" of resolving a complaint by dividing our total running costs – not including financing costs and bad debts – by the total number of cases we resolve during the year. While we regularly report on our unit cost, it isn't a precise measure of our efficiency. This is because it's impacted by factors both inside our control, such as efficiencies of scale in PPI, as well as outside our control – for example, if businesses or claims managers are less co-operative than we expected, or appeal a higher than average number of our complaint handlers' initial views.

This year the unit cost has increased to £590 – which is higher than the previous year (£534), but below the budget assumption of £678. As we explained in previous years, we expected our unit cost to increase – reflecting the increasing complexity of our remaining PPI stock and the reduction in opportunities to settle groups of cases at once.

As we've explained, the Supreme Court case of Plevin – and the FCA's response to it – was relevant to a significant number of PPI complaints we look at during the year. These particular cases represent almost half our PPI stock at 31 March 2016. Uncertainties resulting from the ongoing regulatory and legal developments meant we were unable to progress these cases as quickly as we'd hoped. The cost of progressing these cases, but not being able to close them, has increased the average unit cost of complaints.

We expect that the unit cost of PPI complaints will rise until the volume of cases reduces to a level where we're able to merge our PPI operation with other areas of our work. But there's significant uncertainty about how much it might rise by. The *Plevin* court case – and FCA's proposed rules and guidance – will influence both the way businesses respond to the complaints they receive, as well as how they respond to us in the future.

As and when these cases can be progressed, they will probably need to be dealt with by our most experienced ombudsmen and case handlers – and are likely to take longer and be more costly to resolve. We've committed to sharing our plans for PPI once we have more certainty around the impact of these developments.



reserves

We maintain a level of reserves that's appropriate to support the continued operation of our service. In a period of relative stability, we believe that level should equate to approximately three months of operating costs. But at the moment, we're not operating in a stable environment – due to the continuing high volumes of PPI complaints and ongoing uncertainties in this area.

Our audit committee undertakes six-monthly reviews of our reserves policy – considering factors such as the number of cases we have yet to resolve, together with the external and regulatory landscape. We also seek regular feedback from stakeholders and as part of our annual plan and budget consultation process. Taking account of the current environment and the feedback we've received, the committee considers that it's currently appropriate to retain reserves above the level in our formal policy.

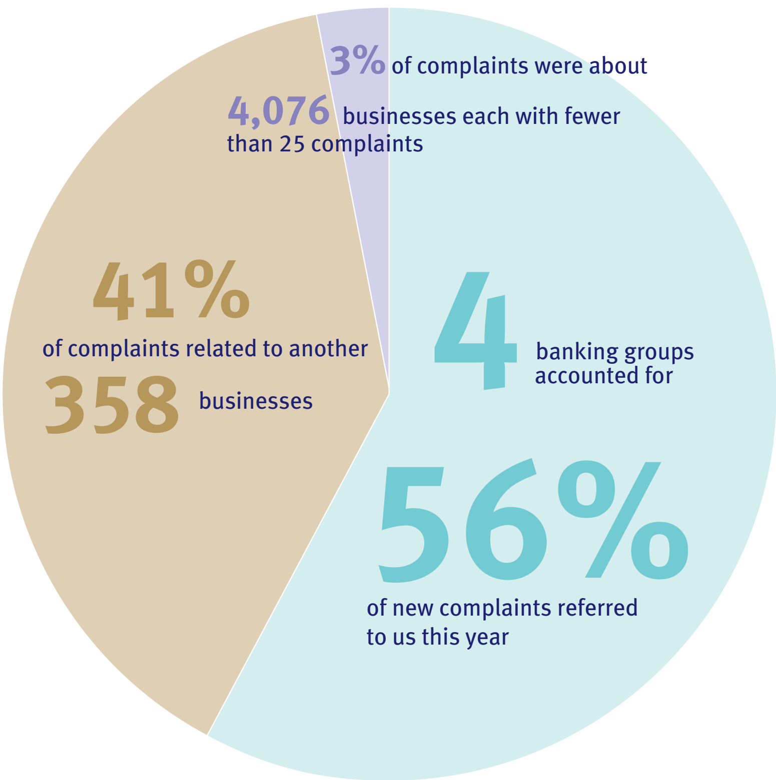
In line with our financial strategy, our combined total of reserves and deferred income has decreased from £270m at 31 March 2015 to £250m at 31 March 2016. We raised funds when we first began dealing with PPI on a large scale – to help us keep prices predictable as the challenge developed, and using our reserves to absorb the losses we expected to and continue to make as we wind down our PPI operations in future years. But we've no intention of holding additional reserves for longer than necessary – and we'll look to return to our normal reserves policy in the longer term.

cash management

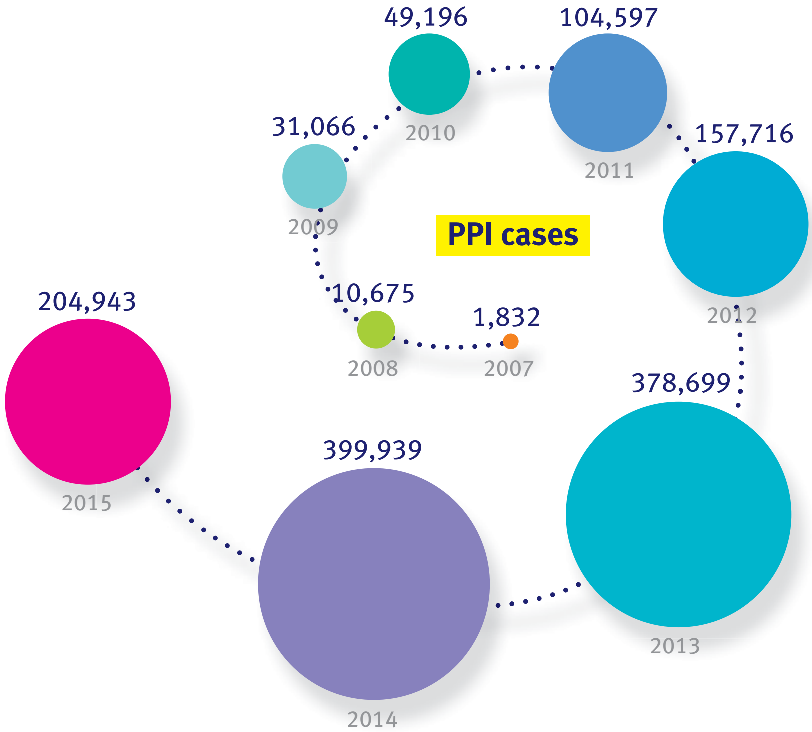
We review our balances daily and update our forecasts on a quarterly basis – working with our outsourced treasury manager, Capita Asset Services, in accordance with our investment policy. The audit committee approves all new counterparty banks and we carry out independent checks before setting up the counterparty account details in our bank payments system. Our controls over cash were assessed as part of the annual review of key financial controls undertaken by our internal auditors – who found no matters of substance arising. During the year we invested funds with 12 institutions delivering an average return of 0.7%. Interest received during the year amounted to £2m. At 31 March 2016 we had £234m of cash, of which £227m was invested between 10 institutions for periods of up to 8 months.

creditors' payment terms

We have a policy to pay creditors within agreed terms.



over
1.5m
PPI cases in total by March 2016



outlook

Following a public consultation from December 2015 to January 2016, our budget for 2016/2017 has been considered and approved by our own board and the FCA's board. Our budget revenue is £239.5m – of which £13m will be released from our total deferred income balance as we continue to resolve more of our older PPI complaints.

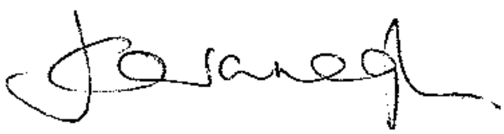
We expect to collect £225.3m (including levies) in relation to our activity for the year – 3% lower than 2015/2016, which was in turn around 8% lower than in 2014/2015. Our 2016/2017 budget is based – for the third year in a row – on levy income of approximately £25m, a standard case fee of £550, and a "free case" allowance of 25 free cases. We've also retained the group-fee arrangement with the existing eight groups.

At £265m, our budgeted costs are 2% lower than our 2015/2016 budget. Our expenditure plans include initiatives to ensure that we continue to deliver value for money. We're seeing the benefits of our procurement governance – capitalising on opportunities for economies of scale and renegotiating contracts. We're currently reviewing our support functions to ensure they're as efficient as they can be. Together with continuing to identify improvements to our casework processes, these efforts will help our service to remain sustainable and relevant to our customers.

As we expected, the significant costs of meeting the challenges presented by PPI means we'll be drawing on our accumulated reserves to absorb an operating loss of £38.5m. This is consistent with our plan to try to retain a fair and stable way to charge for our PPI workload over the full time it will take us to deal with it. We'll continue to invest in resolving outstanding PPI complaints – and are aiming to resolve a further 270,000 over the coming year. To achieve this, we're planning to maintain our complaint handler and ombudsman resources at appropriate levels and to recruit in smaller numbers than in the past. However, our plans will be impacted by the response of businesses, consumers and claims management companies to developments in the area of PPI.

We'll also be putting in place changes to our overall process for resolving the problems people bring to us – aimed at improving our customers' experience of our service through enhanced use of technology, improved processes and accessibility. We'll continue to develop our workforce to deal with a breadth of financial products and types of complaint – allowing us both to respond flexibly to changes in demand for our service, and to improve our customers' experience. We'll also continue to monitor our funding arrangements.

by order of the board



Julia Cavanagh
company secretary

7 July 2016

working with the regulator

The FCA has a number of responsibilities in relation to the ombudsman service, including:

- appointing directors to our board;
- making the rules that determine the scope of our compulsory jurisdiction;
- approving our annual budget; *and*
- approving us as a provider of alternative dispute resolution (ADR) and acting as our competent authority under EU directive on ADR, which has applied since July 2015.

Our engagement with the FCA includes meetings between our chairmen, chief executives and other employees at a range of levels. We're also members of the coordination committee – along with the Competition and Markets Authority, the Claims Management Regulator, the Financial Services Compensation Scheme and the Money Advice Service – which meets regularly to discuss issues of shared interest, including complaint trends and emerging risks.

The *Financial Services Act 2012* gave us additional responsibilities – for example, a duty to disclose certain information to the FCA and the power to make a formal referral to the FCA. We continue to work closely with the FCA to ensure we're fulfilling our duties effectively. Our relationship with the FCA is set out in a formal memorandum of understanding, which is available on our website at www.financial-ombudsman.org.uk/about/other_bodies.html.

The FCA is also our "competent authority" in relation to our responsibilities under the EU directive on ADR, which came into force in July 2015. The FCA approved us as an ADR entity on 9 July 2015 – and has responsibility for assessing whether we comply with the requirements of the ADR directive and implementing regulations.

directors' report

sustainability report

As part of our commitment to running a sustainable organisation, we aim to minimise our impact on the environment. We continue to work with the Carbon Trust as we work towards reducing our carbon footprint by 30% by 2017 – a target we set in 2012.

During the year we've increased the use of digital technologies – seeing an increasing number of people contact us through our online platforms, and making more use of email when communicating with our customers. We've scanned 12 million pages of correspondence and received 150,000 business files electronically. Together, these have significantly reduced our paper usage and transportation and made substantial time and cost efficiencies.

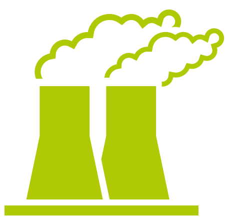
We continue to work alongside our suppliers to recycle the waste we generate.

We've also used 8.7 million fewer pieces of paper, 450,000 fewer disposable cups, and 1,071 fewer ink toners – reducing both our impact on the environment and our costs. Over the coming year, we'll keeping looking for ways we can make further improvements – continuing to work closely with our landlords and to operate in a sustainable way.

682,534
tonnes of paper recycled

10,859
trees saved

3,424
cubic metres of waste were diverted from landfill



1,346,806
kWh of energy was saved

health and safety

We're committed to protecting the health, safety and wellbeing of everyone who works for us and with us. We have a dedicated health and safety team, which includes facilities management, first aiders, fire marshals and our health and safety committee, which helps raise awareness of health and safety issues across the organisation.

This year we've:

- Published our new health and safety policy and improved our intranet pages to make them more interactive for colleagues, as well as engaging with colleagues across our buildings.
- Continued to use our e-learning and classroom training for our facilities colleagues, which covers fire awareness, first aid, manual handling, working at heights and health and safety provided by Institution of Occupational Safety and Health (IOSH) and National Examination Board in Occupational Safety and Health (NEBOSH).
- Built on the progress we've made following previous internal and external audits, inviting the British Safety Council to undertake an independent health and safety audit following our move to our new office space. The findings were positive, with the Council highlighting that we go above and beyond in respect of the health and wellbeing of our staff.

During the year, the following health and safety matters were reported by our employees:

- work related accidents – 58
- ill health requiring first aid – 123
- RIDDOR incidents (under Reporting of Injuries, Diseases and Dangerous Occurrence Regulations) – 0

equality and diversity

We were set up by Parliament so that every consumer in the UK has access to a free ombudsman service. Our aim is to ensure that no aspect of anyone's personal circumstances prevents them engaging with us. And when people do contact us, we want to be certain that there are no barriers to their complaint being decided fairly and impartially.

The commitments we've made around diversity, equality and inclusion are underpinned by our aim of providing an impartial, trusted and respected service. This depends on the diverse skills, experiences and backgrounds that our people bring to their work here – which we want to reflect the diversity of our customers and stakeholders

Our diversity, equality, inclusion and social responsibility strategies are developed by our inclusion and diversity team and approved and monitored by our board and the executive team. Our chief executive & chief ombudsman and head of customer insight are patrons of the National Centre for Diversity – and this year we won the National Centre for Diversity's Public Sector Organisation of the Year award.

our people

We remain committed to understanding our people and promoting a culture that celebrates diversity. Our staff-led networks continue to help us to promote an environment where people are valued and respected, and to develop policies and ways of working that help us to support our people as individuals.

We have ten employee networks groups: our carers' network, disability network, ethnic minority network, giving something back, interfaith network (currently supporting our Christian Fellowship, Islamic network and Jewish group) mental wellbeing network, Outright (LGBT) and women's network.

Building on the commitments we made last year, we've made good progress in promoting an inclusive and diverse workforce. Highlights from 2015/2016 include:

- Promoting a "disability confident" workplace – developing a tailored workplace adjustment programme aimed at encouraging our people to be open about their individual needs, and giving management the right tools to support their people.

- Jobcentre Plus awarding us the "two ticks" symbol in recognition of the work we're doing to encourage disabled people to work at the ombudsman.
- Continuing to work towards our commitment to increase awareness and reduce stigma around mental health issues – with our chief executive & chief ombudsman signing an updated Time to Change pledge, after we made progress towards the original action plan we made in November 2014.
- Increased diversity disclosure rates – with 67% of staff completing their diversity records in 2015/2016, up from 47% at the start of the year.
- Taking steps to improve our understanding of the transgender community.

