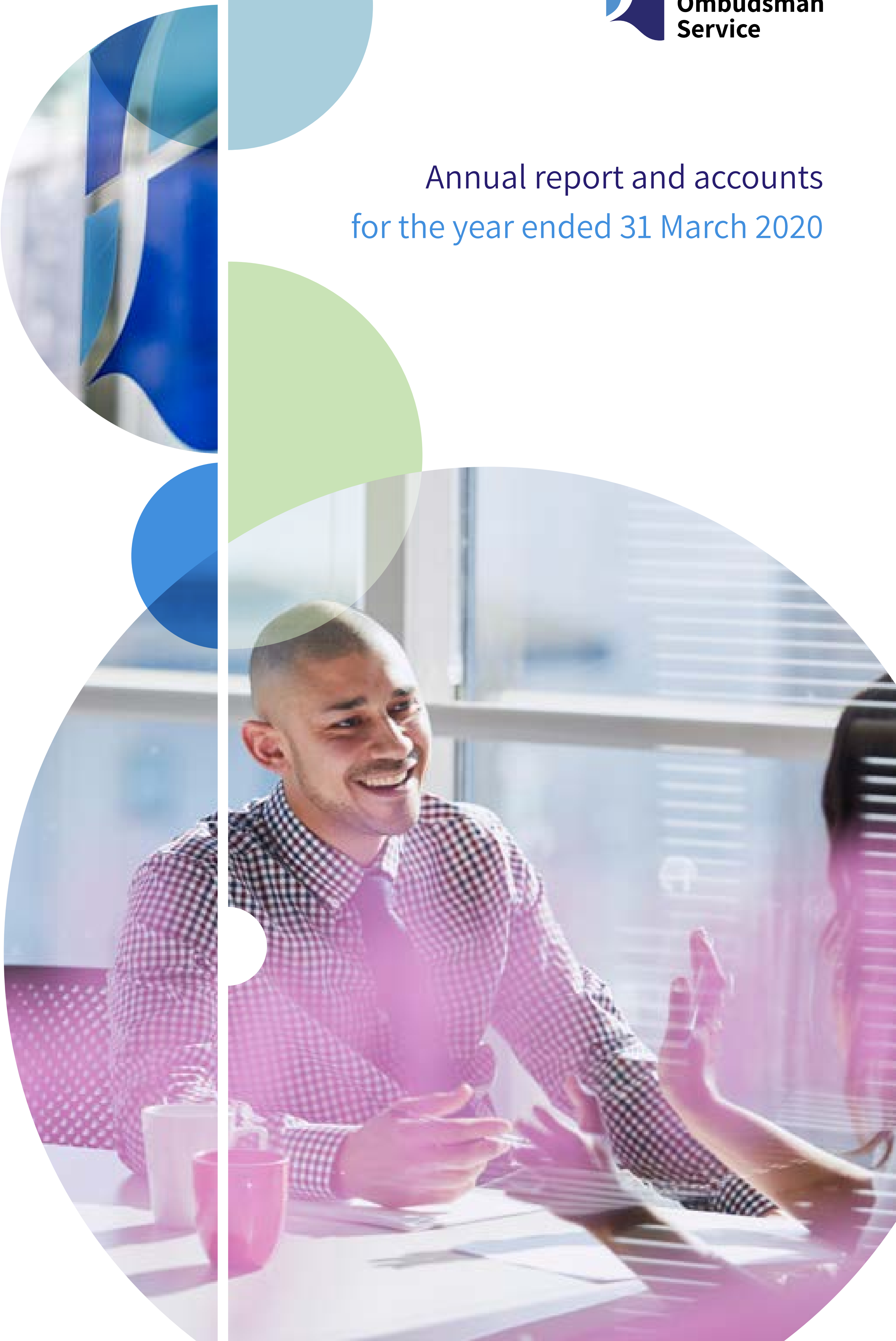
Financial Ombudsman Service

Annual report and accounts

for the year ended 31 March 2020



Financial Ombudsman Service Limited

Annual report and accounts for the year ended 31 March 2020

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Contents

Overview

Welcome to our 2019/20 *annual report and accounts*. This overview gives key information about our service and our work, as well as commentary from our chairman and chief ombudsman & chief executive about the year we've had.

About us

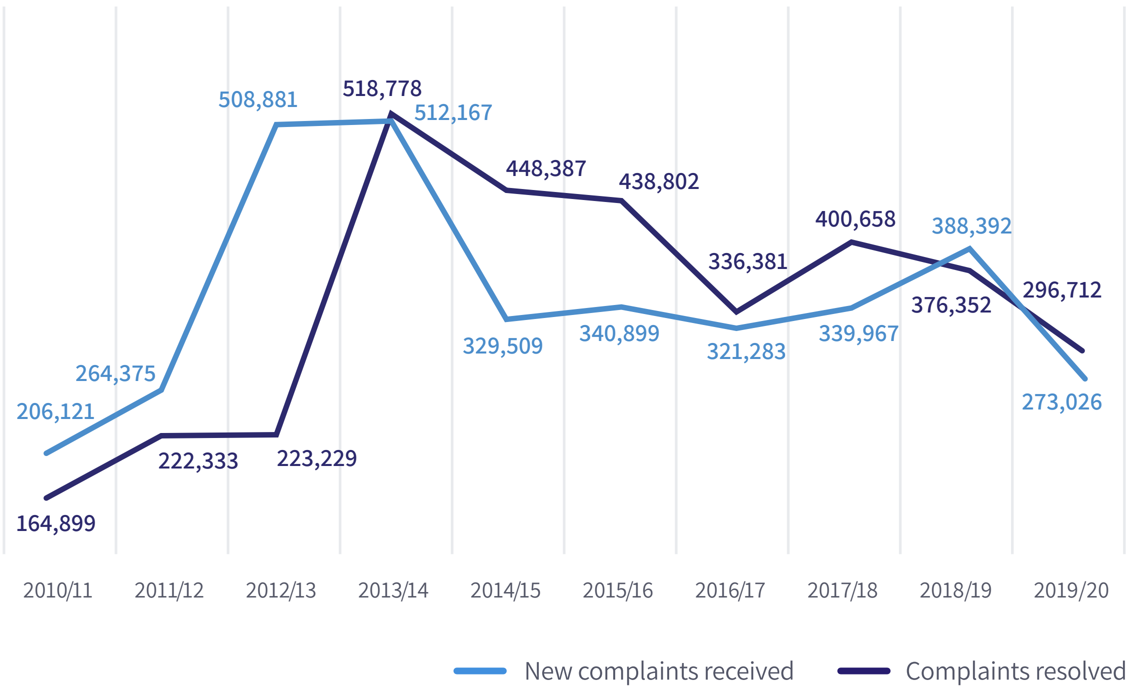
We were set up by Parliament under the *Financial Services and Markets Act 2000* to resolve individual complaints between financial businesses and their customers – fairly, reasonably and with minimal formality.

On 1 April 2019, our remit extended to include more complaints made by small and medium-sized enterprises (SMEs) about financial businesses, and to complaints made by customers of claims management companies (CMCs). On 1 April 2019, the amount we can tell a business to pay changed to £350,000, and will rise in line with inflation each year. For 2020/21, the limit is £355,000. Our website explains the different limits that apply depending on the circumstances.

If a business and their customer can't resolve a problem themselves, we can step in to sort things out. Independent and unbiased, we'll get to the heart of what's happened and reach an answer that helps both sides move on. And if someone's been treated unfairly, we'll use our powers to make sure things are put right. This could mean telling the business to apologise, to take action or to pay compensation – in a way that reflects the particular circumstances.

In resolving hundreds of thousands of complaints every year, we see the impact on people from all sorts of backgrounds and livelihoods. We're committed to sharing our insight and experience to encourage fairness and confidence in the different sectors we cover.

Our workload



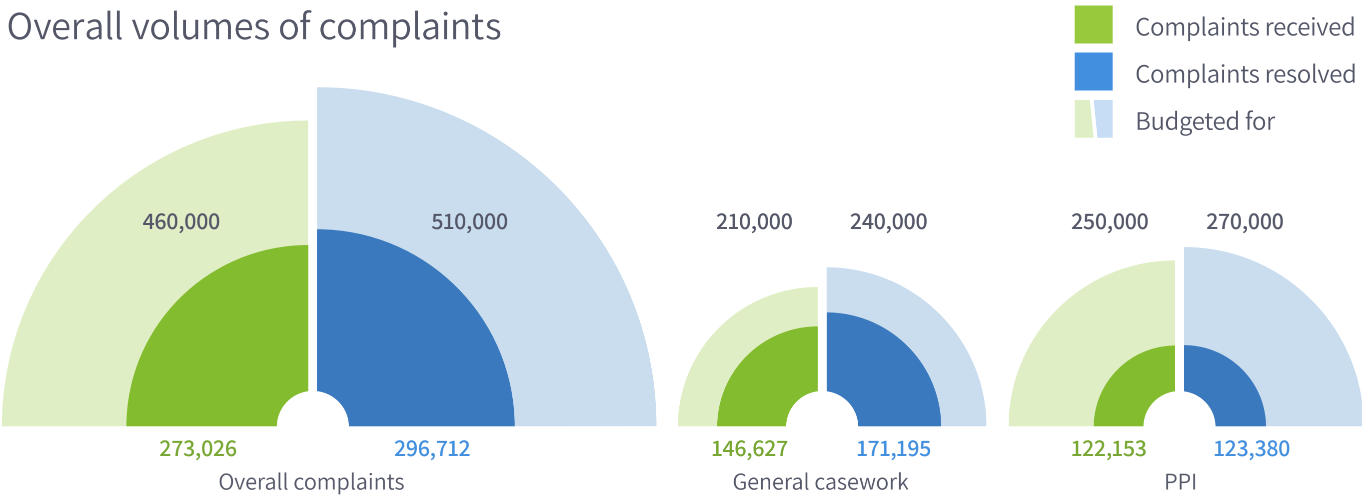
Since we were established in 2001

3,806,500 complaints resolved

3,898,192 complaints received

Our performance at a glance

Overall volumes of complaints



We upheld

44% of all general casework complaints

17% of all PPI complaints*

32% of complaints overall

* excluding those affected by *Plevin vs Paragon Personal Finance Ltd*

Key financials

£242.6m
our operating income
18% less than budget of £297m

£276.4m
our operating expenditure
17% less than budget of £331.8m

£920
our cost per case
budget of £650

We resolved **23%** of all complaints in 45 days or fewer
Aim: 37%+
37% in 2018/19

We resolved **90%** of complaints more than 12 months old
Aim: 95%
78% in 2018/19

87.8%
staff retention
85% in 2018/19

5,210
times we were mentioned in the media this year

77% of the public said they would trust us
76% in 2018/19

89% of people had some awareness of us
89% last year

We published more than **24,000** final decisions, bringing the total to more than **215,000**

Key outcomes

90% of complaints resolved with an informal view
90% in 2018/19

77% of businesses said they had confidence in our service
Aim: 80%
79% in 2018/19

57% of people said they were satisfied with our service
Aim: 65%
63% in 2018/19

This is my first *annual report and accounts* as chairman of the Financial Ombudsman Service. I took up my role in August 2019, and what an extraordinary and challenging year it has been.

Chairman’s statement

This is an organisation whose values and purpose, rooted in fairness, align with my own, and I look forward to helping the service fulfil its vital role as it continues to navigate an ever-changing landscape.

First, I would like to record my thanks to my predecessor, Sir Nicholas Montagu, for his seven years’ chairmanship and the leadership he showed during this period. And to our people, whose professionalism and commitment has shone through during these testing times.

I arrived as the first quarter of 2019/20 drew to a close, and shortly before the Financial Conduct Authority’s (FCA) deadline for payment protection insurance (PPI) complaints. In setting its plans for 2019/20, in consultation with its stakeholders, the service’s outlook had suggested that the winding down of PPI would account for much of its effort and activity during the year.

This hasn’t been borne out in the way we anticipated: firstly due to the exceptionally high volumes of PPI complaints that financial businesses have received and are still working through – and of course, more recently, due to firms needing to prioritise customers impacted by Covid-19. Across the year as a whole our teams received 273,026 new complaints, of which 122,153 were about PPI – and resolved 296,712 complaints, of which 123,380 were about PPI. Although these are significant numbers, it’s noticeable that we both received and resolved fewer complaints than we had budgeted for.

As businesses rightly prioritise their response to Covid-19, it remains to be seen whether, and when, we will need to gear up to respond to a significant spike in PPI cases. However this mis-selling scandal ultimately concludes, there is still much work to do before a line can finally be drawn under it.

I am absolutely certain that together we will rise to, and overcome, the challenges ahead.

It is notable that our recent history has been dominated not only by PPI, but also by other areas of wide-scale complaints such as high-cost short-term lending. There are too many complaints coming to the service. Therefore there needs to be much greater focus by businesses on best practice in customer service, whilst at the same time ensuring customers have clarity about the products and services they use and rely on. It is also essential that, when complaints do arise, they are dealt with much more effectively by businesses at source. We see that working well in many businesses, but not all. The ombudsman remains free at point of delivery for all consumers. However, we are still managing a caseload of hundreds of thousands – far more than any other UK ombudsman. It can't be in the interests of those businesses generating high volumes of complaints that so many of their customers need to turn to our service to get the fair resolutions they need. In view of the impact of Covid-19, this is more important than ever.

Of course, we ourselves need to ensure that the service we provide is both fair and seen to be fair – and that we too offer a high level of service. The volume and changing nature of our casework is reflected in the significant pressures we are facing in meeting our commitments for ensuring both consumers and businesses get timely responses.

So, while improvements in businesses' behaviour is part of the picture, I recognise that our organisation must do better. With this in mind, improving our timeliness and customer service is at the heart of our 2020/21 plans. We know that Covid-19 is presenting new challenges for us. But we have dedicated staff working within the organisation, and as we move forward I am sure we will rise to all those challenges.

It is right that people have high expectations of us, and that we meet those expectations through next year and the years to come. During the year we engaged significantly with our stakeholders about our new strategy, a major part of which will be helping businesses further learn from the complaints we see. And we consulted on our future funding arrangements to ensure these support our core service and strategic objectives.

2019/20 also saw an extension of our remit, which enabled more small and medium-sized enterprises to bring their complaints to us. Our expanded remit also included receiving complaints from customers of claims management companies. Although numbers of complaints in these areas were relatively low in 2019/20, our new teams have been successfully established, and are ready to meet future demand.

From improving our casework processes and investing in technology, to seeking efficiencies and smarter ways of working, in 2019/20 we continued to lay the ground for a more agile and flexible future service. We had already been able to draw on this flexibility, and the investments we had made stood us in good stead when Covid-19 required us to gear up our remote working capability.

Of course, the future currently feels far from clear. Although Covid-19 only significantly impacted the UK in the final quarter of 2019/20, it is difficult not to look both backward and forward through that lens; the pandemic is undoubtedly set to shape the rest of the year and beyond.

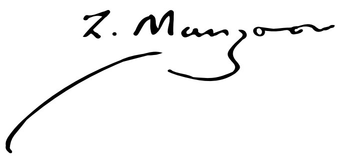
In these testing times, however, we are not alone: we are part of a wider regulatory family, all of whom have important and complementary parts to play in the fairness and success of the sectors we cover. During the year we have continued to maintain constructive and effective relationships with stakeholders, including HM Treasury, the FCA, businesses and consumers, ensuring that our insight and experience helps to support the regulatory agenda. In particular, we are committed to working in harness with the regulator and others to stop consumer detriment arising.

Our key relationship with the FCA meant that, in March 2020, we could work together rapidly as the scale of the Covid-19 crisis became clear – agreeing a targeted package of measures for our 2020/21 budget to help minimise the financial impact on the sectors we cover. That cooperation has continued as the regulatory response has evolved – from supporting businesses and consumers through the immediate fallout of the crisis, to helping them navigate its longer-term consequences, including the prevention of disputes.

The nature and extent of these consequences are not yet fully known. However, our focus is clear. We are open about the improvements we ourselves need to make, and the improvements we expect to see on the part of the businesses we cover. We are firm in our resolve to make all these improvements a reality. And during this unprecedented time, we will play our part in ensuring fairness prevails.

