

Financial Ombudsman Service

annual report and accounts
for the year ended 31 March 2015





Financial
Ombudsman
Service

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(3) of Schedule 17 of the *Financial Services and
Markets Act 2000*, as amended by the
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keeping fairness at the heart of what we do

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

2014-2015 – our year at a glance

we took on one in five of these initial enquiries for a more detailed investigation – a total of 329,509 new complaints

we answered 1,786,973 initial enquiries from consumers – around 5,000 each working day

62% of new complaints were about the sale of payment protection insurance (PPI) – 204,943 complaints overall

complaints about payday loans rose by nearly a half – while complaints about PPI fell by a half

complaints about packaged bank accounts doubled compared to last year

excluding PPI, we resolved 53% of complaints within three months

we resolved 448,387 complaints – with more than nine in ten settled informally by our adjudicators

chairman's statement



I'm pleased to present this year's annual report after what has been another extremely busy year for the ombudsman. The figures in this year's report show an organisation that is stretched but in control: we are continuing to handle heavy workloads and resolving more cases than we receive.

That may tell an impressive story, but it is only half of one. The Financial Ombudsman Service is far more than a factory for processing complaints. For a start, *how* we are doing matters just as much as *what* we are doing. We want our decisions to be fair, but also to be seen as such by the parties whose dispute we are resolving. We want to be modern and efficient in our approach to our work. And we want to reach out to those people who could use our service but who, for whatever reason, do not yet do so.

We are making strides in these directions – but I cannot pretend that it is easy or quick, when we have both a heavy general caseload and the inevitable fall-out from the flood of payment protection insurance (PPI) cases. When I tell people outside the service that we have received over one and a quarter million of these, the reaction is always one of incredulity. We speak of PPI “slackening off”, but cases are still coming in at the rate of 4,000 a week – a much higher number than either we or financial businesses had planned for. This means we continue to face the challenge of managing a heavy PPI workload – with customers waiting much longer than we would like.

When I visit the different parts of the service, I am always impressed both by our staff's enthusiasm and by their receptiveness to new ideas and new

ways of doing things – indeed, many of those ideas come from the people closest to the work. The fundamental nature of our work has not changed over the years – we are there to provide fair and effective resolution to disputes – but the environment has. Consumers' expectations are higher, the technology at their and our disposal, and the ways of communicating which it enables, has advanced hugely, and younger people in particular will want quicker and more informal outcomes than our traditional paper-bound methods always make possible.

So we are looking, together with banks and other financial providers, at how we can meet those expectations, whether we can do more preventive and mediating work to resolve disputes quickly before they turn into formal cases, and how we can best fit in with and make use of the social media that are so much a part of today's life.

In that context, I should comment on the less tangible progress we continue to make, which will not be immediately obvious from the data in this report. While keeping the appropriate distance between regulator and ombudsman, we are building ever more constructive relations with the Financial Conduct Authority, to the benefit of both organisations.

We are also working hard, and with success, at closer cooperation with the banks and other financial providers that will benefit their customers – our consumers – and lead to speedier outcomes for them. I am particularly grateful for the readiness which businesses have shown to collaborate with us on piloting new and smarter ways of working.

working hard, and with success, at closer cooperation with the banks and other financial providers

Domestically, too, the year has seen changes, with Caroline Wayman, formerly our legal director, being appointed chief ombudsman and chief executive, following an open and public competition. Under Caroline's leadership a strong executive, with the support of the board, are developing plans which can genuinely be described as exciting to tackle the challenges ahead and to develop a truly modern and customer-focused organisation. I should like to pay a special tribute to Tony Boorman, who left the ombudsman service last year, after being with us since our inception. Tony's professional knowledge and wisdom were immense, as was his dedication to the service. He had been a principal ombudsman and deputy chief executive, and did an invaluable job as interim chief executive, motivating the organisation with a strong emphasis on performance. Many of his leading judgments as an ombudsman, on key and fascinating cases, remain classics of their kind.

So I think that we can look back over the past year with some pride. Never with complacency: we all know that the nature of our work means running to stay still – and we want to do a lot more than that. The one certainty is that the coming year will again be one which brings challenges and strains, even if we do not yet know what they are. But I am confident that, once again, we will show ourselves ready and able to handle them.



Sir Nicholas Montagu KCB
 chairman, Financial Ombudsman Service
 1st July 2015



how we are doing matters just as much as what we are doing

chief executive and chief ombudsman's report



We were established to settle complaints fairly. So it shouldn't come as a surprise that our commitment to fairness underpins every decision we make – from the answers we give in individual complaints, to the choices we make about our people and resources.

This is something it's particularly important to emphasise at a time of significant developments for our service – developments which have been possible because of thoughtful, forward-looking decisions made in previous years. This careful planning and investment has helped us meet our challenges head on this year – from continuing to deal with unprecedented numbers of concerns and complaints, to ensuring that we're meeting our customers' high and changing expectations.

While the mix of financial products and services may change over time, year on year we see the same fundamental issues at the heart of complaints. It's clear that, for many people, the wider impact of what's happened – and how it's made them feel – isn't something that money alone can put right. So disputes are unlikely to be resolved simply by asking "how much?" Instead, it's about asking "what's fair?"

We recognise that, in practice, fairness means different things to different people – in different situations and at different times. To ensure our answers remain fair and relevant today, it's essential that we understand what matters to a diverse range of communities. So this year we've been building and strengthening our relationships with organisations representing all our customers

– from trade bodies and trading standards, to local business forums and community advice centres. By continuing to reach out in this way, we can ensure that we're involved in important conversations about what fairness means now.

And given that a sense of unfairness is at the root of so many of the disputes that reach us, it's vital that both sides have confidence in the fairness of our own approach. We know that it isn't enough for us just to hand down a solution that *we think* is fair. If we're to help everyone move on, we need our answers to *feel* fair too. For an independent organisation like ours – bringing together parties whose differences we're finding to be increasingly entrenched – this is a growing challenge.

But it's a challenge we're meeting head on. Three quarters of consumers who used us this year said they would recommend us to their friends and family. And the same proportion of complaint handlers from financial businesses felt our decisions were fair and unbiased. These kinds of endorsements aren't given lightly. The fact that they are given speaks to the pride our staff take in giving clear, honest answers that make a difference.

The problems and complaints that reach us arise out of everyday lives and livelihoods – which are very difficult to accurately predict. As a demand-led service, we rely on our stakeholders' insight to help us plan for the future – and must ensure we're able to work flexibly. This is why we continue to invest our time and resources establishing new ways of working – from focusing on getting problems sorted as early as possible – by getting in touch with businesses and consumers on the phone there and then - through to steering people in the right direction with our informal webchat.

Equally, we know that the free service we provide to consumers has an upfront cost each year to financial businesses – who quite rightly expect us to show that we're providing value for money. And as a business ourselves, we need to manage our finances in an accountable and sustainable way. In 2014-2015 we froze the overall levy paid by the businesses we cover, and extended our group-account arrangement to a further four financial groups. And recognising that we receive far fewer complaints from customers of smaller businesses, we once again decided it was fair only to charge a case fee for the 26th and each subsequent complaint.

The cost of our service to the financial services industry is part of the cost of consumer confidence. And I'm pleased to say that, overall, the confidence that we provide cost the industry 30% less in fees in 2014-2015 than in the year before. We'll continue to keep our funding arrangements under review – recognising that fairness must be central to these types of decisions, as well as to our decisions about financial complaints.

We know that PPI still presents clear challenges for us. The volume of PPI complaints we're receiving hasn't tailed off as much as we or our stakeholders expected at the start of the year – levelling off at around 4000 cases per week. After several years' hard work putting right the large-scale fallout of mis-sold policies, some people are still waiting longer for our answer than they – or we – feel is acceptable. And based on the cases we've settled this year, we anticipate that many of the 250,000 cases we've yet to resolve will be complex and entrenched. However, through focused investment of our time and resources – and honest conversations with our customers and stakeholders – we continue to make strong headway.

We know that PPI isn't the only challenge we face. In 2014-2015, we saw double the number of complaints about packaged bank account cases – which, based on our stakeholders' response to our *plans and budget* consultation, we expect to increase further this year. We've also received significantly more complaints about credit broking (87%), debt collecting (51%) and payday loans (46%). While the total numbers of these complaints are far lower than our PPI caseload, they illustrate very well the volatility we need to manage.

We take our responsibility to share our experience very seriously – to stop the same problems happening again, and to make money matters fairer in the long run. And central to this is having strong, open relationships with the regulators. In the Financial Conduct Authority's (FCA) first few

months regulating consumer credit businesses, our insight into payday lending helped to shape its response to that market – including measures to stop the worrying, unfair credit-broking practices that we found. And recognising the impact of claims managers' activities on financial businesses as well as on consumers, we continued to share information with their regulator – which has now issued new rules to ensure higher standards.

We're also working closely with the FCA on relevant arrangements to meet the requirements of the new European Directive on Alternative Dispute Resolution (ADR). And we're looking forward to building further on the developments we've made to our service this year – ensuring that our customers continue to be at the heart of everything we do.

A key part of meeting our customers' expectations is making sure that we have, and are seen to have, the right knowledge and skills to give fair answers – whatever the nature of the situation we've been called to resolve. So we continued to invest in our people's knowledge this year – something we know is central to our stakeholders' confidence in us. This included sponsoring hundreds of professional qualifications and supporting people's continuing professional development.

But simply *having* knowledge isn't enough. So this year we continued to review and improve the way our staff *share* their knowledge. As part of this, we've established new ways of working that ensure we're directing and applying our expertise in the most effective way for each individual situation.

As a service for every individual consumer in the UK, it's also vital that we understand the different needs and diversity of our customers – as well as of our own people. Among other work this year to ensure we remain inclusive and accessible, we were re-accredited for the National Standard Committed to Equality (C2E).

Equally important to being an effective service is ensuring that our customers have confidence that we're doing what we were set up to do – giving fair, expert answers. I'm reassured that the businesses we cover continue to trust us to reach the right balance of expertise and pragmatism. Of the complaint handlers we asked this year across the financial services sector, three quarters agreed that we get to the bottom of complaints. And our technical advice desk responded to well over 21,000 enquires from people working in complaints – asking for our informal steer on how to put a problem right.



It’s reassuring that consumers seem to share this confidence. In our research this year, seven in ten members of the public said that they trusted us. At a time when attitudes towards financial services – as well as “official” bodies – remain uneasy, this is particularly important.

Although enquiries to our consumer helpline remain at record levels, we know that certain groups and communities – for various reasons – are far less likely to know about and use our service. Behind every “referral” to us is an individual story about fairness – but equally important are the problems that we don’t see. It’s vital that we find out how the people who aren’t using us are articulating and responding to the problems they face – so we can understand where and how we can help them.

For this reason, our outreach team again met people at the front line of communities across the UK – at events ranging from practical workshops for trusted local advisers, to drop-ins with MPs at foodbanks and supermarkets. And we again appeared thousands of times in regional and community publications – putting our role in the context of local lives and livelihoods. As a result of this ongoing work, four in five people have some awareness of us – compared with three quarters this time last year. Among certain groups of consumers – where we’ve focused our outreach activities – levels of awareness have risen by almost 40%.

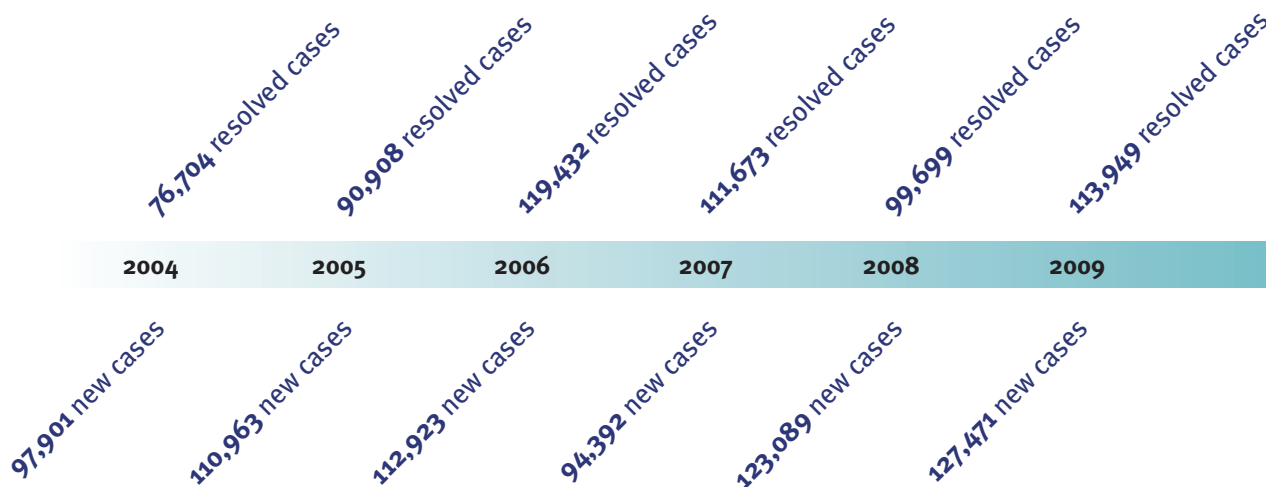
Looking back at 2014-15, I’m proud of the progress we’ve made. Since 2011 our workload has been dominated by PPI – and looking at this year’s numbers, it’s clear that this will be the case for some time to come. But I hope this report shows a forward-looking organisation – one that knows that heritage alone isn’t enough to maintain confidence, and that hasn’t let itself be defined by any one particular challenge.

In fact, I think we’re an organisation that’s managed to turn challenges into strengths – with more expert staff than ever before, and new ways of working that meet our customers’ high expectations of the services they use. With fairness at our heart, I’m confident that we’ll continue to meet these expectations in months and years to come.