During 2016/2017 we'll work to build on our disability confidence, as well as to raise awareness and reduce stigma around mental health issues. We'll continue to promote gender, race and cultural diversity to ensure that our people reflect the diversity of our customers and stakeholders. And we're committed to attracting, developing and retaining people who uphold our values – by providing development opportunities, improving employee engagement, and embedding cultural change across our organisation.

We'll also continue to engage with external stakeholders to build our knowledge and share best practice – including the Business Disability Forum, Employers Network for Equality and Inclusion, Employers For Carers and a number of peer networks.

external accreditations

This year our commitment to diversity was recognised by the National Centre for Diversity, who awarded us Public Sector Organisation of the Year. We've also retained our equality awards this year in recognition of our positive approach to diversity. We are:

- accredited Investors in Diversity
- a gold standard diversity-assured organisation
- Stonewall Workplace Champions

corporate social responsibility

Everything we do is guided by our sense of fairness – and we know that many of our people work for us because they feel that the ombudsman has a positive impact.

Through our partnership with the East London Business Alliance (ELBA), we continue to facilitate a range of volunteering opportunities. During the year our people volunteered around 1,800 hours in total – a more than threefold increase on the previous year. This volunteering included individual and team challenges, as well as a "career capital" mentoring programme, where our people help students to discuss career routes, develop employability skills and build professional networks. Our people give weekly literacy and numeracy classes to a local school during their lunch break. And we've volunteered with City Gateway, a local charity which runs literacy and leadership programmes for women.

We also engage with our local authority, Tower Hamlets, and local community groups to explore partnership opportunities – for example, developing bespoke customer service training for a local housing association.

In 2015 we changed the way we work with our charity partner, Haven House Children's Hospice – beginning a two-year relationship until 2017. During 2015/2016 we raised £26,495.05 in donations.

Our employees have an opportunity to donate to charities in a range of ways – including payroll giving, and a "pennies" scheme which allows people to donate money from rounding their salary down to the nearest pound. We've received a sliver award from Pennies Heaven and a bronze award from the Charities Aid Foundation.

our people

Over the year the make-up of our employees stayed broadly the same as last year – 45% are men and 55% are women. During the year, women accounted for 50% of our non-executive board and 50% of our executive team. 55% of our ombudsmen are women.

56% of people working for us at the end of the year were aged between 25 and 34 – with 11% aged between 18 and 24, 17% aged between 35 and 44, 10% aged between 45 and 54 and 5% older than 55. The age of our employees ranged from 18 to 72 years old.

36% of our employees say they are from a non-white background, 4% say they have a disability, and 3% have told us that they identify as lesbian, gay, bisexual or transgender (LGBT).

learning and development

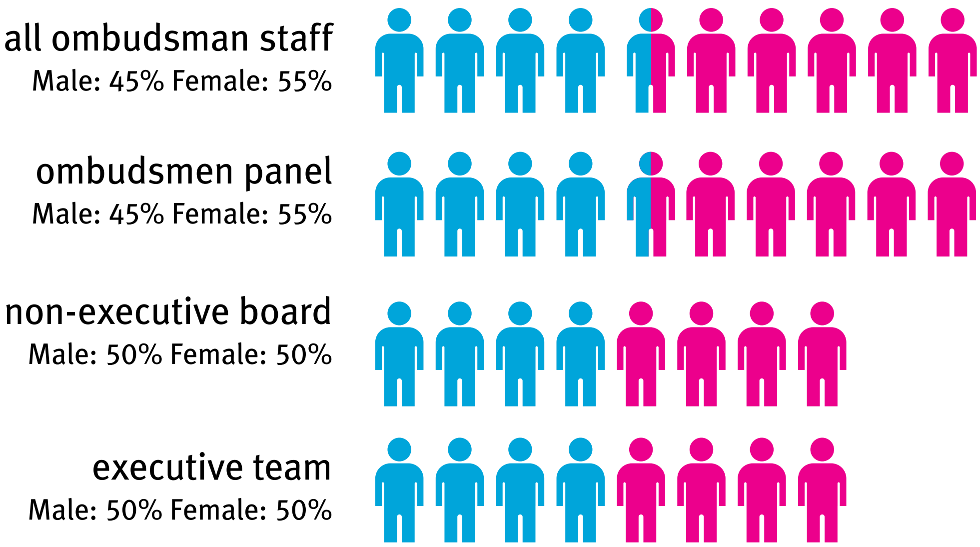
The decisions our people make may be life changing for our customers. So it's essential we maintain high levels of expertise and consistency across our service. And to ensure we're ready to respond flexibly to demands on our service, we need to continue to invest in our capability and capacity to handle a breadth of complaints.

professional leadership

Our ombudsmen are our professional leaders – setting the tone for our work and our approach to the problems people bring to us. All new ombudsmen go through a rigorous induction programme, during which they're mentored by an experienced colleague. We've continued to run our structured continuing professional development programme for ombudsmen – which this year included training in unconscious bias.

This year we've trained more than 130 of our leaders in coaching colleagues – meaning they can effectively support and develop the knowledge and performance of our case handlers. We also have internal and external coaches who work with individual people to enhance their personal development and leadership skills.

Make up of our employees



qualifications and sharing knowledge

During 2015/2016 we supported our people to gain nearly 700 industry-recognised qualifications in total – accredited by professional bodies including the Chartered Banker Institute, the Chartered Insurance Institute, the Chartered Institute of Securities and Investment and the International Compliance Association.

We take a "blended learning" approach, combining classroom learning with other types of learning such as online courses. Building on our culture of knowledge sharing, this year we've developed our experts' training skills so they can provide more peer-to-peer training sessions. In total we ran more than 1,300 internal training events this year. We've continued to expand our range of on-the-job learning – with coaching, mentoring, e-learning and job shadowing complementing the face-to-face learning opportunities we already offer.

To promote understanding of wider issues facing financial services and our customers, we also invited external speakers to share their insight with us. This year these speakers included the FCA, the Competition and Markets Authority and the Royal College of Psychiatrists.

Looking ahead, our focus will be more on giving people the tools to take accountability for developing their own skills. Our coaching culture will support this, and we'll continue to sponsor people to take relevant industry qualifications to help them develop their knowledge and careers.


issue 130 November/December 2015

ombudsman news

essential reading for people interested in financial complaints – and how to prevent or settle them

knowing what matters

in this issue

Financial Ombudsman Service

sickness absence

Our staff and our sickness absence policy sets out the process and support available for colleagues. For the year ending 31 March 2016, an average of 8.5 days per full time equivalent employee was lost due to sickness absence.

employee engagement

We know that our people will give their best when they feel valued – and can see their individual role in making a difference to our customers. Our engagement strategy involves a wide range of tailored activities that allow us to understand how our people are feeling and address issues as they arise.

Our quarterly surveys showed an average of 75% of our employees felt proud to work here during the year. To maintain and build on these levels of engagement – ensuring everyone who works for us feels informed and supported – we continue to provide:

- our regular employee newsletter, *on the go*
- our chief executive & chief ombudsman's regular video diary and face-to-face events
- executive-sponsored sessions and events for managers
- forums and bulletin boards on our intranet and knowledge-sharing platforms
- interviews and web-chats on the intranet, introducing different people and projects
- staff engagement by managers across the organisation
- formal mechanisms for cascading information.

Our employee consultation body, the information and consultation council (ICC), is made up of elected representatives from across the organisation. It's our formal mechanism for sharing information and consulting with everyone who works for us. The ICC makes sure that employees' views are heard by the executive team and taken into account in important organisational decisions. This happens through a regular programme of meetings – covering issues ranging from organisational plans, performance and potential changes, to recruitment, training and working conditions.

managing our information

The nature of our work means that our organisation holds personal information about a large number of people – including our own staff. We have a legal duty under the *Data Protection Act 1998* to protect this information, and recognise that keeping people's information safe is an essential part of providing a trusted service.

Over the last year, we've taken further steps to improve our performance and governance in this area – and to ensure that everyone who works for and on behalf of us understands what's expected of them and why it matters.

This year we've updated our data protection policy, which sets out how we protect the information we hold. Our data protection group, chaired by our data protection officer, meets monthly – to identify risks, agree actions to address them, and ensure we learn lessons from any mistakes, including those of other organisations.

We recognise that it isn't enough simply to have a policy around data protection – our people need to know what's required of them personally. After introducing mandatory online data protection training last year, we rolled out mandatory refresher training this year. We've also arranged tailored training for specific teams and for all new employees – and encouraged managers to talk to their teams about why data protection matters and what it means for them.

We want to learn from our mistakes and those of other organisations. If a breach does occur, we work with relevant senior managers to take action to reduce the chances of something similar happening again. Our data protection officer communicates any lessons learned to senior managers, together with any specific actions or advice. They also formally report to the audit committee on an annual basis.

freedom of information

In 2015/2016 we received 630 new requests for information and resolved 640 – rising from 512 in the last year and 399 in the year before that. We think that this could reflect greater public awareness of information requests – and more websites that facilitate them. The majority of requests are made by consumers or representatives, as well as anonymous users via websites.

Like previous years, the main request types are for more detailed complaints data than that we regularly publish, or for information relating specifically to the requestor's own complaint.

keeping people's information safe is an essential part of providing a trusted service

governance statement

independence

Independence and impartiality are central to the work of the ombudsman service – and these principles are set out in the legislation relating to the appointment of board members.

Members of the board of the Financial Ombudsman Service are appointed under Schedule 17 of the *Financial Services and Markets Act 2000* – which provides that "the chairman and other members of the board must be persons appointed, and liable to removal from office" by the FCA. In the case of the chairman, the appointment must also be approved by HM Treasury. The legislation also provides that "the terms of their appointment must be such as to secure their independence".

The chairman and members of the board are appointed in the public interest, not as individual representatives of any particular group or sector – and they're not involved in considering the individual complaints that are brought to us.

Under our articles of association, the board must consist of a minimum of three directors. On 31 March 2016, the board consisted of six non-executive directors. Members of the board are required to complete an annual declaration about their current interests and those of people connected with them – and to confirm that those interests don't conflict with their position as a director of the Financial Ombudsman Service (see *conflicts of interest* on page 40).

recruitment

The recruitment process for non-executive positions is open and transparent, with advertisements running in the national media. We make appointments as an equal opportunities employer, in line with the principles of fairness and impartiality and selecting on merit. The process is overseen by the board's nomination committee (see page 44), which nominates suitable candidates to the FCA board for approval.

Once approved, non-executive directors will receive a letter of appointment, which includes details of their terms and remuneration. Details of remuneration paid to non-executive directors can be found in the remuneration report on page 49.

All non-executive directors go through an extensive induction programme to introduce them to the ombudsman service. This includes meeting each member of the executive team, being guided through the way we resolve complaints, familiarisation with the wider support framework, and receiving a directors' handbook of information about the board and the service.

At the beginning of board meetings, non-executive directors have the opportunity to discuss general matters that are affecting the service – and throughout the year, both as a board and as individual directors, they undertake a number of activities to maintain and enhance their knowledge of our work.

board membership as at 31 March 2016

Sir Nicholas Montagu KCB (chairman)

Nick Montagu was appointed chairman of the board on 1 February 2012. He is also chairman of the nomination committee and a member of the remuneration committee.

Nick is chairman of the Council at Queen Mary University of London; previously he was chairman of the Aviva UK Life With-Profits Committee, a director of the Pension Corporation and a Director of Xafinity. Nick is also a former chairman of the board of Inland Revenue.

Nick Montagu's term of office is due to end on 31 January 2018.

Gerard Connell

Gerard Connell was appointed to the board on 11 December 2014. He is chairman of the audit committee a member of the remuneration and nomination committees.

Gerard is a non-executive director of Bournemouth Water Plc a non-executive director and chair of audit committee of the Defence Science & Technology Laboratory. He is also a non-executive director of the Land Registry and the Nuclear Decommissioning Fund Company Ltd and a Council member and chair of the remuneration committee of the Science & Technology Facilities Council.

During his career, Gerard was the group finance director at Wincanton, a regional director at Hill Samuel and a managing director at Bankers Trust. He was previously Senior Independent Director and chair of audit committee at Pennon Group Plc.

Gerard's term of office is due to end on 11 December 2017.

Alan Jenkins

Alan Jenkins was appointed to the board on 23 February 2011. He is a member of the audit committee, nomination committee, the quality assurance group and also the service development steering committee.

Alan is a non-executive director of the Crown Prosecution Service, the Pension Protection Fund; and a non-executive director of Gross Hill Properties Ltd, Sydney and London Properties Ltd, Northcourt Ltd, and GPS Associates and GPS Malta Ltd.

Alan currently is an advisor to Audere International Ltd. He is also chairman of the board of directors of Mencap Trust Company Ltd and a trustee of the London Middle East Institute at the School of Oriental and African Studies and of the charity Kids for Kids.

During his career, he has been a chairman of Lattitude Global Volunteering and a vice chairman of the International Institute for Environment & Development, managing partner of Frere Cholmeley Bischoff, a partner and chairman at Eversheds LLP, and an independent non-executive at PKF (UK) LLP.

Alan Jenkins' term of office is due to end on 22 February 2017.

Baroness (Maeve) Sherlock OBE

Maeve Sherlock was appointed to the board on 23 February 2008. She is the senior independent director and is also a member of the remuneration and nomination committees.

Maeve is a member of the House of Lords and is a shadow spokesperson for Work and Pensions. She is also currently undertaking research for a doctorate at Durham University and chairs Chapel St, a charitable enterprise that delivers education, health and family services.

Previously, she has worked as chief executive of the Refugee Council and of the charity One Parent Families. She spent three years as a full-time member of the Council of Economic Advisers in HM Treasury. She served as a commissioner at the Equality and Human Rights Commission and a non-executive director of the Child Maintenance and Enforcement Commission and was chair of the National Student Forum.

Maeve Sherlock's term of office is due to end on 22 February 2017.

Pat Stafford

Pat Stafford was appointed to the board on 22 February 2011. Pat is chair of the remuneration committee and is a member of the nomination and audit committees.

Pat is a vice president and marketing director at HCA Healthcare and vice chair of Guide Dogs Group. She has an extensive portfolio of previous NED roles including at HMRC, the Princes Trust and the National College for Teaching and Leadership. Her previous executive career includes group marketing director at BUPA, brand director at British Airways and managing director at Corporate Positioning Services. She also has extensive experience as a strategy and marketing consultant, including in the organisation she founded, The Stafford Partnership.

Pat Stafford's term of office is due to end on 22 February 2017.

Gill Whitehead

Gill was appointed to the board on 6 July 2015. Gill is a member of the audit committee and the nomination committee.

Gill is Director of Audience Technologies and Insight at Channel 4.

Previously, Gill was Director of Strategy and Corporate Development at Channel 4. Head of Global Strategy and Head of BBC Commercial iPlayer, BBC Worldwide, Strategy, Finance and Economic Consulting Manager at Deloitte and an economist at Bank of England. Her previous board roles include director, Freeview Television (DTV Services Ltd), and director, Ragdoll Worldwide Ltd and board director and the chair of the remuneration committee at YouView Television Ltd.

Gill Whitehead's terms of office is due to end on 5 July 2018.

changes during the year

The FCA appointed Gill Whitehead to the board from 6 July 2015 for a period of three years to 5 July 2018 following Gwyn Burr's departure.