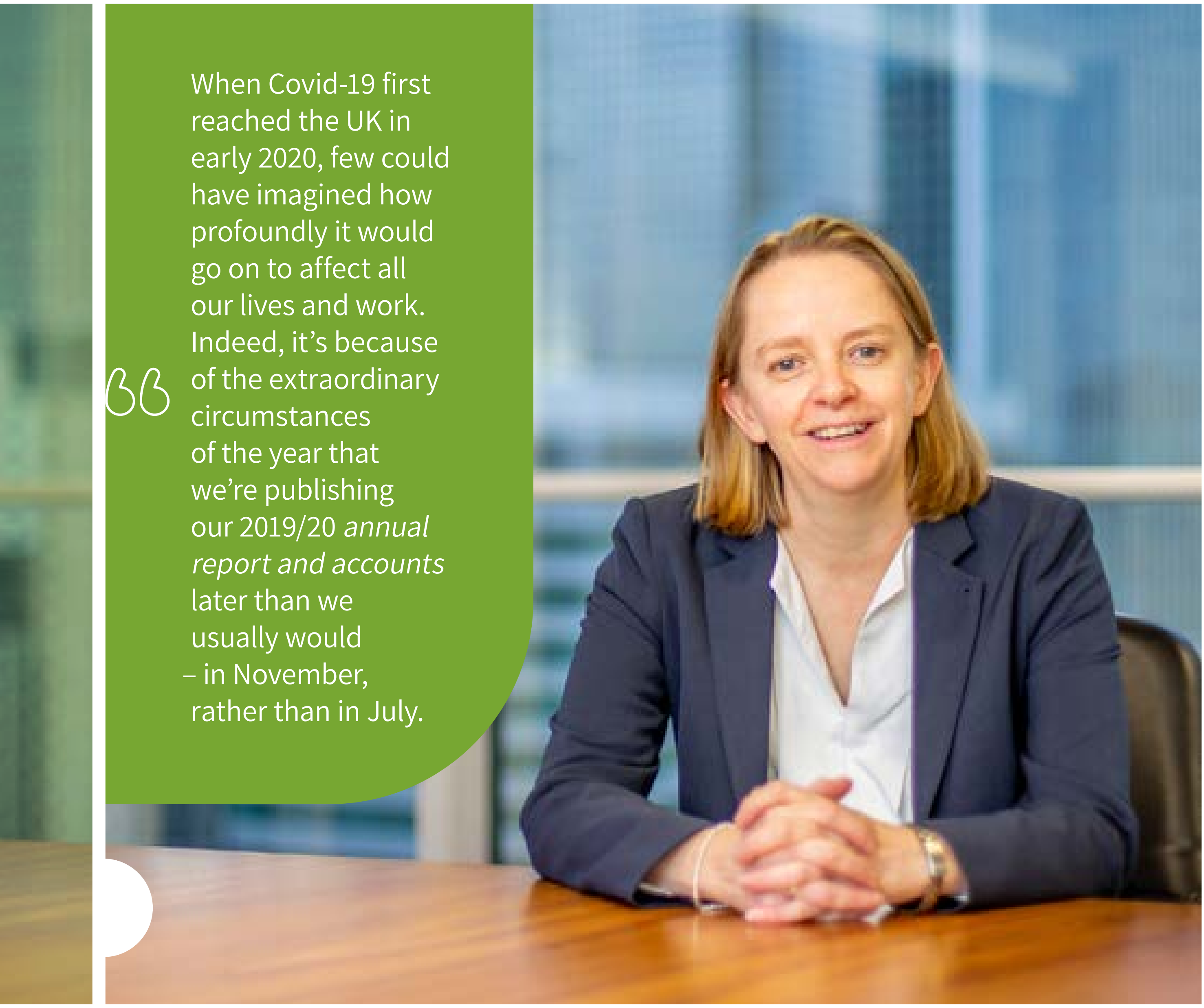
I would like to thank my board, and everyone else who is part of the ombudsman service, for their commitment to ensuring there is a level and fair playing field when anyone brings a complaint to us – thank you.

And looking forward, as we find our way through an altered landscape, I know they will continue to serve our customers with the utmost dedication and professionalism. I am absolutely certain that together we will rise to, and overcome, the challenges ahead.



The Baroness Zahida Manzoor CBE
Chairman
27 October 2020

Chief ombudsman & chief executive's report



> When Covid-19 first reached the UK in early 2020, few could have imagined how profoundly it would go on to affect all our lives and work. Indeed, it's because of the extraordinary circumstances of the year that we're publishing our 2019/20 *annual report and accounts* later than we usually would – in November, rather than in July.

The extra time that's passed has heightened the sense of contrast between the world before the pandemic and how things stand today.

2019/20 was always going to be a challenging year for us – even before it drew to a close in the most unanticipated and difficult way. In those few early-lockdown days, working together with tremendous effort, we transformed into a near-completely remote operation.

Since then, our people have worked around their lives, lived around their work, and generally pulled out all the stops – not only to help those relying on our answers to their complaints, but also to support each other. While I've always been proud of our people, their commitment and adaptability has never been more apparent than during these last few months.

> **Whatever's next, we stand ready to help put fairness at the heart of our sector's response.**

We've now got a better sense of the nature and scale of the pandemic's impact on lives and livelihoods. And we've seen unprecedented action to mitigate that impact, protecting and supporting UK businesses and consumers.

It's now strange to think that for the vast majority of the last financial year, our landscape and our priorities looked very different. This report, and my introduction to it, looks both back at our performance up to the point things changed fundamentally, and forward to the challenges ahead.

The shape and size of those challenges aren't yet clear – and will require us to review and refocus our priorities throughout the coming months. But whatever's next, we stand ready to help put fairness at the heart of our sector's response.

Looking back on 2019/20

Reflecting back to April 2019, in a pre-pandemic world, the beginning of 2019/20 was framed by the significantly higher than anticipated volume of complaints we'd received over the previous few months.

The immediate picture also involved ongoing volatility in the short-term lending sector, together with the broad trend toward complexity we'd continued to see in our work – whether as a result of the circumstances of businesses and their customers, the hard-fought nature of disputes or the wider regulatory context.

Following major preparations, we'd just taken on two new and significant areas of responsibility – complaints from more small and medium-sized enterprise customers of financial providers, and from customers of claims management companies. And as the FCA's August 2019 deadline for payment protection insurance (PPI) complaints approached, we were gearing up to respond to demand for our help.

At the same time, we were preparing for a time beyond PPI: consulting on our future funding arrangements and delivering our plans both to optimise our current level of service and lay the foundations for our future.

For all these reasons, our plans included a substantial and ongoing investment in our casework capacity throughout the year – to ensure we had the right resources in place to deal with these challenges effectively, and to help us make fair decisions in each individual case referred to us.

Tackling challenges, preparing for the future

When we were set up twenty years ago, few could have anticipated that we'd consistently be dealing with complaints at the scale we did in 2019/20 – 273,026 new complaints and 296,712 resolved. Significant as they are, these numbers alone don't speak to the wide variation in the nature of the problems people brought to us – or the trend toward complexity we continued to see.

Over the year as a whole, we resolved around 23,000 more complaints than we took on to investigate. And we made good progress in resolving complaints that would have been more than 12 months old by the end of March 2020 – resolving 90% of those we'd aimed to.

Taking PPI alone, this single product accounted for 122,153 new cases – 45% of the total we received. Our people's fantastic efforts meant we made significant inroads into resolving PPI complaints already referred to us – 123,380 in total. It's reassuring that we upheld a falling proportion of complaints in 2019/20 – reflecting the significant effort we have put into engaging with the firms involved, and the way they've increasingly applied our well-established approach on their own front lines.

However, these volumes, while still dwarfing other areas of complaint, weren't as high as we thought they might be. As I'll return to later, the uncertainty around how PPI will conclude has now been heightened by Covid-19.

Outside PPI, nearly one in three of the new complaints we received in 2019/20 involved consumer credit products and services – as we heard from yet more thousands of people who were struggling with unsustainable levels of debt. We maintained our internal practice group dedicated to supporting our customers, and established an additional support team to ensure we're effectively helping those in the most vulnerable circumstances.

Read more insight into the complaints we dealt with in 2019/20 – page 18.

In the face of significant challenges, including pressures on our resourcing presented by a competitive market for talented complaint handlers, people's confidence in us remained positive. Overall, 57% of consumers told us they were satisfied with our service. This included 88% of people whose complaints we upheld, and 45% of people whose complaints we didn't uphold.

> **When we were set up twenty years ago, few could have anticipated that we'd consistently be dealing with complaints at the scale we did in 2019/20 – 273,026 new complaints and 296,712 resolved.**

Among the businesses we cover, nearly eight in ten business complaint handlers said they had confidence in our service. And our advice desk continued to receive thousands of enquiries from people handling complaints, ranging from those working in high street banks to volunteers at consumer advice agencies.

This speaks to the value that's placed on our insight, drawn from our experience of resolving millions of complaints – not only in helping resolve disputes without our formal involvement, but in stopping unfairness from arising in the first place.

To support this outcome, we maintained our engagement with those stakeholders who together represent and shape the sectors we cover. This included the FCA, whose regulatory interventions and supervisory activities can have such an impact on our work. We also maintained regular operational contact with financial businesses and claims management companies, as well as organisations representing consumer interests.

Taken together, this has helped us build a rich picture of how our landscape looks from different perspectives – and in turn, to play our part in preventing detriment.

In 2019/20, this action included telling banks to step up to help victims of fraud – and setting out our thinking in binding final decisions. It also included ongoing engagement between our ombudsmen and high-cost lenders around their treatment of customers in persistent debt.

We encouraged consumers to be vigilant in the face of ever-more sophisticated scams – and to ensure they don't pay the price of not having the insurance they need.

We continued to share regular detailed complaints data, helping to drive better customer service and better outcomes for consumers. And we were able to proactively share all this insight on our new website – which, following extensive user testing, was launched in June 2019.

Read more about our reach and our impact – page 30.

This wasn't the only step forward we made in our technology. After significant testing and development, we rolled out our new case-handling system across our teams in June 2019. We also continued to invest in the IT infrastructure we need to work smarter and more flexibly – in addition to the extraordinary effort and investment necessitated by Covid-19, as we geared up our remote working capability.

At the heart of these investments has been our aim of being modern and efficient, as well as flexible and accessible. I know that's as important to the parties who turn to us for answers as it is to the firms that contribute to our funding.

It's also important to our own people, whose diverse experience and skills are called on every day. During the year, as well as investing in training, we've continued to strengthen internal engagement and support people to perform at their best.

Once again, I'm extremely proud of all our people's hard work and determination – not only in providing an essential service to businesses and their customers, but also in supporting their colleagues. From doing the right thing by parties in challenging circumstances, through to our award-winning employee networks and contribution to our local community, this report shows the best of who we are.

Read more about diversity, inclusion and wellbeing – page 57.

Building strong foundations

Covid-19 has underscored the need for our service to be adaptable – to respond quickly and flexibly to demand in a landscape that's increasingly complex and unpredictable. This has been a key consideration in our work to design and lay the foundations of our future service.

At the same time as consulting on our 2019/20 plans and budget, we asked for stakeholders' views on our future strategic priorities. The strong endorsement we received underpinned the further progress we made with our strategic Horizons programme. Much of this work – highlighted in this report and accounts – has now become business-as-usual, or is being taken forward as part of our ongoing work to shape our future strategy.

> **Covid-19 has underscored the need for our service to be adaptable – to respond quickly and flexibly to demand in a landscape that's increasingly complex and unpredictable.**

To support our preparations for the future, in July 2019 – following significant earlier engagement with stakeholders – we also consulted on our future funding. We set out arrangements designed to support a flexible, resilient and effective future casework operation, as well as our intended strategic priority of preventing complaints and unfairness arising.

In view of the scale of Covid-19's consequences, these objectives are even more vital. And I'm really grateful for the way our stakeholders engaged with our proposals during the year. Recognising there's no perfect solution, our aim has necessarily been to find a 'best fit' – which will enable us to deliver an effective, proactive and efficient service, and which takes into account our wide-ranging and well-established funding principles.

Having considered the diverse and thoughtful feedback we received, in December 2019 we set out our proposals for the following year and beyond. However, before we published our final 2020/21 budget, the Covid-19 crisis escalated.

It's still our aspiration ultimately to fully implement the arrangements we agreed. But to play our part in helping to mitigate the financial effects of the pandemic on the businesses we cover – and in particular the smallest firms – in March we proposed a package of adjustments to our 2020/21 budget, which was approved by the FCA. We'll keep in close touch with the FCA and other stakeholders as Covid-19's impact on our funding becomes clearer.

Read more about our financial performance and funding – page 45.

The challenges ahead

As we take stock of 2019/20, and look ahead to the coming months, we're realistic about what we need to do better. And we know Covid-19 is likely only to heighten the scale of the challenges to come.

In 2019/20, although we saw the positive impact of the investments we'd made in our casework capacity, this wasn't until the final quarter of the year. This was reflected in our progress against our timeliness commitments in particular: at the end of the year, many people were still waiting too long for our help. This means that levels of satisfaction with our service, which are influenced by waiting times, have and will continue to come under pressure.

This is a challenge we've carried forward into 2020/21. In our plans for the year ahead, we set out very clearly our commitment to giving people answers more quickly, while never compromising on quality. Both are vital where lives and livelihoods are concerned.

We know, however, that many factors influence our ability to progress and resolve the complaints people bring to us. We're mindful, for example, that as firms have understandably prioritised front-line services at the heart of the pandemic, their regular complaints-handling operations have been affected – and with them, our ability to progress cases with our service.

And as our chairman notes, too many complaints still reach us unnecessarily. Our strategic priority is to do more to prevent complaints – but we can't achieve this alone. Both regulatory action and firms' conduct are key factors in the volumes of cases that reach us, and how far our resources need to be extended. And indeed whether, for the issue in hand, a complaints-led approach is the right path to redress.

Significant uncertainty remains around how Covid-19 will translate into demand for our service in the months to come. When we published our complaints data for the first quarter of 2020/21, the pandemic hadn't yet resulted in high volumes of new complaints for us to investigate. We know, however, that many in the consumer advice sector have signalled their expectation that demand for their services will grow.

> **“ Our strategic priority is to do more to prevent complaints – but we can't achieve this alone.**

As FCA and Government measures to help consumers move to the next phase, it's more important than ever that firms apply the lessons of past complaints. While pressures on people's finances may be unavoidable, unfairness is not. The more effectively and sensitively firms engage with customers' individual circumstances, the less detriment, and the fewer disputes, will arise. And where complaints do arise, firms have the opportunity to put things right without our involvement. This goes for individual consumers as well as small business customers currently waiting for news about their business interruption insurance claims. Although the best outcome is clearly that disputes don't happen, we're ready to help parties move forward where they do – drawing on our long-standing experience of resolving complex and hard-fought complaints.

We also know that, in shifting their focus toward supporting customers impacted by Covid-19, many firms have scaled down their PPI operations. It seems likely PPI's conclusion will now happen later than we'd envisaged – and it's not yet clear what Covid-19 will mean for the volume of cases we ultimately see. Again, this is a situation we'll need to continue to manage in close conversation with the FCA and other stakeholders, as well as with our own people.

Read more about the picture in PPI – page 19.

Moving forward

So my introduction to this *annual report and accounts* is back to where it started: facing the unprecedented impact of Covid-19.

As I said in April when we published our 2020/21 plans, this extraordinary situation requires an extraordinary effort. And the sectors we cover – which play a key role in everyday lives and livelihoods – have an essential role in helping those lives and livelihoods rebuild.

This will go to the heart of what it means to act fairly and reasonably, taking individual circumstances into account. Twenty years after we were established, the significance of these principles has never been clearer. Nor, as our chairman highlights, has the importance of our relationships with our regulatory family.

As we take stock of where we are, and prepare for what's next, I want to end by repeating my thanks to our people. I – and the rest of the executive team – are incredibly grateful for your steadfast focus on doing the right thing, as we live and work through a time like no other we've experienced.

I'd like to say thank you too to Sir Nicholas Montagu, whose term as chairman ended in August 2019, for his service and support over the past seven years. And welcome to our new chairman, Baroness Zahida Manzoor CBE, who is absolutely focused on ensuring we're the best service we can be, and shares my commitment to ensuring that we are.

Caroline Wayman
Chief ombudsman & chief executive
27 October 2020

Strategic report

This strategic report looks at how 2019/20 turned out compared with our expectations, how we've performed against our strategic aims and commitments, and the context behind that performance. It also looks at the work we've done to shape our future strategy for the next five years.

There's more information on the themes and trends we've seen in our 2019/20 annual complaints data and analysis, which we published in June 2020.

Our performance in 2019/20: overview

We consult on complaints trends we're likely to see, and the budget funding that will support our work.

At the beginning of the year, our outlook was framed by the higher than expected volume of complaints we'd received the year before – particularly in general casework (banking, insurance other than PPI, and investments and pensions) and short-term lending, where across the two areas incoming volumes had been over 30% more than our original budget assumptions. Our workload had been shaped by factors including unforeseen events, such as IT outages in major banks, as well as continued volatility in complaints about short-term lending. In response to rising waiting times for our answers, we made significant investments in our casework capacity and capability.