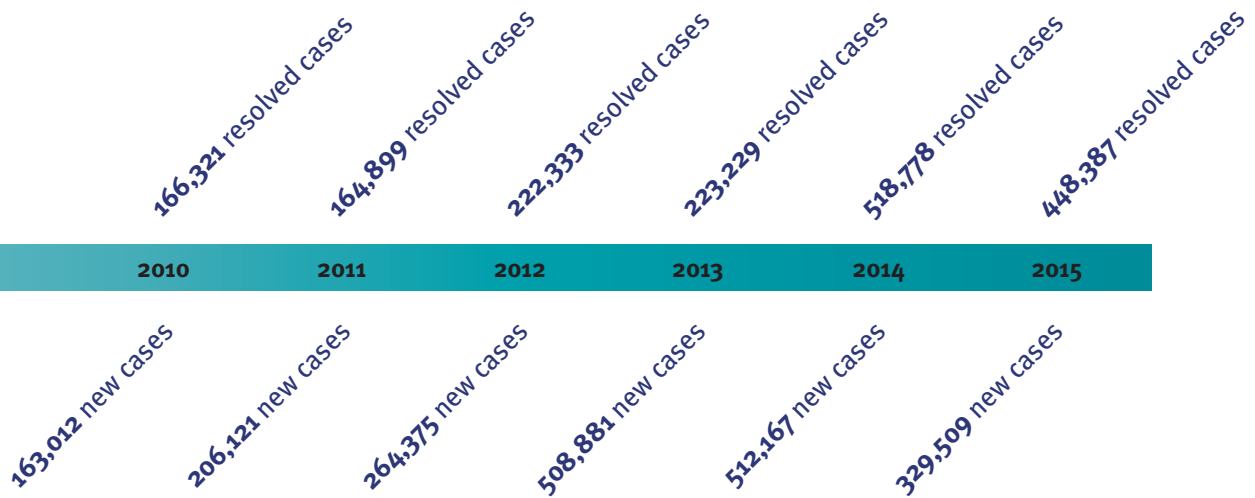
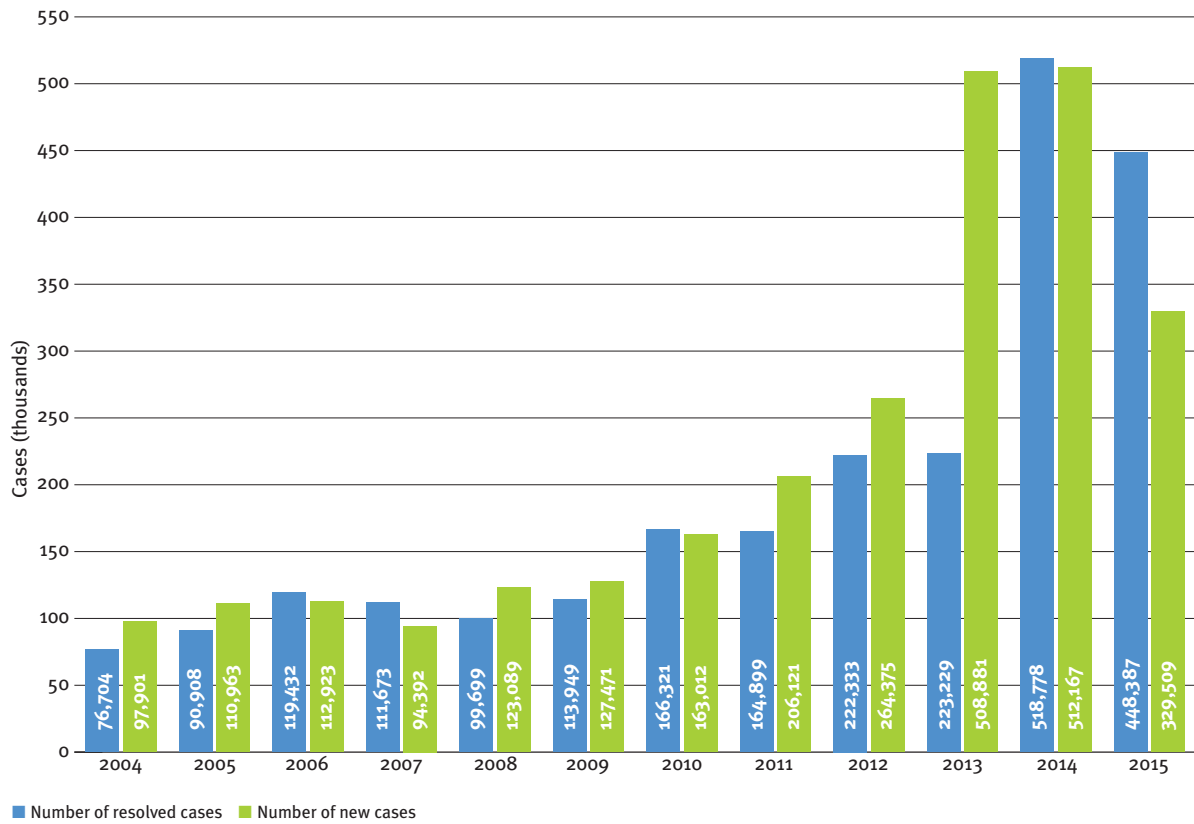


Caroline Wayman
chief executive and chief ombudsman

1st July 2015



our workload over the last decade



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. The strategic report should be read together with the rest of this document.

The Financial Ombudsman Service was set up under the *Financial Services and Markets Act 2000* as the independent dispute-resolution service for consumers with complaints about financial businesses. We carry out our statutory functions on a not-for-profit basis.

our commitments for 2014-15

We're committed to developing and strengthening our service – so we're trusted and respected by our customers. At the start of the 2014-15 financial year, we published our plans for the year ahead, which set out five commitments for the year. We're pleased to have made significant progress in meeting all five of these commitments – as we explain below.

- **commitment 1: to deliver a trusted, fair and easy-to-use service for everyone**

A fundamental part of our role is helping people move on where something has gone wrong. We know this won't happen unless people trust that the answer we've given is fair. By making sure people are clear from the beginning about our independent and unbiased role, we can help them to understand that our answer must be fair on both sides.

This year 71% of adults in the UK said they would trust us – a slight increase on last year. This compares with 81% of people saying that they would trust Citizens Advice, and 75% of people saying that they would trust their local trading standards – both organisations that represent and protect consumers. On the other hand, levels of consumer trust in financial services trade associations appear lower – at 55%. Trust from the businesses we deal with is equally important to us, so it's reassuring to see that 71% of complaints handlers working in financial businesses agreed that our decisions are fair and unbiased.

Over the year, we asked 24,000 people who had contacted us with enquiries – and 12,000 people whose complaints we decided – for their views on

our service. We were pleased to receive good feedback on several aspects of our service – like how promptly our staff dealt with enquiries and how we were able to clearly explain what would happen next. Our staff are also focused on ensuring our customers receive a good service, with regular quality assessments and a focus on taking pride in their work. And the new, more flexible ways of working we have developed over the past few years complement and contribute to our preparations for the European Directive on Alternative Dispute Resolution – which comes into force in July 2015.

- **commitment 2: to put knowledge and expertise at the heart of everything we do**

To resolve complaints fairly and as quickly as possible, it isn't enough for us to simply recruit increasingly more case handlers. It's essential that we invest in the knowledge and skills of our existing staff – and in the way we share knowledge and experience internally. In 2014-2015, this has included sponsoring hundreds of professional qualifications, supporting people's continuing professional development and developing new ways of sharing knowledge, including an online knowledge-sharing tool. These measures will help ensure our case handlers have the expertise needed to sort out the hardest-fought complaints – not just consistently, but in a way that both sides feel is fair.

We know that knowledge is about more than specific facts. All too often, we find that a consumer's tentative question to a business has escalated to a "case" with us – because the business's reply, while confirming the technical position, simply hasn't got to the heart of why their customer is unsure or unhappy. That's why we've continued to put equal weight on supporting our people in listening to and understanding different perspectives – and in reconciling these perspectives with fair, practical answers. By continuing to focus on addressing people's key questions and concerns at the earliest possible stage, in many cases we can avoid a "formal" complaint being made to us – or to the business concerned.

- **commitment 3: to be flexible, reliable and effective**

Because the complaints and concerns we deal with arise from everyday life – which can be extremely unpredictable – the level of demand for our service

is particularly difficult to forecast accurately. This volatility in demand is particularly well illustrated by the charts on pages 10 and 11.

However, the standard of our service must be consistently high. This is why we keep our operational model under review – including ensuring that we’re identifying and addressing people’s problems at the earliest possible stage.

Over the last year, we’ve exceeded our target to resolve complaints by more than 8000 – reaching a total of 448,387. We’ve also adapted our processes to ensure we’re flexible enough to meet the needs of our customers – including analysing in detail the complaints we’re receiving, and “horizon-scanning” to identify potential issues before they arise.

The consistency, reliability and fairness of our service also depends on our building, maintaining and sharing knowledge internally. Because of the way ombudsmen share knowledge with adjudicators – and because our approach is well-established in most areas – it’s very unusual for an ombudsman to reach different conclusions to the adjudicator who initially looked at a complaint.

- **commitment 4: to run a “lean” and efficient organisation**

We’ve continued to invest in our service where there are clear benefits in doing so – to ensure we meet our customers’ high expectations of the services they use. But we know how important it is to those who fund us that we keep our overall costs as low as possible.

We’ve recognised that using up-to-date technology differently can bring longer-term benefits in terms of cost and efficiency – and we’re also committed to remaining accessible to customers who prefer to use more traditional channels. In the first four months of the year approaching 10,000 people told us about their complaint directly through our new online digital platform – and of the complaints we received this year about payday lending, we resolved one in five using only our new webchat service. This year was also our first entirely paperless year, with all cases managed through our electronic file-management system. We describe our commitment to sustainability in more detail in the section on page 24.

In 2014-2015 our overall fees charged to the financial services sector were 30% lower than the previous year. We froze the overall levy paid by financial businesses – as well as freezing the case fee for each individual complaint at £550. We also extended our group-account arrangement from the original four to the eight financial groups that make

up the majority of our workload – helping us to manage our income in a stable way. We give more detail about our funding in the section on financial performance, beginning on page 17.

- **commitment 5: To share our experience and insight – helping to prevent future problems**

Putting things right after they’ve gone wrong is only one part of our work. It’s also essential that we share our experience and insight to stop problems arising in the first place. The information we share includes details of our approach to the complaints we see most frequently – as well as complaints data about individual financial products and businesses.

Central to helping us encourage fairness in money matters is our relationship with the financial services regulator, the Financial Conduct Authority (FCA). In 2014-2015 – by sharing information with the FCA about the consumer concerns we were hearing – we helped to shape new rules on payday lending and credit broking, as well as helping to identify businesses selling regulated insurance products without authorisation.

During the year, our chief executive & chief ombudsman was twice invited to share our insight with the Treasury Select Committee – contributing to two parliamentary enquiries. In July 2014, we shared our experience of the complaints small businesses refer to us about larger business lenders – and in October 2014, we answered the committee’s questions about the treatment of financial services customers. We also met a number of individual MPs over the year – including government ministers from HM Treasury and the Department of Business, Innovation and Skills (BIS) – to talk about wider issues such as access to financial services for people with disabilities.

We also answered over a thousand enquiries from parliamentarians – and 21,000 calls to our free, expert helpline for businesses and people helping consumers. And as well as publishing a further 30,000 of our ombudsmen’s decisions this year (making 60,000 in total), we continued to expand our comprehensive online technical resource – recognising that working openly and sharing insight is central to our role. We also featured in 6,000 media stories and eight in ten adults have some awareness of our service, so our insight is widely shared.

our commitments for 2015-16

We have updated our commitments for 2015-16 to ensure we remain focused on the things that matter the most to our customers. These five high level commitments – together with the support of our people, as we set out in the chart below – are fundamental to everything we do, and will help us to respond effectively to an environment where customer expectations and wider challenges are constantly evolving.

More detail can be found in *our plans for the year ahead*, which are published on our website at <http://www.financial-ombudsman.org.uk/publications/our-plans-for-the-year-ahead-March2015.pdf>

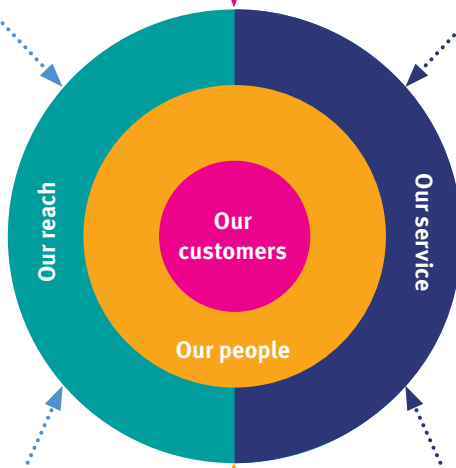
our commitments

We are trusted and respected by our customers

- **Trusted:** we earn people's confidence

We reach and help those who need us

- **Awareness:** People and businesses of all backgrounds are aware of the service we provide
- **Accessibility:** People and businesses are able to access our service in a way which suits them
- **Relevant:** People find us approachable and think we could help them personally



We keep fairness at our heart – so everything we do is fair and feels fair

- **Listening:** we listen to people and care about what they have to say
- **Credibility:** we get to grips with things and use common sense.
- **Tone:** We give clear and honest answers
- **Easy to Use:** We keep our processes simple, and reduce the effort required by our customers

We provide insight to encourage fairness in all money matters

- **Influence:** We share insight and knowledge to make money matters fairer
- **Openness:** We publish information about our decisions and our approach
- **Relationships:** We maintain good relationships with regulators and other stakeholders

We are recognised as a well run and efficient service

- **Engagement/retention:** Our people are proud to work here and motivated to do their best
- **Behaviours:** Our people demonstrate the values and behaviours we expect of everyone working at the Ombudsman
- **Development:** We provide people with the development opportunities and support they need to succeed in their roles
- **Diversity:** We demonstrate our commitment to an inclusive working environment

We are recognised as a well run and efficient service

- **Productivity:** We provide good value for money
- **Timely:** We deploy our people and resources to resolve things fairly at the earliest opportunity
- **Environment:** We minimise our impact on the environment
- **Flexible and resilient:** We listen and are able to respond to changes in customer needs

risks to meeting our commitments


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

This year we have restructured our register and consolidated the organisational risks into four groups:

- we lose our **relevance** and meaningfulness – we are unable to continue to meet customer needs
- we're impacted by **external** factors – for example, those of a regulatory, political, legal or societal nature
- our **service delivery** falls significantly below the expectations of our customers (consumers or businesses)
- our systems fail or our **controls** are ineffective

The executive team takes collective responsibility for ensuring we have appropriate responses in place to deal with these risks, and individual responsibility in specific risk areas. They review and update our assessment on a monthly basis using a variety of sources of information – ranging from project risk registers to monthly performance information and committee discussions.