Gwyn left the board in July 2015, having tendered her resignation due to competing demands on her time. The board is grateful to Gwyn for her incisive contributions – her retail, commercial and marketing background has proved especially valuable, as the ombudsman service looks to remain relevant to its customers into the future.

secretariat support

The company secretary – with the help of the board secretary – supports the board, its committees and the executive team and ensures all relevant procedures are followed. The company and board secretaries are available to provide independent advice to directors on issues relating to their responsibilities.

Julia Cavanagh, our chief financial officer, is the company secretary. Alison Hoyland, head of the chief executive's office, is the board secretary.

ensuring that the board has high quality, clear, timely and accurate information about operational and financial performance

the role of the board

The *Companies Act 2006* requires directors to act in a way that they consider would be most likely to promote the success of their company. Directors are also expected to exercise reasonable care, skill and diligence.

The role of the board of the Financial Ombudsman Service is to:

- ensure that the service is properly resourced and able to carry out its work effectively and independently;
- agree the strategic direction of the service and its key commitments;
- oversee and monitor the service's operational and financial performance;
- appoint the chief executive & chief ombudsman and the panel of ombudsmen under paragraphs 4 and 5 of Schedule 17 of the *Financial Services and Markets Act 2000* (which the board has delegated to the chairman);
- appoint the independent assessor – who deals with complaints about the level of customer service we provide in our work resolving consumers' complaints about financial businesses;
- approve the draft budget each year for recommendation to the Financial Conduct Authority (FCA);
- approve (with the FCA) appropriate rules in the Dispute Resolution: Complaints (DISP) and Fees Manual (FEES) sections of the FCA's Handbook;
- prepare and approve an annual plan that sets out how resources will be used; and
- approve the annual review and the directors' report & financial statements.

The board is made up entirely of non-executive directors. Members of the executive team are invited to attend board meetings as required, with regular attendance from the chief executive & chief ombudsman, chief operating officer and the chief financial officer. The board combines executive and non-executive insight to govern the service effectively.

The chairman and chief executive & chief ombudsman meet regularly to discuss the operation and development of the service. Their responsibilities are distinct and clearly defined. The chairman ensures that the service has a clear strategy and direction – with effective management for its current and future needs. The chairman leads the board and ensures that it meets its statutory and corporate responsibilities and is effective in its decision making.

The chairman provides oversight to ensure the information provided to the board is of sufficient accuracy and quality, including in terms of the clarity of content and the purpose and action required. He also has an important role in "setting the tone from the top", role-modelling the ombudsman service's culture and values, as well as acting as an ambassador for the service externally. He meets the executive team members at least annually on a one-to-one basis.

The chief executive & chief ombudsman is responsible for leading the service's strategy and overseeing the delivery of its commitments. She also leads the executive in making and implementing operational decisions, and ensuring that the board has high quality, clear, timely and accurate information about operational and financial performance. She is responsible for providing leadership across the ombudsman service, and together with the chairman, the board and her executive, helping to "set the tone from the top" by role modelling the ombudsman service's culture and values.

The chairman and the chief executive & chief ombudsman set board agendas in advance, ensuring that there is enough time for important issues to be discussed, and making sure that there is an appropriate balance between strategic matters and operational and assurance business.

The board has agreed an assurance framework which is reviewed annually and ensures all key assurance matters are reviewed at appropriate points during the year – including in relation to the service's performance, management of key corporate risks and the effectiveness of key internal systems and controls. Assurance reviews in relation to financial risks and controls are delegated to the audit committee where appropriate.

Discussion on key strategic issues this year has included our performance as a provider of alternative dispute resolution, the impact of external factors such as the Supreme Court's judgment in *Plevin v Paragon Personal Finance* and our wider PPI caseload. These discussions have focused on ensuring we continue to provide a relevant and meaningful service which meets our customers' needs. Minutes of board meetings are available on our website at www.financial-ombudsman.org.uk/about/minutes.html.

time commitment and attendance at board meetings

On average the chairman spends two days each week working on ombudsman service business. The time commitment of other board members amounts to around two days each month. The executive team is grateful to the chairman and board members for the additional time they give to support a range of work linked to our strategic development.

The board met seven times during the financial year 2015/2016. Attendance at board and committee meetings is shown below.

	board meetings	audit committee
Sir Nicholas Montagu, chair	6/7	–
Gwyn Burr	2/2	–
Gerard Connell	6/7	5/5
Alan Jenkins	7/7	5/5
Maeve Sherlock	7/7	–
Pat Stafford	6/7	4/5
Gill Whitehead	5/6	1/2

	nomination committee
Sir Nicholas Montagu, chair	2/2
Gerard Connell	2/2
Alan Jenkins	2/2
Maeve Sherlock	2/2
Pat Stafford	2/2
Gill Whitehead	1/2

	remuneration committee
Pat Stafford, chair	1/1
Sir Nicholas Montagu	1/1
Gerard Connell	1/1
Alan Jenkins	–
Maeve Sherlock	1/1
Gill Whitehead	–

conflicts of interest

Under the *Companies Act 2006*, the board can authorise any potential conflicts of interest that may arise – and impose whatever limits or conditions they consider appropriate. A register of conflicts is maintained and reviewed regularly to keep all the details up to date. Before a new non-executive director is appointed, they must seek appropriate authorisation for any potential conflicts of interest, and board members must seek authorisation as and when potential conflicts arise during their tenure on the board.

tenure policy

Directors are appointed for an initial period of no more than three years – or no more than five years in the case of the chairman. Unless a director resigns before the end of their term of office, their period of office finishes at the end of the term.

A non-executive director may be reappointed by the FCA. In the case of the chairman, the reappointment has to be approved by HM Treasury. Any non-executive director can be reappointed, but they can't serve for more than a total of ten years. In the case of the chairman, this ten-year period includes any time during which they acted as a non-executive director.

A non-executive director who wants to resign before their term of office would otherwise be due to end must give at least three months' notice in writing both to the chairman and to the FCA.

performance evaluation

Each year the board carries out a formal evaluation of its own performance and that of its committees. In this evaluation, the board considers the balance of its skills, experience and knowledge of the service, its diversity, how it works together as a unit, and other factors that influence its effectiveness.

As part of the evaluation, the senior independent director (who acts as an alternative point of contact to the chairman) meets with members of the board on a one-to-one basis to discuss the performance of the board and the chairman. In accordance with good governance practice, the assessment is undertaken by an independent external reviewer every three years.

An internal exercise was carried out in 2015, following the previous year's external review. Overall the findings from the review were very positive, with board members and the executive agreeing that the board was effective – highlighting in particular the board's dynamics, its decision-making and its setting a positive cultural tone. The review also highlighted potential areas for improvement – including greater ethnic diversity, more timely feedback on committee meetings, and ensuring sufficient time is set on the agenda to discuss the matters before the board.

indemnity of directors

Directors' and officers' liability insurance cover is in place for the non-executive directors. Subject to the provisions of UK legislation, the company's articles of association provide an indemnity for non-executive directors for any costs that they may incur in defending any proceedings brought against them that arise from their positions as non-executive directors. This applies if they are acquitted or if the court rules in their favour.

corporate governance

As a company limited by guarantee, the Financial Ombudsman Service isn't obliged to comply with the UK Corporate Governance Code. But because we want to maintain the highest standards of corporate governance, we comply with the Code as far as possible.

Under changes introduced in the *Financial Services Act 2012*, the Comptroller and Auditor General is responsible for the audit of the ombudsman service's annual accounts. Like the other members of our regulatory family, we're subject to an annual accounts direction from HM Treasury.

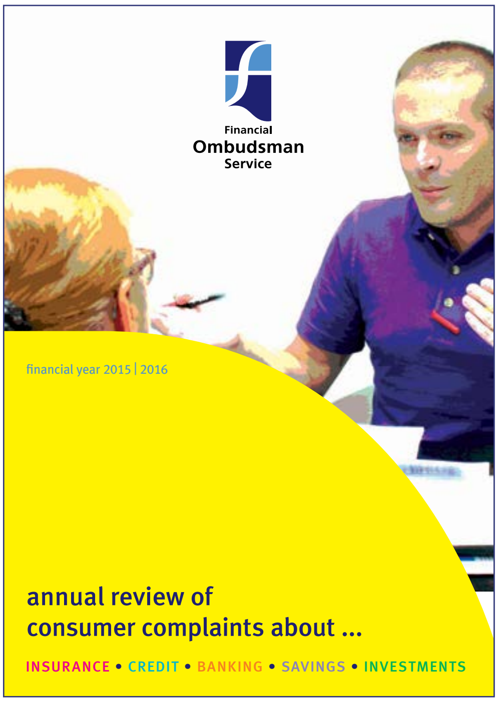
The company has no share capital and no shareholders – and we exercise our right under the *Companies Act 2006* not to hold annual general meetings. Our non-executive directors aren't submitted annually for re-election. But we continuously engage with a wide range of people who have an interest in our work – including, where appropriate, at chair-to-chair level. These stakeholders include financial businesses and trade bodies, consumer groups, regulators and government, parliamentarians, claims-management companies and the media.

There's more information about our engagement with our stakeholders in our *annual review*.

appointment of ombudsmen

It is the board's responsibility to appoint ombudsmen on terms that guarantee their independence. As at 31 March 2016, the ombudsman panel was led by Caroline Wayman, as chief executive and chief ombudsman – supported by two principal ombudsmen, four lead ombudsmen and directors of casework, four lead ombudsmen, six ombudsman leaders, three managing ombudsmen, 17 senior ombudsmen and 211 other ombudsmen. Each member of the panel is appointed by the board under paragraphs 4 and 5 to Schedule 17 of the *Financial Services and Markets Act 2000*.

Our ombudsmen's professional qualifications and experience reflect the diversity of our customers and the problems they bring to us. Their wide-ranging backgrounds includes financial services, law, teaching, local government, human resources and charities and the third sector. There's more information about our panel of ombudsmen on our website at www.financial-ombudsman.org.uk/about/panel-ombudsmen.html



board committees

the audit committee

The audit committee met five times during the year. Members of the audit committee were:

- Gerard Connell (chair)
- Alan Jenkins
- Pat Stafford
- Gill Whitehead (from August 2015)

The board is satisfied that the combined knowledge and experience of the audit committee members ensures that it can fulfil its responsibilities effectively. The chair, Gerard Connell, is a chartered accountant and has significant and relevant financial experience. During his career, Gerard was the group finance director at Wincanton, a regional director at Hill Samuel and a managing director at Bankers Trust. His non-executive positions include chairing the audit committee of the Defence Science & Technology Laboratory, and he has previously chaired the audit committee at Pennon Group Plc.

All members of the audit committee receive any support they need to carry out their role effectively.

During the year the committee considered matters including our approach to revenue recognition, our anti-fraud and anti-bribery policy, our reserves framework and our investment strategy. The committee also monitored progress against the annual internal audit plan – considering all completed internal audits in the year, and reviewing progress in implementing the actions we agreed in response to audit findings. At each meeting the committee notes the corporate risk register, the actions being taken to manage risks appropriately, and any entries on registers covering gifts and hospitality, single tender actions, fraud and data protection.

The chief executive & chief ombudsman, chief operating officer, chief financial officer and head of risk and governance are invited to attend all audit committee meetings. The NAO and the ombudsman service's internal auditors are also invited to attend.

The committee's full terms of reference are available on our website at www.financial-ombudsman.org.uk/about/audit_committee.pdf

The audit committee's main terms of reference are:

- **financial reporting**
  To review and challenge accounting policies adopted and accounting practices used for unusual or significant transactions; and to assess whether appropriate standards have been followed.
- **internal controls and risk-management systems**
  To keep under review the adequacy and effectiveness of internal financial control, and internal control and risk management systems.
- **compliance, whistleblowing and fraud**
  To review how adequate our arrangements are for employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.
- **internal audit**
  To monitor and review how effective our internal audit function is, in the context of the overall risk management and independent assurance – and to approve the appointment and removal of the internal auditor.
- **external audit**
  To oversee the relationship with the external auditors. The National Audit Office were appointed as our external auditors in April 2013 under the *Financial Services Act 2012*, replacing Baker Tilly. The NAO has direct access to the chairman to discuss financial reporting matters and is invited to all audit committee meetings. Our annual report and accounts are subject to approval by the Comptroller and Auditor General.

the nomination and remuneration committee

The nomination committee met twice during the year, and the remuneration committee met once. Members of the two committees are:

remuneration committee:

- Pat Stafford (Chair)
- Nick Montagu
- Gerard Connell
- Maeve Sherlock

nomination committee:

- Nick Montagu (Chair)
- Gerard Connell
- Alan Jenkins
- Maeve Sherlock
- Pat Stafford
- Gill Whitehead

The remuneration committee terms of reference
• **remuneration strategy** To oversee the remuneration strategy for the executive and other senior posts within the organisation, and support the chief executive & chief ombudsman in reviewing overall executive performance
• **executive remuneration** To consider and agree proposals from the chief executive & chief ombudsman about the remuneration of senior executive staff (no director or executive shall be involved in any decision about their own remuneration)
• **overall remuneration** To consider proposals from the chief executive & chief ombudsman regarding overall remuneration across the service, ensuring in the case of ombudsmen that the remuneration terms are consistent with their independence. In considering these recommendations, the committee shall: – have regard to the service's key commitments and performance against them and take into account any other factors which it deems necessary – internal and external comparative information and data and information supplied by external parties
• **employee reward and benefits** To consider and agree proposals from the chief executive & chief ombudsman about any proposals for major changes to the employee reward and benefit structure

The nomination committee terms of reference
• **board composition** To review the structure, size and composition (including the skills, knowledge and experience) required of the board, including at the end of a board member's current term and when vacancies arise, and make recommendations on behalf of the board to the Financial Conduct Authority for it to approve: – the appointment of board members; *and* – the re-appointment of board members
• **board sub-committees** To appoint members of board sub-committees, taking account of the skills, knowledge and experience required
• **chief executive & chief ombudsmen appointment** To make recommendations to the board about the appointment of the chief executive & chief ombudsman
• **succession planning** To oversee the succession and recruitment risks for critical senior posts, including for the chief executive and chief ombudsman role, ensuring that the HR director and chief executive & chief ombudsman have effectively identified the risks and have mitigation/succession plans in place
• **recruitment** To ensure that all appointments it advises on, or makes, are made with regard to being a good equal opportunities employer, observing the basic principles of open and transparent recruitment processes, fair, impartial and consistent selection processes and selection on merit.

During the year the business in which the nomination and remuneration committees were involved included: a recommendation to the FCA board on the appointment of non-executive director, Gill Whitehead; changes to pension tax relief; the appointment of the new director of HR and organisational development; and reward and recruitment.

The chief executive & chief ombudsman is invited to attend all committee meetings. However, she doesn't attend when her own performance is due to be discussed.

given the volume of work the bigger picture is that customers are generally happy with the service provided

the independent assessor

The independent assessor, Amerdeep Somal, is appointed by the board and has her own official terms of reference. She can consider complaints from consumers and businesses about the level of customer service we've provided. She doesn't consider the outcome of the complaint that's been referred to us – that is, whether it was right for us to uphold or reject a consumer's complaint about a financial business.