In 2019/20, we continued to manage the challenges presented by an evolving picture in PPI and short-term lending in particular – as well as in a number of high-profile casework issues, such as fraud and scams, SIPP due diligence, and mortgage prisoners. We also needed to carry out a significant amount of case handler recruitment in the context of a competitive jobs market – and managed the rollout of our new case handling system.

Following major preparations during 2018/19, we took on new areas of responsibility from 1 April 2019: complaints from more small business customers of financial services, and complaints about claims management companies. At the same time, we continued our progress toward getting our service to the right shape and size for the future.

Following the FCA's PPI complaint deadline, businesses received, and have since been working through, millions of enquiries and complaints. During the year these didn't translate into significant volumes of referrals to our service – meaning both our actual new and resolved complaint figures were below those we budgeted for.

However, by the end of the year, we'd resolved more complaints than we thought we would when we considered our expected output during the third quarter and adjusted our forecasts from our original budget. Overall, we resolved more cases than we received, with over 20,000 fewer people waiting for our answer at the end of the year than at the start. It's testament to the hard work of our people that we also made good progress with cases we'd identified would be 12 months old by the end of March 2020 – resolving 90% of those we'd aimed to, against a 95% target – and that we maintained high quality and consistency in our casework throughout the year.

While our achievements have been significant, some key areas of our commitments have come under pressure, and we haven't been able to realise all our ambitions for the year. Reflecting the challenge of complexities in our casework, as well as the challenge of resourcing our service to meet shifting and often unpredictable demand, some people have been waiting longer for our answer than we're satisfied with. In part driven by these higher waiting times, customer satisfaction levels were lower than we'd want them to be. We ended the year with a higher cost per case than our budget suggested, albeit that, as we explain on page 50, this doesn't reflect the full picture of internal and external factors affecting our costs and ability to resolve complaints.

Like all organisations, in the final days of 2019/20 we needed to respond to and maintain our resilience in the face of the Covid-19 pandemic and make quick and effective changes to the way we work – to ensure we remain focused on doing our very best for our customers, while protecting our people's wellbeing. There's more about how we responded to the pandemic on page 34.

Our strong Q4 performance showed the positive effects of the investments we made in recruitment and systems. We're determined to build on the progress we've already made in reducing the number of people waiting for an answer at any one time, which is our core casework priority, and delivering a service that customers want and need.

There's more information from page 16 about how we've developed our service in 2019/20 under our strategic Horizons programme. From pages 18 to 22, we review themes and trends in the complaints we handled during the year, as context for our performance against the specific commitments we set at the beginning of the financial year from pages 23 to 33. There's more information about the risks we identified to our service meeting its commitments, as well as the action we took to manage those risks, from pages 84 to 87.

Developing our service: our strategic Horizons programme

In 2018/19 we launched a new programme to focus on a strategic framework for developing our service based around three distinct periods of time, or horizons, each comprising a series of projects and workstreams.

The tables below set out each horizon's overarching aim, the key projects and activities involved and the progress we made during 2019/20.

Horizon 1

To optimise a sustainable investigation operating model and take on new jurisdictions, helping us to achieve our 2019/20 plans and be set up for success in the future.

Key projects and workstreams

- Preparing for our SME and CMC jurisdictions.
- Refining our expert practice groups' ways of working, plans and governance.
- Optimising our contact with customers, including enhancing our interactive voice response (IVR) system, to ensure people quickly get to the right place when they contact us, and improving our communication around what to expect.
- Optimising our casework, including developing and sharing best practice, developing our knowledge-management capability, and introducing new tools for our case handlers.
- Reviewing and strengthening our frameworks for recruitment and development.

Our progress in 2019/20

During the year, Horizon 1 projects were absorbed into our business-as-usual processes to be owned and further developed by relevant teams within the service. Our activities and progress included:

- Launching and embedding our new SME and CMC jurisdictions. There's more about these areas of our work on page 21.
- Strengthening our governance to support informed and high-quality operational decision-making.
- Establishing processes to help better align operational plans with demand and capacity.
- Making improvements to our IVR system, improving the way we manage incoming customer contact.
- Rolling out our case progression tool across our investigation teams following successful trials.
- Embedding our work to support best practice in our casework.
- Following trials and feedback, putting recruitment and development frameworks into wider use.
- Putting in place mechanisms for continuous improvement going forward – for example, a peer-to-peer coaching programme for ombudsman managers.

Horizon 2

To ensure that our service remains effective and sustainable – through and beyond the conclusion of PPI.

Key projects and workstreams

- Progressing our PPI casework as we plan to bring this to a conclusion.
- Laying the foundations for a future when we're no longer dealing with PPI complaints in mass volumes – including innovating in our casework, reviewing the design and size of our operations and support functions, and investing in smarter working.
- Developing and consulting on options for our future funding model.

Our progress in 2019/20

- Following the FCA's PPI complaint deadline in August 2019, we've continued to review our plans and forecasts so we're prepared for a range of scenarios for future complaints volumes. There's more information about this on page 19.
- Through our casework innovation hub, we trialled new casework tools and ways of working. While resolving current complaints, this has helped us to understand the potential of new approaches as we look to the future of our service.
- We rolled out wave one of our smarter working project to colleagues in support areas in February, including the technology, workspaces and training to support smarter, more flexible working. This enabled us to reduce our property costs by exercising lease breaks in our London offices. Helpfully, it also meant colleagues in wave one already had new tools and technology to work effectively from home when they needed to, meaning we could focus our Covid-19 response efforts on ensuring casework teams were also able to work remotely.
- We're currently evaluating our office space needs as part of our Covid-19 planning. There's more information on page 34 about how Covid-19 affected our operations.
- We have developed plans for improving the efficiency of our support functions and reshaping them for a post-PPI world. This includes investments, such as a new finance and HR system, which will make us more efficient and improve our service.
- In July 2019 we consulted on a proposed future funding model. Having considered stakeholders' feedback, we carried this proposal forward in our 2020/21 plans and budget consultation. There's more about our future funding on page 53.

Horizon 3

To challenge the boundaries of what we do and define our future strategy.

Key projects and workstreams

- Building our understanding of what people need and expect from our service.
- Scanning the horizon to identify emerging opportunities and challenges in our landscape – including consumer, market, workforce and technological trends.
- Using this insight as an evidence base, generating a strategic proposal for the next five years.

Our progress in 2019/20

- In the first quarter of 2019/20, we carried out qualitative research with both consumers and businesses, as well as completing our wider research into developments in our landscape – helping to provide a firm evidence base for our strategic priorities. We published a summary of this research in our 2020/21 plans and budget consultation.
- Alongside our 2020/21 plans, we consulted on three strategic priorities. Having considered stakeholders' and employees' feedback, we published our final priorities, along with the next steps, in June 2020 – having postponed publication from March in light of the emerging Covid-19 crisis. There's more information about our strategy on page 40.

2019/20 complaints insight

In this section we briefly outline the key themes and trends in the complaints we handled in 2019/20 – as well as the work we did to establish our two new areas of responsibility from 1 April 2019: complaints from more SME customers of financial services, and from customers of claims management companies.

We published more granular data about our casework, together with further commentary and insight, on our website – and discuss in the following section how the nature of our casework has influenced our performance against our commitments.

Financial product or service	Complaints budgeted to receive	Complaints actually received	Complaints budgeted to resolve	Complaints actually resolved	% complaints upheld
PPI	250,000	122,153	270,000	123,380	17% (excluding those affected by *Plevin vs Paragon Personal Finance Ltd*)
General casework	210,000	146,627	240,000	171,195	44%
including					
Banking and credit	151,500	103,070	177,200	124,783	50%
of which Packaged bank accounts	10,000	6,368	10,000	6,554	15%
Short-term lending (payday and instalment loans)	50,000	25,526	60,000	45,040	71%
Insurance (excluding PPI)	43,000	32,637	45,200	35,165	30%
Investments and pensions	15,500	10,920	17,600	11,247	29%
Complaints from SMEs[2 3]	*1,300*	*648*	*1,300*	*444*	*28%*
Other[1]	-	2,688	-	1,021	26%
Complaints about CMCs[3 4]	1,600	1,558	1,600	1,116	42%
Total	**460,000**	**273,026**	**510,000**	**296,712**	**32%**

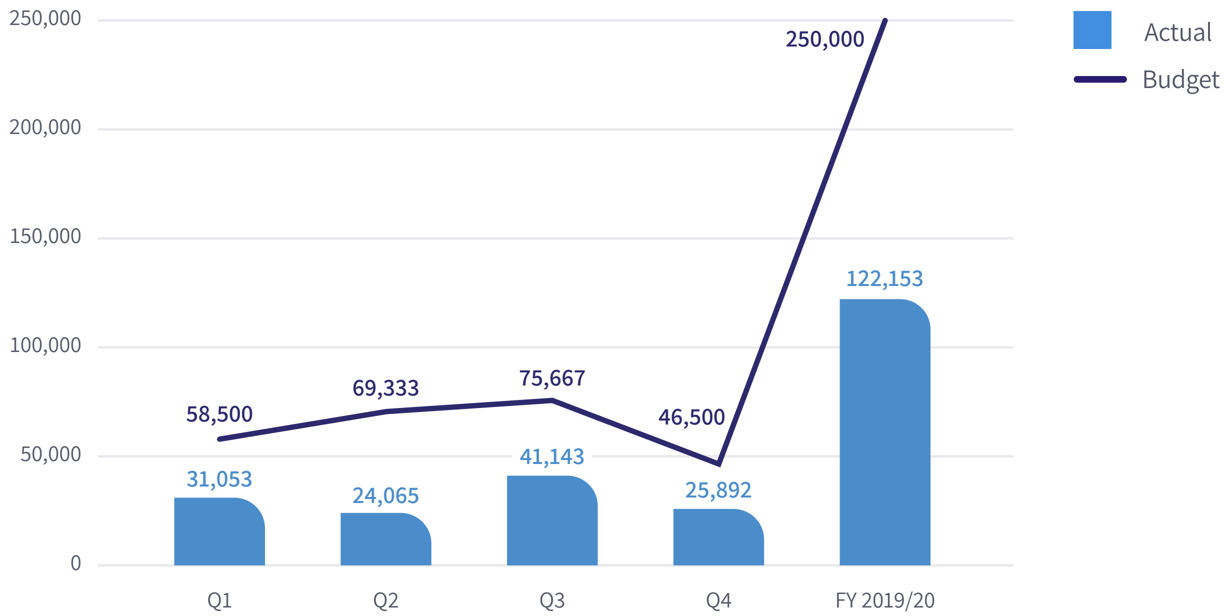
1 "Other" includes complaints that hadn't been categorised at 31 March 2020.

2 Complaints from SMEs (additional to our micro enterprise casework) are included within the general casework figures for banking and credit, insurance, and investments and pensions.

3 Our SME and CMC jurisdictions began on 1 April 2019.

4 For budgeted complaints, the general casework total includes CMC complaints. For actual complaints, CMC complaints are additional to general casework complaints.

PPI complaint volumes during 2019/20



The FCA's deadline for complaining about PPI was 29 August 2019. In response to our 2019/20 plans and budget consultation, some stakeholders suggested that people might leave it right up to the deadline to complain. This seems to have been borne out. Following a steady build-up in the months immediately before the deadline, businesses have reported that they were working through millions of customer enquiries and complaints.

In light of the challenges that businesses faced working through the huge number of complaints they'd received, we didn't see as many as we'd expected to. In our final forecast for 2019/20, we anticipated receiving 150,000 PPI complaints in total against 250,000 in our original plans, with most of these arriving in the final quarter of the year. Although we ended the year having begun to see an increase in complaints, the FCA signalled during 2019/20 that some PPI customers wouldn't receive an answer from their financial providers until summer 2020 – and confirmed in May 2020 that, having discussed the position with firms in light of Covid-19, these timings were still likely to apply. Once they have a response, customers will then have up to six months to refer their complaints to us. While the number of PPI complaints we received in the first two quarters of 2020/21 was lower than originally expected, the shape of future volumes remains uncertain and we're continuing to engage regularly with the FCA, businesses and CMCs to inform our planning.

One of our remaining major challenges in PPI relates to around 29,000 cases for which, despite our having given an initial view on the merits of the complaint, the CMC representing the complainants continues to ask for an ombudsman's final decision in each and every case. This involves more time and resource and we are continuing to manage this situation, focused on getting a speedy and fair resolution for businesses and their customers. Our ability to finally conclude PPI depends in part on both businesses and CMCs continuing to have proper regard to our well-established approach in light of the large number of ombudsmen's decisions we have already issued. In November 2019, we successfully defended against a judicial review challenge which sought to challenge one of our ombudsman's decisions not to uphold a PPI complaint, supporting our general approach in this area.

Banking and credit

Complaints about banking and credit form the largest portion of our general casework – and encompass a wide range of products and services, from bank accounts and debit and credit cards, to short-term loans and hire purchase agreements.

During the year fraud and scams continued to be a high-profile issue in this area. Following a 40% increase in these complaints in 2018/19, in 2019/20 we received nearly 11,000. These cases can be emotive, hard fought and complex, especially given the potential for consumer vulnerability. From May 2019, a number of banks have been signed up to a voluntary "contingent reimbursement model" code, which offers new protections for victims of "authorised push payment" fraud by setting out conditions in which victims can get a refund from payment service providers.

We continued to talk to banks to share our thinking on fairness in this area, stressing the importance of asking the right questions to determine whether a transaction is fraudulent, and ensuring fair redress when fraud isn't picked up by security systems. On our website, we've published a number of fraud and scams case studies and examples of our approach to handling these complaints.

Consumer credit, including short-term lending

When PPI is excluded, complaints about consumer credit accounted for three in every ten complaints we received in 2019/20 (approximately the same level as 2018/19). Although the products involved are wide-ranging, affordability and persistent debt cut across as consistent themes – and in some areas we're persistently upholding the majority of cases in favour of consumers. In some areas, we saw positive signs that some lenders are engaging with our approach and embedding it on their own front lines – following a significant amount of engagement with our ombudsmen and stakeholder team.

Over recent years, including in 2019/20, a number of short-term lenders have left the market, often following high volumes of valid claims for compensation. This financial vulnerability among lenders can lead to volatility in complaints to us, as volumes of complaints fall away sharply. Customers due compensation are likely to receive only a fraction of the money they're owed, and our service can't recover significant volumes of case fees for work we've done to investigate complaints. In addition, CMCs' behaviour has caused operational difficulties and delays in some cases, with some complaints poorly-administered and evidenced. We continued to flag these shortcomings to the CMCs' regulator, which from 1 April 2019 has been the FCA.

Insurance

During the year we continued to hear from people who were unhappy about year-on-year increases in the cost of their insurance – and we were clear with insurers that they needed to ensure customers are engaging in the policy renewal process.

Looking at specific types of insurance, motor and buildings insurance remained the most complained-about types of policies. Encouragingly, we saw improvements in how travel insurers handled claims – something reflected in the fact we upheld fewer complaints in this area, following relatively high uphold rates over recent years.

By the end of the financial year, complaints began to emerge as a result of Covid-19. These mainly related to travel and business interruption insurance.

Investments and pensions

Despite receiving slightly fewer complaints than expected, we saw a rise in complaints about SIPPs (self-invested personal pensions), including disputes over due diligence. Reflecting the broad trend toward complexity that we see across our casework, many of these complaints were hard-fought, some subject to ongoing legal action, and in some cases involved firms going into liquidation – factors which created challenges around reaching a quick resolution.

Following a number of high-profile examples of trouble with investment platforms, we continued to hear from people who'd had problems accessing and managing their investments – in some cases affecting their income payments or pension withdrawals. And we worked closely with the FCA to address concerns raised by and on behalf of members of British Steel's pension fund, with our executive team and ombudsmen taking part in several local events in Port Talbot to speak to those affected, as well as to local financial advisers. We also went to Scunthorpe and attended an event in Parliament with MPs and steelworkers.

Complaints from small and medium-sized enterprises (SMEs)

On 1 April 2019, our remit extended to complaints from more SME customers of financial services – adding to our existing remit over complaints from very small businesses, or micro-enterprises. Following discussions with stakeholders including the FCA and HM Treasury, we resourced our service to handle up to 1,300 complaints from SMEs.

Over the year as a whole, we received 215 complaints from SMEs about events that happened after 1 April 2019, meaning we were able to investigate them. Around 80% of these cases involved banking issues – including disputed transactions, and accounts being closed – and 20% involved insurance. In other cases, we concluded that we didn't have the power to step into the complaint – because the problem occurred before 1 April 2019; the complainant business exceeded both the micro-enterprise and small business criteria; or the activity or the financial business being complained about wasn't covered by our rules. Given the complexity of the tests involved, the question of whether we're able to help can itself require a fair degree of investigation.