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. More information on our risk management and internal control can be found in our directors' report on page 44.



we remain focused
on the things that
matter most

The key risks we identified to meeting our commitments for 2014-2015 were:

what's the risk?	how are we dealing with it?
<p>We lose our relevance and meaningfulness – we are unable to continue to meet customer needs</p> <p><i>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.</i></p>	<p>Our outreach team works on raising awareness of our service – particularly among more hard-to-reach groups of consumers – using a variety of techniques. We commission research to understand the reasons why some consumers are less inclined to formally complain when they feel they haven't been treated fairly.</p> <p>We are undertaking a number of initiatives to improve the service we offer and make it more accessible. In 2014-2015 we provided webchat and online complaint forms for the first time – complementing our existing contact channels for consumers. And we trialled new approaches to dealing with payday loan concerns where our traditional approach wouldn't meet customer needs.</p> <p>Our market affairs team coordinates our engagement with those businesses, trade associations and other stakeholders with the potential to have the greatest impact on our activities. In addition to using our internal insight, we also conduct our own research and analysis of the financial services market and wider operating environment.</p>
<p>Being impacted by external factors – for example, those of a regulatory, political, legal or societal nature.</p>	<p>We continually monitor our external environment – including peer organisations – to help ensure we stay informed of the views of others and are well-placed to respond and discuss any relevant issues. This includes maintaining strong relationships with the Financial Conduct Authority (FCA) and the Claims Management Regulator, as well as with financial services businesses and consumer groups. This helps us to identify issues at an early stage and to understand how we need to develop our service to meet the changing needs of our customers. Our policy and legal teams also keep us up-to-date with relevant legislative developments and judicial decisions.</p>
<p>Our service delivery falls significantly below the expectations of our customers (consumers or businesses)</p>	<p>We regularly monitor and report performance at a number of different levels across the service – providing regular updates and identifying issues to senior managers, directors and the board. In 2014-15, we have developed the way we report performance, with new commitments, we will measure our performance against these in 2015-16.</p>
<p>Our systems fail or our controls are ineffective</p>	<p>In addition to the guidance and monitoring we apply to our “business as usual” activities, we operate further scrutiny through our internal oversight functions (such as risk and governance and information security teams). And in 2014-2015, following a thorough procurement process, we appointed Deloitte to be our providers of internal audit.</p> <p>The partner on the Deloitte contract provides the head of internal audit role, reporting directly to our audit committee – providing independence and rigour. We have also designed and implemented a new risk-management framework for the service and will continue to embed it in 2015-2016.</p>

our financial performance

overview

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

Our operating revenue in 2014-15 (excluding net released deferred income) was £241m, with 90% generated from case-fee and group-fee income. While we've continued to invest in our people, as well as in modernizing and improving our technology and processes, we spent less than we expected with savings against consultancy, property and people costs – and an overall cost for the year of £240m. Our operating surplus before tax was £86m after accounting for other income and net deferred income that was released.

income

The service is funded by a combination of levies, case fees and group account arrangements paid by the financial businesses we cover. In 2014-2015 over 75% of our revenue came from the group-fee arrangement, which is paid by the eight large financial groups, and annual levy charges – making our income more predictable.

levy income

Our levy income – arising from our compulsory, voluntary and consumer credit jurisdictions – has remained at approximately £25m for the last two years. The compulsory jurisdiction levy has remained at £23.3m and is charged and collected by the FCA according to the amount of effort we expect to spend on each industry sector. £0.6m of levy income has been collected in relation to our voluntary jurisdiction. The remaining £0.7m related to levy income from the consumer credit jurisdiction – which is currently in transition to the compulsory jurisdiction levy arrangement.

case fees

For the second 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

for case resolution for the 26th and subsequent case. These rates do not apply to businesses within the group fee arrangement.

group fee arrangement

In 2013-14 we introduced a group-fee arrangement for the four largest financial services groups – Lloyds, Barclays, HSBC and RBS. This year we expanded this arrangement to cover eight financial services groups – adding 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 income for our service, and the likely costs for the financial groups involved. Quarterly invoicing also increases the efficiency for both us and the businesses concerned.

deferred income release

In 2012-13 we introduced a supplementary case fee as a way of funding the upfront investment in our operations that we needed to make to deal with the fall-out of mis-sold PPI. It also helped us to ensure the costs involved for us 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. From 1 April 2014 we introduced the group fee arrangement. For 2014-2015 this included £85m in respect of new PPI cases. Of the total income in respect of new PPI cases raised between 2012 and 2014 approximately 70% was generated from the four largest banking groups. In total, the top ten groups accounted for around 90% of this income.

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 2014 we were holding approximately £124m as deferred income.

In 2014-2015 we set the supplementary fee charge at zero – which means we generally didn’t charge a case fee this year. Likewise, there was no PPI element to the group fee in 2014-2015 although under the charging mechanism an additional £1m was raised and deferred at the year end. As at 31 March 2015 we have £40m remaining in deferred income.

expenditure

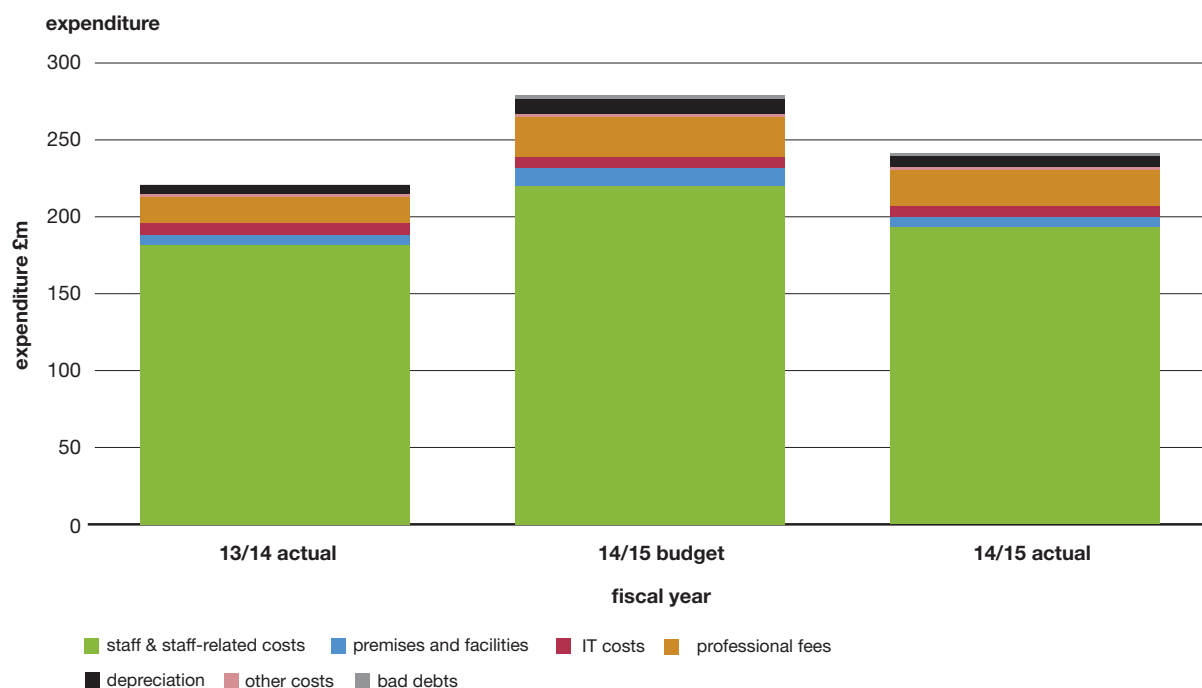
Staff and staff-related costs continue to make up the majority of our cost-base – accounting for nearly 80% of our overall spend in 2014-2015. During the year we continued to recruit significant numbers of adjudicators to deal with the high volume of PPI complaints we are still receiving – as well as increasing numbers of complaints about packaged bank accounts. We also needed to fill a large number of adjudicator vacancies – which resulted from people either leaving or being promoted internally. In 2013-14 we increased our ombudsman numbers by almost 50% – and this year we have continued to increase recruitment from inside and outside our service.

By the end of the year, we had 210 full-time equivalent ombudsmen – compared to 116 at the end of the year in 2013.

Our ombudsmen are our service’s professional leaders. So having a larger number of ombudsmen means we have a greater capacity for training and supporting our adjudicators – as well as for resolving more complaints. We expect to continue to recruit more ombudsmen in the coming months. Our ombudsmen resolved 43,185 complaints in 2014-15 (31,029 in 2013-14). Included within our workforce is a flexible element of 374 adjudicators and also 84 ombudsmen, who are paid an agreed daily rate.

As we have continued to invest in recruitment and employee development, staff and staff-related costs have increased by 6% from 2013-14. However, these costs were lower than we anticipated in our budget – due to our 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 – have come in at 18% below budget. This is because the costs relating to occupying our new building, Exchange Tower, have been lower than we expected – we also spent substantially less than we’d budgeted for consultancy costs, spending just over £5m in the year, a 3% reduction on the previous year. This happened as a result of our tightly controlling the cost of consultants working on our IT systems replacement and supporting our new ways of working programme.



depreciation

Our depreciation cost is lower than anticipated – primarily due to the timing of our investment in a new IT system to replace our existing case-management system. We’ve taken extra time to carefully consider the options and suitability of available systems – and then to decide on the best solution for our service and our customers. This means that procurement and implementation processes are deferred to 2015-2016 – we remain on track with our revised procurement timetable.

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 in 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 adjudicator’s initial views.

This year the unit cost has increased to £534 which is higher than the previous year, (£426) but below the budget assumption of £629. We explained last year that we expected our unit cost to increase – reflecting the fact that our PPI workload is becoming complex and entrenched, and that, unlike previous years, we’re no longer able to settle many similar complaints at once. We’re also settling more complaints that had previously been referred to an ombudsman – particularly in PPI – where more time and resources are involved in

the resolution process. We expect this trend to continue into 2015-2016 and beyond – but we’re mindful of the need to continue to deliver an efficient service for our customers and stakeholders.

reserves

We maintain a level of reserves that is appropriate to support the continued operation of the service. In a period of relative stability we consider that level should equate to approximately 3 months of operating costs. However, we are not operating in a stable environment at present due to the PPI case volumes and ongoing developments. Our board therefore considers it is currently appropriate to retain reserves in excess of our formal policy during this period.

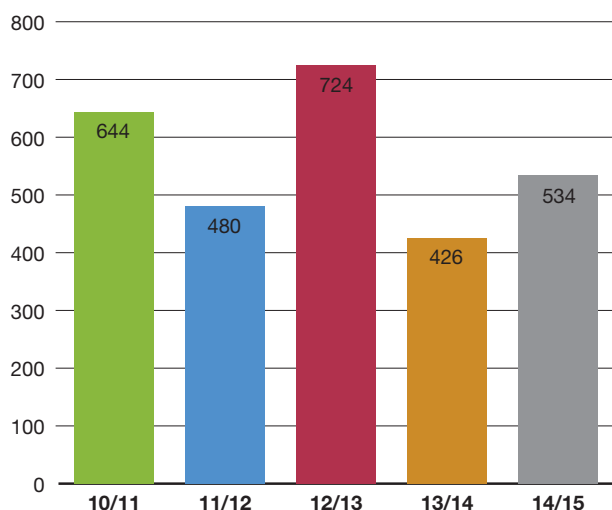
Our combined total of reserves and deferred income has increased slightly from £264m at 31 March 2014 to £265m at 31 March 2015. Our plans provide for a reduction in this figure as we anticipate operating at an increasing loss as we begin to wind down our PPI operations in future years. We are looking to return to our more normal reserves policy detailed above in the longer term.

cash management

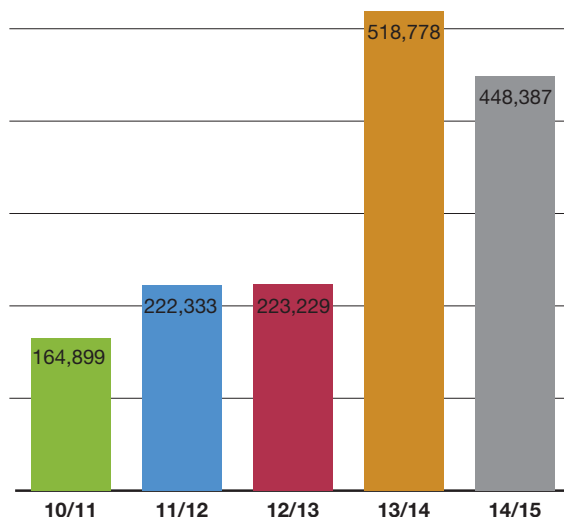
Charging the supplementary case fee resulted in significant cash receipts between 2012 and 2014. This combined with lower debtor balances – resulting from quarterly invoicing for the group-account fee arrangement; efficient cash management and an in year operating surplus resulted in a £36m increase in our cash balance which was £266m at the end of the year.

unit cost vs resolution

unit cost



cases resolved



Cash-management is important to any well-run organisation. We review our balances daily and update our forecasts on a quarterly basis. Over the past year, our controls over cash were reviewed as part of the annual review of key financial controls – and we also invited an internal audit of the controls over our banking processes. During the year a decision was taken to amend the existing banking arrangements and introduce an investment strategy to reduce the risk of retaining funds with one institution. Our new strategy, approved by the audit committee, allows funds to be invested for periods of up to twelve months with a range of institutions – all of which meet or exceed a set of agreed minimum criteria.

During the year we ran a procurement exercise to appoint a treasury manager to help us to manage our investments effectively. Capita Asset Services were the successful tenderers – and we have been working with them since January. At the end of the year – in line with our strategy – we have £240m invested with eight institutions. All funds are invested in sterling. We anticipate a reduction in cash in future years as we incur deficits and unwind our reserves.

creditors' payment terms

The Financial Ombudsman Service has a policy to pay creditors within agreed terms.

outlook

Following a public consultation in January and February 2015, our budget for 2015-2016 has been considered and approved by our board and the FCA. Budget revenue is £245m – of which £21m will be released from our total deferred income balance as we resolve more of our older PPI complaints, and a further £2.4m will relate to releasing the remaining levies collected under the old consumer credit jurisdiction and interest received. We expect to charge businesses £222m in relation to our activity for the year – 11% lower than 2014-2015, which was in turn around 30% lower than in 2012-2013. Our 2015-2016 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 have also retained the group-fee arrangement with the existing eight groups.

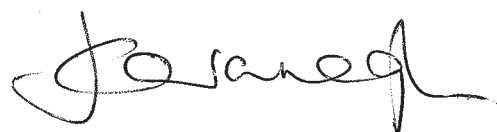
At £270m, our budgeted costs will be 3% lower than our 2014-2015 budget. However, as we expected, the significant costs of meeting the challenges presented by PPI means we will be drawing on our accumulated reserves to absorb an operating loss of £46m. This is consistent with our

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 will continue to invest in resolving outstanding PPI complaints – and are aiming to reduce our stock levels by a further 100,000 over the year.

To achieve this, we are planning to recruit additional adjudicators and ombudsman – although not as many as in the past two years. We'll continue to review and update our operational and financial plans in light of an ever changing landscape, adapting to challenges such as legislative developments, any updates to regulatory guidance and judicial decisions. One current example is the Supreme Court decision in the case of Plevin v Paragon which found that non-disclosure of commissions paid from the premium of a PPI policy could make the relationship between a lender and a borrower unfair under cases relating to the Consumer Credit Act 1974.

The wider industry are currently considering the implications of this and we'll continue to establish our approach as cases are brought to us. We'll also be working on further changes to our overall process for resolving concerns and complaints – aimed at improving our customers' experience of our service through enhanced use of technology, continued development and training of our people, and trialling new ways of working.

by order of the board



Julia Cavanagh
company secretary

1st July 2015

the complaints we received

Following our record year in 2013-2014, demand for our service stabilised in 2014-2015. We handled 1,786,973 initial enquiries and complaints from consumers – around 5,000 every working day.

Of these enquiries, we took on 329,509 as complaints requiring a more detailed investigation. We resolved a total of 448,387 complaints this year – with nine in ten settled informally by our adjudicators, and the remainder by a formal decision from one of our ombudsmen.