There's more information about the work of the independent assessor at www.independent-assessor.org.uk .

The independent assessor meets formally with members of the executive team and the board on a quarterly basis, and at other times as appropriate. During these meetings the independent assessor's feedback and recommendations are discussed – as well as any underlying themes in the complaints she's received and the action that's being taken to address them.

The independent assessor's annual report to the board – setting out the findings and recommendations she's made during in 2015/2016 – is on pages 55-57.

The board has accepted the independent assessor's report and her recommendations in full – and would like to thank her for her continuing contribution to helping us improve the service we offer.

the executive

The board is supported by the executive team, who are responsible for the day-to-day management of the service. Led by Caroline Wayman, chief executive & chief ombudsman, the executive team:

- propose and manage the budget, and approve major expenditure;
- plan, prioritise and oversee the delivery of the organisation's strategy and commitments;
- ensure the organisation is running effectively and efficiently; *and*
- manage risks.

The following people were on the executive team as at 31 March 2016:

We've recently appointed Sally Webster, director of HR and organisational development – after Jacquie Wiggett left in February 2016. The board and the executive are enormously grateful to Jacquie for the huge contribution she made in her 15 years at the ombudsman service. Jacquie has been instrumental in making sure that we've had the resources and skills we've needed to be able to respond to increasing demands for our help over the years.

Caroline Wayman

chief executive & chief ombudsman

Chris McDermott

chief operating officer

Julia Cavanagh

chief financial officer/company secretary

Richard Thompson

principal ombudsman and quality director

David Cresswell

director of strategy

Garry Wilkinson

principal ombudsman and director of new services

Annette Lovell

director of engagement

internal audit

In January 2015 we appointed Deloitte to deliver our internal audit work until March 2018. Deloitte's engagement partner has taken the role of head of internal audit, reporting directly to our chief executive and the chair of the audit committee.

Our 2015/2016 audit plan was set by Deloitte and approved by the audit committee in April 2015. Their engagement plan is set out in our "way of working" and "internal audit charter". We formally established a "three lines of defence" model in 2015/2016 – with risk and governance and other assurance functions acting as our second line, and internal audit as the third line.

Internal audit review the risk management activities of various business areas, taking an independent view of the operational effectiveness and efficiency of our internal controls. Audit findings include an overall assurance assessment, which is provided to the audit committee for approval. The audit work for 2015/2016 covered casework, looking at the provisions in place for handling vulnerable consumers, key financial controls, software asset management, human resource information systems, procurement, data warehouse, data protection and a follow-up audit on risk management.

internal audit opinion

Our internal auditors, Deloitte LLP, provided us with our first internal audit opinion based on the work in their audit programme for 2015/2016. They assessed the adequacy and effectiveness of our governance, risk and control environment, and whether these are sufficient to help us achieve our commitments.

Overall, Deloitte's opinion was that we had "adequate and effective systems over governance, risk and internal controls which provided reasonable assurance regarding the effective and efficient achievement of the Service's objectives". Two exceptions were noted – that the service needed to make further improvements to the design and operating effectiveness of the data protection environment; and needed to further develop its risk-management framework. Many of the required actions were implemented in 2015/2016 with further actions planned for completion in 2016/2017.

external audit

The National Audit Office (NAO) were appointed as our external auditors in April 2013 under the *Financial Services Act 2012*. They audit our financial accounts at the end of the financial year – and our report and accounts is subject to Comptroller and Auditor General's approval. The NAO liaise directly with internal audit as appropriate. They attend our audit committee. They have direct access to the chair of audit committee to discuss financial reporting matters.

adequate and effective systems over governance, risk and internal controls

risk management and internal control

Throughout 2015/2016 we've continued to embed our risk-management framework and internal controls. The executive team and board look at strategic risk – and each year they carry out a "risk refresh" exercise to identify the thematic risks for the service. The executive team discuss risk in detail each quarter as part of the risk reporting cycle.

The risk and governance team is responsible for assessing the extent of risk coverage across the ombudsman service. They provide independent challenge of risk assessments, collate risk information, monitor risk movement and agree the quarterly risk report with the executive team and for provision to the board.

The team have continued to support increased risk coverage across all areas of the service – helping management to understand factors which could potentially impact our ability to meet our commitments. They've delivered training workshops to raise awareness of the service's approach to risk management and provide technical support to assess risk exposure. They've also enhanced the processes around monitoring and reporting risk.

The team will continue to further embed risk management activities throughout 2016/2017, making sure all relevant stakeholders manage and escalate risk appropriately.

Our internal auditors, Deloitte, provide independent scrutiny of our control environment for those business areas which form part of our annual audit plan. Deloitte's engagement partner acts as our head of internal audit and reports findings to responsible directors, the executive team and the audit committee. Both the risk and governance and audit functions provide assurance to the board around our risk and control environment.

We've enhanced our "speak up" policy in-line with public sector best practice – something which was approved by our executive team and audit committee in October 2015.

Following on from the crisis-management exercise we ran in 2015, training has been delivered to the crisis management team, deputies, and business continuity representatives. We've also implemented a new business continuity management tool to capture relevant information centrally.

The key organisational risks are set out on pages 17-19.

enhanced our "speak up" policy in-line with public sector best practice

remuneration report

The board consists entirely of non-executive directors who don't participate in the reward, pension or benefit schemes that we run for our employees. The fees paid to directors aren't specifically related to individual or collective performance, and directors aren't entitled to compensation for loss of office.

Non-executive directors' fees are set annually by the regulator and adopted by the board. The nomination and remuneration committee considers and approves executive remuneration.

During 2015/2016 the chairman received an annual fee of £74,970. A fee of £24,500 was paid to each of the other non-executive directors and an additional fee of £5,000 was paid to the chair of the audit committee and the senior independent director. Fees paid to non-executive directors will remain unchanged for the 2016/2017 financial year.

In this report the disclosures on board fees, remuneration, expenses benefits for the executive team Hutton fair pay ratio and exit packages have been audited. Other disclosures haven't been audited.

fees for the board (audited)

	note	total fees for year ended 31/3/16 £	total fees for year ended 31/3/15 £
Sir Nicholas Montagu		**74,970**	**74,970**
Gill Whitehead	1	**18,218**	**–**
Gerard Connell	2	**29,500**	**8,059**
Alan Jenkins		**24,500**	**24,500**
Maeve Sherlock	3	**29,500**	**29,500**
Pat Stafford		**24,500**	**24,500**
Gwyn Burr	4	**8,167**	**24,500**
Julian Lee	5	**–**	**26,285**
total		**209,355**	**212,314**

notes

1 Gill Whitehead joined the service on 6 July 2015.

2 Gerard Connell's fee includes an additional fee for chairing the audit committee.

3 Maeve Sherlock's fee includes an additional fee as the senior independent director.

4 Gwyn Burr left the service 21 July 2015.

5 Julian Lee left the service 22 February 2015. His fee included an additional fee for chairing the audit committee.

During the year the independent assessor, Amerdeep Somal, received a salary of £96,000 for 4 days a week (2015: £96,000), pension contributions of £13,920 (2014: £14,400) and other benefits amounting to £3,466 (2014: £3,779). In addition, Amerdeep received £3,692 for additional hours worked and £500 under the service's referral policy.

expenses incurred by board members (audited)

In line with the memorandum of association, the directors are entitled to be paid travel, hotel and other expenses which are reasonable and have been properly incurred. The directors' expenses policy is available on our website. The expenses incurred by, or on behalf of, the directors during 2015/2016 are shown in the table.

	travel £	accommodation £	entertaining £	total £
Sir Nicholas Montagu	147	96	199	442
Gwyn Burr	–	–	109	109
Gerard Connell	–	–	35	35
Alan Jenkins	15	96	115	226
Maeve Sherlock	747	236	115	1,098
Pat Stafford	525	182	115	822
Gill Whitehead	–	–	159	159
total	**1,434**	**610**	**847**	**2,891**

executive remuneration

Remuneration packages for members of the executive team comprise a salary, a reward scheme, pension benefits and other benefits including healthcare benefits.

salary

Salaries for members of the executive team are reviewed annually by the remuneration committee. Any increases reflect changes in responsibility, inflation, market movements and individual performance. Salaries for the chief executive and the chief ombudsman also take account of the judicial salary-scales.

reward scheme

In line with the recommendations of the Hutton Review into Fair Pay in the Public Sector (March 2011), all members of the executive team have their remuneration structured so that an element of their salary is "at risk". This means that 15% of their salary is held back until the end of the year – and is paid only if the board agrees that the organisation's performance is satisfactory.

The level of payment is determined by the remuneration committee who can also award up to an additional 5% of salary to individual executives for exceptional performance.

pension

Members of the executive team are eligible to join the non-contributory defined-contribution pension scheme, which is open to all employees except non-executive directors. The organisation makes a core contribution as a percentage of salary linked to age up to a maximum of 12% of salary. In addition, we match individual flexible contributions to the scheme up to 3% of salary. The remuneration committee has approved an alternative cash arrangement for those staff members, including the executive team, who wish to leave the pension scheme following the recent changes to pension legislation which became effective in April 2016.

other benefits

Members of the executive team are eligible to take part in the flexible benefit arrangements, which are open to all employees except non-executive directors. The executive team arrangements include life assurance (up to four times salary), permanent health insurance, critical illness cover, personal accident insurance, health screening and a healthcare plan including family cover. All employees – including the executive team – receive a cash benefit allowance of £600 a year, which they can spend on other benefits available under the flexible benefit plan.

remuneration and benefits for the executive team (audited)

	note	salary* £	pension £	other benefits** £	total for year ended 31/3/16 £	total for year ended 31/3/15 £
Caroline Wayman	1	**244,750**	**30,550**	**7,273**	**282,573**	**261,258**
Julia Cavanagh		**191,525**	**25,179**	**10,937**	**227,641**	**212,570**
David Cresswell		**144,761**	**18,456**	**5,422**	**168,639**	**164,760**
Chris McDermott		**207,388**	**26,454**	**7,413**	**241,255**	**229,214**
Richard Thompson	2	**163,306**	**21,079**	**6,230**	**190,615**	**61,858**
Garry Wilkinson	3	**163,306**	**16,871**	**5,876**	**186,053**	**60,336**
Annette Lovell	4	**169,796**	**21,616**	**5,655**	**197,067**	**–**
Tony Boorman	5	**–**	**–**	**–**	**–**	**408,426**
Jacquie Wiggett	6	**251,456**	**16,908**	**5,112**	**273,476**	**161,847**
Liz Brackley	7	**–**	**–**	**–**	**–**	**155,897**
total		**1,536,288**	**177,113**	**53,918**	**1,767,319**	**1,716,166**

* Salary cost represents base salary including salary at risk.

** Other benefits are the cost of providing core benefits, other than pension, through the flexible benefits scheme. Benefits provided include personal accident insurance, life assurance, private medical insurance, income protection and flex benefits.

notes

1 Caroline Wayman was appointed chief executive & chief ombudsman on 23 July 2014, having previously been principal ombudsman & legal director.

2 Richard Thompson joined the executive team on 1 December 2014.

3 Garry Wilkinson joined the executive team on 1 December 2014.

4 Annette Lovell joined the service on 16 March 2015. Her April 2015 salary included pay in respect of March.

5 Tony Boorman left the service on 30 September 2014 after working at the ombudsman for over 14 years.

6 Jacquie Wiggett left the service on 29 February 2016 after working at the ombudsman for 15 years. Included in “salary” is a payment of £135,752 which includes £107,172 equivalent to the amount payable under the terms of our redundancy policy.

7 Liz Brackley left the service on 7 February 2015.

expenses incurred by, or on behalf of, members of the executive team (audited)

	note	travel £	accommodation & subsistence £	entertaining £	prof subs £	total for the year ended 31/3/16 £
Caroline Wayman		2,058	759	114	100	3,031
Julia Cavanagh		18	–	109	439	566
David Cresswell	1	2,222	2,793	100	–	5,115
Chris McDermott		95	562	109	–	766
Jacquie Wiggett		60	–	–	–	60
Richard Thompson		13	129	2	328	472
Garry Wilkinson		–	–	–	–	–
Annette Lovell	1	1,211	726	2	–	1,939
Tony Boorman		–	–	–	–	–
Liz Brackley		–	–	–	–	–
Total		**5,677**	**4,969**	**436**	**867**	**11,949**

note

1 David Creswell's and Annette Lovell's travel, accommodation and subsistence expenses relate to external engagement and outreach work with financial businesses and community advisers across the UK.

Hutton fair pay ratio (audited)

Organisations with a requirement to report must disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

	2015/2016	**2014/2015**
The remuneration* of the highest-paid director** in the Financial Ombudsman Service in the financial year	£252,023	£233,007
This was 7.22 times (2014/2015: 6.96 times) the median remuneration of the workforce, which was:	£34,913	£33,491

No employee received remuneration in excess of the highest paid director. The highest paid director was appointed part way through 2014/2015. If the calculation is amended to include employees only – rather than total workforce – the ratio between the highest paid director and the median pay of employees in 2015/2016 was 7.39 times, compared to 7.36 in 2014/2015.

* Remuneration includes salary, salary at risk, and benefits-in-kind. It doesn't include severance payments and employer pension contributions.

** For the purpose of this note, director refers to both non-executive directors and members of the executive team.

exit packages (audited)

exit packages by cost band	2015/2016 number (redundancy)	2015/2016 number (other)	2014/2015 number (redundancy)	2014/2015 number (other)
Less than £2,000	–	59*	–	16*
£2,001 to £5,000	–	17	–	22
£5,001 to £10,000	–	2	–	4
£10,001 to £25,000	–	5	1	7
£25,001 to £50,000	2	2	2	3
£50,001 to £100,000	1	1	–	–
£100,001 to £250,000	–	1	–	–
£250,001 to £300,000	–	–	1	–
Total	3	87	4	52
Total payments (£)	**£127,098**	**£506,506**	**£366,464**	**£335,913**

* The majority of these payments were for case handlers who didn't pass their probation period and left the service without working their notice.

The table above comprises the exit packages for leavers in 2015/2016. Further amounts totalling £118,175 have been accrued at 31 March 2016 representing payments due for leavers in 2016/2017 (31 March 2015: £Nil). The total charged within the financial statements for 2015/2016 is £751,779 relating to exit packages (2014/2015: £702,377). The highest payout during the year was £135,752 (2014/2015: £287,921).

pension scheme

The organisation participates in the FCA pension plan – a voluntary, money purchase, non-contributory scheme. This pension scheme is open to all employees except the non-executive directors.

The ombudsman service pays contributions on behalf of employees at the rates in the table below. Employees can also make extra contributions from their flexible benefit account. For employees who choose to do this, the organisation makes a matched contribution up to 3% of pensionable salary.

age	contribution rate
16 to 24	6% of pensionable salary
25 to 29	8% of pensionable salary
30 to 34	10% of pensionable salary
35 and over	12% of pensionable salary

Following the recent changes in pension legislation, the remuneration committee has approved the provision of a cash alternative for employees who have chosen to leave the pension scheme as a result of their salary being above the annual allowance, or because their pension provision exceeds the lifetime allowance (£1.25m in 2015/2016).