In addition to investigating complaints, our new SME teams handled 1,005 new contacts through our dedicated helpline, providing advice and support around SMEs' options for taking complaints forward. They also resolved complaints from micro-enterprises, which already had access to our service. In the first half of 2020/21 we have received significantly more complaints from SMEs than we did in the same period last year, primarily driven by the Covid-19 pandemic.

As well as having dedicated legal support available, our SME case handlers also received additional training from subject specialists. As planned, in 2019/20 we held meetings of our SME advisory group – a new forum established to help us build our insight into the SME sector, including the concerns and challenges faced by SMEs as they interact with financial services. In turn, we share insights and trends in the cases brought by SMEs that we see. We're also continuing to work with relevant business representative groups, such as the Federation of Small Businesses. We're recruiting for members of our expert panel, which will be available to provide additional technical support on a case-by-case basis – and we'll continue to review the complaints we're receiving to inform our recruitment.

Complaints about CMCs

On 1 April 2019, we took over handling complaints about CMCs from the Legal Ombudsman (LeO). The extension of our remit also involved the transfer of around 200 existing complaints. By working closely with LeO, we ensured that this transition happened without disruption to these cases, which have now all been resolved.

The transfer of a number of LeO case handlers to our service also means we inherited valuable experience in this area. Mindful of the potential for a perceived conflict of interest, we located our CMC operation in Coventry, away from case handlers who deal with CMCs as representatives. We also launched a distinct Claims Management Ombudsman brand, and began to publish data about CMC complaints in the same way as we do for financial services.

Having resourced our service to receive up to 1,600 complaints, we received 1,558 and handled 5,623 calls to our helpline. During the year the issues involved in complaints broadly mirrored the Legal Ombudsman's previous casework: around a third of cases centred on CMCs' fees, another third on service issues, and another on delays. Two thirds of cases involved claims for mis-sold PPI.

As well as engaging with individual CMCs directly, we've continued to engage with the FCA in its role as CMCs' new regulator. Our discussions so far have covered activity by scam firms, CMCs' compliance with our decisions, and the future shape of the CMC market.

Complaints arising from Covid-19

As governments across the world introduced widescale restrictions on movement and activities to prevent the spread of Covid-19, we began to receive calls relating to the crisis. Although this didn't translate into a significant number of complaints before the end of the 2019/20 financial year, we proactively published content on our website setting out types of issues we were beginning to see or were likely to arise. Where these issues aligned with existing areas of our casework, we signposted to relevant resources setting out our approach to resolving complaints fairly. We published further insight alongside our 2020/21 Q1 complaints data.

Since the crisis escalated, a particularly significant emerging issue has been the challenges faced by smaller businesses across the UK – many of which now have access to our service under our expanded remit from 1 April 2019. In view of concerns that some claims on business interruption insurance policies had been unfairly rejected, the FCA sought legal clarity on some of the issues involved. The Government has also introduced a range of measures, including loans, to support businesses through the financial impact of the pandemic. We've maintained close contact with the FCA and HM Treasury about these developments.

There's more information on page 34 about our response to Covid-19 and the implications for our service.

Our performance against our 2019/20 commitments

Our commitments reflect our annual organisational aims and priorities in key strategic areas.

Our 2019/20 commitments

Our service

We're flexible, resilient and well run, providing better and quicker answers.

Our customers

We're trusted and respected by our customers, keeping fairness at our heart and delivering what they expect.

Our people

We're a great place to work, attracting and developing committed and professional people who are motivated by our values.

Our reach

We're here for everyone who needs us, making it easy for people to find us and use us.

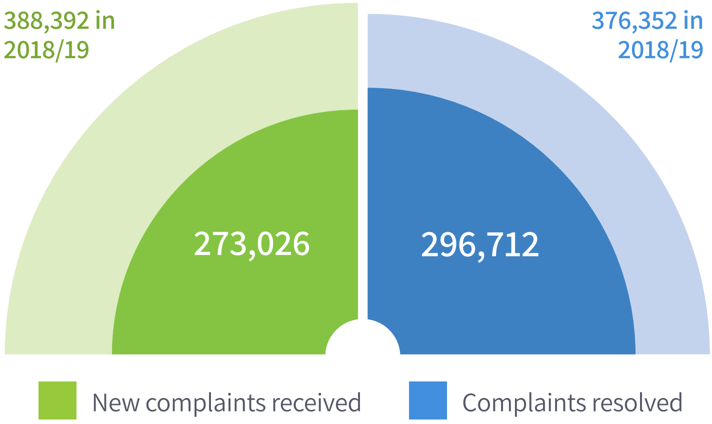
Our impact

We share insight on what we see, preventing detriment and complaints arising.

Commitments for our service

We received

We resolved



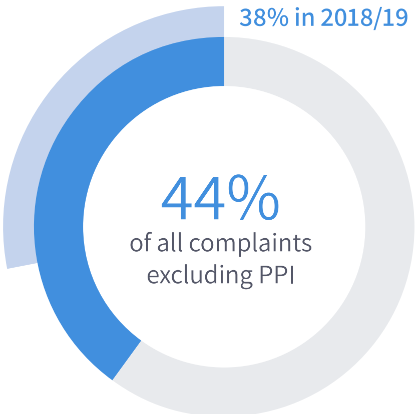
Key financials

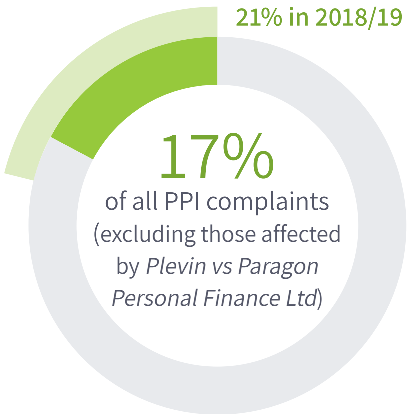
£242.6m
our operating income
18% less than budget of £297m

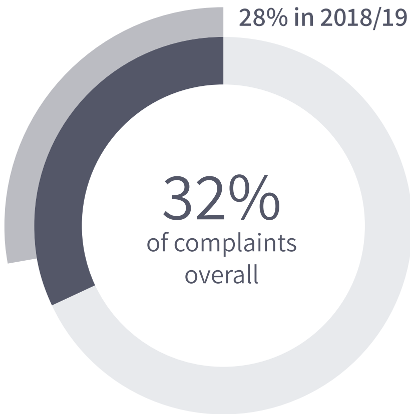
£276.4m
our operating expenditure
17% less than budget of £331.8m

£920
our cost per case
Budget of £650 (see page 50)

We upheld







We consulted with our stakeholders about our future funding model – and implemented this with effect from 1 April 2020.

The impact of administration of firms in the short-term lending sector was a cost of £11m – through a combination of bad debt and lost revenue.

We launched our new case handling system, transferring £15.6m to intangible assets with effect from 1 April 2019.

We handled more than **17,000** technical queries
19,000 in 2018/19

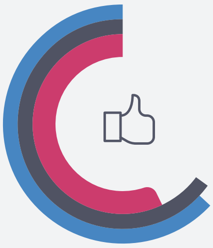
We resolved **90%** of complaints with an informal view
90% in 2018/19

About our performance

- Compared with 2018/19, when we saw the highest demand for our service for five years, our overall caseload was 30% lower this year. This was driven in large part by lower demand in PPI than we'd expected at the beginning of the year (see page 15). However, as we began to see the benefits of our investment in recruitment and capacity building, we resolved around 24,000 more complaints than we received, with particularly strong performance in the final quarter of the year.

- Our uphold rate reflects the proportion of complaints in which we tell the business to take action to resolve the complaint fairly. The continued low uphold rate for PPI reflects the way businesses have embedded our approach into their own frontline complaints handling. However, we again saw high uphold rates in complaints involving consumer credit, and have continued to see that the volume of complaints has left some firms unable to meet their financial obligations.
- An informal view involves an investigator or adjudicator giving an answer about a complaint. Both the business and their customer have the right to ask an ombudsman for a final decision, which is binding if the consumer accepts it. In 2019/20, across our casework as a whole, 10% of cases were resolved with a final decision (broadly the same as in 2018/19).
- Our technical desk provides free, informal support for people working to resolve complaints – helping to prevent complaints needing to be referred to us at all. During the year the desk answered more than 17,000 queries from nearly 2,000 separate organisations, ranging from high street banks through to sole traders, and from professional claims managers through to constituency caseworkers and volunteer consumer advisers.
- Our casework operations are supported by contractor resource to help us deal flexibly with changing demand and improve our resilience as a service. During the year, our contractor workforce accounted for 36% of our case handlers – including 59% of our PPI case handlers.
- Under the framework of our strategic Horizons programme – aimed at getting our service ready for the future once PPI has concluded – we made significant investments in the quality and efficiency of our casework and casework management. This included supporting our case handlers with case management tools, strengthening our knowledge tools, and taking steps to improve people's experience of using our service. There's more information on page 16.
- On 1 April 2019, we launched our new SME and CMC jurisdictions. We established an SME advisory group, helping us to understand and share experiences of the particular issues faced by smaller businesses. In resolving individual complaints, our dedicated SME casework teams have been supported by a specialist internal practice group. There's more information about the complaints we saw in these areas on page 21.
- Following significant testing and development, we rolled out our new case handling system across our service in June 2019. We're reviewing our options for introducing a portal – which will allow people to share information with us securely and to check the progress of our investigation without needing to contact us, helping to improve their experience, as well as our own efficiency. There's more information about this project on page 48.
- We know that stakeholders rely on our data and insight to inform their own work – and for businesses, to understand their own performance. We appointed our new chief information officer Nicola Wadham in 2019, who will help strengthen our data governance and quality. We've continued to use our new business information tool to support the analysis and sharing of complaints trends and management information.
- In July 2019 we consulted on funding proposals intended to ensure our financial sustainability and effectiveness in the coming years. Having considered stakeholders' feedback, we finalised proposals in December 2019, but have since made adjustments to our funding approach for 2020/21 in light of the unprecedented impact of Covid-19 on the businesses we cover. There's more information in the section 'our financial performance' on page 45.
- We maintained our constructive relationship with the FCA, as we each carry out our separate but complementary roles. There's more about this in the section 'working with the regulator' on page 41.
- We're longstanding members of the Ombudsman Association – the professional association for schemes like ours in the UK and Ireland. Our quality reviews, and quality deep dives, support our commitment to monitor and review existing procedures and processes, and align with the Association's standards.
- Having successfully delivered our previous carbon reduction commitment, we've put in place a new plan with the Carbon Trust. There's more information about our sustainability and environmental performance on page 60.

Commitments for our customers



57% of people overall said they were satisfied with our service
Aim: 65%
63% in 2018/19

The score was:

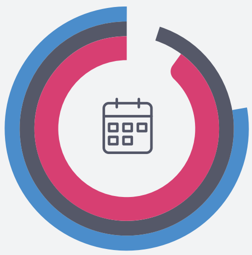
66% in our general casework investigation teams

58% in our areas of mass claim

77% of businesses said they had confidence in our service
Aim: 80%
79% in 2018/19

We resolved:

23% of all complaints in 45 days or fewer
Aim: 37%+
37% in 2018/19



90% of complaints more than 12 months old
Aim: 95%
78% in 2018/19

How quickly we resolved complaints

	Resolved within 3 months %	Resolved within 6 months %	Resolved within 9 months %	Resolved within 12 months %
2019/20 all cases	56	74	84	90
2018/19 all cases	60	80	87	90
2017/18 all cases	50	65	70	74
2016/17 all cases	65	79	84	87
2015/16 all cases	38	53	62	69

About our performance

- Some people are currently having to wait longer for our answer than we or they are satisfied with. The pressure we've seen on waiting times over the last two financial years is the product of a combination of different forces: the significant and volatile demand for our help; the inevitable lag between investing in case handling capacity and seeing the impact; and a growing trend toward complexity, with large segments of our casework affected by legal or regulatory issues.
- We track customer satisfaction for both upheld and non-upheld cases – using the combined score for our headline commitments measure, as this is more stretching. Across all our casework, 45% of people whose complaints we didn't uphold said they were satisfied with our service, against 88% whose complaints we did uphold.
- Although it isn't the only factor, our timeliness is a key driver of people's satisfaction with our service – and this has been reflected in the results of our 2019/20 satisfaction surveys. We explained in our 2020/21 plans and budget that our plans for the year ahead centre on reducing waiting times, and we've continued to prioritise cases where people urgently need our help. Enhancements to our case handling tools, processes and knowledge database (see page 16) will also support these plans by improving our efficiency. We are tracking waiting times at all points in the customer journey, to give us a deeper insight and understanding of complaints' progression and how we can improve our service.
- Businesses' confidence in us remained robust at 77%, but tracked slightly lower than our target of 80%. We've historically set a more stretching target for business satisfaction, where we have consistently seen higher scores compared to those for consumers. It's likely that a business complaint handler's rating of our service will be less dependent on whether or not the individual case in question has been upheld, and instead reflects their dealings with us across several complaints.
- Compared with our target to resolve 95% of the oldest complaints we'd set out to resolve, which would have been 12 months old by the end of the year, we resolved 90% of these cases (our target excluded some cases that continued to be affected by action outside our control). Despite this being lower than we'd hoped, we still made significant progress: by the end of the year, we'd reduced the number of people waiting a year or more for a resolution by more than 28,000 in PPI, and from 27,000 to around 400 across short-term lending, home credit and packaged bank accounts. Diverting resources into resolving these oldest cases contributed to pressures on our timeliness elsewhere.
- In 86% of the cases we reviewed under our quality assurance framework, we thought we had taken the necessary steps to ensure a fair outcome (2018/19: 78%) and we were proud of our handling in 76% of the cases we reviewed (2018/19: 63%). Our wider approach to quality is set out on our website, and the report of our independent assessor will be published on our website in Q3 2020/21). There's more detail about the IA's work on page 83.
- As we focus on bringing down waiting times, it's essential that parties involved in complaints act fairly and pragmatically, so we're only called on for help where it's absolutely necessary. For this reason, during the year we continued our work to prevent complaints and unfairness at source – including sharing insight and having regular operational contact with the FCA (see page 41), the businesses we cover, CMCs, and both consumer and small business representatives.
- Our dedicated Supporting our Customers practice group has continued to understand and implement best practice in supporting customers in vulnerable and challenging situations. Particular areas of focus this year have been helping people who have experienced economic and domestic abuse, and from problem gambling.
- In September 2019 we launched our additional support team. Led by a dedicated ombudsman, this team handles complaints from people in the most vulnerable circumstances, ensuring we respond effectively to people's needs and situations, which may be complex and sensitive. A likely ongoing consequence of the Covid-19 pandemic may be an increased number of consumers in vulnerable circumstances during the coming year, potentially increasing demand for the support this team provides.

How people rated our service in 2019/20

How consumers rated our service	% 2019/20 (2018/19)		
	Agreed	Expressed no view	Disagreed
Problems resolved at an early stage			
You gave me clear and honest answers and let me know where I stood	51 (64)	31 (26)	18 (11)
You got to grips with things and used common sense	50 (62)	33 (26)	18 (12)
You listened to me and cared about what I had to say	57 (70)	28 (20)	16 (10)
Complaints we looked into in more depth, including those where an ombudsman made a final decision			
You gave me clear and honest answers and let me know where I stood	63 (67)	15 (14)	22 (19)
You got to grips with things and used common sense	56 (58)	15 (27)	29 (27)
You listened to me and cared about what I had to say	61 (63)	13 (12)	26 (25)

Sources: Problems resolved at an early stage: enquiry survey of 6,834 consumers. Complaints we looked into in more depth: post-conversion survey of 13,338 consumers.
Percentage totals in these tables may not sum to 100% due to rounding.

How complaints handlers at financial businesses rated our service	% 2019/20 (2018/19)		
	Agreed	Expressed no view	Disagreed
You gave me clear and honest answers and let me know where I stood	75 (81)	19 (13)	6 (6)
You got to grips with things and used common sense	77 (79)	15 (11)	8 (10)
You listened to me and cared about what I had to say	73 (76)	20 (16)	7 (8)

Source: Survey of 444 complaints handlers in complaints we resolved.

How managers at financial businesses rated our service	% 2019/20 (2018/19)		
	Agreed	Expressed no view	Disagreed
The financial services industry can have confidence in the ombudsman service	74 (64)	15 (20)	11 (16)
Our service is good value for businesses who pay the levy/case fees that fund us	64 (58)	21 (25)	15 (17)
Our decisions on cases are fair and unbiased	63 (59)	22 (22)	15 (19)
Our decisions are consistent	62 (54)	20 (21)	18 (25)
We provide a good dispute resolution service for businesses	85 (66)	9 (17)	6 (17)

Source: Survey of 211 managers at financial businesses. Note the difference in sample size from 2018/19 (702) may mean year-on-year changes are smaller than our results suggest.