62% of these cases – 204,943 disputes – related to payment protection insurance (PPI). By the end of March 2015 PPI complaints accounted for 48% of our total workload since we were set up in 2000.

Six in ten of the total number of complaints we dealt with involved four banking groups – while 4,037 financial businesses accounted for just 3% of complaints.

There is more information about the complaints we dealt with – and what and who they involved – in our *annual review*. This is published separately and is available on our website.

the complaints we resolved

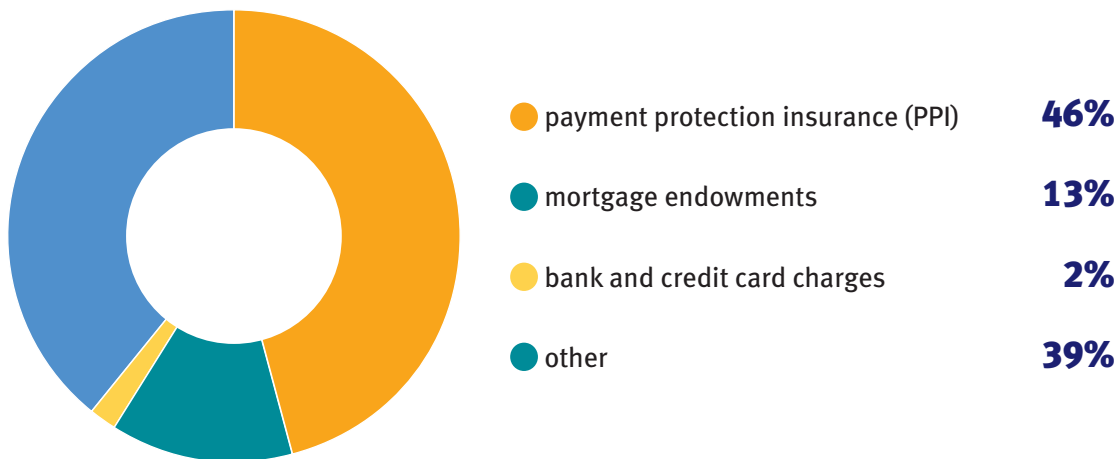
At the start of the year we expected to receive 320,000 cases and set a target to resolve 440,000 cases. We actually received 329,509 cases and were able to settle 448,387 cases – over 8,000 cases more than our target, and 118,878 cases more than we received in the year.

Since we were set up in 2000, 2,787,651 cases have been referred to us – of which 61% have involved just three issues: mortgage endowments, bank and credit-card charges, and PPI. The significant volatility in workload relating to these three issues – and the way financial businesses have themselves managed the volumes of complaints – have presented us with major operational challenges over the last decade.

We try to resolve complaints informally where possible – encouraging both sides to agree at an early stage to the views or informal settlements that our adjudicators suggest. But more complex, sensitive or entrenched disputes may require detailed investigations and lengthy reviews. This can include either side asking one of our panel of ombudsmen for a formal final decision.

10% of the cases we settled during the year required an ombudsman to make a final decision (compared to 6% last year). We predicted this increase last year – as a reflection of the increasingly complex and entrenched nature of the PPI complaints we’re dealing with.

On average, we found in the consumer’s favour in 55% of the complaints we resolved during the year – slightly lower than last year’s 58%. However, within these overall numbers there are significant variations. For example we upheld just 21% of complaints about term assurance – compared with 85% of complaints about card protection insurance. There is more information about the complaints we resolved in our annual review.



our response to PPI

Since 2011 the majority of complaints referred to us each year have involved payment protection insurance (PPI). In total, we've now received more than one and a quarter million complaints about PPI. In 2014-2015, we received 240,943 new PPI complaints – compared with 399,939 last year.

As we explained in *our plans for the year ahead* – published at the start of the financial year in March 2014 – volumes of PPI complaints haven't fallen as fast as we or our stakeholders originally expected. Over the year, we received an average of 4,000 PPI complaints each week. While this is only a quarter of the number we were receiving at the peak of mis-selling concerns, it is still twice as many complaints as all other areas put together.

We have always been clear that dealing with the fall-out from PPI mis-selling is a significant and unprecedented challenge for us – and one that we will be putting right for several more years. In 2014-2015 – adding to the 2,000 adjudicators who joined us over the last two years – we recruited a further 200 case handlers to help PPI customers.

The nature of the PPI cases we are dealing with has changed. Compared to the complaints we initially received – which generally involved similar issues about the way policies were sold by larger businesses – we are now sorting out far more complex and entrenched complaints. For example, we are seeing many complaints involving smaller businesses, who sold PPI alongside their main line of work. The PPI policies involved can vary considerably – and so establishing whether they were suitable isn't always so clear-cut. And many cases involve PPI sold with mortgages, which we are generally less likely to agree was mis-sold.

**we received 240,943
PPI complaints
in 2014-2015**

**PPI mis-selling
is a significant
and unprecedented
challenge for us**

Although we have this year resolved 328,915 PPI complaints, we know that around 250,000 people are still waiting for our answer. To make sure our customers are clear about what to expect, during the year we:

- Continued to update people on their PPI complaints – through a part of our website called “your PPI case with us: what’s happening?” 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.
- Explained our approach to PPI at tailored seminars for smaller businesses and claims managers – to help them understand the decisions we have already made, and resolve new complaints themselves without our direct involvement.
- Worked with claims management companies and their regulator – sharing our insight to help inform new rules, and helping to ensure we receive specific information about individual customers.

working with the regulator

The Financial Conduct Authority (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
- acting as our competent authority in relation to the Alternative Dispute Resolution (ADR) Directive

The primary regulator for financial services is the FCA. On 1 April 2014 the FCA assumed responsibility for consumer-credit regulation from the Office of Fair Trading (OFT). Independently, the Claims Management Regulator is responsible for regulating the activities of claims-management companies. We have open and collaborative relationships with each of these regulators.

The relationship between the ombudsman and the FCA is described in a formal memorandum of understanding, which is available on our website (www.financial-ombudsman.org.uk/about/other_bodies.html).

We meet regularly with regulators to share our insight from the complaints we see. Meetings take place between our chairmen, chief executives and other employees at a range of levels. We're also members of the joint co-ordination committee, which meets regularly to discuss issues of shared interest – including complaint trends and emerging risks.

The *Financial Services Act 2012* gave additional responsibilities to the ombudsman service – for example, a duty to disclose certain information to the FCA and the power to make a formal referral. We continue to work closely with the FCA to ensure that we're fulfilling our duties effectively.

The FCA will also be our “competent authority” in relation to our responsibilities under the new EU Directive on Alternative Dispute Resolution (ADR), which comes into force in July 2015. This means the FCA will have responsibility for understanding how we're putting the aim of the directive into practice, and assessing how we meet the criteria against the standards set out. We will remain independent in the way we investigate and decide complaints.



**we meet regularly
with regulators to share
our insight from the
complaints we see**

directors' report

environmental policy – sustainability report

We're committed to running our organisation in a sustainable way, including reducing our impact on the environment. Our people indicate – through regular staff surveys – that they continue to believe this is important, and feel we improved during 2014-2015. We continue to work closely with the Carbon Trust to reduce our carbon footprint and are on track to meet our 30% target by 2017.

We've undertaken a range of activities which have significantly improved our recycling – particularly the increased use of digital technologies to reduce our overall use of paper. 2014-2015 was our first full year using our electronic case filing system – with over 14 million pages scanned. We also encourage businesses to send us information electronically, helping us to reduce carbon emissions from paper usage and transportation, while also improving our efficiency.

Our changing practices have led to a major reduction in consumables, illustrated by a reduction of 7 million pieces of copier paper, 879,000 paper cups and 75,250 plastic cups.

After scanning the correspondence we received from customers, our supplier helped us recycle them – enabling:



341

tonnes of paper to be recycled



5,778

trees to be saved



1,552

cubic metres of waste were diverted from landfill



326,631

kWh of energy to be saved

In the summer of 2014, when the lease on our previous building in South Quay came to an end, we moved to a newly-refurbished building nearby. Environmental and sustainability considerations were at the core of our redevelopment plans – and we were pleased to receive a Silver “Ska” award from the Royal Institute of Chartered Surveyors (RICS) in recognition of this. RICS noted that the silver award was an excellent achievement given the age of the building, and the limited ability we had to refurbish as only one of a number of tenants. Some of the key project achievements were:

- 99% of both construction and demolition waste materials within the project were diverted from landfill, either reused or recycled
- energy sub-metering has been extended from the landlord's systems – allowing us to identify areas where a carbon-management strategy could provide further environmental and economic benefits
- all lighting is less than 11 W/m² and has been designed to LG7 lighting standard
- all timber used is from sustainably-managed sources and either reclaimed or from a forest certification scheme (FSC/PEFC)
- all new carpets have a minimum of 85% recycled content with an environmental product declaration, establishing the impact of the product over its lifetime
- hand dryers have been awarded a carbon reduction label by the Carbon Trust
- all workstations have at least 35% recycled content, of which 98% can be recycled
- sensed lighting and taps have been installed across all floors, reducing wastage of resources

In addition, we introduced a number of changes – ranging from the introduction of shower facilities to encourage people to cycle to work, to the removal of paper towels from bathrooms to reduce waste. Together, these changes have allowed us to significantly reduce our environmental impact – and mean we're in a position to continue this improvement in future years. Of course, operating within externally-managed buildings, we also depend on our landlords to operate in a sustainable way and to provide us with relevant sustainability data.

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, our first aiders, fire marshals and our health and safety committee, which helps raise awareness of health and safety issues across the organisation.

As part of our ongoing awareness-raising programme, we have:

- developed working relationships with external professionals who provide managers with guidance on how to best support colleagues on matters relating to reasonable adjustments to their working environment
- continued with our e-learning and training modules
- produced regular articles and videos in our staff engagement newsletter
- improved responsiveness for first aid assistance by introducing telephone facilities to ensure trained first aiders are available

Our new headquarters at Exchange Tower provide a great and safe working environment for colleagues to work in. The wellbeing of our staff was one of the areas at the heart of the design of the new building to ensure it is flexible and adaptable.

During the move, over 2000 colleagues underwent a workstation risk assessment to ensure they were working in a safe and comfortable environment – a number of adjustments were made which include height adjustable desks, ergonomic chairs and IT hardware.

As part of the review of our new office space, we will be appointing an external health and safety company to carry out an independent audit to highlight areas where we can improve even further. This review will build on the external review that was undertaken in 2011 which has formed the basis of our development plans over the past 4 years.

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

- work related accidents – 51
- RIDDOR incidents (under Reporting of Injuries, Diseases and Dangerous Occurrence Regulations) – 1
- ill health requiring first aid – 69

we're committed to protecting the health, safety and wellbeing of everyone who works for us

equality and diversity

We were set up by Parliament so that every consumer in the UK has access to a free ombudsman service. We continually review how we work to make sure no aspect of anyone’s personal circumstances prevents them reaching us. And when people do reach us, we want to be certain that there are no barriers to their complaint being decided fairly and impartially.

We also think it’s important that our people reflect the diversity of our customers and stakeholders. Our equality and diversity strategy is set and monitored by our board and executive team and we’re proud of the diversity of our workforce.

our people

We’re committed to understanding our people and to developing and promoting a culture that celebrates diversity. Over the past year, we’ve seen our staff-led groups and networks championing policy and practical interventions that help us to recognise and support our people’s diverse communities, identities and circumstances. We have nine equality groups: women’s, carers’, disability, mental health, LGBT, Christian, Hindu, Islamic and Jewish.

Some of our key achievements over the past 12 months include:

- signing the Time to Change pledge in November 2014 – and working towards our commitments to increase awareness and reduce stigma around mental health issues
- running a formal development programme – including launching our bespoke equality “e-learning” tool, and running training on “unconscious bias” and disability awareness
- running our annual inclusion week, involving a range of events and guest speakers on a number of equality and diversity issues

Over the coming year we will work to improve our disability disclosure rates among our employees. This information will help us to develop policy and practical measures that keep our people well and in work. Throughout our recruitment process, we do everything we can to accommodate candidates with disabilities. And if an existing employee’s needs change, we work hard to make sure that their employment continues – and provide specialised training where it’s needed. We’ll focus on activities that help to build our knowledge of our people, improve employee engagement, and embed cultural change across the organisation and at all levels. This includes ensuring that the volunteering opportunities we facilitate support the development of our people’s knowledge and skills.



external accreditations and partners

We have retained our equality awards this year – in recognition of our positive approach to diversity. We are:

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

We work with a range of external partners who share and support our commitment to inclusion. These include Business Disability Forum, Employers' Network for Equality and Inclusion, Employers' Forum for Carers and a range of organisational peer networks.

equality of the workforce

gender

all ombudsman staff
Male: 45% Female: 55%



ombudsmen panel
Male: 48% Female: 52%



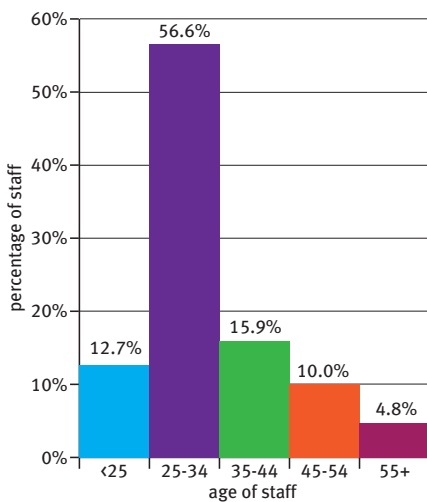
executive
Male: 4 Female: 4



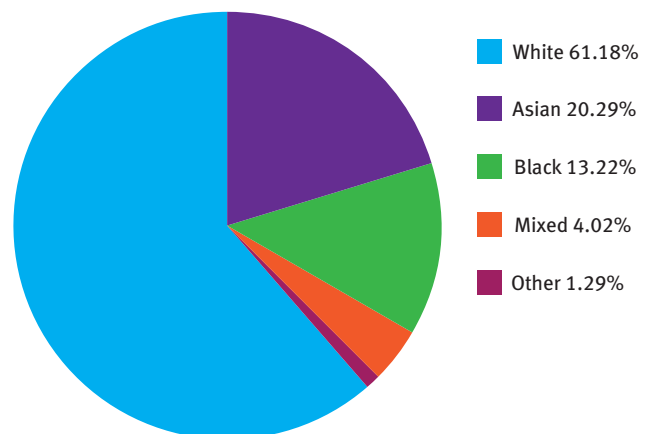
board
Male: 3 Female: 3



age



ethnicity



3% of staff have a disability based on staff declaration

learning and development

In resolving complaints, our people make important – often life changing – decisions. So it's critical that we maintain high levels of quality and consistency in everything we do – supported by ongoing learning and development.

professional leadership

Our ombudsmen are our professional leaders – setting the tone for our work and our approach to the disputes we see. Our development programme for ombudsmen focuses on casework expertise, professional leadership and professional guidance.

This helps them keep their own knowledge and skills up to date – and equally importantly, to mentor and support our adjudicators through sharing their knowledge and experience. New ombudsmen go through a rigorous induction programme – during which an experienced colleague mentors them on every aspect of their role.