There are further details about the cost of the pension scheme in the notes to the accounts.

statement of directors' responsibility

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS).

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company, and of the profit or loss 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 International Financial Reporting Standards (IFRS) have been followed, subject to any material departures disclosed and explained in the financial accounts; *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 are responsible for keeping adequate accounting records that:

- are sufficient to show and explain the company's transactions;
- disclose with reasonable accuracy, at any time, the financial position of the company; *and*
- enable them to ensure that the financial statements comply with the *Companies Act 2006* and are in accordance with the accounts direction given by HM Treasury under paragraph 7(5) of Schedule 17 to the Financial Services and Markets Act 2000.

The directors have general responsibility for taking whatever steps are reasonably open to them to safeguard the assets of the company, and to prevent and detect fraud and other irregularities.

going concern

The directors are satisfied that the Financial Ombudsman Service is in a position to meet its obligations as they fall due, and is therefore a going concern. We have prepared budgets and cash flows for 2016/2017 which show year end reserves of £211m and £203m in the bank. The financial statements have accordingly been prepared under the going concern accounting convention.

statement of disclosure of information to auditor

Each director confirms that:

- to the best of their knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; *and*
- they have taken all steps a director might reasonably be expected to have taken, to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

by order of the board

Julia Cavanagh
company secretary

7 July 2016

TO THE BOARD OF THE FINANCIAL OMBUDSMAN SERVICE

THE INDEPENDENT ASSESSOR'S ANNUAL REPORT 2015/2016

This is my third annual report for the Ombudsman Service, and as you'll later see, overall I am pleased with the progress made.

This year (1 April 2015 to 31 March 2016) the Ombudsman Service has recorded investigating 2,202 service complaints, as opposed to 2,757 last year. Amongst other things the Service has focused on ensuring the culture and attitudes are centred on efficiently resolving problems. Doing the right thing, at the right time for that particular customer has seen the Service improve the flexibility of its own processes; and the total number of recorded complaints indicates this is working.

46% of the recorded complaints were resolved by team managers, and 54% went on to a senior manager for a final answer from the Ombudsman Service.

While a number of complaints were resolved by the Ombudsman service, it's safe to say my office had a busy year corresponding with a total of 939 customers.

Complaints investigated by me

Of the customers I contacted, I issued 411 formal opinions compared with 275 the previous year. This is an increase of nearly 50%. The following statistics relate to those cases where I issued a formal opinion, compared with the previous year's results.

	This year	2014/2015
Satisfactory	39%	36%
Adequate	13%	10%
Critical	48%	53%

I found that the Service followed its processes well or had minor service failings in 52% of the cases, and classed 48% of the cases as critical. This is where I found serious service failings or the Service failed to follow its processes.

This is an improvement on the previous year which is largely down to the extensive efforts put into improving communication. I was pleased to see more meaningful updates, a more personal touch, and an overall more human approach.

While this is true however, the main causes for complaint in the critical cases were related to communication, or the general professionalism and competence of staff. This covered a wide range of issues, from losing evidence to not explaining things appropriately. There's still more to do in embedding this across the organisation.

Aside from the critical cases, I've detailed the largest cause for complaint across the year:

Communication – 24%

There were a number of cases where the Ombudsman Service needed to manage communication by saying it wouldn't communicate on certain matters any more, or end communication with the customer completely. Naturally customers aren't happy when this happens. While undesirable, it's sometimes necessary for the Ombudsman Service to take this action, and I believe the service is striking the right balance between being helpful and knowing when to draw the line. One thing to bear in mind when stopping communication with a customer is to make sure it is done at the right time and in the right way. Any relevant outstanding concerns should have been addressed and the Ombudsman Service should explain why it's taking such action. It's also important to have a consistent and fluent approach throughout different areas of the organisation.

Adherence to FOS process – 19%

Jurisdiction: In terms of this, customers are generally unhappy when the Ombudsman Service has to go through the jurisdiction procedure of deciding whether or not they can investigate the case. Customers seem to think that the Service is choosing not to investigate or being biased towards the business in allowing them to object to the case being reviewed, rather than accepting they have an obligation to look into this first. It's a necessary first step.

Overall the Ombudsman Service has handled these cases well and fulfilled its obligations in clearly explaining what is happening at the earliest opportunity.

Evidence: Customers felt they should be able to see and comment on everything that the business had provided; wanted the Service to comment on specific pieces of evidence, or just had general dissatisfaction with the way their requests to see information were handled. This is something that was dealt with well most of the time but also could have been dealt with better on a few occasions.

Sometimes customers hadn't made their requests for information clear so they were overlooked and treated as disagreements with the case. However there were instances where the information request should have been identified and actioned sooner. As a whole it is clear that the Service encourages staff to proactively send the material information relied on to resolve any concerns sooner. However this could be embedded more across the Service.

General overview: some customers' complaints were just about general case handling and wanting me to check that everything was as it should be. In these instances it was – both parties were given the opportunity to provide evidence before a final decision was issued.

Timeliness – 14%

Last year I mentioned that amongst other things, most of the complaints I'd dealt with were about investigations taking too long. The picture this year is different. For a long time the Ombudsman Service has been telling its customers it is working to reduce the time the process takes, and this year saw some real headway into this, which has been reflected here.

Complaints not within my remit

I contacted 528 customers explaining that their complaints were outside of my remit.

3%	They brought their complaint to me out of time.
4%	They got in touch while the Ombudsman Service's case investigation was ongoing and there were no exceptional circumstances for me to step in early.
10%	They hadn't referred their complaint to a senior manager, the second stage of the complaints process.
23%	They hadn't yet raised their complaint with the Ombudsman Service.
28%	Complained about the merits of the case.
32%	Miscellaneous, including complaints that were brought without appropriate authorisation.

Complaints about the merits of the case:

I rejected 144 complaints as outside of my remit because they were solely about the merits of the case against the financial business (28% this year, compared with 24% last year).

The outcome of the case is still largely something customers are unhappy with and seek to get the answer they are looking for elsewhere. On the whole the Ombudsman Service makes the distinction between service and merits well, it also attempts to manage expectations in terms of senior manager responses and explaining what I can and can't look into. However a large number of customers will still escalate to the end of the process.

The number of cases I have suspended remains low with only eight this year as opposed to 12 last year. All of the cases were classed as critical, highlighting the fact that there were serious service failures and I undertake rigorous scrutiny when deciding to get involved early. It is very rare that it will be desirable to delay the Ombudsman Service giving its final answer to the consumer of their complaint about the financial business.

Miscellaneous complaints:

These represent complaints that would have not been appropriate for me to review, as they were not within my remit and possibly better considered by other organisational bodies.

Other headline topics

New ways of working

This year saw some real changes with the Ombudsman Service undertaking trials of new, smarter ways of working in its general casework department; meaning customers were getting answers faster, both in terms of the case against the financial business, and also when complaining about the service received. In addition to working faster, the Ombudsman Service has stepped away from its former position of managers not entering into any conversation about the merits of the case, and while they continue to avoid passing judgement on the case they are encouraged to have a more meaningful conversation with the consumer and clarify anything they can without overstepping the boundaries.

It's fair to say that the number of complaints that escalated to me was minimal, with less than 10 asking me to become involved. I classed all of them as satisfactory and made no recommendations, which is remarkable to see.

There were no trends in the nature of the customer's complaints. Some were about specific actions, such as the length of time it took the Ombudsman service to tell them their case was out of jurisdiction, whereas others just wanted a sense check that the Ombudsman Service had investigated the case as it should, in line with its case-handling procedures.

It is clear that the more flexible approach is well received by customers, since regardless of the outcome of their cases, very few want to take their complaint further. I believe that a key reason for this is down to the fact that it simply doesn't take as long to receive an answer. Frustration can rise while waiting and it is often this that leads to impatient and on a few occasions unreasonable behaviour on the part of customers. But aside from that, there is a greater sense of personal touch and ownership by staff at the Ombudsman Service.

Customers are contacted promptly across the board and are able to speak to someone much more easily than before. In addition to this individuals take ownership of the concerns and try to provide an answer wherever possible.

A strategic approach

The Service would however benefit from a strategic approach to managing long term challenging customers. Thousands of customers contact the Ombudsman Service daily about their concerns and it has an obligation to manage its resources effectively. Unfortunately some customers are deliberately time consuming taking resources away from settling genuine problems for customers who wish to cooperate.

There are times where standard processes just aren't suitable, and in the case of consistent complaints about a case, the Ombudsman Service should consider whether multiple complaint responses from various departments really is the right approach or whether a holistic review of the entire service provided would be more appropriate.

Overview

Above, I've highlighted what the most dissatisfied customers are saying. However it is important to note that the Ombudsman Service resolved 438,802 cases and only 0.5% of these cases resulted in a service complaint. Given the volume of work the bigger picture is that customers are generally happy with the service provided.

There are areas for improvement and the Ombudsman Service shows a real appetite to further improve the service provided to its customers.

Last year I said that communication and timeliness seemed to be the real root of the service complaint, and I believe the same is true today. The Ombudsman Service has taken this on board and improved in various ways.

I hope the above provides some reassurance of the positive impact of the Service's continued efforts to improve its customers' experience.

Amardeep Somal
Independent Assessor

27 April 2016

the certificate and report of the comptroller and auditor general to the houses of parliament

I certify that I have audited the financial statements of the Financial Ombudsman Service for the year ended 31 March 2016 under the Financial Services and Markets Act 2000. The financial statements comprise the Statement of Comprehensive Income, Statement of Other Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position, Statement of Cash Flows and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the directors and the auditor

As explained more fully in the statement of directors' responsibility, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Financial Services and Markets Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Financial Ombudsman Service's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2016 and of the company's surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- the financial statements have been prepared in accordance with the Companies Act 2006 and HM Treasury directions issued under the Financial Services and Markets Act 2000.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Financial Services and Markets Act 2000; and
- the information given in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept by the Financial Ombudsman Service; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; and
- I have not received all of the information and explanations I require for my audit.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

8 July 2016

statement of comprehensive income

for the year ended 31 March 2016

	Notes	2016 £'000	2015 £'000
Continuing operations			
Revenue	4	**262,799**	325,665
Administrative expenses	5	**(259,888)**	(239,673)
Operating surplus		**2,911**	85,992
Finance income	6	**1,773**	744
Finance costs	6	**(255)**	(248)
Surplus before tax		**4,429**	86,488
Corporation tax expense		**(364)**	(177)
Surplus for the year from continuing operations		**4,065**	86,311

statement of other comprehensive income

for the year ended 31 March 2016

	Notes	2016 £'000	2015 £'000
Surplus for the year		**4,065**	86,311
Other comprehensive expense:			
Items that will not be reclassified to profit or loss			
Re-measurements of post-employment benefit obligations	23	**1,826**	(1,597)
Total other comprehensive expense		**1,826**	(1,597)
Total comprehensive income for the year		**5,891**	84,714

All operations are continuing.

statement of changes in equity

	Notes	Accumulated surplus
Balance as at 1 April 2014	21	145,521
Total comprehensive income for the year		84,714
Balance as at 31 March 2015	21	230,235
Total comprehensive income for the year		5,891
Balance as at 31 March 2016	21	236,126

statement of financial position

as at 31 March 2016

	Notes	**31 March 2016 £'000**	31 March 2015 £'000	1 April 2014 £'000
Non-current assets				
Property, plant and equipment	9	**11,916**	15,023	13,337
Intangible assets	10	**7,559**	7,545	7,838
Trade and other receivables	11	**450**	999	424
		19,925	23,567	21,599
Current assets				
Trade and other receivables	11	**37,939**	24,353	57,697
Short term deposits	12	**114,000**	140,000	–
Cash and cash equivalents	13	**119,512**	125,929	230,558
		271,451	290,282	288,255
Total assets		**291,376**	313,849	309,854
Current liabilities				
Trade and other payables	14	**43,906**	51,751	117,517
Current corporation tax liability		**365**	177	85
		44,271	51,928	117,602
Non-current liabilities				
Trade and other payables	14	**4,107**	23,794	40,248
Provisions for other liabilities and charges	16	**1,415**	504	595
Post-employment benefits	23	**5,457**	7,388	5,888
		10,979	31,686	46,731
Total liabilities		**55,250**	83,614	164,333
Total equity				
Accumulated surplus	21	**236,126**	230,235	145,521
Total equity and liabilities		**291,376**	313,849	309,854

The financial statements on pages 60–90 were approved and authorised for issue by the board of directors on 7 July 2016, and are signed on behalf of the board of directors by:

Sir Nicholas Montagu, chairman 7 July 2016

Company number: 03725015

statement of cash flows

for the year ended 31 March 2016

	Note	**2016 £'000**	2015 £'000
Cash flows from operating activities			
Cash (outflow)/inflow from operations		**(28,307)**	45,386
Interest paid		**(17)**	(2)
Corporation tax paid		**(176)**	(85)
Net cash (outflow)/inflow from operating activities		**(28,500)**	45,299
Cash flows from investing activities			
Purchase of property, plant and equipment	9	**(1,623)**	(8,541)
Purchase of intangible assets	10	**(3,551)**	(2,054)
Decrease/(increase) in short-term deposits	12	**26,000**	(140,000)
Interest received		**1,257**	667
Net cash used in investing activities		**22,083**	(149,928)
Cash flows from financing activities			
Movement in long term borrowings		**–**	–
Net cash used in financing activities		**–**	–
Net decrease in cash and cash equivalents		**(6,417)**	(104,629)
Cash and cash equivalents at beginning of the year	13	**125,929**	230,558
Cash and cash equivalents at end of the year		**119,512**	125,929

notes to the statement of cash flows

for the year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Surplus for the year from operations before financing and tax		**2,911**	85,992
Adjustment for:			
Depreciation	9	**5,138**	6,855
Amortisation	10	**3,165**	2,347
Loss on disposal of property, plant and equipment	9	**167**	–
Loss on disposal of intangible assets	10	**272**	–
Net adjustments in property, plant and equipment	9	**(575)**	–
Net adjustments in intangible assets	10	**100**	–
Increase/(decrease) in provisions	16	**911**	(91)
Defined benefit pension costs	23	**(343)**	(343)
Changes in working capital			
(Increase)/decrease in receivables		**(12,521)**	32,846
Decrease in payables		**(27,532)**	(82,220)
Cash (outflow)/inflow from operations		**(28,307)**	45,386

1. Status of the company

Financial Ombudsman Service Limited (the "Service") is a company incorporated and domiciled in the United Kingdom under the Companies Act 2006 and is a company limited by guarantee with no share capital (company registration no: 03725015). The members of the company have agreed to contribute £1 each to the assets of the company in the event of it being wound up, as detailed in the Company's Memorandum of Association.

The nature of the Service's operations are set out in the Strategic Report (page 14).

The address of its registered office is Exchange Tower, London, E14 9SR.