Commitments for our people

85%
in 2018/19

87.8%
staff retention

74%
of people are highly engaged, according to a survey of our investigation teams – the largest group of employees in our service

We published our
third annual
diversity, inclusion and wellbeing report

3.7%
sickness absence
3.9% in 2018/19

78%
of our people had completed their diversity records
76% in 2018/19

About our performance

- We're committed to attracting, retaining and developing people from the widest possible range of backgrounds – recognising that diverse perspectives are central to our ability to resolve complaints fairly. There's more information about the diversity of our people, as well as our wider work in this area, in the section 'diversity, inclusion and wellbeing' on page 57 and in our separate report.
- Our internal communications and engagement team work as business partners across our service, to help ensure that all our teams feel engaged and supported in a way that's right for them. There's more information in the 'employee engagement' section on page 71.
- In late 2018 we rolled out a new sickness absence policy, with an emphasis on effectively managing absence and supporting people back to health. This approach has resulted in a further fall in sickness absence levels per full-time equivalent (FTE) employee to 9.6 days, compared to 9.8 days in 2018/19. We're now closely monitoring the impact of Covid-19 on our people's sickness absence and our operations. There's more information in the section 'sickness absence' on page 65.
- We operate in a competitive market for talented complaint handlers, and during the year we reviewed our recruitment, development and performance management frameworks to help ensure we continue to recruit, retain and develop people who share our values and commitment to fairness. This year we set up a dedicated wellbeing team, focused on implementing policies and procedures that help and support our people to perform at their best.
- We've continued to engage with our people around our future plans and strategy – including giving as much certainty and support as we can to those in our mass claims areas, as PPI moves towards its conclusion. We continue to expect to be busy throughout the year, and will continue to need talented people to help our customers.
- In November 2019, one of our employee-led networks and our chief ombudsman were recognised externally for their contribution to diversity and inclusion. Our BAME network Embrace won the Outstanding Diversity Network award, and Caroline Wayman won the Chief Executive of the Year award, at the Inclusive Company 2019 awards. We were also placed 35th in Stonewall's 2020 top 100 LGBT employers list. There's more information on page 57.
- We launched a comprehensive social responsibility and sustainability policy. As well as covering our environmental performance, this also reflects our commitment to be a socially responsible employer, supporting not only the wellbeing of our own people but those who provide contracted services. There's more information in the section 'corporate social responsibility' on page 66.
- In the final quarter of 2019/20, our support teams piloted smarter ways of working – the initial phase of our plan to gradually roll out new practices and workspaces across our service over the course of 2020/21. In March 2020, when the Government introduced measures to restrict the spread of Covid-19, we significantly and rapidly scaled up our remote working capacity – so that our people, from our case handlers to our support teams, could quickly transition to working from home. There's more about our response to Covid-19 on page 34.

Commitments for our reach and impact

5,210
times we were mentioned in the media this year

2,513
number of contacts we had with the regulator, as part of our insight-sharing responsibilities

89%
of people had some awareness of our service
89% in 2018/19

77%
of the public said they would trust us
76% in 2018/19

10,856
requests handled by our accessibility team
9,028 in 2018/19

24,000+
final decisions published, bringing the total to more than **215,000**

About our performance

- Monitoring people's awareness of our service helps us ensure we're reaching everyone who might need us. Consistent with previous years, awareness remained high, with just 11% saying they definitely hadn't heard of us when prompted with our name.
- We carried out a brand awareness exercise this year, to discover whether people knew who to turn to if they had a financial complaint. We used an external company to gather research, and its findings supported our own awareness research: that people were generally willing to be advocates for our service, letting friends and family know who to turn to if they have a financial complaint.

  The visual aspects of our brand resonated with potential and current customers, and some of the associations people made with our name included 'independent', 'impartial', 'knowledgeable' and 'fair'. We've since acted on recommendations to ensure consistency of our brand.
- In June 2019, after a significant amount of user testing, we launched a new and more accessible website, with refreshed content for both consumers and businesses looking to understand more about our work and the fair resolution of complaints.
- We're committed to working openly and transparently, so people can apply our thinking to prevent complaints arising. In 2019/20

we published an annual review of complaints, two sets of data about individual businesses and four sets of quarterly product-based data, which we highlight in our updated newsletter, *Ombudsman News*. We shared insight into issues including misrepresentation in insurance and fraud and scams, regularly engaging with the media and other stakeholders to give our insight the widest possible reach and impact.

- We've continued to publish our ombudsmen's final decisions on our online database, helping other people learn from the problems of the past to prevent the same things happening in the future.
- It's essential that we're accessible to everyone who needs us, removing any actual or perceived barriers. This year, accessibility requests increased by nearly 20%. While this included routine requests for translation into other languages and formats, 14% of requests related to people who we judged to be in vulnerable circumstances. The advice our team provided often related to mental ill health, autistic spectrum conditions, and consumers who were struggling to cope or having thoughts of suicide.
- Safeguarding-related referrals remained constant throughout 2019 – with more than 50 cases where we were concerned for people's welfare and needed to secure additional support via 101 or 999 helplines and other external services.
- Pre-pandemic, our engagement team visited many different towns and cities across the UK as part of our regular outreach work (Cambridge, Carlisle, Coventry, Edinburgh, Liverpool, Milton Keynes, Shrewsbury, Truro, Barry and Newport) and met smaller financial businesses, local advice agencies, local MPs' offices and consumer groups to talk about our work. We also attended FCA Live & Local events, and took part in several conferences.
- We also continued to engage with relevant stakeholders around extensions to our remit from 1 April 2019. This included engaging with CMCs directly and in partnership with the FCA. Following the launch of our SME jurisdiction, we also built on our engagement with representatives of small businesses, including the Federation of Small Businesses.
- Our ombudsmen spoke at a number of events around the country, helping to share our approach to complaints and prevent unfairness arising. This included, in November and December 2019, running workshops for motor finance and high-cost credit providers where our ombudsmen talked in depth about our approach to the complaints we typically see in their sectors – including affordability and irresponsible lending.
- As well as continuing to be a member of the Ombudsman Association – the professional association for schemes like ours in the UK and Ireland – we also participate in international forums such as INFO (International Network of Financial Services Ombudsman Schemes), and FIN-NET, the EU's financial dispute resolution network, to share best practice and hear from similar organisations in other countries.

People who used our service in 2019/20

All percentages shown in brackets apply to financial year 2018/19. Percentage totals may not sum to 100% due to rounding.

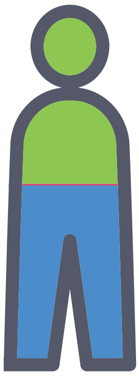
The gender of people who complained to us

Female 49% (43%)

Other <1% (<1%)
(including transgender, gender fluid, and non-conforming)

Male 51% (57%)

Source: Consumer postal survey of 1,135 consumers

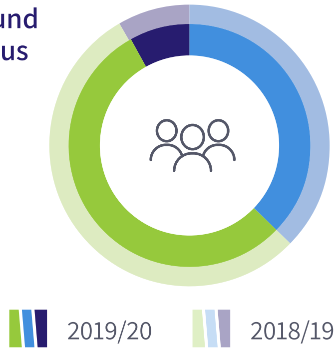


The socio-economic background of people who complained to us

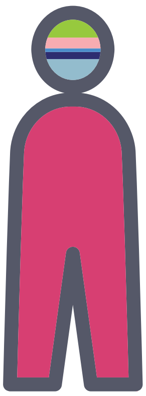
37% (37%)
Professional and managerial (AB)

55% (54%)
Skilled and semi-skilled (C1/C2)

8% (8%)
Unskilled (DE)



Source: Consumer postal survey of 1,135 consumers



The ethnic backgrounds of people who complained to us

Asian or Asian British 5% (3%)

Black or Black British 3% (2%)

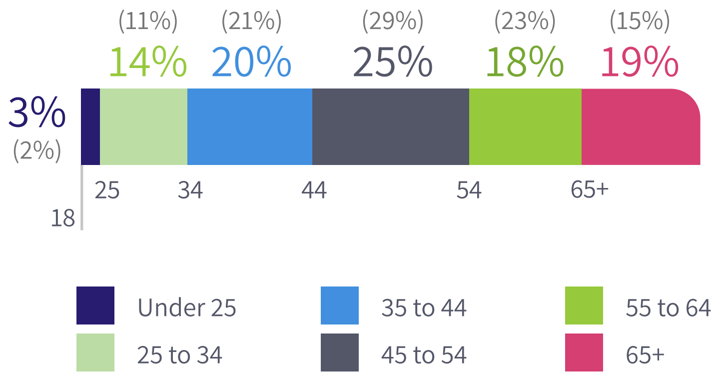
Mixed 1% (1%)

Other ethnic backgrounds including Chinese 2% (1%)

White 89% (92%)

Source: Consumer postal survey of 1,135 consumers

The ages of people who complained to us



Source: Financial Ombudsman Service management information

Where people who complained to us live

East Anglia 9% (6%)

Midlands 18% (20%)

N. Ireland 2% (2%)

North East 8% (9%)

North West 14% (12%)

Scotland 9% (10%)

South East 26% (26%)
(including Greater London)

South West 9% (10%)

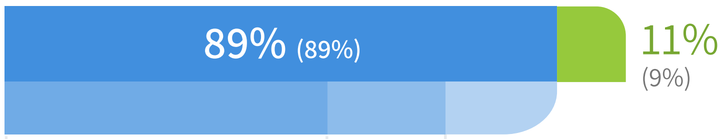
Wales 5% (5%)

Source: Financial Ombudsman Service management information

Awareness of the ombudsman service

Total awareness

People who didn't recognise our name or know who we were



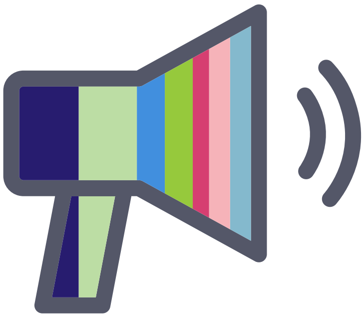
52% (51%)
Said they definitely knew of us when they were told our name

19% (20%)
Could name us without any prompting

18% (17%)
Said they may have heard of us when they were told our name

Source: Online public awareness survey June, September and December 2019 (6,157 responses). 2018/19 results have been slightly adjusted from previously published figures to aid comparison across years.

How people said they'd heard about us



From a financial business 26% (31%)

On the internet 25% (22%)

From a friend, relative or colleague 12% (14%)

In the media 12% (9%)

From a consumer advice agency
(eg Trading Standards or Citizens Advice) 7% (8%)

From a claims management company 9% (7%)

Other/unknown 9% (8%)

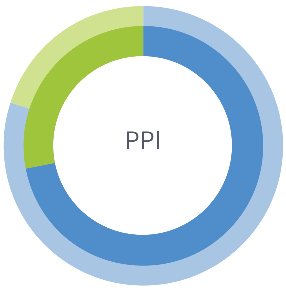
Source: Consumer postal survey of 1,135 consumers

How people brought complaints to us

- Complained themselves
- Asked someone to complain on their behalf (including CMCs and other paid-for services; free advice organisations; and friends and family)
- 2018/19 figures

65% (47%) 35% (53%)

28% (20%) 72% (80%)

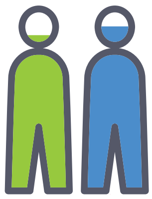


61% (57%) 39% (43%)

95% (84%) 5% (16%)

Source: Financial Ombudsman Service management information

Awareness of the ombudsman service among different groups of people



Women 87% (89%)

Men 92% (93%)

18 to 24 year olds 67% (68%)

25 to 44 year olds 88% (89%)

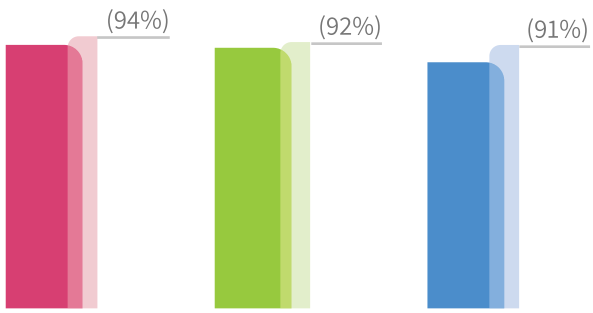
45 to 64 year olds 96% (97%)

65 and over 96%

79% (82%) Asian background

89% (85%) Black/Black British background

90% (92%) White background



91% Professional and managerial (AB) consumers

90% Skilled and semi-skilled (C1/C2) consumers

85% Unskilled (DE) consumers

People in England 89% (88%)

People in Northern Ireland 86% (93%)

People in Scotland 93% (88%)

People in Wales 92% (91%)

Source: Online public awareness survey June, September and December 2019 (6,157 responses)

Responding to Covid-19

As for nearly all organisations, Covid-19 has had significant and wide-ranging consequences for our service – affecting the social, regulatory and political landscape in which we operate, and requiring significant adaptations to the way we operate.

We've taken action to reduce the impact on our operations in the short term, and worked on providing more support for our staff during a difficult and uncertain time, while ensuring we can still provide a service to our customers. This section outlines the action we took in response to the pandemic and our framework for moving forward.

Our starting point

We were reasonably well-placed to respond to the Covid-19 outbreak and the lockdown arrangements that followed. In recent years, we had:

- Established a highly resilient IT infrastructure with two active remote data centres backing up our data and systems.
- Undertaken several crisis management exercises with senior staff to raise awareness of good business continuity practice.
- Developed and embedded our risk management framework, supporting decision-makers to prioritise actions to mitigate risks.
- In February 2020, launched our smarter working initiative, enabling remote working for our support functions, with up-to-date equipment and collaboration tools. We also piloted smarter working in two of our investigation pods, with one taking consumers' calls from home.

This gave us a good foundation for responding to the crisis. However, we had not set out to be a fully remote organisation and many of our ways of working – including areas such as dealing with customer post, taking phone calls, management, and knowledge sharing – were predicated on an "in-office" model. The majority of our staff and contractors carrying out casework functions did not work remotely, and our total work from home capacity was limited to around one-third of our total workforce at any one time.

Developing our response

We had been monitoring the developing situation since January, including the formal government advice that began then. We increased the amount of hand sanitiser available in the office; and via our internal communications channels we reminded staff of the importance of hand washing, and to clear their desks each day so workspaces could be fully cleaned.

Some staff members started to self-identify to our wellbeing team as being at potential risk due to returning from affected or potentially affected countries and regions. Colleagues from HR, property, risk, and information security discussed these cases and we asked some people to self-isolate in line with government guidance. We also started to get queries from staff members who were concerned they might be at higher risk of infection and its consequences.

As the situation developed, we moved to the next stage of our crisis management approach and pulled together a team with an agreed and documented remit to monitor the situation, share information, and either take or propose action to help us respond to it.

This pandemic planning working group comprised senior managers across casework and support, and the chair of our employee council. The group first met on 28 February and helped us formulate our developing response. We conducted four scenario planning exercises, which considered:

- Our general readiness for a full office closure.
- The impact of, and our response to, potential school closures.
- Our approach to supporting potentially vulnerable employees.
- Our approach to dealing with a confirmed Covid-19 case on site.

The outputs were discussed by the executive team, which at this stage was meeting daily, to help inform our decision-making. At this point our technical capacity to support working from home remained limited to 1,350 staff connections, and we were exploring the possibility of staggered shifts to maximise our ability to help customers.

We could see that the impact on our operation of a sustained full office closure would remain severe; previous disaster recovery exercises had generally been predicated on shorter closures.

On 16 March the group was reshaped to include our HR director and principal ombudsman and director of investigation, to speed up our decision-making capability. It encompassed a number of workstreams with accountable leaders taking responsibility for delivering agreed objectives, with support from our legal, finance and risk teams.

In preparation for a potential move to homeworking, we issued a number of reminders to our people to make sure that their managers had a contact number for them, and that those that needed to had downloaded an app to their phones which would enable them to work remotely. We were also supporting an increasing number of potentially vulnerable staff to work from home full-time if they wished to do so.

The lockdown

By 16 March we had made good progress towards significantly expanding our homeworking capability, including the repurposing of existing hardware, and expanding our licence capacity for the relevant software. At 5pm that day the government asked all those who were able to work from home to do so. Later that evening we sent a text to all our people telling them not to come to work the following morning, whether they were able to work from home or not.