We also continue to run our leadership development programme – a residential course designed for our more experienced managers. The course is followed up with ongoing support in networking, knowledge sharing and coaching.

sharing knowledge and information

To make sure we're approaching complaints in a consistent way – and deciding them fairly – it's essential that our people's knowledge is up to date.

We share information and expertise across the organisation in a variety of ways. These include employee-led "knowledge communities" – as well as a new knowledge-management tool that we've been developing this year and will be extending across our casework teams in 2015-2016.

During the year we've supported more than 600 educational sponsorship requests for our people to take relevant professional certificates and qualifications – for example, with Chartered Institute of Insurance and Chartered Institute of Securities and Investment.

We have published a range of guidance on our website aimed at helping our customers resolve problems fairly – from our approach to complaints involving private medical insurance, to practical support for businesses and consumers dealing with powers of attorney. We've also continued to publish six-monthly data on both numbers and types of complaints we see. At the end of March 2015, we

had published over 60,000 ombudsman decisions on our website – with around half added this year alone.

training

In addition to training and developing our ombudsmen, we launched a hands-on coaching workshop for managers this year – giving them the opportunity to develop and practice their coaching skills, so they can get the best out of their people. Over 300 of our managers and professional leaders have attended so far.

We provide ongoing training and mentoring across our casework teams – including through our internal accreditation programmes. These workshops last up to 12 weeks depending on the particular area and include a combination of classroom and on the job training.

We have also reviewed our adjudicator development programme – in particular, looking to broaden people's knowledge of different product areas. We're now applying this new approach throughout our casework teams – helping us to allocate our workload more flexibly and deal better with any volatility in the complaints we're receiving.

We place equal weight on the knowledge and skills of our support staff. As well as appropriate induction training, we identify and provide for any further specific and ongoing training needs, depending on the business area. Our educational sponsorship also extends to support staff.

There is some knowledge we need all our people to have. For example, all employees are required to complete inclusion and diversity training as well as annual "e-learning" security training. This currently includes training on items such as data protection and health and safety – and we aim to add business continuity in the coming year.

sickness absence

We are committed to the overall wellbeing of our staff and our sickness absence policy sets out the process and support available for colleagues. For the year ending 31 March 2015, an average of 8.6 days per full time equivalent employee was lost due to sickness absence.

employee engagement

It's clear that people will give their best when they feel valued – seeing their individual role in the wider context of our work and feeling they're making a difference. So strong employee engagement is vital to delivering good customer service.

Each year we participate in an external employee survey – to assess how our people feel about working at the ombudsman. This is supported with quarterly focus groups, to give us regular insight into how we're doing. We were pleased to find – like previous years – that our people are highly engaged with an average score of 5.89 out of 6 given when people were asked whether they were proud to work here.

Our employee engagement team work hard to maintain and build on these levels of engagement – by ensuring everyone who works for us is and feels informed and supported. The ways they do this include:

- our regular employee newsletter, *on the go*,
- executive Q&A sessions and briefings
- forums and bulletin boards on our intranet and knowledge-sharing platforms
- our chief executive and chief ombudsman's regular video diary
- interviews and webchats on the intranet, introducing different people and projects
- local 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 is our more 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.

corporate social responsibility

Through listening to feedback, we know many of our employees choose to work here because of our values – and because they feel that our work in resolving complaints fairly has a positive impact. We do as much as we can to help our staff to maximise the positive impact they feel they have – outside their day-to-day work.

We facilitate a range of volunteering opportunities for our people through our relationship with the East London Business Alliance. This includes giving advice on CVs and interview skills for young people in our local London Borough, Tower Hamlets; befriending older people through Age UK; offering practical support to local community groups; and giving weekly literacy and numeracy classes to a local school. We explore creative ways to work with community groups, advice centres and housing associations as part of our outreach programme – at the same time helping them to deal with money matters relevant to local lives and communities.

We also choose – through an employee vote – a charity of the year. In 2014-2015 we raised over £22,000 for our chosen charity Alzheimer's UK through a number of fundraising activities. To support our fundraising efforts and to encourage a stronger relationship, we have agreed a two-year relationship with our charity partner from 2015 – Haven House children's hospice.

Many of our employees donate through payroll giving – and we have been awarded the Bronze award by the Charities Aid Foundation. We also run a "pennies" scheme, so people can give small monthly donations to their chosen charity.



managing our information

The nature of our work means that our organisation needs to hold personal information about a large number of people. Some of this is sensitive personal data that isn't in the public domain – such as financial information or health records. And we hold personal data about our own staff.

We have a legal duty under the Data Protection Act 1998 to protect the personal data that we hold – and it's also an important part of providing a service that our customers trust. Over the last year, we have taken further steps to improve our performance and governance in this area – and to ensure that everyone who works for and on behalf of our service understands what's expected of them and why it matters.

improving our data protection governance

We've published a new data protection policy statement, which sets out how we will protect the information we hold. We've also appointed a data protection officer to have oversight of our data protection performance. And we have established a data protection group – made up of members from across our service – to identify risks, agree actions to address them, and ensure we learn lessons from any mistakes (including those of other organisations).

training and awareness-raising


We recognise that it isn't enough simply to have a policy – and that our people need to know what's required of them personally. So we have introduced online data protection training, which is mandatory for all employees handling customer data. We've also arranged tailored training for specific teams – and asked managers to talk to their teams about what why data protection matters and what it means for them.

learning from our mistakes

We want to learn from our mistakes and those of other organisations. We ensure that senior managers are aware when breaches occur in their areas, so they can take action to reduce the chances of something similar happening again. In many cases, an incident flags up issues and risks that apply more widely across the service. If this is the case, the data protection officer communicates the lessons learned to senior managers, together with any specific actions or advice.

freedom of information

We became subject to the Freedom of Information Act 2000 in November 2011. Since then, we have seen an increase in freedom of information requests. This year we received 512, compared with 399 in 2013-14. These requests have continued to cover three broad areas: individual cases, corporate information, and requests for more detailed information about complaints than we currently publish every six months on our website. Supporting our commitment to working openly the Financial Services and Markets Act allows us to publish our ombudsmen's final decisions – with 38,277 published this year and over 60,000 in total.



we recognise that it isn't enough simply to have a policy – and that our people need to know what's required of them personally

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 2015, 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 section on p.36).

recruitment

The recruitment process for non-executive positions is open and transparent – with advertisements running in the national press. We make appointments as an equal opportunities employer, observing basic principles of fairness and impartiality and selecting on merit. The process is overseen by the board’s nomination and remuneration committee (see page 40), 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 p.45-50.

All non-executive directors go through an extensive induction programme to introduce them to the organisation. This includes meeting each member of the executive team, being guided through the “end-to-end” complaints process, familiarisation with the wider framework of organisational support 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 organisation – 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.

independence and impartiality are central to the work of the ombudsman

board membership as at 31 March 2015

Sir Nicholas Montagu KCB (chairman)



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

Nick is chair of the Queen Mary & Westfield Foundation. 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.

Gwyn Burr



Gwyn Burr was appointed to the board on 1 October 2011. She is a member of the nomination and remuneration committee.

Gwyn is a non-executive director of Sainsbury's Bank, Just-Eat plc, Wembley National Stadium Limited, Hammerson Plc, DFS Trading Limited and Metro AG. Previously, Gwyn was a member of the operating board at J Sainsbury plc where she was the customer service and colleague director. This included responsibility for human resources, customer service, corporate responsibility and

corporate communications, as well as sponsorship schemes including the Paralympic Games Programme.

She has over 25 years' business experience, including five years with Nestle Rowntree and over 13 years with ASDA/WalMart where she held various board-level positions. Before joining Sainsbury's, Gwyn founded her own marketing consultancy.

Due to increasing demands on her time, Gwyn has tendered her resignation from the board. The recruitment process for her successor is currently underway and Gwyn has kindly agreed to stay on until her successor is appointed.

Gerard Connell



Gerard Connell was appointed to the board on 11 December 2014. He is chairman of the audit committee.

Gerard is a non-executive and senior independent director of, Pennon Group Plc and 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, the Nuclear Decommissioning Fund Company Ltd and 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.

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 and the nomination and remuneration committee.

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

Alan currently is also chairman of the board of trustees of Mencap Trust Company Ltd and a trustee of the London Middle East Institute at the School of Oriental and African Studies.

During his career, he has been 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 a member of the nomination and remuneration committee.

Maeve is a member of the House of Lords and is a shadow Minister 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 and is a member of the nomination and remuneration committee and the audit committee.

Pat is a partner of Stafford Partnership and vice chair of Guide Dogs Group. She also supports a number of other charities as a mentor and business adviser. She has an extensive portfolio of previous NED roles including at HMRC, the Princes Trust and the National College for Teaching and Leadership. Her executive career includes group marketing director at BUPA, Brand Director at British Airways and managing director at Corporate Positioning Services.

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

changes during the year

The FCA appointed Gerard Connell on 11 December 2014 for a period of three years to 11 December 2017, and approved the re-appointment of Gwyn Burr to 1 October 2017 and the reappointment of the chairman, Nick Montagu, to 31 January 2018.

Julian Lee's final term ended on 22 February 2015, when he stepped down from the board after serving the full ten years permitted under the service's articles of association. During his time on the board and his chairmanship of the audit committee, the service and the board has benefitted from Julian's unwavering commitment, his insight and his expertise: the service and board is enormously grateful for his wise counsel and wish him well for the future.

Gwyn Burr will be leaving the board in 2015, having tendered her resignation in February. The board is grateful for the contribution and insight Gwyn has provided over the past four years and wishes her well for 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.

**board members are
appointed in the public
interest not as individual
representatives of any
group or sector**

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 and 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 regulator, 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 ombudsman, chief operating officer and the chief financial officer. The board combines executive and non-executive insight to govern the organisation effectively.

The chairman and chief ombudsman meet regularly to discuss the operation and development of the organisation. Their responsibilities are distinct and clearly defined.

The chairman ensures that the organisation 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. To this end, 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 organisation externally.

The chief executive and 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”, role modelling the ombudsman service’s culture and values.

The chairman and the 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, our 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 managing the challenges presented by our PPI caseload, developing a relevant and meaningful

service which meets its customers’ needs in a changing world, together with more immediate decisions relating to the introduction of the ADR directive and our plans and budget for the year ahead.

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 ombudsman business and initiatives linked to the strategic development of the organisation.

The board met eight times during the financial year 2014-2015. Attendance at board and committee meetings is recorded below:

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 it considers 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.

	board meetings	audit committee	nomination & remuneration committee
Sir Nicholas Montagu, chairman	8/8	–	5/5
Gwyn Burr	6/8	–	3/5
Gerard Connell	2/2	1/1	–
Alan Jenkins	8/8	3/3	5/5
Julian Lee	6/7	3/3	4/4
Maeve Sherlock	6/8	–	5/5
Pat Stafford	7/8	3/3	5/5

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 organisation, its diversity (including gender), 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 to discuss the performance of the board and the chairman.

For 2014-2015, this exercise will be carried out internally, following last year's external review. The timetable for the review is later this year, and so the findings from this review will be included in our 2015-2016 directors' report. In the meantime, a number of steps have been taken to address the recommendations from last year's review which were aimed at getting a better balance between the board's assurance role and its strategic role, including refreshing the board management information, re-assessing the board schedule, reviewing the board assurance framework and ensuring an appropriate distinction between the respective responsibilities of the board and the executive management.

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 gives judgment 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. We're not required to produce accounts in line with usual HM Treasury guidance for government departments ("managing public money" and the financial reporting manual). However, 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 for re-election. But our service does 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, claims managers, the media and parliamentarians, regulators and government.

**it's the board's
responsibility to
appoint ombudsmen**



There is more information in our *annual review* about our outreach and stakeholder engagement activities.

It is the board's responsibility to appoint ombudsmen on terms that guarantee their independence. As at March 2015, the ombudsman panel is led by Caroline Wayman, as chief executive and chief ombudsman – supported by two principal ombudsmen, four lead ombudsmen, five managing ombudsmen, 22 senior ombudsmen and 195 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, academic and technical qualifications cover every area that is relevant to our work. Their expertise includes financial services, the law and a wide range of other professional services.

There is 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 three times during the year. Members of the audit committee were:

- Julian Lee (chair) (until February 2015)
- Gerard Connell (chair) (from February 2015)
- Alan Jenkins
- Pat Stafford

The board is satisfied that the combined knowledge and experience of the audit committee members ensures that it can fulfil its responsibilities effectively. In 2014-2015 Julian Lee finished his ten-year tenure as a board member – and so stood down as chair of the audit committee. The new chair, Gerard Connell, qualified as 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 and chief ombudsman, chief financial officer, head of risk and governance and head of strategic analysis are invited to attend all audit committee meetings. The NAO and the service's internal auditors are also invited to attend the meetings.

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 (NAO) 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

Chaired by Nick Montagu, the nomination and remuneration committee met four times during the year. Members of the committee were:

- Nick Montagu (chair)
- Gwyn Burr
- Alan Jenkins
- Julian Lee (until February 2015)
- Maeve Sherlock
- Pat Stafford

During the year the committee made recommendations to the FCA board on the re-appointment of the chairman, Nick Montagu, and non-executive director, Gwyn Burr and on the appointment of non-executive director, Gerard Connell. They also agreed the appointment of the new chief executive & chief ombudsman, Caroline Wayman. More generally, they continue to take an active role in reviewing the organisation's succession planning and talent programmes.

The chief executive and the director of human resources and organisational development are invited to attend all committee meetings. However, they don't attend when their own performance is due to be discussed.

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

The nomination and remuneration committee's main terms of reference are:

- **remuneration strategy**

To oversee the remuneration strategy for executive and other senior posts. To consider and agree proposals from the chief executive and chief ombudsman concerning remuneration of senior executive staff and ombudsmen, levels of remuneration for all employees, and major changes to employee reward structures.

- **board structure**

To review on a regular basis the structure, size and composition of the board – including the required skills, knowledge and experience of the non-executive directors. To make recommendations to the FCA about appointments and re-appointments of board members.

- **succession planning**

To make recommendations to the board about the appointment of the chief executive & chief ombudsman and to ensure succession planning for the post.

To review, with the chief executive and chief ombudsman, the overall performance and potential of the ombudsman service's senior team, and the succession and recruitment risks for critical senior posts. To ensure succession planning for non-executive directors on the board. To assess the skills and experience required to fill each post – taking into account the existing skills and experience already represented on the board.

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 both from consumers and from businesses about the level of customer service provided by the Financial Ombudsman Service. But she doesn't consider the merits of the case – that is, whether we were right to uphold or reject a consumer's complaint about a financial business and a consumer.

There is 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 has received and the action that is being taken to address them.

The independent assessor's annual report to the board, setting out the findings and recommendations she has made during the year, is on p.52-54.