2. Significant accounting policies

Basis of preparation

In 2015/2016 the Service adopted International Financial Reporting Standards (IFRS) for the first time, having previously reported under UK Generally Accepted Accounting Principles (UK GAAP). The financial statements have been prepared on a going concern basis, under the historical cost convention in accordance with IFRS as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Information detailing the effect of the transition from UK GAAP to IFRS is detailed in note 24.

The financial statements are also prepared in accordance with provisions of any applicable HM Treasury Accounts Direction under paragraph 7(5) of Schedule 17 to the Financial Services and Markets Act 2000.

The financial statements are presented in pounds sterling which is the currency of the primary economic environment in which the Service operates.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Service's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Service's financial statements are disclosed in note 3.

A summary of the principal accounting policies is set out below:

Revenue recognition

The intent under-pinning the design of the Service's funding regime is to charge on a basis that is transparent and fair, where firms pay broadly in proportion to their share of the Service's workload. Group fees and case fees are designed to achieve that aim. Standard case fees and supplementary case fees are charged on a fixed basis irrespective of the time and other costs incurred relating to the specific case. Costs directly incurred in dealing with cases are expensed as incurred.

Sources of revenue

The principal sources of revenue are:

- Annual levy

Each business that comes within the jurisdiction of the Service is required to pay an annual levy based on the permissions given to that firm by one of:

  - the Financial Conduct Authority (for the Compulsory Jurisdiction); or
  - the Service (for the Voluntary Jurisdiction)

- Group fees

The members of the group fee arrangement remained unchanged this financial year and comprised Lloyds Banking Group, Royal Bank of Scotland Group, Barclays Banking Group, HSBC Group, Aviva Group, Direct Line Group, Santander Group and Nationwide Group. Group fees are calculated as an annual charge for each group on the basis of their estimated proportion of the total work carried out by the Service, with reference to recent usage volume patterns. The group fee mechanism makes provision for a year end adjustment if a group's new PPI case volumes exceed the original budget estimate by more than 15% (and exceeds 10,000 cases) and if general casework resolution activity varies by more than 15% from the original estimate for any individual group.

- Standard case fees

Businesses that fall outside the group fee arrangement are required to pay a standard case fee of £550 upon closure of the twenty sixth chargeable complaint referred for investigation to the Service and each subsequent complaint in any one financial year. Invoices and credits are issued on a monthly basis upon case closure.

- Supplementary case fees

The supplementary case fee was designed to collect sufficient funds to manage the costs associated with handling the unprecedented high volumes of PPI cases over multiple years. Businesses that fell outside the group fee arrangement and had chargeable PPI complaints referred to the Service were required to pay a supplementary case fee for the twenty sixth and all subsequent complaints formally taken on for investigation in the two financial years 1 April 2012 to 31 March 2014. The supplementary case fee was set at £350 for the two years 1 April 2012 to 31 March 2014. From 1 April 2014, the supplementary case fee has been set at £0.

Recognition bases
Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services rendered. The Service recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; when the stage of completion at the end of the reporting period can be measured reliably, and when the costs incurred and the costs to complete can be measured reliably. This is set out for each of the Service's activities as described below.

- Levy Income

For both the Compulsory and Voluntary Jurisdictions, levy income is recognised in the period to which the levy relates.

The Consumer Credit jurisdiction (CCJ) was rolled into the Compulsory Jurisdiction (CJ) on 1 April 2014. The deferred income balance relating to the CCJ has been released evenly over the last two years in order to bridge the funding gap as it was anticipated that no CJ revenue would be due for the first two years after transition. All legacy revenue relating to the CCJ has now been fully recognised in the income statement.

- Standard case fee income

General casework – for cases that do not form part of the group fee arrangement, revenue is recognised when certain stages of completion have been reached through our casework process. For those cases in progress at the end of the year an adjustment is made to revenue to reflect the overall assessment of the stages of completion at that time.

PPI casework – given the prevailing uncertainties relating to PPI, the Service does not consider it is possible to reliably estimate the stage of completion of cases. We have therefore adopted a policy to recognise the revenue associated with a case only when a point of certainty is reached, which is deemed to be when the case is closed. This is applicable for all PPI cases outside the group fee arrangement.

- Supplementary case fee income

As noted above, the prevailing uncertainties relating to PPI prevent the Service from being able to reliably estimate the stage of completion of cases. Our approach to recognising income in relation to these cases therefore needs to reflect this. We have adopted a policy to defer the supplementary case fee until a point of certainty is reached. It is the view of the directors that, given the uncertainty, this is only reached when the case is resolved. As such the supplementary case fee is released in the month in which the case is closed.

- Group fees

Group fees are calculated as an annual charge on the basis of the estimated proportion of the total work done by the Service that is attributable to each group. The component of the fee relating to resolved general casework and resolved PPI activity is recognised in the period charged as it represents a fee for work conducted within the year, and is not directly connected with individual case resolution.

The supplementary fee component of the group fee remains more closely associated with individual cases. As such we have applied the same approach taken for non-group supplementary case fees, with the income being released in the month in which the case is resolved.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated so as to write off the cost less estimated residual value on a straight-line basis over the expected useful economic lives. The principal lives used for this purpose are:

Leasehold improvements and premises fees	Over remaining period of the lease
Computer equipment	Over three years
Furniture and equipment	Over three to five years*
Motor vehicle	Over four years

* According to expected useful economic life of the asset concerned.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable value.

Subsequent expenditure is only capitalised when it increases the future economic benefits embodied in the specific assets to which it relates and the cost of the item can be measured reliably. The carrying amount of the replaced part is written off. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposals or retirements of an asset are determined as the difference between the sales proceeds and the carrying amount of the asset, and are recognised in the income statement.

Intangible assets

In accordance with IAS 38: Intangible assets, costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design, developing and testing of identifiable and unique software products controlled by the Service are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future benefits to the Service;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured

Only costs that are directly attributable to bringing the asset to working condition for its intended use are included in the measurement of the intangible asset. These costs include all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in a manner intended by management.

Intangible assets are amortised on a straight-line basis over their expected useful lives, with the expense reported as an administration expense in the income statement. The principal lives used for this purpose are:

Internally generated software	Over three to five years*
Computer software and licences	Over five years

* According to expected useful economic life of the asset concerned.

Subsequent expenditure is only capitalised when it increases the future economic benefits embodied in the specific asset to which it relates.

When software is not an integral part of the related hardware, it is treated as an intangible asset.

Other development expenditure that does not meet the above criteria is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Impairment of property, plant and equipment and intangible assets

During the financial year the Service reviews the carrying value of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered any impairment in value. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment.

The recoverable amount is the higher of the fair value less costs to sell and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment is immediately recognised as an expense.

When an impairment subsequently reverses, the carrying amount is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised for the asset in prior years. A reversal of an impairment is immediately recognised as income. Prior impairment losses are reviewed for possible reversal at each reporting date.

Financial instruments

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method where felt appropriate. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that an asset is impaired. The allowance recognised is measured as the difference between an asset's carrying value and the estimated future cash-flows deriving from the continued use of that asset, discounted if the effect is material.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised costs using the effective interest method, where felt appropriate.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits and other short-term liquid investments that are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are treated as operating leases.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

There are currently no finance leases.

Provisions

The company exercises judgement in measuring and recognising a number of provisions - for dilapidations (see note 16) and for bad debts and credit notes (see note 15.2). The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Employee benefits

The Service is part of the Financial Conduct Authority (FCA) HMRC approved pension plan which is open to permanent employees (the 'Plan'). The Plan was established on 1 April 1998 and has both a defined benefit (final salary) and defined contribution (money purchase) section. The final salary section was closed with effect from 1 April 2010 to new members and to future accruals.

Money Purchase Scheme (defined contribution)

The Money Purchase Section of the Plan is a defined contribution plan where the Service pays contributions at defined rates to a separate entity.

Payments to the Money Purchase Section of the Plan are recognised as an expense in the income statement, as they fall due. Prepaid contributions are recognised as an asset to the extent that a cost refund or reduction in future payments is available.

Final Salary Section (defined benefit)

The Final Salary Section of the Plan is a defined benefit plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement usually dependent on rate of accrual, age, years of service in the plan and compensation.

The net liabilities of the Final Salary Section of the Plan are calculated by deducting the fair value of the assets from the present value of its obligations and they are disclosed as a non-current liability on the balance sheet.

The obligation of the Final Salary Section of the Plan represents the present value of future benefits owed to employees in respects of their service in prior periods. The discount rate used to calculate the present value of those liabilities is the market rate at the balance sheet date of high quality corporate bonds having maturity dates approximating to the terms of those liabilities. The calculation is performed by a qualified actuary using the projected unit credit method at each reporting date.

Actuarial gains and losses arising in the Final Salary Section of the Plan (for example, the difference between actual and expected returns on assets, effects of changes in assumptions and experience losses arising on scheme liabilities) are recognised in full in the statement of other comprehensive income in the period they are incurred.

Past service cost (including unvested past service cost) is recognised immediately in the income statement.

Changes in accounting policy and disclosures:

a) New standards, amendments and interpretations adopted by the company

There are no new or amended IFRS or International Reporting Interpretations Committee (IFRIC) interpretations that would be expected to have a material impact on the company.

b) New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods commencing after 1 April 2015, and have not been applied in preparing the Service's financial statements. None of these are expected to have a significant effect on the Service's financial statements in future years, except the following set out below:

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenues and cash flows arising from an entity's contract with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaced IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted subject to EU endorsement. The Service is assessing the impact of IFRS 15.

IFRS 16, 'Leases' deals with accounting for leases and requires companies to recognise future lease commitments by recognising the asset and the liability on their balance sheets. The standard is effective for annual periods commencing on or after 1 January 2019.

There are no other IFRS or IFRIC interpretations that are not yet effective but would be expected to have a material impact on the Service.

3. Significant accounting judgements, estimates and assumptions

a) Accounting judgements

In the process of applying the Service's significant accounting policies as described in note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimates, which are explained below):

- Revenue – income is recognised in accordance with IAS 18. For case fees, other than PPI, revenue is recognised on the percentage of completion basis. For group fees, other than the PPI component, revenue is recognised in the period charged. For all PPI related revenue (group and non-group), revenue is recognised when a point of certainty is reached. For PPI related revenue, the income is therefore deferred until the closure of the case.
- Intangible assets – Under IAS 38, internal software development costs of £3,152k (2015: £1,614k have been capitalised as additions during the year. Internally developed software is designed to support the Service carry outs its statutory functions. These functions are particular to the Service, so this internally developed software has no market value. Management have made judgements over the service potential and expected benefits of the assets. Those expected benefits relate to the fact that such software allows the Service to carry out its functions more efficiently than before by using alternative approaches (for example, automated processing).

b) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

- Defined benefit pension obligations – The quantification of the pension deficit is determined on an actuarial basis based upon a number of assumptions made by the directors (as listed in note 23) relating to the discount rate, inflation and retail price index (RPI), future pension increases and life expectancy. Any changes in these assumptions will impact the carrying amount of the pension obligation.

4. Revenue

	2016 £'000	2015 £'000
Annual levy	**25,142**	24,746
Standard case fees		
Gross fees	**58,636**	62,371
Movement in credit note provision	**136**	(149)
Movement in general casework stock	**(1,249)**	(878)
Supplementary case fees		
Gross fees (credits)	**(3,282)**	(8,879)
Movement in credit note provision	**(652)**	–
Movement in deferred income	**12,664**	49,382
Group fees		
Gross fees	**157,657**	163,916
Transfer to deferred income	**(1,960)**	(700)
Release from deferred income	**15,428**	35,579
Other income	**279**	277
	262,799	325,665

5. Administrative Expenses

5.1. Expenses by nature

	Notes	2016 £'000	2015 £'000
Staff payroll costs	7	**167,907**	155,924
Contractor and temporary staff costs*		**38,823**	31,439
Other staff costs		**3,359**	4,075
Consultancy and other professional costs		**6,295**	6,983
Operating lease rentals: premises		**9,705**	9,870
Operating lease rentals: other		**240**	366
Other premises and facilities costs		**15,642**	13,474
IT running costs		**6,864**	6,556
Depreciation and amortisation	10	**8,303**	9,202
Loss on disposal of fixed assets	10	**439**	–
Bad debts		**958**	202
Other costs		**1,286**	1,512
		259,821	239,603

* Contractor and temporary staff costs are shown net of £1,182k costs capitalised as internally generated software costs (2015: £1,507k).

5.2. Auditors' remuneration

External audit fee		
National Audit Office	**67**	70
Total	**259,888**	**239,673**

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

6. Finance income and costs

	2016 £'000	2015 £'000
Finance income		
Bank interest	**1,773**	744
Total finance income	**1,773**	744
Finance costs		
Bank interest	**(17)**	(2)
Interest on net defined benefit liability	**(238)**	(246)
Total finance cost	**(255)**	(248)
Net finance income	**1,518**	**496**

7. Employees

7.1. Employee benefit expense

	Notes	**2016 £'000**	2015 £'000
Wages and salaries		**132,919**	123,131
Social security costs		**14,630**	13,496
Other employer's pension costs – money purchase scheme		**13,612**	12,506
Flexible benefit costs		**7,057**	6,791
Staff costs capitalised as internally generated software costs		**(311)**	–
		167,907	155,924
Other employer's pension costs – defined benefit scheme Included in interest payable	23	**238**	246
Total employment costs		**168,145**	156,170

7.2. Monthly average number of people employed:

	2016 No.	2015 No.
Ombudsmen	**234**	219
Case-handlers	**2,134**	2,102
Other	**1,332**	1,190
	3,700	3,511

8. Board remuneration

Board remuneration payable to non-executive directors during the year amounted to £209,355 (2015: £212,314). The chairman, who is also the highest paid director, was paid at a rate of £74,970 per annum (2015: £74,970), the senior independent director and the audit committee chairman were paid at a rate of £29,500 per annum (2015: £29,500) and the other directors were paid at a rate of £24,500 per annum (2015: £24,500). Further details are provided in the remuneration report on page 49.

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

9. Property, plant and equipment

	Leasehold improvements and premises fees £'000	Computer equipment £'000	Furniture and equipment £'000	Motor Vehicle £'000	Total £'000
Cost					
At 1 April 2014	4,882	14,317	13,248	9	32,456
Additions	3,132	1,265	4,144	–	8,541
Disposals	(4,859)	(77)	(3,822)	–	(8,758)
At 31 March 2015	3,155	15,505	13,570	9	32,239
Additions	–	184	1,439	–	1,623
Disposals	–	(5,883)	–	–	(5,883)
Reclassifications	967	174	105	–	1,246
Write downs	(677)	–	–	–	(677)
At 31 March 2016	**3,445**	**9,980**	**15,114**	**9**	**28,548**
Accumulated depreciation					
At 1 April 2014	4,873	7,259	6,978	9	19,119
Charge for the year	158	3,865	2,832	–	6,855
Disposals	(4,859)	(77)	(3,822)	–	(8,758)
At 31 March 2015	172	11,047	5,988	9	17,216
Charge for the year	411	2,799	1,928	–	5,138
Disposals	–	(5,716)	–	–	(5,716)
Reclassifications	–	74	–	–	74
Write downs	(80)	–	–	–	(80)
At 31 March 2016	**503**	**8,204**	**7,916**	**9**	**16,632**
Net book value at 31 March 2016	**2,942**	**1,776**	**7,198**	**–**	**11,916**
At 31 March 2015	2,983	4,458	7,582	–	15,023
At 1 April 2014	9	7,058	6,270	–	13,337

The fair value of property, plant and equipment does not materially differ from the carrying amount of property, plant and equipment disclosed above.