During the course of this week, we rapidly scaled up our working from home capability to almost full capacity. We identified staff who had not been able to log in and over the course of the following two weeks were able to ensure nearly all were provided with the relevant equipment or applications to do so. We also provided up to ten days of dependents' leave for those staff that needed it to adapt to school closures or other caring responsibilities. Throughout we emphasised to our staff the importance of taking care of their – and their families' – wellbeing, and that we would support them in working flexibly and contributing what they could during this challenging period.

At the same time, we concentrated on doing what we safely could to adapt services that could not easily be delivered remotely. This included a small number of staff from our customer help team who lived locally coming to the office on foot or by car to take safe receipt of our post. Another challenge was restoring our phone lines for customers. We took a cautious approach, building capacity day by day until we were able to offer a service very similar to that which we operated in the office. We also needed to significantly adapt our processes to support new starters joining in April, including in our casework academy.

All these actions meant that, by early April, we were operating almost as normal, with nearly all aspects of our support and casework operating comparably to business as usual. Given our limited capabilities to support this in mid-March, this was a significant achievement.

Moving beyond crisis management to the new normal

In April we closed the first phase of our response, and moved to the next phase, which includes longer-term scenario planning, optimising our casework approach in a working from home environment, developing new and better ways of working, and preparing for a phased return to the office.

We also focused on how we can best support the physical and mental wellbeing and health and safety of our colleagues during sustained periods of working from home. We were especially conscious that the suitability of home working environments, and challenges at home – including for those with caring responsibilities – would be very different for each person.

We've continued to support flexible working and made more provision for dependents' leave for those with childcare or caring responsibilities. Through a combination of e-learning modules, manager discussions and short surveys to staff, we've made sure we've built up a picture of what support our people require, and geared our response to meet that. In particular we've established a portal for our people to order appropriate IT equipment (for example monitors, keyboards and mice) to support effective homeworking, and transported office chairs to approximately 400 members of staff who requested them. We've also carried out remote home working desk assessments and provided continuing support to colleagues who require reasonable adjustments to be made. As we explain on page 49, we have set aside a budget of approximately £500k to help employees create suitable a work station and environment in their homes, and to support their wellbeing.

We looked to ensure we learn lessons from the changes that we've made, and ways to improve the way we work in the longer term, for the benefit of our people and our customers. But while we have taken some real positives from the way we have dealt with a very challenging situation, we do not underestimate the challenges that remain.

We've continued to work on our plans for a safe phased return to our office, adapting to government guidance. Staff wellbeing is at the heart of our planning, and we have put in place measures to ensure we meet government standards on operating a Covid-secure workplace. We will continue to monitor the wider situation, and government advice, to inform our approach. We had planned to increase the number of people able to work in our offices from November 2020, following a first phase in September 2020. In light of the latest guidance, this is unlikely to begin before March 2021.

The section on risk (see pages 84 to 87) sets out the emerging picture at year end; and on page 52 we explain the implications for the forward financial outlook.

Our plans and commitments for 2020/21

From 16 December 2019 until 31 January 2020, we consulted on our plans and budget for the 2020/21 financial year. We published our full final plans and budget, including our strategic commitments, on 8 April 2020 – following the approval of our budget by the FCA.

For 2020/21, our commitments will continue to cover:

- Our customers
- Our resilience (renamed from "our service" to better reflect its focus on our financial stability and cost efficiency)
- Our people
- Our reach and our impact

Now we have finalised our strategic priorities, we will continue to develop the detail of our future strategy so we can deliver on it from April 2021. As we do so we'll be considering how far our current objectives remain relevant, what any new indicators of success should be and how we'll measure them.

Our 2020/21 plans and Covid-19

Our plans and budget were already highly developed before the widescale outbreak of Covid-19 in the UK. Given the level of uncertainty that currently exists around both the scale and nature of the consequences of the pandemic, we have maintained our plans as originally developed. However, we are regularly reviewing our plans – both from a practical operational point of view, and also against the wider context of the environment in which we operate. As we explain on page 53, our response to Covid-19 included a package of measures relating to our 2020/21 funding – including using more of our reserves than we'd initially planned, to help reduce our costs to the firms we cover. We will need to consider later this year the implications of using our reserves faster than originally planned for our long-term financial sustainability.

Based on our analysis and stakeholder feedback, some of the trends and issues we expect to see in our casework are:

- **Vulnerability in its broadest sense**, as cross-sector conversations continue about how it arises and how to identify and address it.
- Relatedly, and in light of the FCA's programme of work in this area, the **challenges of persistent debt and wider indebtedness**, including in the context of the use of high cost credit.
- **Fraud and scams** – including both the continuing evolution and sophistication of fraudsters' methods, and ongoing developments in mechanisms to tackle fraud.
- The potential for **technology to accelerate the speed with which problems can arise**, and the scale of the impact they can have – for example, banking IT outages.
- An ongoing **trend toward complexity** – whether this relates to the circumstances of the parties involved, a changing regulatory landscape, or other developments that raise challenging and wide-reaching questions of fairness.

We expect that these issues will also be reflected in complaints arising from Covid-19, which will further amplify the complexities and uncertainties in our work.

Our key priorities for 2020/21

- **Bringing down the time that people are having to wait for our answer** across the different areas of our work – by continuing to invest in our casework capacity, and working with businesses and CMCs to address the issues that are at the root of challenges in moving things forward.
- **Responding to the consequences of Covid-19** by helping businesses and their customers to resolve complaints fairly, and engaging with stakeholders to help prevent disputes arising. We share some insight into these complaints on page 21.
- In PPI, as the picture becomes clearer about the scale of our casework, **playing our part in bringing this mass mis-selling closer to its conclusion** – bearing in mind the likely impact of Covid-19 on firms' priorities and operational resilience.
- **Delivering our commitments within the cost envelope set out at the beginning of the year** – in line with our aim, in view of Covid-19, to minimise the financial impact of our service on the businesses we cover.
- **Continuing to run our service in a sustainable and efficient way,** including extending our smarter working programme, managing our property portfolio effectively, and optimising our ways of working.
- **Continuing to develop the detail of our future strategy,** which will ensure we remain an effective and essential service in the years ahead.

There is more information about the complaints we've already seen relating to Covid-19 on page 21. Our full plans and budget, including our specific commitments and targets, are available on our website.

Our 2020/21 plans at a glance

We expect to...

Receive 245,000 complaints

100,000
complaints about PPI

145,000
complaints about other products and services

1,300
complaints from small and medium-sized enterprises

1,300
complaints about claims management companies

Resolve 305,000 complaints

140,000
complaints about PPI

165,000
complaints about other products and services

1,300
complaints from small and medium-sized enterprises

1,450
complaints about claims management companies

To fund our service, we expect to...

70% 30%
Collect around 70% of our income through case fees and 30% through our levy

£314.5m
Operate on a cost base of £314.5m

£83.9m
Raise £83.9m through our compulsory jurisdiction levy

Use our reserves to absorb the impact of the measures we've taken to minimise our costs to firms

25
Set the "free" case threshold at 25 for firms outside the group account fee arrangement

50
Set the "free" case threshold at 50 for the 8 members of our group-account fee arrangement

9 in 10
Set our individual case fee at £650. We expect that around nine in ten businesses whose customers complain to us won't pay any case fees

Our future strategy

Since we were established 20 years ago, we've needed to respond and adapt to changes not just in financial services, but in society, technology, and the wider economy – which have shaped the mix, nature and volume of complaints we see. These changes have also continued to shape the needs and expectations of people who use, fund and take an interest in our work, as well as our current and prospective workforce. In this context, in 2019/20 we progressed our work to define and shape our strategy for the next five years.

This work complemented our activity focused on modernising and responding to the environment around us, changing customer needs, and ensuring we're meeting people's expectations of our service. We also took a longer view – asking what emerging trends mean for the service we provide, how we deliver it, and how we build on its wider value to the sectors we cover.

Research findings

- More people in future could be excluded, or unaware they've experienced detriment.
- We'll need different or enhanced capabilities to effectively support customers.
- Businesses want to learn from our insight, and for us to be an authority about fairness.
- For many people, an apology, or reassurance that the problem won't arise again, are important outcomes.
- Two thirds of people said they found the complaints process stressful.

Having consulted with stakeholders in December 2019, we'd initially expected to publish our final strategic priorities before the beginning of the new financial year, alongside our 2020/21 plans. However, given the immediate priority of responding to the Covid-19 crisis, we postponed publication until June 2020. Our new webpages summarise our priorities, the research on which they're based, and the next steps.

In 2020/21 we'll continue to shape the underlying plans that will support the delivery of our strategy, engaging with our people and our stakeholders to translate them into action.

Our strategic priorities to 2025

Enhancing our service

We'll set the standard for modern, efficient, accessible alternative dispute resolution. We'll recognise and respond to the needs and expectations of the people and organisations that rely on us.

Preventing complaints and unfairness arising

Working collaboratively with others, we'll find new and better ways of harnessing, sharing and using our insight to achieve fairer outcomes. Sharing our insight from the work we do, we'll help underpin trust and confidence.

Building an organisation with the capabilities it needs for the future

Using our strength as a diverse, values-based organisation – a place where people want to work – we'll develop the capabilities we'll need for the future.

Our stakeholder relationships

With our stakeholders, we shape our strategy, share our complaints insight, and coordinate areas of joint working. The Section 172(1) statement shows how stakeholders' interests are fundamental to our own decision-making.

Working with the regulator

We work closely with the Financial Conduct Authority, the financial services regulator that has responsibilities in relation to our service, including appointing non-executive directors to our board; making rules that determine the scope of our compulsory jurisdiction; approving our annual budget; and acting as our "competent authority" in relation to our obligations under the EU Directive on Alternative Dispute Resolution (ADR).

In turn, we have several obligations in relation to the FCA, including the provision of information and a mutual duty to cooperate. The relationship between our service and the FCA is explained in more detail in our memorandum of understanding, published on our website. We regularly meet the FCA's Oversight Committee to discuss issues of strategic importance to the service, including our annual budget and performance under the ADR Directive. And we regularly share insight with the FCA about the themes and trends we're seeing in complaints being referred to us – to help inform its own programme of work.

In 2019/20, this included sharing information on the complaints we're seeing about claims management companies, self-invested personal pensions, affordability, complaints involving mortgage prisoners, and complaints from small and medium-sized enterprises within our expanded jurisdiction.

In addition, we share qualitative and quantitative information through regular and ad hoc meetings at all levels – as well as through exchanges of correspondence. In 2019/20, we worked with the FCA, the Financial Services Compensation Scheme and the Money and Pensions Service to set up a new coordination group of the respective organisational chairs and chief executives, and a working level group, to identify shared priorities and coordinate areas of joint work relating to them.

We also work closely with the FCA on issues and developments that will have a bearing on our own role and work. In 2019/20, these included the aftermath of the PPI deadline; continuing preparations for the UK's withdrawal from the EU; understanding and preventing financial services businesses from "phoenixing" (where an insolvent company's business, but not its debts, is transferred to a new similar company), and starting the process to transfer complaints about funeral plans to our service.

Towards the end of the year, we worked closely with the regulator on issues relating to Covid-19 and its impact on financial services consumers and businesses, and this work has continued into 2020/21.

Section 172(1) statement

The Financial Ombudsman Service has an essential role in underpinning confidence in the sectors it covers – both by helping to resolve individual disputes, and by sharing insight to prevent unfairness arising. It's also funded by businesses in those sectors – and these businesses, together with the FCA, HM Treasury and wider stakeholders, rightly expect that the service operates in a responsible, sustainable way, and takes into account the needs of its customers and stakeholders when setting its strategic direction and reaching key decisions.

For these reasons, the board takes its duties under Section 172 of the *Companies Act 2006* very seriously. As a matter of course, it regularly reviews information about the service's progress against its commitments – a combination of specific performance indicators and broader aims and principles, spanning customer confidence, employee engagement, stakeholder relationships and financial and environmental sustainability.

To support its decision-making, the board receives regular reports from the chief ombudsman & chief executive, as well as from other members of the service's executive and senior management teams. These reports cover information about complaint volumes and trends; standards of customer service, including waiting times; the results of customer research, including awareness and satisfaction surveys; themes identified through employee engagement activities; and stakeholder responses to any formal consultations carried out by the service.

Relevant executive directors and other colleagues attend relevant board and committee meetings to answer questions about their respective areas of responsibility. The board also regularly considers the service's key risks and actions being taken to manage them (see page 84 for more information about our approach to risk management). Our chairman also meets regularly with the chair of the FCA, other members of our regulatory family and firms we cover, to discuss issues and challenges of mutual interest.

During 2019/20, in addition to its usual scrutiny of the service's operations, the board considered four matters of particular significance to the service's strategy and long-term success. The tables below describe how the board considered these, including how it had regard to the areas highlighted in Section 172(1) (a) to (f). It also signposts to other sections of this report that provide more detail about these areas.

Our five-year strategy

Background

During the year the service continued to progress work to establish its strategic priorities for the next five years. That work involved comprehensive research and engagement with a range of key stakeholders to inform the development of the strategic priorities and to inform understanding of how stakeholder groups would be impacted. Based on this research, the service developed three proposed strategic objectives that would form the basis of this strategy, ahead of work planned for 2020/21 to develop detailed supporting plans.

Key stakeholders	Stakeholder engagement and Section 172(1) matters	Relevant outcome or decision
FCA HM Treasury Financial businesses and their trade associations Consumers and their representative bodies Our people	• At its strategic away days in September 2019, the board considered the results of research among consumers, businesses and staff which had generated insight into a broad range of expectations of the ombudsman service. • The board also reviewed the conclusions of research into the service's landscape, which identified the key developments in consumer, technology, financial services and workforce trends. • The board considered the outcome of employee engagement around the future strategy, which had included surveys, workshops, informal lunchtime sessions, and opportunities to ask questions to the executive team, including at an all-staff event in December 2019. • The board received regular updates on other relevant engagement, including with the FCA, HM Treasury, financial businesses and consumer organisations, where discussions included the development of the service's future strategy. • The strategic proposals were subject to public consultation in December 2019. See page 40 for further information.	• In November 2019 the board approved three new strategic priorities for consultation. • The board also approved the creation of a strategy function within the service's stakeholder team, to oversee implementation of the strategy, and to ensure the continuation of strategic horizon-scanning and other relevant activity going forward. • In March 2020, the board reviewed responses to the consultation and agreed the high-level strategy and priorities for publication. • In light of Covid-19, we postponed publication of our future strategy so that we could re-evaluate the priorities and check they remained relevant against the changing landscape. The board concluded that this was the case and the strategy was published in June 2020.

Our future funding model

Background

During the year, the service continued to engage with stakeholders around its future funding arrangements – intended to support the delivery of its strategic objectives and ensure its longer-term sustainability, particularly as its PPI casework reaches its conclusion. See page 53 for further information.

Key stakeholders	Stakeholder engagement and Section 172(1) matters	Relevant outcome or decision
FCA HM Treasury Financial businesses and their trade associations Consumer representative bodies Our people	• Proposals for changes to the funding arrangements took account of the service's well-established funding principles. • In agreeing the proposals to be consulted on and then subsequently approved, the board was provided with, and carefully considered, information about the likely impact of different options on the service's financial position and on stakeholders. • The future funding model was subject to public consultation in December 2019. In March, the board considered the feedback received from a wide range of stakeholders about both the principles and the detail of potential arrangements – recognising that the diversity of firms covered by the service was reflected in the diverse range of comments and suggestions received. • In view of the escalating Covid-19 pandemic, the board engaged with the board of the FCA around measures to mitigate the financial impact on firms contributing to the service's funding.	• The board recognised the broad range of positions stakeholders had adopted in respect of different potential funding arrangements. • The new funding arrangements were consulted on in December 2019 and then agreed by the board in March 2020, subject to approval by the FCA. • In view of the impact of Covid-19, the service modified its 2020/21 proposals (see below).

Our annual plans and budget

Background

During the year, as part of the service's usual annual plans and budget-setting process, the service engaged with a broad range of stakeholders to inform thinking on the volume and kind of casework that the service might expect to receive in 2020/21 and the budget it would need to fund its work. As an ongoing part of this process, the service continued to refine the underlying objectives, operational plans and performance framework against which its output and achievements would be measured.