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.

an impartial view on whether or not the ombudsman service treated their customer fairly



the executive team

The board is supported by the executive team, who are responsible for the day-to-day management of the organisation. Having been with the service from its beginning, Tony Boorman took on the role of chief executive & chief ombudsman on an interim basis after Natalie Ceeney left, until the board appointed Caroline Wayman on 23 July 2014.

Tony Boorman left the service on 30 September 2014 and Liz Brackley (strategic service development director) left the service on 7 February 2015.

Led by Caroline Wayman, chief executive and 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 2015:



Caroline Wayman
*chief executive & chief ombudsman
(appointed on 23 July 2014)
(previously principal ombudsman/
legal director)*



Chris McDermott
chief operating officer



Julia Cavanagh
*chief financial officer/company
secretary*



Richard Thompson
*principal ombudsman and quality
director
(joined the executive team on
1 December 2014)*



David Cresswell
director of insight and engagement



Jacquie Wiggett
*director of human resources (HR)
and organisational development*



Annette Lovell
*director of policy, knowledge and
stakeholder relations
(joined the ombudsman service on
16 March 2015)*



Garry Wilkinson
*principal ombudsman and director
of new services
(joined the executive team on
1 December 2014)*

internal audit

For the first nine months of the year we engaged PricewaterhouseCoopers UK LLP (PwC) as internal auditors under a directed outsourced arrangement. Their contract expired in January 2015. Working with the audit committee and PwC, we agreed an annual programme of audits for 2014-2015 based on a combined assessment of the service's risks, and other relevant factors such as regulatory or legislative requirements. PwC attended our audit committee meetings to report on the audits.

We ran an open and fair competition to identify a suitable provider to deliver internal audit work from January 2015 to March 2018 (including the completion of the 2014-2015 audit plan). We received six bids and shortlisted three firms, with an evaluation panel which included the chief financial officer, head of risk and governance and our non-executive audit committee members. Evaluations were based on quality and price criteria with transparent provision of our criteria for assessment. Following the tender process we appointed Deloitte as our new internal auditors. Under the new contract we have fully outsourced internal audit provision, with Deloitte's engagement partner taking the role of head of internal audit, with direct reporting lines to our chief executive and the chair of our audit committee.

The 2014-2015 audit plan included audits of work across the service, covering casework operations, human resources, financial controls, and IT. For example, PwC audited our approach to identifying and progressing older cases; how we monitor and manage sickness absence; and conducted a follow up audit on our approach to dealing with potential fraud or bribery. These internal audits helped to identify a number of actions to further strengthen our control environment.

Deloitte completed the 2014-2015 audit plan – with audits focusing on core financial and IT controls – and presented their findings to the executive team and audit committee. Deloitte produced the audit plan for 2015-2016 based on their risk assessment in the first three months of their contract with us, and this was approved by the audit committee in April 2015. We have jointly produced and agreed our “ways of working” and an internal audit charter.

Our external auditors (NAO) also receive copies of the reports, and talk directly with our internal auditors about areas of mutual interest. They are also able to participate in discussions at the audit committee as appropriate. The chairman of the audit committee is available to discuss any relevant matters with the internal auditors at any time.

**our head of internal audit
has direct reporting lines to
our chief executive and chair
of the audit committee**

risk management and internal control

In 2014-2015 we have continued to enhance our approach to risk management and internal controls. In late 2013 we increased the capacity of our risk and governance team, and they have focused on providing more proactive support to the service in improving risk management and governance at all levels. The risk and governance function provides independent challenge to operational and support departments in identifying, assessing, managing and monitoring risks. It is also responsible for assessing the extent of risk-management activity across the service, and collating and reviewing the formal risk report on behalf of the executive team and board.

In 2014-2015 the board approved a new risk-management framework for the service. This aims to provide an approach to risk management that is clear and understandable, and that supports the right people having the right conversations at the right time. At a corporate level we maintain a focus on considering risks to our commitments, enabling us to take a more balanced view of the extent of risks arising from, or identified by, different areas of the service. Together with the appointment of our new independent head of internal audit, this means we have continued to strengthen our approach to obtaining assurance on risks and controls. We have improved the way we identify, assess, monitor and report risks and will continue to embed the framework and develop risk awareness and understanding in 2015-2016.

Our board and executive team look at risk strategically. They have identified thematic risk areas¹ for the service and set their expectations on the extent of risk we should be content to tolerate. The board and audit committee receive an updated risk report at each meeting, which has been discussed and approved by the executive team. The board formally discusses the risk report at least quarterly, but any risks identified as critical to the service's objectives are raised when they are identified.

We have a clear whistleblowing policy in our staff handbook – with appropriate contact details for staff members and guidance on how to escalate any concerns they may have.

We carried out a crisis-management exercise in March 2015 to test our readiness to respond to and manage a crisis. The feedback from the exercise was positive, with good performance compared to comparator organisations. A number of recommendations were raised for us to incorporate into our approach to crisis management and business continuity, which we will undertake over the coming year.

The key organisational risks are set out on p.15.

the risk and governance function provides independent challenge to operational and support departments in identifying, assessing, managing and monitoring risks

¹ See strategic report

remuneration report

The board consists entirely of non-executive directors who do not participate in the reward, pension or benefit schemes that we run for our employees. The fees paid to directors are not specifically related to individual or collective performance, and directors are not 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 2014-2015 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 2015-2016 financial year.

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

	note	total fees for year ended 31/3/15 £	total fees for year ended 31/3/14 £
Sir Nicholas Montagu		74,970	74,970
Gwyn Burr		24,500	24,500
Gerard Connell	1	8,059	–
Alan Jenkins		24,500	24,500
Maeve Sherlock	2	29,500	29,500
Pat Stafford		24,500	24,500
Julian Lee	3	26,285	29,500
total		212,314	207,470

notes

- 1 Gerard Connell joined the service on 11 December 2014. His fee from 23 February 2015 includes an additional fee for chairing the audit committee.
- 2 Maeve Sherlock's fee includes an additional fee as the senior independent director.
- 3 Julian Lee left the service 22 February 2015. His fee includes 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 (2014: 79,286), pension contributions of £14,400 (2014: £11,040) and other benefits amounting to £3,779 (2014: £3,028). Amerdeep joined the Service in June 2013 succeeding Linda Costelloe Baker who stepped down in May 2013 (2014: salary £15,046), pension contributions £2,561 and other benefits £720).

expenses incurred by board members

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 2014-2015 financial year are shown in the following table.

	travel £	accommodation £	entertaining £	total £
Sir Nicholas Montagu	6	–	463	469
Gwyn Burr	865	–	75	940
Gerard Connell	–	–	82	82
Alan Jenkins	–	–	126	126
Maeve Sherlock	510	418	122	1,050
Pat Stafford	1,285	282	122	1,689
Julian Lee	1,216	217	79	1,512
total	3,882	917	1,069	5,868

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 nomination and remuneration committee. Any increases reflect changes in responsibility, inflation, market movements and individual performance. Salaries for the chief executive and the chief ombudsmen 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 nomination and 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.

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

	note	salary* £	pension £	other benefits** £	total for year ended 31/3/15 £	total for year ended 31/3/14 £
Caroline Wayman	1	226,215	28,251	6,792	261,258	227,020
Julia Cavanagh		178,072	23,468	11,030	212,570	205,748
David Cresswell		141,229	18,013	5,518	164,760	161,706
Chris McDermott		196,493	25,061	7,660	229,214	225,332
Jacquie Wiggett		138,208	18,013	5,626	161,847	161,475
Richard Thompson	2	52,900	6,900	2,058	61,858	–
Garry Wilkinson	3	52,900	5,520	1,916	60,336	–
Annette Lovell	4	–	–	–	–	–
Tony Boorman	5,6	391,702	13,333	3,391	408,426	293,406
Liz Brackley	7	133,392	17,175	5,330	155,897	171,879
Natalie Ceeney	8	–	–	–	–	258,750
total		1,511,111	155,734	49,321	1,716,166	1,705,316

* 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 and income protection. In addition the cost of the flex allowance which can be used to acquire other voluntary benefits is also included under other benefits.

notes

- 1 Caroline Wayman was appointed chief executive and chief ombudsman on 23 July 2014 having previously been the legal director and principal ombudsman.
- 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 salary included pay in respect of March.
- 5 Tony Boorman left the service on 30 September 2014 after working in the organisation for over 14 years. During this time he held a number of senior roles including deputy CEO and latterly interim CEO and chief ombudsman, a position he held until July following the departure of Natalie Ceeney. Included in “salary” is a payment of £287,921 of which £169,722 relates to a redundancy payment, made in accordance with our policy, £105,066 paid in lieu of notice and £13,133 paid in lieu of participation in our pension scheme.
- 6 Pension contributions shown for Tony Boorman were paid as cash in lieu of participation in the pension scheme.
- 7 Liz Brackley left the service on 7 February 2015. Included in “salary” is a payment of £20,600 of which £7,687 relates to redundancy.
- 8 Natalie Ceeney left the service on 13 December 2013.

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

	note	travel £	accommodation & subsistence £	entertaining £	prof subs £	total for the year ended 31/3/15 £
Caroline Wayman		1,289	570	134	–	1,993
Julia Cavanagh		49	–	146	432	627
David Cresswell	1	970	1,148	59	–	2,177
Chris McDermott		18	–	13	–	31
Jacquie Wiggett		–	–	–	–	–
Richard Thompson	2	–	–	75	327	402
Garry Wilkinson	3	40	–	75	–	115
Annette Lovell		–	–	–	–	–
Tony Boorman		225	–	295	–	520
Liz Brackley		–	–	13	–	13
Natalie Ceeney		–	–	–	–	–
total		2,591	1,718	810	759	5,878

notes

- 1 David Cresswell's travel, accommodation and subsistence expenses include various visits for our outreach work.
- 2 Richard Thompson's expenses are for the period since appointment to the executive team.
- 3 Garry Wilkinson's expenses are for the period since appointment to the executive team.

Hutton fair pay ratio

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.

The remuneration* of the highest-paid director** in the Financial Ombudsman Service in the financial year 2014-2015 was **£233,007**. This was **6.96** times the median remuneration of the workforce, which was **£33,491**. No employee received remuneration in excess of the highest paid director. This compares to **9.77** times the median remuneration of the workforce in 2013-14 where the highest paid director** received £293,406 and the median pay was £30,040. However, 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 2014-2015 was **7.36** times, compared to 9.96 in 2013/2014.

* Remuneration includes salary, salary at risk, and benefits-in-kind. It does not 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

exit packages by cost band	2014-15 number (redundancy) £	2014-15 number (other) £	2013-14 Number (redundancy) £	2013-14 Number (other) £
Less than £2,000	–	16	–	92
£2,001 to £5,000	–	22	–	17
£5,001 to £10,000	–	4	–	5
£10,001 to £25,000	1	7	–	3
£25,001 to £50,000	2	3	–	3
£50,001 to £100,000	–	–	–	1
£100,001 to £250,000	–	–	–	–
£250,001 to £300,000	1	–	–	–
Total number of exit packages	4	52	–	121
Total payments (£)	366,464	335,913	–	492,489

We have disclosed the exit payments above on a cash paid rather than accruals basis. Included within the financial statements for 2014-2015 is £702,377 relating to exit packages (2013/2014: £456,751). The highest payout during the year was £287,921 (2013/2014: £71,924).

There were no provisions held at the end of the year (2013/2014: £Nil).

salary bands

This table shows the salary bands in place at 31 March 2015.

job family	number of staff	range of salary earned *
executive	8	£120,822 to £200,000
ombudsmen, lead ombudsmen and managing ombudsmen	222	£49,518 to £121,045
heads of department and senior managers	80	£60,000 to £123,300
managers	331	£26,000 to £72,000
adjudicators	2,021	£22,000 to £58,985
helpline staff	141	£22,000 to £36,000
casework administration staff	409	£18,200 to £53,980
support staff (including finance, IT, facilities, communications and HR	264	£18,200 to £82,820

* not including salary at risk

pension scheme

The organisation participates in the FSA pension plan – a voluntary, money purchase, non-contributory scheme. This pension scheme is open to all employees except for 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 – up to a maximum of 40% of their salary. 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

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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 UK Accounting Standards 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 cashflows for 2015-2016 which show year end reserves of £178m 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

1 July 2015

TO THE BOARD OF THE FINANCIAL OMBUDSMAN SERVICE

THE INDEPENDENT ASSESSOR'S ANNUAL REPORT 2014-2015

I am pleased to present my second annual report as the Independent Assessor to the Financial Ombudsman Service.

The Ombudsman Service has seen a small reduction of 3% in service complaints it has received compared to last year. This has been set against a backdrop of an organisation that has grown significantly in size. I think this is a healthy indicator of continuous learning and improvement from complaints handling, despite ever increasing demands on its services and in turn increased interactions with consumers and businesses.

Service complaints received by the Ombudsman Service and escalated to me

This year (1 April 2014 to 31 March 2015) the Ombudsman Service recorded receiving 2,757 complaints of poor service (2013-14 = 2,847).

Of those complaints, 61% were resolved by team managers and a further 23% were resolved by senior managers. Over the year, 49% of the complainants who referred their service complaints to a senior manager then asked me for an Independent review, compared to 51% the year before.

The resolution of service complaints by team managers remains about the same but there has been a welcome increase in service complaints resolved by senior managers, so fewer people are asking me for an independent review. I think the decline in service complaints referred to me reflects staff within the Ombudsman Service are continuing to grow in confidence and professionalism in their dealings with users of its service. It also suggests the internal complaints process is a more thorough review, with a common sense and pragmatic approach to finding out why someone is unhappy, what, if anything has gone wrong and putting it right wherever possible. I am seeing more instances in cases where there have been aspects of poor service, this being acknowledged at a much earlier stage and appropriate redress being offered, usually an apology and sometimes accompanied with a financial remedy.

However, of those that are referred to me there has been a significant increase of 17% to 53% of all cases which have resulted in my finding there was a critical failure in service and that in turn has reflected in a significant increase of 18% to 41% of all cases where I have made recommendations to the Ombudsman Service – usually an apology with a financial award. These are cases where complainants have pursued their service complaint to me as they have had genuine reasons for continuing to be unhappy after a senior manager has looked at their concerns. It is also a reflection of greater awareness that there is an independent and objective scrutineer of the Ombudsman Service, through clearer communications with its users about where they can go next if they remain unhappy. That accessibility and transparency must be right, so users know they can have their complaints reviewed by someone who is independent and external of the Ombudsman Service, the very organisation they are complaining about.

Complaints within my remit

My Terms of Reference are set by the board of the Financial Ombudsman Service and these set out the complaints I can consider. Between 1 April 2014 and 31 March 2015, I received 358 complaints that were within my remit, 13% less than last year. I believe this reflects the rigorous scrutiny I undertake at the outset to ensure the complaint is one I can consider and not a vehicle for a complaint that is solely about the evidence, the judgement exercised and/or the outcome of the case against the business. I do continue to monitor this to ensure complainants are not being referred to me inappropriately.