10. Intangible assets

	Computer software and licences £'000	Internally generated software £'000	Work in progress* £'000	Total £'000
Cost				
At 1 April 2014	4,211	3,045	2,647	9,903
Additions	440	–	1,614	2,054
Assets placed in use*	–	3,511	(3,511)	–
Disposals	–	–	–	–
At 31 March 2015	4,651	6,556	750	11,957
Additions	399	–	3,152	3,551
Assets placed in use*	–	1,681	(1,681)	–
Disposals	(1,268)	(7)	–	(1,275)
Reclassifications	(174)	–	–	(174)
At 31 March 2016	**3,608**	**8,230**	**2,221**	**14,059**
Accumulated amortisation				
At 1 April 2014	1,654	411	–	2,065
Charge for the year	854	1,493	–	2,347
Disposals	–	–	–	–
At 31 March 2015	2,508	1,904	–	4,412
Charge for the year	838	2,327	–	3,165
Disposals	(996)	(7)	–	(1,003)
Reclassifications	(74)	–	–	(74)
At 31 March 2016	**2,276**	**4,224**	**–**	**6,500**
Net book value at 31 March 2016	**1,332**	**4,006**	**2,221**	**7,559**
At 31 March 2015	2,143	4,652	750	7,545
At 1 April 2014	2,557	2,634	2,647	7,838

* Work in progress comprises direct staff costs and sub-contractor costs used to develop software for the Service's use. When the asset is placed in use, the associated costs are transferred from work in progress to the appropriate asset category.

11. Trade and other receivables

	31 March 2016 £'000	31 March 2015 £'000	1 April 2014 £'000
Trade and other receivables due within one year			
Trade receivables	**8,850**	7,217	13,926
Less: provision for bad debts	**(864)**	(169)	(259)
Less: provision for credit notes	**(1,161)**	(645)	(496)
Trade receivables – net	**6,825**	6,403	13,171
Prepayments	**8,699**	8,381	4,697
Other receivables	**1,149**	1,244	1,352
Accrued income	**21,266**	8,325	38,477
Trade and other receivables due within one year	**37,939**	24,353	57,697
Trade and other receivables due after more than one year			
Prepayments – after more than one year	**450**	999	424
Trade and other receivables due after more than one year	**450**	999	424

12. Short-term deposits

	31 March 2016 £'000	31 March 2015 £'000	1 April 2014 £'000
Short term treasury deposits	**114,000**	140,000	–
Short-term deposits	**114,000**	140,000	–

As at 31 March 2016, the Service held Treasury deposits with a maturity of greater than three months with five different institutions (31 March 2015: five, 1 April 2014: none) for periods between four and eight months maturing between 19 July 2016 and 16 November 2016.

13. Cash and cash equivalents

	31 March 2016 £'000	31 March 2015 £'000	31 March 2014 £'000
Cash at bank and in hand	**6,512**	25,929	230,558
Short term treasury deposits (deposits with a maturity of less than three months)	**113,000**	100,000	–
Cash and cash equivalents	**119,512**	125,929	230,558

As at 31 March 2016, the Service held Treasury deposits with a maturity of less than three months with seven different institutions (31 March 2015: four, 1 April 2014: none) for periods between one and three months maturing between 1 April 2016 and 15 June 2016.

14. Trade and other payables

	31 March 2016 £'000	31 March 2015 £'000	1 April 2014 £'000
Trade and other payables due within one year			
Trade payables	**4,512**	3,863	4,961
Other taxes & social security	**3,471**	3,464	3,204
Deferred income			
Supplementary case fees	**4,647**	6,825	44,228
Group fees	**9,133**	13,675	41,455
CJ levy billed in advance	**1,656**	1,054	22
CCJ levy	**–**	844	844
Other creditors	**2,209**	1,148	1,492
Accruals	**18,278**	20,878	21,311
Trade and other payables due within one year	**43,906**	51,751	117,517
Trade and other payables due after more than one year			
Deferred income			
Supplementary case fees	**–**	10,486	22,465
Group fees	**–**	8,925	16,024
CCJ levy	**–**	–	845
Accruals	**4,107**	4,383	914
Trade and other payables due after more than one year	**4,107**	23,794	40,248

15. Financial instruments

Financial risk management

Financial risk management is carried out by the Service's central finance department under policies approved by the board to minimise potential adverse effects of risks on the Service's financial performance. The board's Investment Policy provides written principles covering market, credit and liquidity risk.

a) Market risk

The Service's financial instruments do not expose it to market risks. In line with the Service's investment policy, investments are only made through sterling fixed term deposits, which are not subject to price or foreign exchange risk. Furthermore, the Service's operations are carried out in sterling and there is no exposure to foreign exchange from currency exposures. The Service does not have borrowings and therefore is not exposed to cash flow and interest rate risk in respect of borrowings.

b) Credit risk

The Service is exposed to credit risk through its cash and short term deposits with financial institutions and credit exposure to customers through outstanding receivables. The Service reviews prevailing credit ratings annually, to produce a Counterparty list, which is approved by the Service's audit committee. To further manage credit risk, the maximum total principal that can be invested in a single counterparty or multiple counterparties that are under common ownership is based on Standard & Poor's rating of the counterparty. The Service monitors the collection of receivables from its customers and the ageing of debts.

c) Liquidity risk

The Service monitors its cash balance on a daily basis. Cash flow forecasting is performed and monitored on a monthly basis to ensure the Service has sufficient liquid cash to meet its operational needs. Surplus cash held above that needed for operating purposes is held on call or in short-term deposit accounts with financial institutions in line with the Service's Investment Policy. Such cash is only invested in sterling investments with approved financial instruments.

At the reporting date, the Service held money market funds of £114,000k (2015: £140,000k, 2014 £nil) and other liquid assets of £119,512k (2015: £125,929k, 2014 £230,558k) that are expected to readily generate cash inflows for managing liquidity risk.

15.1. Financial instruments by category

As at 31 March 2016, trade and other receivables, short term deposits and cash and cash equivalent balances of £271,901 were classified as loans and receivables (2015: £291,281k, 2014: £288,679k)

As at 31 March 2016, trade and other payables of £48,013k were classified as loans and payables (2015: £75,545k, 2014: £157,765k)

15.2. Credit quality of financial assets

The fair value of the trade and other receivables, cash at bank and short term deposits and borrowings is equivalent to the amortised cost balances presented in the financial statements.

The total of past due receivables is £5,678k.

The Service makes provision for impairment as follows:

a) Provision for credit notes – this is calculated with reference to the past 12 months actual credit notes issued.

Movement in the Service's provision for credit notes is as follows:

	2016 £'000	2015 £'000
At 1 April 2015	**645**	496
Change in provision for the year	**516**	149
At 31 March 2016	**1,161**	645

b) Provision for bad debts – the ledger is reviewed for bad and doubtful debts.

Movement in the Service's provision for bad debts is as follows:

	2016 £'000	2015 £'000
At 1 April 2015	**169**	260
Change in provision for the year	**695**	(91)
At 31 March 2016	**864**	169

The carrying amount of the receivables is all denominated in pounds sterling.

The creation and release of provisions for impaired receivables have been included in 'administrative expenses' in the income statement (note 5).

Amounts are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Service does not hold any collateral as security.

16. Provision for liabilities

	2016 £'000	2015 £'000	1 April 2014
Provision brought forward at 1 April	**504**	595	2,971
Release in the year	**–**	(228)	(2,643)
Receipts in the year	**320**	–	–
Payments in the year	**–**	(85)	–
New provision in the year	**591**	222	267
Provision carried forward at 31 March	**1,415**	504	595

The provision for dilapidations at 31 March 2016, 31 March 2015 and 1 April 2014 reflects the recommendations made following property reviews undertaken by an external consultant. Provisions exist for Exchange Tower, Independent House and SQP3 as set out below. All liabilities relating to SQP2 were settled and the provisions released after our exit from the building in 2014/15.

	31 March 2016 £'000	31 March 2015 £'000	1 April 2014 £'000
SQP2	**–**	–	314
SQP3	**508**	188	188
Independent House	**330**	–	–
Exchange Tower	**577**	316	93
	1,415	504	595

17. Financial commitments

As at 31 March 2016, there were no capital commitments contracted for but not provided (31 March 2015 and 1 April 2014: £nil).

18. Events after the reporting period

Working with relevant stakeholders we are considering the impact of the decision to leave the EU; however for the present there are no changes – our scope, powers and approach to cases remain unaltered. There are no other events after the reporting period that require disclosure.

19. Operating lease commitments

The Service leases its operating premises. The length of these leases varies from between 2 and 15 years. These leases are renewable at the end of the lease period at a market rate.

The Service also leases various plant and machinery under operating agreements. The lease expenditure charged to the income statement during the year is disclosed in note 5.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Premises 31 March 2016 £'000	**Other 31 March 2016 £'000**	Premises 31 March 2015 £'000	Other 31 March 2015 £'000	Premises 1 April 2014 £'000	Other 1 April 2014 £'000
Payments due						
Not later than 1 year	**10,820**	**180**	10,611	224	8,432	300
Later than 1 year and not later than 5 years	**29,995**	**97**	33,989	369	31,554	–
Later than 5 years	**45,245**	**–**	51,126	–	43,005	–
Total	**86,060**	**277**	95,726	593	82,991	300

Details of the terms of the leases of the premises are as follows:

Floor	Start of current lease	Future break clauses	End of lease
SQP 3			
3	June 2015	November 2016	October 2019
8	November 2014	November 2016	October 2019
Independent House			
	February 2015		February 2018
Exchange Tower			
Various	Various between March 2013 and September 2014	Various	Various between January 2019 and August 2029
The Walbrook Building			
4	January 2016		March 2018
5	September 2015		March 2018

20. Related party transactions

a) The Financial Conduct Authority is required under various statutes to ensure the Service can carry out its functions. The Financial Conduct Authority has to ensure that the terms of appointment of the directors secure their operational independence from the Financial Conduct Authority. Accordingly, the Service is not controlled by the Financial Conduct Authority but considers it to be a related party.

b) The Service entered into an agency agreement with the Financial Conduct Authority whereby, with effect from 1 April 2004, the Financial Conduct Authority collected tariff data, issued levy invoices and collected levy monies on behalf of the Service, at a cost of £96k for the year ended 31 March 2016 (2015 and 2014: £84k).

c) At 31 March 2016 the net balance due to the Financial Conduct Authority is £1,656k (31 March 2015: £979k due to the Service). This balance is included in 'Trade and other payables' (see Note 14).

d) The Financial Conduct Authority bill the Service administration charges in respect of the pension scheme. The charge for the year ended 31 March 2016 was £217k (2015: £215k and 2014: £185k).

e) The Financial Conduct Authority is a party to the lease agreements for Exchange Tower as guarantor of performance from 1 September 2014 for a lease term of 15 years.

f) A former member of the board, Gwyn Burr, is a non-executive director of Sainsbury's Bank, a firm covered under the Compulsory Jurisdiction. Gwyn received fees from the Service in the year of £8,167 (2015 & 2014 £24,500). Further details are provided in the governance statement page 38 and remuneration report page 49. Gwyn Burr left the Service on 21 July 2015.

Other than disclosed above, there were no related party transactions during the year (31 March 2015 & 1 April 2014: none).

21. Accumulated surplus

	31 March 2016 £'000	31 March 2015 £'000	1 April 2014 £'000
Accumulated surplus before net pension liability	**241,583**	237,623	151,409
Net pension liability	**(5,457)**	(7,388)	(5,888)
Accumulated surplus after net pension liability	**236,126**	230,235	145,521

22. Losses and special payments

	2016 £'000	2015 £'000
Losses	**263**	293
Claims waived*	**1,130**	–
Special payments	**662**	601
Total	**2,055**	894

* As part of our ongoing commitment to make sure that supplementary case fees were only charged to businesses that sold PPI policies, we issued a number of credit notes during 2014/2015 and 2015/2016. The figure disclosed above represents credit notes raised against invoices issued to the wrong businesses in 2012/2013 and 2013/2014. We have recorded these credits as a loss because we have not recharged the fee to the correct business. This is because either we consider that it would be inequitable to charge (under FEES 5.5B.27) or because the consumer did not refer a complaint to us against the correct business until after 1 April 2014 when the supplementary fee was set to £0.

23. Pension costs

Introduction

The Service is part of the Financial Conduct Authority's (FCA) HM Revenue & Customs-approved pension plan open to permanent employees. The pension plan was established on 1 April 1998 and has both a defined benefit (final salary) and defined contribution (money purchase) section. The plan is administered by a separate board of trustees which is legally separate from the company. The trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets plus the day to day administration of the benefits.

Since 1 April 2000, all employees joining the Service have been eligible only for the defined contribution section of the plan. On 1 April 2010 the defined benefit section of the plan closed and those members who were previously earning final salary benefits had the option to earn future benefits under the defined contribution section. Members with a defined benefit pension are entitled to annual pensions on retirement at age 60, the majority of which increases with RPI inflation, subject to a cap of 5% per annum. Benefits are also payable on death and following other events. No other post-retirement benefits are provided to these employees.

Profile of the plan

Defined contribution scheme

The Service's core contributions (ranging from 6% – 12% of the employee's pensionable salary) to the defined contribution section depend on the employee's age. 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. The Service will pay matching contributions up to a maximum of 3% of the employee's pensionable salary.

Defined benefit scheme

Independent actuarial advice has been obtained in order to calculate the share of the assets and liabilities of the FCA plan relating to those present and past employees of the Service.

The defined benefit obligation includes benefits for deferred members of the plan and current pensioners. At 31 March 2016 there are 103 deferred members and 34 pensioners.

The following table provides an analysis of the defined benefit obligation:

	31 March 2016 £'000	31 March 2015 £'000
Deferred members benefits	**23,337**	24,994
Pensioner members benefits	**6,587**	6,835
Total defined benefit obligation	**29,924**	31,829

The plan duration is an indicator of the weighted-average time until benefit payments are made. For the plan as a whole, the duration is around 22 years reflecting the approximate split of the defined benefit obligation between deferred members (duration of 25 years) and current pensioners (duration of 14 years).

Funding requirements

UK legislation requires that pension schemes are funded prudentially. The last funding valuation of the plan was carried out by an independent qualified actuary at 31 March 2013 and showed a deficit in respect of the Service's liabilities of approximately £5m. The Service is paying deficit contributions of £343,000 per annum which is expected to make good this shortfall by 31 March 2023. The next funding valuation is due with an effective date of no later than 31 March 2016 at which progress towards full funding will be reviewed. A contribution of £343,000 is expected to be paid by the Service during the year ending 31 March 2017.