Key stakeholders	Stakeholder engagement and Section 172(1) matters	Relevant outcome or decision
FCA HM Treasury Financial businesses and their trade associations Consumer representative bodies Our people	• As part of the service arriving at the specific plan and budget proposals to be consulted on, the board received regular updates on the analysis and key assumptions of the likely workload (volumes and case-mix) for the following year. • The service's plans and budget for 2020/21 were consulted on in December 2019. • In March, the board considered the feedback received from a wide range of stakeholders and their views on the assumptions the service had made as the basis of their plans and budget. It also agreed the performance assurance framework and the associated success measures and targets. In view of the escalating Covid-19 pandemic, the board engaged with the board of the FCA around measures to mitigate the financial impact of FSMA bodies on firms contributing to the service's funding.	• At its March meeting, the board agreed to adopt the service's 2020/21 plans and budget, subject to formal approval by the board of the FCA. • In view of the impact of Covid-19, the board agreed that it would be prudent to review the assumptions and plans for 2020/21 as part of its formal quarter one reforecast and subsequent quarterly reviews as appropriate. It also considered and agreed a package of measures to minimise the service's costs to firms: in particular, the smallest firms it covers. The FCA approved the final budget.

Our response and resilience in the light of Covid-19

Background

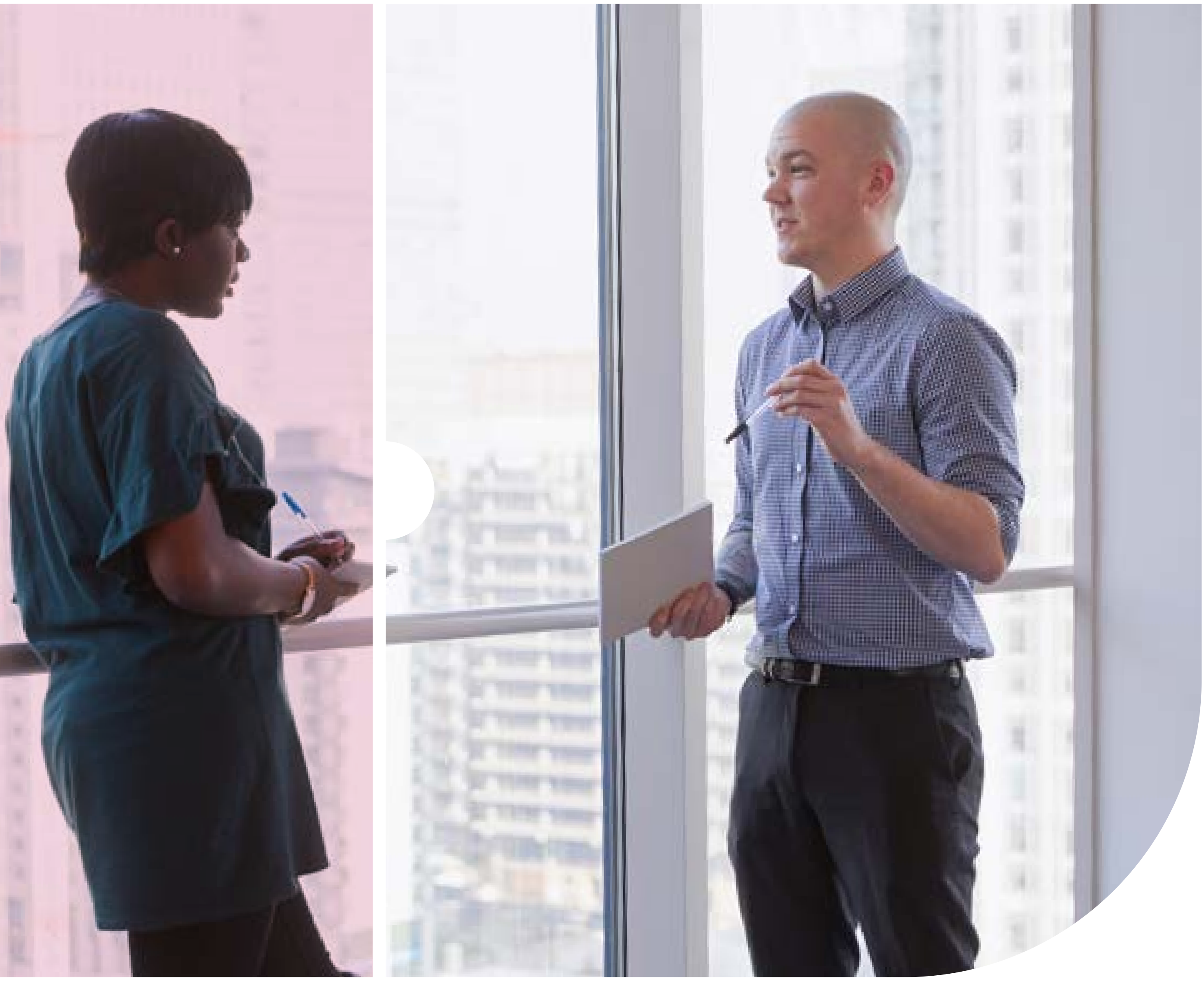
In March 2020, and into the financial year 2020/21, we put in place – and continue to review and adapt – a comprehensive response to the Covid-19 pandemic. This has included taking action to protect and support our people's health and wellbeing; seeking to mitigate and adapt to the impact of the pandemic on the delivery of our service; engaging with our stakeholders about our respective operations; and sharing our insight about the complaints we were seeing arising from the pandemic.

Key stakeholders	Stakeholder engagement and Section 172(1) matters	Relevant outcome or decision
FCA HM Treasury Financial businesses and their trade associations Consumers and their representative bodies Our people	• The board kept in very close contact about the service's response and resilience in the light of Covid-19. • In the early days, as the service transitioned to a remote-working operation, the chairman and the chief ombudsman & chief executive were in daily contact, moving to weekly meetings as a minimum, with other calls and meetings as necessary. • The board held an additional video conference meeting in March 2020 for a detailed update on how the service was being impacted, the wellbeing of staff and on operational resilience. • Covid-19 updates were a feature of board meetings throughout, and in the intervening time, the board received weekly updates on relevant external and internal engagement, Covid-19 sickness absence and operational planning and performance. • External engagement included a broad range of key stakeholders, such as CEO and chair-level meetings and calls with the FCA and other members of the FSMA family, as well as with HM Treasury and industry trade associations, to share insight and aid thinking on collective action and a joined-up response, where appropriate. • Internal engagement centred on the wellbeing of staff and ensuring they were appropriately supported both from a health and wellbeing perspective as well as in relation to being able to acquire additional IT and office equipment to aid remote working. • Latterly, engagement with staff started to centre on return to office planning and how that would be carefully managed in light of the latest government guidance and in line with the ongoing commitment to ensure the wellbeing and safety of staff, and provide a good service to customers.	• As noted in the relevant sections above, at its March meeting the board agreed to adopt the service's 2020/21 plans and budget, subject to formal approval by the board of the FCA. • In view of the impact of Covid-19, the board agreed, however, that it would be prudent to review the assumptions and plans for 2020/21 as part of its formal quarter one reforecast and subsequent quarterly reviews as appropriate. In July, the board undertook its quarter one review and agreed a revised outlook against the latest assumptions, noting though that further revisions were likely as the year progressed and as the picture became clearer on the Covid-19 impacts. The board noted that the position would very much be informed by insights from a wide range of relevant stakeholders. • In June, the board agreed the business case for the service to progress to the next phase of its smarter working initiative, to facilitate effective and efficient service-wide flexible working, and the attendant operational benefits that would come with it.

By order of the board

Julia Cavanagh
Company secretary
27 October 2020

Our financial performance



The nature of our work means we need to be able to respond to every kind of complaint that people bring us, as well as whatever number of people ask for our help. This relies on our having the right financial strategy and resources in place.

Our financial performance

As we explained in our plans at the beginning of the year, our 2019/20 budget reflected our aims to build the capacity we would need to respond effectively to demand for our help, establishing and running our new SME and CMC jurisdictions, and continuing to invest in our service's future capability.

Our financial plans included the revenue and investment associated with a significant increase in case resolutions – up 35% from the previous financial year (there are further details on page 24). Even with the uncertainty we've experienced in previous years, the reaction of firms and consumers to the PPI deadline created a greater degree of volatility than we'd been used to.

With a spike of new cases expected in the run up to the PPI deadline in August 2019, our operational plans included additional investment in contractor resources as well as recruitment in our ongoing operations. As reported elsewhere, the new PPI case volumes we saw were different to what we'd expected: a shorter, sharper spike around Q3 and a total that was approximately 50% of the level expected. Our mass claims strategy of using contractors gave us some flexibility in our operational plans and cost base, but costs are not strictly linear and there is an inevitable lag in the process. So our final costs for mass claims only fell by 30% in comparison to our budget.

The impact of Covid-19, discussed elsewhere, adds to the uncertainty around the timing of the close of PPI and will inevitably impact both the volume and types of cases we receive in other casework areas.

Our summary financial performance for 2019/20 was as follows:

- Our operating revenue was £242.6m (£225.6m in 2018/19) with a cost base of £276.4m (£270.1m in 2018/19).
- Our income and expenditure were £54.4m and £57.1m below budget respectively.
- In line with our medium-term financial plan, we made an operating deficit of £33.5m after tax (£41.0m in 2018/19).

Besides PPI, we have seen turbulence in other sectors too, including high-cost credit. Complaints numbers have fallen as lenders have exited the market, but are still up from a steady state. In spite of generally falling complaints numbers, we're seeing more complex cases continue to rise – especially in pensions. We're continuing our proactive work in fraud and scams – sharing our approach and our insight into how they continue to evolve as fraudsters adapt their deceptions to take advantage of new opportunities presented by events such as Covid-19.

Following major preparations during 2018/19, we took on new areas of responsibility from 1 April 2019: complaints from more small business customers of financial services, and complaints about claims management companies. At the same time, we continued our progress toward getting our service to the right shape and size for the future.

Income

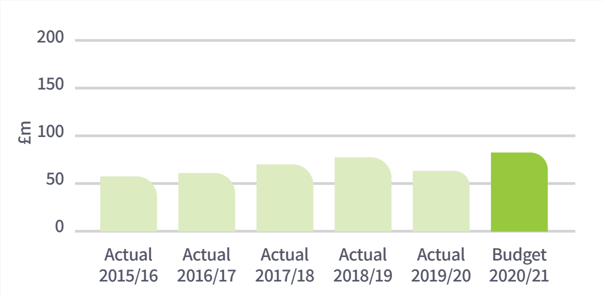
The ombudsman service is funded by a combination of levies, individual case fees and income from our group-account fee arrangements paid by the financial businesses we cover.

52% group-account fee arrangement

28% case fees

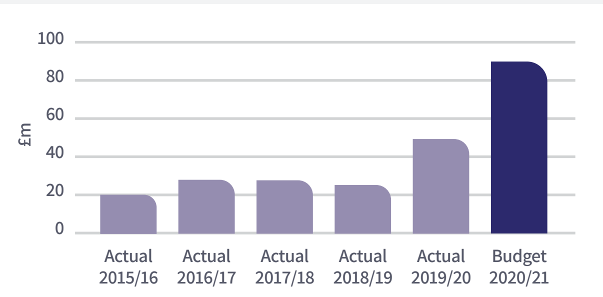
20% levy and other income

Case fees



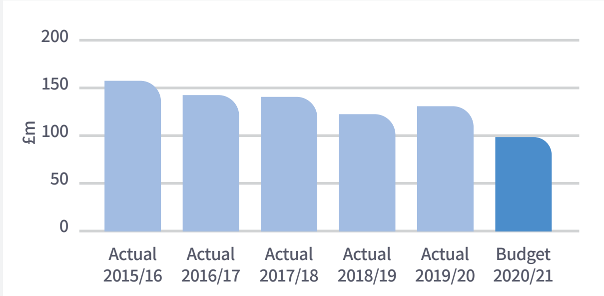
For the seventh year in a row our case fee was £550 per case, with a "free case" allowance of 25 cases per firm. This meant that most firms were only charged a case fee for the 26th and each subsequent complaint about them that we resolved. During the year, nine out of ten businesses whose customers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

Levy and other income



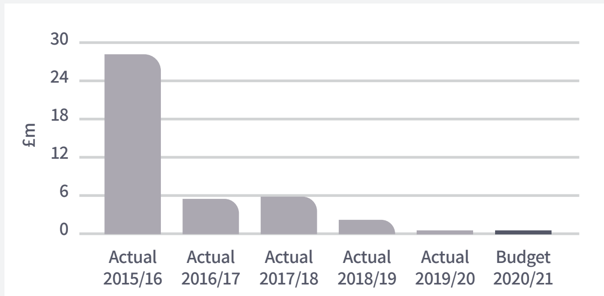
In 2019/20 our levy was £48 million. The compulsory jurisdiction levy is charged and collected by the FCA according to the amount of work we expect from each industry sector. £1.1m of levy income related to our voluntary jurisdiction. We also generate income from interest receivable and publications.

Group-account fee arrangement



We have a group-account fee arrangement in place to cover eight financial services groups – Lloyds, Barclays, HSBC, RBS, Nationwide, Santander, Aviva and Direct Line. Group fees are calculated in advance based on a published formula. We calculate each group's share of our overall workload – taking into account our existing "stock" of complaints, recent case volumes and the number of cases we've budgeted to deal with. The formula includes maximum and minimum thresholds for demand volumes. This arrangement has helped provide predictability and stability in our funding, so we can plan ahead while responding flexibly to demands on our service.

Deferred income release



During the year we released £0.1m of deferred income in relation to PPI cases received between 2012 and 2014. As at 31 March 2020 the balance remaining was £0.1m which we expect to release in 2020/21.

Operating expenditure

Our overall spend for the year was £276.4m, which was £55.1m below budget.

People costs

People costs represent the majority of our spend, equating to approximately 80% of the total (in 2018/19 this was 83%). In relation to PPI, we've continued to build flexibility into our cost base to ensure we're able to scale up and down in response to changing demand. We've also pursued an active policy of recruiting contractors – as at 31 March 2020 over half our case handlers in mass claims were contractors. This year, in response to the lower than expected new case volumes, operational reforecasting resulted in a re-profiling of our workforce, particularly in PPI. A reduction in the average number of staff and contractors of 675 over the year resulted in a spend of £222m, a saving of £51m against original budget assumptions.

Investing in our systems and technology

As we have explained elsewhere in this report, we've continued to invest in technology as a key element of redesigning our service for the future. This year has seen the launch of Phoenix, our new customer-centric case handling system which has been operational since June 2019. Phoenix is a Software as a Service (SaaS) solution, which makes upgrades and updates easier to manage. We expect to decommission the previous case handling system, Clipper, during the course of 2021/22. Our investment in Phoenix of £16m will be amortised over seven years in accordance with our amortisation policy for intangible assets.

As detailed on page 63, we also launched wave 1 of our smarter working programme. This programme uses technology and efficiency of space to increase the flexibility of our workforce and deliver property cost savings. We began in early 2020 with a pilot for support staff and two investigation pods, and this immediately reduced desk ratios in the office. £0.8m has been invested in the programme to date, and we'll consider transitioning all casework during 2020/21. Having exited one building over the summer of 2019, we anticipate being able to further reduce our property portfolio in 2021/22 and beyond. Our plans will of course remain flexible in light of our evolving response to Covid-19 (read more on page 34), and ongoing social distancing measures.

Following the arrival of our new CIO Nicola Wadham in the autumn of 2019/20, we have been undergoing a review of our IT strategy and current estate. From a financial perspective one of the impacts of the review was a recommendation to impair the investment in the portal (£1.8m) and to restart with a revised

architectural approach during 2020/21. With effect from January 2020, our restyled programme change board provides governance around the prioritisation and delivery of change in the service. Investment in technology will continue as we develop our digital services to customers and businesses and expand our data and analytics services to support the service's strategy.

With our people at the heart of the service, we are proposing to invest in our HR and finance systems over the coming year, replacing many stand-alone software packages with an integrated solution designed to enhance the efficiency and improve the experience of our staff in all people-related matters. Following a competitive tender process, we have identified Workday as our supplier of choice and are actively tendering for a systems implementation partner. We anticipate completing the implementation in 2021/22.

Cost efficiencies

An important element of our budgeting and forecasting cycle is a review of our cost base to identify opportunities for efficiencies as well as areas for investment. With people-related costs accounting for around 80% of our cost base, and premises and depreciation charges accounting for a further 9.5%, it's important to ensure our procurement team gets good value for money for the third-party goods and services that are procured.

This year we've delivered more than £210k of savings in our IT spend through our tendering processes for licenses and rebuilding our website. We've also worked with our property team to maximise any opportunities for savings and agreed a multi-year rates refund of approximately £2m, with an ongoing reduction in the rateable value. Exiting one of our London buildings delivered an in-year saving of £0.7m. We'll continue to consider our property estate over the coming years, exiting leases where appropriate.

Bad debts

We've reported elsewhere the continued financial instability of firms operating in the short-term lending and pensions sectors. This year, we've written off £3.7m due to bad debts (£0.4m in 2018/19), with a further £8.1m of lost income in relation to cases in progress at the time of a firm's administration. Given the challenges to the economy presented by the Covid-19 pandemic, we anticipate continued financial pressure on firms within our remit and have increased our provision for bad debts to £12m for the coming year.