Complaints where the Ombudsman Service's investigation was ongoing

My Terms of Reference state that I normally review a complaint after the Ombudsman Service has concluded its investigation, except where there are exceptional circumstances which mean I should require the Ombudsman Service to suspend the investigation.

93 service complaints were made to me whilst the Ombudsman Service's investigation was ongoing. Of those, I exercised my power to suspend a case on 12 occasions. Typically, this has been in cases where serious allegations have been made such as bias or discrimination, material evidence not being provided or being treated unfairly in the process. Of those 12 cases, I upheld 9 cases and made recommendations in 6 cases.

On 16 occasions I have carried out my review without suspending the investigation. I usually only do this where the complaint on the face of it is very simple and it will not impact the Ombudsman Service's investigation. For example, cases where I need to carry out a basic check that the case is following the correct process and can quickly provide reassurance and the Ombudsman Service can get on with its investigation.

Opinions

I issued 275 formal opinions last year, compared to the 339 the previous year.

The following statistics relate to the 275 cases where I issued a formal opinion:

	2012/13	2013/14	2014/2015
Service complaints referred to me where the Ombudsman Service had upheld their complaint against the financial business	26%	29%	35%
Service complaints referred to me that I upheld	64%	54%	64%
Cases where I made recommendations to the Ombudsman Service	27%	23%	41%

The Ombudsman Service accepted all of my recommendations this year, most of which were for financial compensation for avoidable trouble and upset. The sums of compensation awarded ranged from £25 to £750, with an average of £226.

There have been several cases where I have made recommendations that are not monetary, or in addition to a monetary payment. These have ranged from a simple apology to asking the Ombudsman Service to send a consumer documents that I believe they are entitled to.

When I issue my opinion to the Ombudsman Service, I categorise the level of service provided as follows:

Satisfactory: Where the Ombudsman Service has followed its normal process and handled contact with the complainant with reasonable efficiency.

Adequate: Where the Ombudsman Service has followed its normal process reasonably accurately but there were minor service failings. The service failings identified had not seriously compromised a fair investigation into the complainant's case against the financial business.

Critical: Where the Ombudsman Service had failed to follow its normal process and/or there were serious service failings.

Of the 275 cases where I reached a formal opinion:

- 36% were satisfactory compared to 46.3% last year;
- 10% were adequate compared to 17.4% last year; and
- 53% were critical compared to 36.3% last year.

The statistics show it isn't just complainants who are unhappy with the outcome of their case against the financial business that escalate their service complaint to me, rather people that have had poor service, regardless of the outcome.

Of the 275 cases where I reached a formal opinion, 44 were about Payment Protection Insurance (PPI). The Ombudsman Service received over 200,000 cases about PPI last year, so the proportion of cases that came to me was very low. However, 86% of these were found to be critical and 74% resulted in

recommendations. The vast majority of these complaints were about timeliness and poor communication. I found these cases were poorly handled because users were not updated about the progress of their case and about changing timescales due to unprecedented volumes of casework in PPI.

Typically, the types of cases I have dealt with this year have been about investigations taking too long, not being kept updated, information not being provided, not following the correct process and allegations of bias or unfairness as far as the process is concerned.

I have also dealt with cases where I have found service failures but the complainants conduct had been so abusive and well beyond anything that could be considered reasonable even allowing for them being upset, that I didn't require the Ombudsman Service to apologise. In exceptional cases, I have commended its staff for their high standard of professionalism when faced with particularly abusive callers where they have remained calm and professional when they had good reason to be offended.

Complaints not within my remit

I continued to receive complaints that were not in my remit to consider but required a substantive reply.

- In 54% of those complaints, the complainant had not made a complaint of poor service to the Ombudsman Service.
- In 17% of those complaints the complainant had made a complaint to a team manager but had not referred the complaint to a senior manager, which is the second stage and final stage in the Ombudsman Service's internal process of considering complaints about the service it has provided.
- In 24% of those complaints, the complaint made to me was solely about the merits of a case against the financial business or about whether a case was within the Ombudsman Service's jurisdiction.
- In 5% of those complaints the complainant did not contact me within 3 months of the final service complaint response from a senior manager at the Ombudsman Service.

Overview

When I was appointed to this role, I felt passionately that service complaints should be used as a health check for the Ombudsman Service to improve its customer service and I still believe that is important.

Part of my role is to try and spot common areas and practices that might cause confusion, frustration or leave people feeling in the dark, and then feed back on what I'm seeing. The one thing that has struck me most from the service complaints I've seen is that in most cases the problem that has been the real root of the service complaint is communication. In a number of cases I see, the Ombudsman Service could have vastly improved the level of service by providing more frequent or more meaningful updates.

I think the reduction in cases being escalated to me and the small but steady decline in service complaints to the Ombudsman Service shows that the learning work from service complaints that I have embedded across the Ombudsman Service is delivering outcomes. I have highlighted common themes from the cases I have reviewed, through meetings with members of the Board, the Executive and senior managers and posts through the Ombudsman Service's intranet so it is shared widely across the organisation.

This has left more of the most critical cases being escalated to me by complainants who often know better than anyone when things have gone so badly wrong. The significant increase in cases which I have found to be critical and the resulting increase in recommendations from me underlines why impartial scrutiny is important. As an external person I can look at the situation afresh which is crucial for the Ombudsman Service, an organisation that has good customer service at the heart of all the work it does and gives the public confidence that it welcomes scrutiny by an outsider.

I am pleased to report that the Ombudsman Service shares my strongly held belief that service complaints are an effective tool to measure and improve the customer service experience and that is a culture that it strives hard to put at the heart of everything it does. A big part of my role is reporting back to the executive the kind of issues that I'm seeing. There's a real desire to improve processes and customer service and my role forms part of that by feeding back on how cases are being handled. The learning work from my independent and impartial scrutiny of cases is shared by the Ombudsman Service across the organisation. The Ombudsman Service has accepted all of my recommendations.

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 2015 under the Financial Services and Markets Act 2000. The financial statements comprise: the Income and Expenditure account, Balance Sheet, Statement of Total Recognised Gains and Losses, the Reconciliation of Movement in Reserves, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). 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' responsibilities, 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 and express an opinion on the financial statements in accordance with the Financial Services and Markets Act 2000. 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 Financial Ombudsman Service; 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 report.

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 2015 and of the company's surplus for the year then ended;
- the financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; 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 strategic report, corporate governance report, and the directors' 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 where the Companies Act 2006 requires me to 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; or
- 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
10 July 2015

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

income and expenditure account

for the year ended 31 March 2015

	Notes	2015 £'000	2014 £'000
Continuing operations			
Revenue	3	325,388	332,968
Other operating income	4	277	222
		325,665	333,190
Administrative costs	5	(239,795)	(220,957)
Operating surplus		85,870	112,233
Interest receivable and similar income	6	828	350
Interest payable		(2)	–
Surplus on ordinary activities before taxation		86,696	112,583
Tax charge on surplus on ordinary activities	7	(177)	(84)
Surplus on ordinary activities after taxation		86,519	112,499

statement of total recognised gains and losses

for the year ended 31 March 2015

	Notes	2015 £'000	2014 £'000
Surplus for the year		86,519	112,499
Actuarial losses on pension scheme	22 (i)	(1,927)	(1,697)
Total recognised gains for the year		84,592	110,802

reconciliation of movements in reserves

for the year ended 31 March 2015

	Notes	2015 £'000	2014 £'000
Total recognised gains for the year		84,592	110,802
Accumulated surplus at 1 April		140,244	29,442
Accumulated surplus at 31 March	20	224,836	140,244

balance sheet

as at 31 March 2015

	Notes	2015 £'000	2014 £'000
Non-current assets			
Tangible assets	11	15,023	13,337
Intangible assets	11	2,146	2,561
Debtors – amounts falling due after one year	12	999	424
Total non-current assets		18,168	16,322
Current assets			
Debtors – amounts falling due within one year	12	24,353	57,697
Cash at bank and cash equivalents	13	265,929	230,558
Total current assets		290,282	288,255
Current liabilities			
Creditors: amounts falling due within one year	14	(51,928)	(117,602)
Total current liabilities		(51,928)	(117,602)
Net current assets		238,354	170,653
Total assets less current liabilities		256,522	186,975
Non-current liabilities			
Provisions for liabilities	16	(504)	(595)
Creditors: amounts falling due after one year	14	(23,794)	(40,248)
Net pension liability	22(d)	(7,388)	(5,888)
		(31,686)	(46,731)
Net assets		224,836	140,244
Capital and reserves	20	224,836	140,244

The financial statements on pages 57 to 73 were approved and authorised for issue by the board of directors on 1 July 2015, and are signed on behalf of the board of directors by:



Sir Nicholas Montagu, chairman, Financial Ombudsman Service
01 July 2015
company number: 03725015

cash flow statement

for the year ended 31 March 2015

	Notes	2015 £'000	2014 £'000
Net cash inflow from operating activities	i	43,772	157,962
Returns on investments		667	369
Interest paid		(2)	–
Taxation (UK corporation tax paid less repaid)		(85)	(53)
Capital expenditure and financial investment			
(payments to acquire tangible fixed assets)	11	(8,541)	(10,767)
(payments to acquire intangible fixed assets)	11	(440)	(1,516)
Net cash inflow before financing		35,371	145,995
<i>Financing</i>			
Movement in long term borrowings	15	–	–
Increase in cash in the period		35,371	145,995
Cash and cash equivalents at 1 April		230,558	84,563
Cash and cash equivalents at 31 March	13	265,929	230,558

	2015 £'000	2014 £'000
Split as to bank accounts and longer term deposits		
Bank accounts	25,929	230,558
Longer term treasury deposits	240,000	–
	265,929	230,558

notes to the cash flow statement

for the year ended 31 March 2015

(i) Reconciliation of operating surplus to net cash inflow from operating activities

		2015 £'000	2014 £'000
Operating surplus for the period		85,870	112,233
Depreciation and amortisation	11	7,710	6,387
Loss on disposal of fixed assets	11	–	168
Decrease in debtors falling due within one year		33,421	22,468
Increase in debtors falling due after one year		(575)	(120)
(Decrease)/increase in creditors falling due within one year		(65,766)	22,754
Decrease in provision for liabilities		(91)	(2,376)
Decrease in creditors falling due after one year		(16,454)	(3,279)
		44,115	158,235
Defined benefit pension costs			
Deficit reduction contributions		(343)	(273)
Net cash inflow from operating activities		43,772	157,962

notes to the financial statements

for the year ended 31 March 2015

1. Status of the company

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

2. Principal accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom company law and accounting standards.

The financial statements have been prepared on the going concern basis.

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.

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 (Financial Services Authority prior to 1 April 2013) (for the Compulsory Jurisdiction);
- the Service (for the Voluntary Jurisdiction); or
- the Office of Fair Trading (for the Consumer Credit Jurisdiction) until 31 March 2014 only.

Businesses in the Compulsory and Voluntary Jurisdictions pay an annual levy, whilst those in the Consumer Credit Jurisdiction paid a levy every five years up to 31 March 2014. With effect from 1 April 2014, the Consumer Credit Jurisdiction has been rolled into the Compulsory Jurisdiction.

- Group fees

From 1 April 2013, group fees were introduced for the four largest banking groups – Lloyds Banking Group, Royal Bank of Scotland Group, Barclays Banking Group and HSBC Group. At 1 April 2014, a further four groups were added – 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 more than 15% from the original estimate for any individual group.

- Standard case fees

Businesses that fall outside our 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.

- 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 fall outside our group fee arrangement and have 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

- Levy Income

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

For the Consumer Credit jurisdiction, up to 31 March 2014, levy income was recognised in the period in which new licences, renewals and refunds were processed. From 1 April 2014 the Consumer Credit jurisdiction was rolled into the Compulsory Jurisdiction.

- Prior to 1 April 2014, businesses in the Consumer Credit Jurisdiction bought a five year licence. For the five years from 1 April 2007 to 31 March 2012, in order to spread the income over the period of the licence, income was recognised based on the number of cases that were closed in the year. The balance of income not taken to the income & expenditure account over the five year period was shown in the deferred income account at 31 March 2012.
- For the years ended 31 March 2013 and 2014, licence income was recognised in the period in which new licences, renewals and refunds were processed. An amount of £100,000 was also released to income from the deferred income account in the year ended 31 March 2013 to recognise the difference between the costs incurred in dealing with cases and the income received for that year.
- From 1 April 2014, the Consumer Credit jurisdiction was rolled into the Compulsory Jurisdiction. Due to transitional funding arrangements, it was anticipated that no Compulsory Jurisdiction levy income would be due for the first two years from 1 April 2014 and accordingly the remaining deferred income balance at that date is being released evenly to income in the two years from 1 April 2014.

- Standard case fee income

Standard case fee income, net of credits issued, is billed in the month a case is closed for all firms outside the group fee arrangement.

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 stages of completion.

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 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.

Fixed assets

Depreciation is calculated so as to write off the cost of tangible and intangible assets on a straight-line basis over the expected useful economic life of the asset concerned.

Tangible assets

Leasehold improvements	Over remaining period of the lease
Premises fees and stamp duty	Over remaining period of the lease
Computer hardware	Over three years
Office furniture and equipment	Over three to five years *
Fixtures and fittings	Over remaining period of the lease
Motor vehicles	Over four years

Intangible assets

Computer systems development and fees	Over three to five years *
Computer software	Over five years

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

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

Retirement benefits

During the year the company operated a defined contribution (money purchase) scheme. As at 31 March 2015, 3,584 employees (March 2014: 3,706) were active members of the defined contribution scheme. Previously the company also operated a defined benefit (final salary) scheme which was closed with effect from 1 April 2010. All employees who were building up defined benefits before this date became deferred members and were given the option to earn future benefits under the defined contribution scheme.

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

The defined benefit scheme is accounted for in accordance with FRS 17. A charge equal to the expected increase in the present value of the scheme liabilities (because the benefits are now closer to settlement) less a sum equal to the equivalent value of the long-term expected return on the defined benefit scheme's assets (based on the market value of those assets at the start of the year), are included in the income and expenditure account in "interest receivable and similar income".

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

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

Operating lease commitments

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

Taxation

The tax charge represents the sum of tax currently payable on activities not directly related to the company's statutory obligations.

Provision for dilapidations

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the company will be required to settle the obligation, and a reliable estimate can be made of the obligation.

The company is required to perform dilapidation repairs under a number of its leases prior to the properties being vacated at the end of their lease term.

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.