Risks associated with the plan

The plan exposes the Service to a number of risks, the most significant of which are set out below:

Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The plan holds a significant proportion of growth assets (equities and property) which, though expected to outperform corporate bonds in the long term, create volatility and risk in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the plan's long term objectives.
Changes in bond yields	A decrease in corporate bond yields will increase the value placed on the plan's liabilities for accounting purposes, although this will be partially offset by an increase in the value of the plan's bond holdings.
Inflation	The majority of the plan's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.
Life expectancy	The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

A contingent liability exists in relation to the equivalent of Guaranteed Minimum Pension (GMP). The UK Government intends to implement legislation which could result in an increase in the value of GMP for males. This would increase the defined benefit obligation of the plan. At this stage, it is not possible to quantify the impact of this change.

Reporting at 31 March 2016

The figures below relate solely to the obligations of the Service in respect of the defined benefit section of the FCA plan. The principal assumptions agreed by the board and used by the independent qualified actuaries to calculate the liabilities under IAS 19 are set out below:

Main financial assumptions	**31 March 2016**	31 March 2015	1 April 2014
	% pa	% pa	% pa
Retail price index (RPI) inflation	**3.0**	3.1	3.5
Pension increases (RPI maximum 5%)	**2.9**	3.0	3.2
Pension increases (RPI maximum 3%)	**2.3**	2.5	2.5
Discount rate for plan liabilities	**3.5**	3.3	4.3

The financial assumptions reflect the nature and term of the plan's liabilities.

The main demographic assumptions are set out below:

Main demographic assumptions		31 March 2016	31 March 2015	1 April 2014
		Years	Years	Years
Life expectancy for member aged 60 at the balance sheet date	Males	**28.9**	28.8	28.7
	Females	**30.2**	30.1	30.0
Life expectancy at age 60 for member aged 40 at the balance sheet date	Males	**30.8**	30.7	30.6
	Females	**32.2**	32.1	32.0

The mortality table adopted is the SAPS S1 light tables for normal health retirees with a scaling factor of 100%. Improvements in mortality are in line with CMI 2013 "core projections" with a long term rate of mortality improvement of 1.25%.

Members are assumed to exchange 20% of their pension for a cash lump sum at retirement.

The plan assets are invested in the following asset classes (all of which have a quoted market value):

Asset allocation	Value at 31 March 2016 £'000	Value at 31 March 2015 £'000
Equity	**11,953**	12,168
Property	**1,887**	1,564
Corporate bonds	**10,500**	10,605
Other	**127**	104
Total	**24,467**	24,441

There are no deferred tax implications of the above deficit as corporation tax is only payable by the Service on activities not directly related to its statutory activities.

The plan assets do not include any of the Service's own financial instruments, nor any property occupied by, or other assets used by the Service.

The amounts recognised in the statement of financial position are set out below:

Reconciliation of funded status to statement of financial position	Value at 31 March 2016 £'000	Value at 31 March 2015 £'000	Value at 1 April 2014 £'000
Fair value of plan assets	**24,467**	24,441	20,605
Present value of funded obligations	**(29,924)**	(31,829)	(26,493)
Net pension liability recognised in the statement of financial position	**(5,457)**	(7,388)	(5,888)

The amounts recognised in comprehensive income are set out below:

Breakdown of amounts recognised in the statement of comprehensive income and the statement of other comprehensive income	Year ending 31 March 2016 £'000	Year ending 31 March 2015 £'000
Operating cost:		
Service costs	**–**	–
Financing cost:		
Interest on net defined benefit liability	**238**	246
Pension expense recognised in the statement of comprehensive income	**238**	246
Re-measurements in other comprehensive income		
Returns on plan assets below/(in excess of)/that recognised in net interest	**842**	(2,918)
Actuarial (gains)/losses due to changes in financial assumptions	**(2,037)**	4,805
Actuarial losses due to changes in demographic assumptions	**585**	–
Actuarial gains due to liability experience	**(1,216)**	(290)
Total amount recognised in other comprehensive income	**(1,826)**	1,597
Total amount recognised in the statement of comprehensive income and other comprehensive income	**(1,588)**	1,843

Changes in the present value of the defined benefit obligation during the year are set out below:

	Year ending 31 March 2016 £'000	Year ending 31 March 2015 £'000
Opening defined benefit obligation	**31,829**	26,493
Interest cost on defined benefit obligation	**1,045**	1,132
Actuarial losses on defined benefit obligations arising from changes in demographic assumptions	**585**	–
Actuarial (gains)/losses on defined benefit obligations arising from changes in financial assumptions	**(2,037)**	4,805
Actuarial gains on defined benefit obligations arising from experience	**(1,216)**	(290)
Net benefits paid out	**(282)**	(311)
Closing defined benefit obligation	**29,924**	31,829

Changes to the fair value of plan assets during the year are set out below:

	Year ending 31 March 2016 £'000	Year ending 31 March 2015 £'000
Opening fair value of plan assets	**24,441**	20,605
Interest income on plan assets	**807**	886
Re-measurement (losses)/gains on plan assets	**(842)**	2,918
Contributions by the employer	**343**	343
Net benefits paid out	**(282)**	(311)
Closing fair value of plan assets	**24,467**	24,441

Actual return on plan assets is set out below:

	Year ending 31 March 2016 £'000	Year ending 31 March 2015 £'000
Interest income on plan assets	**807**	886
Re-measurement (losses)/gains on plan assets	**(842)**	2,918
Closing fair value of plan assets	**(35)**	3,804

Analysis of amounts recognised in statement of other comprehensive income

	Year ending 31 March 2016 £'000	Year ending 31 March 2015 £'000
Total re-measurement gains/(losses)	**1,826**	(1,597)
Total gain/(loss)	**1,826**	(1,597)

Sensitivity to key assumptions

The key assumptions used for IAS 19 are discount rate, inflation and mortality. If different assumptions were used, this could have a material effect on the results disclosed. The increase to the defined benefit obligation as a result of changes to the assumptions used is set out below:

	Current value £'000	Change £'000	New value £'000
Following a 0.1% decrease in the discount rate	29,924	662	30,586
Following a 0.1% increase in the inflation assumption	29,924	661	30,585
Following a 1 year increase in life expectancy	29,924	836	30,760

The sensitivity information shown above has been prepared using the same method as adopted when calculating the liabilities at the balance sheet date. The sensitivity showing the impact of a 0.1% decrease in the discount rate reflects a change in assumptions, rather than a change in underlying bond yields, and therefore does not allow for the impact on plan assets.

Money Purchase Section (defined contribution scheme)

The total expense recognised in the income statement £13,612k (2015: £12,506k) represents contributions payable to the plan by the Service at rates specified in the rules of the defined contribution scheme.

24. Transition to IFRS

The financial statements for the year ended 31 March 2016 are the first the Service has prepared under IFRS. The last financial statements prepared under UK GAAP were for the year ended 31 March 2015. The date of transition to IFRS was 1 April 2014. This note sets out the impact of adopting IFRS on the financial statements.

The accounting policies set out in note 2 have been applied in preparing the financial statements for the year ended 31 March 2016, the comparative information presented in these financial statements for the year ended 31 March 2015 and in the preparation of an opening IFRS balance sheet at 1 April 2014, the date of transition.

In preparing the opening IFRS statement of financial position, amounts previously reported in the UK GAAP financial statements prepared have been adjusted to be in accordance with IFRS. An explanation of how the transition from UK GAAP to IFRS has affected the Service's surplus and financial position is set out in the following tables and notes.

statement of financial position

as at 1 April 2014

	UK GAAP 1 April 2014 £'000	Intangible assets (note 1) £'000	Cash and cash equivalents (note 2) £'000	Current corporation tax liability (note 3) £'000	IFRS 1 April 2014 £'000
Non-current assets					
Property, plant and equipment	13,337	–	–	–	**13,337**
Intangible assets	2,561	5,277	–	–	**7,838**
Trade and other receivables	424	–	–	–	**424**
	16,322	**5,277**	–	–	**21,599**
Current assets					
Trade and other receivables	57,697	–	–	–	**57,697**
Short term deposits	–	–	–	–	**–**
Cash and cash equivalents	230,558	–	–	–	**230,558**
	288,255	–	–	–	**288,255**
Total assets	**304,577**	**5,277**	–	–	**309,854**
Current liabilities					
Trade and other payables	117,602	–	–	(85)	**117,517**
Current corporation tax liability	–	–	–	85	**85**
	117,602	–	–	–	**117,602**
Non-current liabilities					
Trade and other payables	40,248	–	–	–	**40,248**
Provisions for other liabilities and charges	595	–	–	–	**595**
Post-employment benefits	5,888	–	–	–	**5,888**
	46,731	–	–	–	**46,731**
Total liabilities	**164,333**	–	–	–	**164,333**
Total equity					
Accumulated surplus	**140,244**	**5,277**	–	–	**145,521**
Total equity and liabilities	**304,577**	**5,277**	–	–	**309,854**

statement of financial position

as at 31 March 2015

	UK GAAP 31 March 2015 £'000	Intangible assets (note 1) £'000	Cash and cash equivalents (note 2) £'000	Current corporation tax liability (note 3) £'000	IFRS 31 March 2015 £'000
Non-current assets					
Property, plant and equipment	15,023	–	–	–	**15,023**
Intangible assets	2,146	5,399	–	–	**7,545**
Trade and other receivables	999	–	–	–	**999**
	18,168	**5,399**	–	–	**23,567**
Current assets					
Trade and other receivables	24,353	–	–	–	**24,353**
Short term deposits	–	–	140,000	–	**140,000**
Cash and cash equivalents	265,929	–	(140,000)	–	**125,929**
	290,282	–	–	–	**290,282**
Total assets	**308,450**	**5,399**	–	–	**313,849**
Current liabilities					
Trade and other payables	51,928	–	–	(177)	**51,751**
Current corporation tax liability	–	–	–	177	**177**
	51,928	–	–	–	**51,928**
Non-current liabilities					
Trade and other payables	23,794	–	–	–	**23,794**
Provisions for other liabilities and charges	504	–	–	–	**504**
Post-employment benefits	7,388	–	–	–	**7,388**
	31,686	–	–	–	**31,686**
Total liabilities	**83,614**	–	–	–	**83,614**
Total equity					
Accumulated surplus	**224,836**	**5,399**	–	–	**230,235**
Total equity and liabilities	**308,450**	**5,399**	–	–	**313,849**

statement of comprehensive income

for the year ended 31 March 2015

	UK GAAP £'000	Internally generated intangible assets (note 1) £'000	IAS 19 pension adjustment (note 4) £'000	IFRS £'000
Continuing operations				
Revenue	325,665	–	–	**325,665**
Administrative expenses	(239,795)	122	–	**(239,673)**
Operating surplus	**85,870**	**122**	–	**85,992**
Finance income	828	–	(84)	**744**
Finance costs	(2)	–	(246)	**(248)**
Surplus before tax	**86,696**	**122**	**(330)**	**86,488**
Corporation tax expense	(177)	–	–	**(177)**
Surplus for the year from continuing operations	**86,519**	**122**	**(330)**	**86,311**

statement of other comprehensive income

for year ended 31 March 2015

	UK GAAP £'000	Internally generated intangible assets (note 1) £'000	IAS 19 pension adjustment (note 4) £'000	IFRS £'000
Surplus for the year	**86,519**	**122**	**(330)**	**86,311**
Other comprehensive expense:				
Items that will not be reclassified to profit or loss				
Re-measurements of post-employment benefit obligations	(1,927)	–	330	**(1,597)**
Total other comprehensive expense	**(1,927)**	–	**330**	**(1,597)**
Total comprehensive income for the year	**84,592**	**122**	**–**	**84,714**
All operations are continuing				

Statement of cash flows

The move from UK GAAP to IFRS does not change any of the cash flows of the Service. The IFRS cash flow format is similar to UK GAAP, but presents some cash flows in different categories and in a different order from the UK GAAP cash flow statement. All the IFRS adjustments above net out but differences in disclosure arise from the exclusion from cash and cash equivalents (see above) under IFRS of investments with a maturity date of greater than three months.

Initial elections upon adoption

Set out below are the applicable IFRS 1 exemptions and exceptions applicable in the conversion from UK GAAP to IFRS:

- Mandatory exception – Estimates in accordance with IFRSs at the date of transition to IFRS are consistent with estimates made for same date in accordance with UK GAAP.

Note 1 – IAS 38 – Internally generated intangible assets

Under IAS 38 development costs that are directly attributable to the design, developing and testing of identifiable software products controlled by the Service are recognised as intangible assets when the recognition criteria is met. Under UK GAAP the Service expensed these costs. On transition to IFRS, there is no exemption for retrospective application of IAS 38. The Service has undertaken an exercise to identify internally developed software costs that met the capitalisation criteria prior to the date of transition to calculate the carrying value of the internally generated intangible assets at the date of transition. This has resulted at 1 April 2014 in the recognition of internally generated intangible assets with a net book value of £5,277k with a cost of £5,685k and accumulated amortisation of £408k being recognised. The net book value increased by £122k in the year to 31 March 2015, as a result of capitalising £1,614k and an amortisation charge of £1,492k. Overall this improved the Service's net equity by £5,277k in 2014 and £122k in 2015.

Only costs that are directly attributable to bringing the asset to the working condition for its intended use are included in the measurement of the intangible asset. Management did not use hindsight to identify if a project would meet the recognition criteria, where evidence of the recognition criteria being met was not available at the date the recognition criteria was met, these costs remained as expenditure.

Note 2: Cash and cash equivalents adjustment

Under IFRS (IAS 7) cash and cash equivalents are determined to be cash and short term highly liquid deposits (less than 3 months maturity). An adjustment was made to the Service's cash and cash equivalents balance as at 31 March 2015 to reclassify short-term deposits with a maturity of over 3 months, to short-term deposits. This resulted in no change in the net assets of the Service, but a reduction in the cash and cash equivalents balance of £140,000k, with the addition to short-term deposits of £140,000k. The above adjustment has been reflected in the IFRS cash flow statement with an increase in cash invested and a decrease in the cash and cash equivalents movement in the year.

Note 3 Current corporation taxes liability

Under IFRS presentation the current corporation tax liability is separately disclosed on the face of the balance sheet. This has resulted in a reclassification of £85k between trade and other payables and current corporation taxes liability as at 1 April 2014, the opening statement of financial position. This reclassification has no impact on net equity. The associated reclassification in the 31 March 2015 statement of financial position has resulted in a reclassification of £177k between trade and other payables and current corporation taxes liability.

Note 4: IAS 19 – defined benefit pension adjustment

Exemption for employee benefits

On transition to IFRS, IAS has been applied for all periods presented. The IFRS standard requires that interest cost is determined by reference to the net pension liability (or asset) and the discount rate, and that the cost of administering the pension scheme in the year is charged to the income statement directly rather than as an addition to service cost or a reduction of the expected return on assets.

The application of the standard has resulted in the following adjustments compared to the UK GAAP standard, FRS 17. In the 2015 income statement, £330k additional finance cost has been recognised. There has been a corresponding reduction of £330k against the actuarial loss relating to the pension fund recognised in the Statement of Other Comprehensive Income. Overall, there is no impact on net equity.

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