3. Revenue

	2015 £'000	2014 £'000
Annual levy	24,746	25,755
Standard case fees		
Gross fees	62,371	82,987
Movement in credit note provision	(149)	(133)
Movement in general casework stock	(878)	(493)
Supplementary case fees		
Gross (credits)/fees	(8,879)	29,730
Transfer from/(to) deferred income	8,879	(29,730)
Release from deferred income	40,503	77,247
Group fees		
Gross fees	163,916	205,084
Transfer to deferred income	(700)	(85,522)
Release from deferred income	35,579	28,043
	325,388	332,968

4. Other operating income

	2015 £'000	2014 £'000
Publications	201	189
Conferences	42	23
Miscellaneous	34	10
	277	222

5. Administrative costs

	Notes	2015 £'000	2014 £'000
Staff payroll costs	8	155,924	141,081
Contractor and temporary staff costs		33,053	34,943
Other staff costs		4,075	5,489
Consultancy and other professional costs		6,983	6,668
Operating lease rentals: premises		9,870	7,700
Operating lease rentals: other		366	349
Other premises and facilities costs		13,474	9,437
IT running costs		6,556	7,308
Depreciation and amortisation	11	7,710	6,387
Loss on disposal of fixed assets	11	–	168
Bad debts		202	(33)
External audit fee	10	70	110
Other costs		1,512	1,350
		239,795	220,957

6. Interest receivable and similar income

	2015 £'000	2014 £'000
Bank interest	744	369
Interest cost on pension plan liabilities	(1,132)	(1,114)
Expected return on pension plan assets	1,216	1,095
	828	350

7. Tax charge on surplus on ordinary activities

	2015 £'000	2014 £'000
<i>Analysis of tax charge on ordinary activities</i>		
United Kingdom corporation tax at 21% (2014:20%) for the year	(177)	(85)
Adjustments in respect of prior years	–	1
Current tax charge for the current year	(177)	(84)

Factors affecting tax charge for the current year

The tax assessed for the year is lower than that resulting from applying the small profits rate of corporation tax in the UK: 21% (2014:20%).

The differences are explained below:

	2015 £'000	2014 £'000
Surplus on ordinary activities before taxation	86,696	112,583
Tax at 21% (2014: 20%) thereon	(18,206)	(22,517)
Effects of:		
Non taxable income and expenditure	18,029	22,432
Prior period adjustments	–	1
Current tax charge for year	(177)	(84)

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

8. Staff costs

	Notes	2015 £'000	2014 £'000
Salary costs		123,131	111,763
Social security costs		13,496	12,295
Employer's pension costs – money purchase scheme		12,506	10,903
Flexible benefit costs		6,791	6,120
	5	155,924	141,081
Employer's pension costs			
Included in interest receivable and similar income		(84)	19
Included in statement of total recognised gains & losses		1,927	1,697
Total employment costs		157,767	142,797

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

	2015 No.	2014 No.
Ombudsmen	219	150
Case-handlers	2,102	2,171
Other	1,190	1,068
	3,511	3,389

9. Directors' remuneration

Directors' remuneration payable during the period amounted to £212,314 (2014: £207,470). The chairman, who is also the highest paid director, was paid at a rate of £74,970 per annum (2014: £74,970), the senior independent director and the audit committee chairman were paid at a rate of £29,500 per annum (2014: £29,500) and the other directors were paid at a rate of £24,500 per annum (2014: £24,500). Further details are provided in the remuneration report on pages 45 to 50.

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.

10. Auditor's remuneration

	2015 £'000	2014 £'000
Audit	70	110
	70	110
Analysed as:		
National Audit Office	70	76
Baker Tilly (prior years)	–	34
	70	110

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

11. Fixed Assets

Tangible assets	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/scrap	(4,859)	(77)	(3,822)	–	(8,758)
At 31 March 2015	3,155	15,505	13,570	9	32,239
Depreciation					
At 1 April 2014	4,873	7,259	6,978	9	19,119
Charge for year	158	3,865	2,832	–	6,855
Disposals/scrap	(4,859)	(77)	(3,822)	–	(8,758)
At 31 March 2015	172	11,047	5,988	9	17,216
Net book value					
At 31 March 2015	2,983	4,458	7,582	–	15,023
At 31 March 2014	9	7,058	6,270	–	13,337

Intangible assets	Computer software £'000	Total £'000
Cost		
At 1 April 2014	4,218	4,218
Additions	440	440
Disposals/scrap	–	–
At 31 March 2015	4,658	4,658
Amortisation		
At 1 April 2014	1,657	1,657
Charge for year	855	855
Disposals/scrap	–	–
At 31 March 2015	2,512	2,512
Net book value		
At 31 March 2015	2,146	2,146
At 31 March 2014	2,561	2,561

Total assets	Leasehold improvements and premises fees £'000	Computer equipment and software £'000	Furniture and equipment £'000	Motor vehicle £'000	Total £'000
Depreciation and amortisation					
Charge for year	158	4,720	2,832	–	7,710
Disposals					
Cost	4,859	77	3,822	–	8,758
Depreciation	(4,859)	(77)	(3,822)	–	(8,758)
Loss on Disposals	–	–	–	–	–

12. Debtors

	2015 £'000	2014 £'000
Debtors – amounts falling due within one year		
Trade debtors	7,217	13,926
Less: Provision for bad debts	(169)	(259)
Less: Provision for credit notes	(645)	(496)
	<u>6,403</u>	<u>13,171</u>
Other debtors	1,244	1,352
Accrued income	8,325	38,477
Prepayments – within one year	8,381	4,697
	<u>24,353</u>	<u>57,697</u>
Intra government balances		
Balances with government bodies	14	1
Balances with local authorities	–	–
Balances with public corporations	–	–
Balances with Financial Conduct Authority	1,000	172
Intra government balances	<u>1,014</u>	<u>173</u>
Balances with bodies external to government	23,339	57,524
	<u>24,353</u>	<u>57,697</u>
Debtors – amounts falling due after one year		
Prepayments – after one year	999	424
	<u>999</u>	<u>424</u>

There were no intra government debtor balances falling due after one year (2014: £Nil).

13. Cash and cash equivalents

	2015 £'000	2014 £'000
Bank accounts	25,929	230,558
Longer term treasury deposits	240,000	–
	<u>265,929</u>	<u>230,558</u>

As at 31 March 2015, the Service held Treasury deposits with eight different institutions for periods between two and six months maturing between 27 April 2015 and 28 September 2015 (2014: £Nil).

14. Creditors

	2015 £'000	2014 £'000
Creditors – amounts falling due within one year		
Trade creditors	3,863	4,961
Other taxes & social security	3,464	3,204
Deferred income		
Supplementary case fees	6,825	44,228
Group fees	13,675	41,455
CJ levy billed in advance	1,054	22
CCJ levy	844	844
Other creditors	1,148	1,492
Accruals	20,878	21,311
UK corporation tax	177	85
	51,928	117,602
Intra government balances		
Balances with government bodies	5,269	5,358
Balances with local authorities	65	–
Balances with public corporations	–	–
Balances with Financial Conduct Authority	–	–
Intra government balances	5,334	5,358
Balances with bodies external to government	46,594	112,244
	51,928	117,602
Creditors – amounts falling due after one year		
Deferred income		
Supplementary case fees	10,486	22,465
Group fees	8,925	16,024
CCJ levy	–	845
Accruals	4,383	914
	23,794	40,248

There were no intra government creditor balances falling due after one year (2014: £Nil).

15. Bank facilities

The company took out a revolving loan facility of £15m dated 24 January 2003 which ended in January 2013. Following the expiry of the loan facility, the bank provided an unsecured overdraft facility of £15m available until 31 May 2013. There was no use of this facility during 2013-14 and the facility was not renewed beyond 31 May 2013.

16. Provision for liabilities

	2015 £'000	2014 £'000
Provision brought forward at 1 April	595	2,971
Release in the year	(228)	(2,643)
Payments in the year	(85)	–
New provision in the year	222	267
Provision carried forward at 31 March	<u>504</u>	<u>595</u>

The provision for dilapidations at 31 March 2015 and 31 March 2014 reflects the recommendations made following property reviews undertaken by an external consultant. Provisions exist for Exchange Tower and SQP3 as follows, but were released or paid during the year for SQP2 following discussions regarding the exit from SQP2 during the summer of 2014.

SQP2	–	314
SQP3	188	188
Exchange Tower	316	93
	<u>504</u>	<u>595</u>

17. Financial commitments

As at 31 March 2015, there were no capital commitments contracted for but not provided (2014: £Nil).

18. Operating lease commitments

As at 31 March 2015, the company was committed to making the following payments during the next year, in respect of operating leases:

	Premises 2015 £'000	Other 2015 £'000	Premises 2014 £'000	Other 2014 £'000
Leases which expire:				
Within 1 year	–	47	2,901	300
Between 2 and 5 years	3,118	177	2,831	–
After 5 years	7,268	–	2,699	–
Total	<u>10,386</u>	<u>224</u>	<u>8,431</u>	<u>300</u>

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	January 2013	June 2015*	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

* A new lease has been agreed to be entered into from June 2015 to October 2019 with an option to break in November 2016.

19. Related party transactions

- (a) The Service, together with the Financial Services Authority, was created as part of the Government’s legislation for the financial services market and derives its statutory authority from the Financial Services and Markets Act 2000. From 1 April 2013, the Financial Services Authority changed its name to the Financial Conduct Authority. 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 the Financial Conduct Authority 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 £84,000 for the period ended 31 March 2015 (2014: £84,000).
- (c) The Financial Conduct Authority bill the Service administration charges in respect of the pension scheme. The charge for the period ended 31 March 2015 was £215,109 (2014: £185,259).
- (d) At 1 April 2014 a balance of £152,171 was due from the Financial Conduct Authority. Total levies billed by the Financial Conduct Authority in the period were £23,449,268 and £23,531,000 was paid to the Service. Amounts agreed to be written off were £16,291 and rebate payments were made to firms formerly under the Consumer Credit Jurisdiction of £106,657. The net movement in amounts billed for the following year was £1,031,914 leaving a balance due to the Service at 31 March 2015 of £979,405. This balance is included in ‘Trade debtors’ (see Note 12).
- (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 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 £24,500 (2014 £24,500). Further details are provided in the Governance Statement (page 31) and Remuneration Report (page 45).

Other than disclosed above, there were no related party transactions during the year (2014: £Nil).

20. Accumulated surplus

	2015 £'000	2014 £'000
Accumulated surplus before net pension liability	232,224	146,132
Net pension liability	(7,388)	(5,888)
Accumulated surplus after net pension liability	<u>224,836</u>	<u>140,244</u>

21. Losses and special payments

	2015 £'000	2014 £'000
Losses	293	390
Special payments	601	534
Total	<u>894</u>	<u>924</u>

22. Pension costs

The Service is part of the Financial Services Authority’s (FSA) HM Revenue & Customs-approved pension plan which is 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. 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.

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

The latest full actuarial valuation of the FSA pension plan was carried out as at 1 April 2013 by an independent actuary using the current unit method. Independent actuarial advice has been obtained in order to calculate the share of the assets and liabilities of the FSA scheme relating to those present and past employees of the Service.

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

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

(a) Main financial assumptions

	31 March 2015	31 March 2014	31 March 2013
	% pa	% pa	% pa
RPI inflation	3.1	3.5	3.5
Pension increases (RPI maximum 5%)	3.0	3.2	3.2
Pension increases (RPI maximum 3%)	2.5	2.5	2.5
Discount rate for plan liabilities	3.3	4.3	4.6

(b) Mortality assumptions**Life expectancy at age 60**

		31 March 2015	31 March 2014	31 March 2013
		Years	Years	Years
Age 60, at the balance sheet date	Males	28.8	28.7	28.9
	Females	30.1	30.0	30.2
Age 60, 20 years after the balance sheet date	Males	30.7	30.6	30.8
	Females	32.1	32.0	32.2

(c) Fair value of assets by class and expected return on assets

	at 31 March 2015		at 31 March 2014		at 31 March 2013	
	Long-term rate of return expected	Value	Long-term rate of return expected	Value	Long-term rate of return expected	Value
	% pa	£'000	% pa	£'000	% pa	£'000
Equities	6.4	12,168	7.3	10,300	7.3	9,656
Property	5.7	1,564	6.6	1,295	6.6	1,211
Corporate bonds	3.3	10,605	4.3	8,840	3.9	7,969
Other	0.9	104	0.8	170	0.8	1,088
Combined*	5.0	24,441	5.9	20,605	5.5	19,924

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

The Service employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the plan at 31 March 2015.

(d) Reconciliation of funded status to balance sheet

	Value at 31 March 2015 £'000	Value at 31 March 2014 £'000	Value at 31 March 2013 £'000
Fair value of plan assets (see 22 (g))	24,441	20,605	19,924
Present value of funded obligations (see 22 (f))	(31,829)	(26,493)	(24,369)
Gross liability recognised on the balance sheet	(7,388)	(5,888)	(4,445)
Related deferred tax	–	–	–
Net pension liability	(7,388)	(5,888)	(4,445)

(e) Analysis of income and expenditure account charge

	2015 £'000	2014 £'000
Interest cost	1,132	1,114
Expected return on assets	(1,216)	(1,095)
(Credit)/charge recognised in income and expenditure account	(84)	19

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

	2015 £'000	2014 £'000
Opening defined benefit obligation	26,493	24,369
Interest cost	1,132	1,114
Actuarial losses on liabilities*	4,515	1,308
Net benefits paid out	(311)	(298)
Closing defined benefit obligation	31,829	26,493

* includes changes to the actuarial assumptions.

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

	2015 £'000	2014 £'000
Opening fair value of assets	20,605	19,924
Expected return on assets	1,216	1,095
Actuarial gains/(losses) on assets	2,588	(389)
Contributions by the employer	343	273
Net benefits paid out	(311)	(298)
Closing fair value of plan assets	24,441	20,605

(h) Actual return on plan assets

	2015 £'000	2014 £'000
Expected return on assets	1,216	1,095
Actuarial gains/(losses) on assets	2,588	(389)
Actual return on assets	3,804	706

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

	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Total actuarial (losses)/gains	(1,927)	(1,697)	(446)	(2,863)	1,452
Cumulative amounts of losses recognised in STRGL	(12,818)	(10,891)	(9,194)	(8,748)	(5,885)

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

	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Fair value of assets*	24,441	20,605	19,924	17,500	16,610
Defined benefit obligation	(31,829)	(26,493)	(24,369)	(21,766)	(18,423)
Deficit in plan	(7,388)	(5,888)	(4,445)	(4,266)	(1,813)

* Where available, the asset values use the bid value of assets.

(k) History of experience gains and losses

	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Experience gains/(losses) on assets	2,588	(389)	1,515	(79)	(250)
Experience gains/(losses) on plan liabilities**	290	18	(87)	(397)	137

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

(l) Contributions*Defined benefit scheme*

With effect from 1 April 2010, the defined benefit scheme was closed resulting in a cessation of all future accrual and the associated regular contribution payments. Payments instead were made to the defined contribution scheme (detailed below). Regular payments were made during the year towards the administration costs of the plan.

With effect from 1 April 2011, the Service agreed to make annual contributions of £273,000 over the next ten years to fund the deficit. From 1 April 2014, the Service agreed to increase this annual contribution to £343,000 over the next 10 years. Amounts paid in the period to 31 March 2015 were £343,000 (2014: £273,000).

Defined contribution scheme

The Service made normal contributions totalling £12,555,209 (2014: £10,983,516) to the defined contribution scheme.

company information

name

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