The financial impact of Covid-19

As part of our initial response to the pandemic we invested £300k in server space and licenses to enable our entire workforce to work from home. We have earmarked another £1.1m for investment in our IT infrastructure during 2020/21 as we prepare for a sustained period of homeworking. The funds are being used to build resilience into our connectivity and telephony systems and provide collaboration tools for our people to improve communication and knowledge sharing. This also includes a budget of approximately £500k for helping people to create a home workstation and environment in their home that's suitable for the nature of the work they're doing. These funds will also be used to help support our people's wellbeing.

Since 17 March 2020, the majority of colleagues have been working from home. We retain security in our buildings, and contractors providing property services have been undertaking essential works in accordance with our health and safety obligations. There are a small number of colleagues who attend the office on a weekly basis to carry out activities which cannot be done remotely – for example, opening post, processing incoming mail and dealing with ad-hoc IT matters. With effect from September they were joined by a small number of colleagues whose personal circumstances meant they were not able to work effectively from home. The monthly rent, rates and service charges associated with the empty buildings is £1.3m and will continue to be payable throughout the period we work remotely.

In accordance with the wider public sector approach, we continue to pay all of our contractors providing services relating to our buildings, at cost of approximately £160k per month. This approach has meant suppliers haven't had to furlough any of their staff. Following the change in UK government advice in late September, to recommend that employees should work from home where possible, we will liaise with our contractors about our approach going forward.

Our funding model and level of reserves provide a level of resilience to changes in the operating and economic environment. These arrangements will help to shield our income from the impact of the pandemic. Because of the steps we've taken to enable us to deliver our service remotely, we expect to continue receiving a steady flow of income from case fees throughout the year.

Unit cost

Like many ombudsman schemes, we use a "unit cost" measure as part of considering our performance, and have historically reported on this figure. It's calculated by dividing our total running costs – not including financing costs and bad debts – by the total number of complaints we resolve during the year. This year, our unit cost was £920, compared with £713 in 2018/19.

As we've explained in previous publications, our unit cost is an insufficient measure of our efficiency, and doesn't in itself provide the insight we need to fairly assess our performance. A key reason is that, in focusing narrowly on casework, it doesn't account for the wider value ombudsman schemes add to the sectors they cover – importantly, the work we do to prevent complaints and unfairness arising.

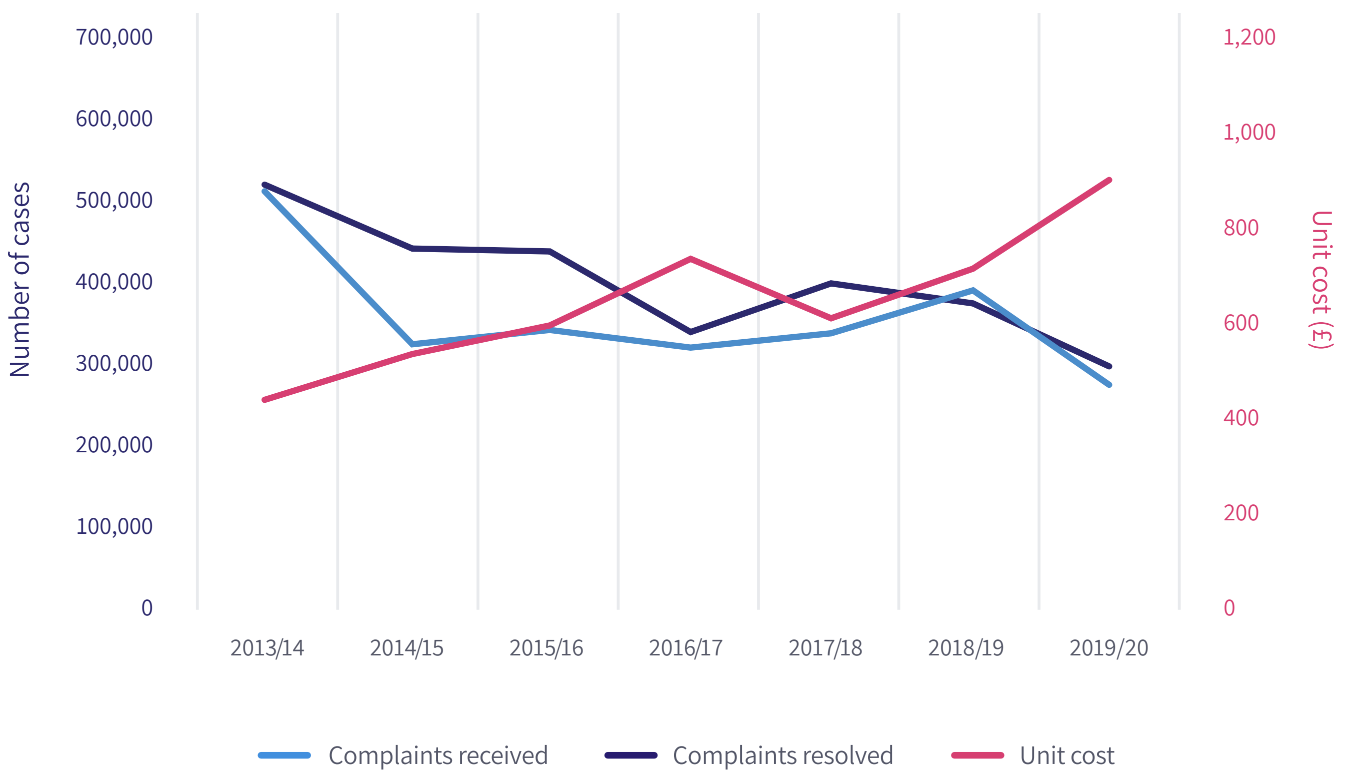
The expectations we set for complaints resolutions, from which our unit cost is calculated, are based on forecasts only – and especially in an uncertain and volatile operating environment, actual complaint volumes may be significantly different. This is a key driver of variations in our unit cost – which in 2019/20 was particularly influenced by the fact we received, and resolved, fewer new PPI complaints than we'd budgeted for.

The number of cases we're able to resolve is a function of both internal and external operating factors. For example, during 2019/20 we carried out a significant amount of recruitment. While this investment will pay off in future years, it affects productivity in the short term – as our new case handlers complete the necessary training to become fully effective and productive in their roles, and our experienced case handlers support this training as mentors and coaches.

However, our work is also strongly influenced by factors outside our control, like parties' cooperation with us, legal and regulatory developments, and complexities in groups of complaints or individual cases – all of which can create challenges in resolving complaints within a given year, or mean the profile of our casework diverges from our initial expectations.

For example, in 2019/20, our expectations for our unit cost factored in the possibility that we'd see further wide-scale issues such as banking IT glitches, which had generated large numbers of complaints in 2018/19. In these types of situations – where the impact on individual customers will differ, but our overall approach to complaints will largely be the same – we're often able to progress and resolve a number of cases at once, following conversations with the firms involved that relate to many customers.

Unit cost against complaints resolved and received



Because we didn't see these types of issues at scale in 2019/20, there were fewer opportunities to create efficiencies of scale.

In addition, as we explain on page 19, we experienced external challenges in 2019/20 in progressing our existing PPI casework – and our original operational plans, used to set our initial expectations for our unit cost, were focused on dealing with the new case volumes we had expected to receive in the year of the PPI deadline. As mentioned above, these new case volumes ended 50% below our expectations, meaning there was an equivalent reduction in the cases we resolved. This is a significant factor in the increase in cost per case this year versus our budget assumption. Although we made substantial savings in our cost base through reprofiling people-related spend, general casework activity, inherently more individual in nature, made up a higher proportion of our resolutions than anticipated (41% versus 33% budget assumption) – contributing to the increase in the cost-per-case figure this year.

Looking ahead, while we'll continue to seek opportunities to make improvements in our casework areas, we expect that the growing complexity we're already seeing in our casework will continue to put upward pressure on our cost per case – whether this complexity relates to the circumstances of the parties involved, or developments in regulation, legal issues or other features of our landscape. We're also mindful that as PPI reduces as a proportion of our workload, there will be fewer opportunities to realise the same types of economies of scale – which have been possible due to the well-established nature of our approach in this area, and the fact PPI complaints are typically less time and cost intensive than many other areas of our work.

As we further develop the detail of our future strategy over the course of 2020/21, we'll continue to monitor our cost per case as one indicator of efficiency, while continuing to develop more sophisticated measures that allow us to assess our performance in a more meaningful way.

IFRS 16 accounting for leases

The service adopted accounting standard IFRS 16 from 1 April 2019. A new asset category, "right of use asset", has been created and we have capitalised £52.3m in the year. The depreciation charge for the year was £8.9m leaving £43.4m on the balance sheet at the year end. As part of the transition, we included a £1.6m opening reserves adjustment at 1 April 2019, increasing the opening reserves from £188.9m to £190.5m.

Reserves

We explained in last year's annual report that, under our long-standing reserves strategy, we've used the funds we received from a special PPI levy (2011/12) and supplementary PPI case fees (2012/13 and 2013/14) to help us gear up our PPI operations, provide stability in the context of volatile demand, and eventually to absorb the costs associated with winding down our PPI operations. This strategy has resulted in a multi-year financial story, moving from surplus in the early years to deficit in the latter. At £33.5m after tax, the financial deficit was lower than expectations, resulting in combined reserves and PPI deferred income balances carried forward at 31 March 2020 of £159.4m (£189.2m in 2018/19), of which £0.1m is PPI deferred income and £159.3m is reserves.

For a number of years, taking account of the environment and the ongoing uncertainty we've been facing, we decided – following consultation with stakeholders – that it would be prudent to retain reserves at a higher level than our existing formal policy of three months' operating expenditure. In July 2019, as part of a wider consultation on our future funding arrangements (see section below), we consulted formally on proposals to maintain approximately six months' operating income as reserves. In view of stakeholders' broad support for this proposal, we intend to work toward this position in future years. However as explained in the outlook section below, this won't be achieved in 2020/21 as adjustments to our budget in light of Covid-19 have increased the deficit we're anticipating in the coming year.

Cash management

We review our cash balances daily and update our forecasts on a quarterly basis. Our closing cash balance at 31 March 2020 was £186m: £5m lower than at the end of the previous financial year. In accordance with the investment strategy approved by the audit committee, at 31 March 2020 we had £178m of our funds invested, £164m split between nine institutions for periods for up to five months at rates between 0.52% and 1%, and £14m overnight at rates between 0.33% and 0.5%. Total interest received over the year amounted to £1.6m (£1.8m in 2018/19).

Creditors' payment terms

We have a policy to pay creditors within agreed terms.

Outlook

As we detail earlier in the report, our core focus for 2020/21 is bringing down the time people need to wait for our answer, while continuing to optimise our investigation processes and customer service and helping to move PPI mis-selling further towards to its conclusion. In determining the financial envelope in which to deliver our plans, we carefully considered how to balance the need to invest in additional capacity with how we optimise our processes, and assess our requirement for additional investment in technology and systems.

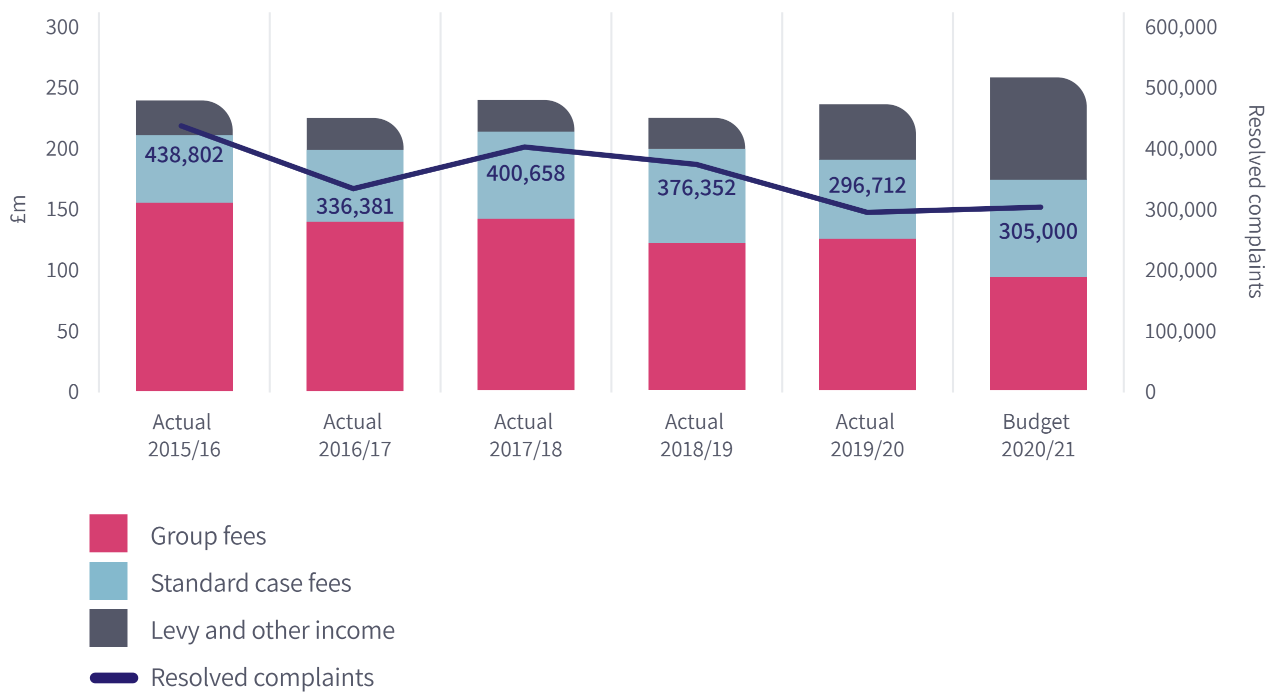
Between 16 December 2019 and 31 January 2020, we consulted publicly on our proposed plans and budget for the financial year 2020/21. We highlighted themes and trends we'd been seeing, the challenges we anticipated in the year ahead, and we set out the financial envelope in which we expect to operate. Having engaged extensively with stakeholders and completed a public consultation on proposed amendments to our funding model, the budget document detailed our recommendations for the introduction of a revised funding approach.

We expect to receive approximately 50,000 fewer complaints than we did in 2019/20 – with the impact of Covid-19 as yet unclear – but with the focus of our operational plans being to reduce customer wait times, we've budgeted to resolve almost 10,000 more than the current year, reducing the number of our customers waiting by 60,000 across the service.

We'd planned for the coming year to be one of transition: when we'd be simultaneously maintaining our PPI operation to manage a late spike in PPI complaints, while also making the necessary preparations to implement our plans for getting our service to the right shape and size for a post-PPI landscape. Although Covid-19 presents significant uncertainties and challenges, we remain committed to making this transition as soon as possible.

In addition, as we've explained, we're seeing a broad trend toward complexity in cases that reach us, and consequently a greater concentration of complaints that are more resource intensive to resolve. Complaints in our general casework are also more diverse than those in our areas of mass claims such as PPI, meaning that the scope for the economies of scale we've benefited from will be significantly lower in future. Both these things mean that the future reduction we expect in our cost base won't be exactly proportional with the reduction we expect in overall case volumes once PPI is over.

Operating income against complaints resolved



However, the strategic decisions we've made over recent years will ensure we're able to realise significant savings. For example, we'll be able to make use of the flexibility we've secured in our leases to release office space, supported by our focus on smarter working. Our use of a contractor workforce will allow us to achieve reductions in headcount, and so people costs, more quickly. And having already taken steps to streamline our support functions over recent years, we're committed to ensuring these are the right shape and size to meet future challenges.

At the moment, there's still significant uncertainty around the scale and timings of our future PPI caseload. And in turn, the timings of the transition we need to make will depend on the scale of our wider caseload over the next year – including the volume and nature of complaints arising from Covid-19. Importantly, we're dependent on the actions of the businesses we cover: if widescale, systemic issues result in detriment at scale, then we'll need to resource our service to deal with them. Our ability to reduce in size may also be affected by regulatory interventions and wider developments in the landscape we operate in, including the current pandemic.

Our 2020/21 budget and future funding

In our 2020/21 plans and budget consultation, we explained that we planned to go ahead with a version of the funding arrangements we'd consulted on in July 2019. Specifically, we proposed that 60% of our income would come from case fees and 40% from our levy, with the aim of moving to an eventual 50:50 split – compared with a previous split of approximately 85:15. Increasing the proportion of income from our levy promotes greater certainty over our income for both us and firms. This reduces the risk we'll need to ask for additional in-year funding to manage significant unexpected spikes in complaints, while also providing additional funding to help us build on our work to prevent complaints arising. We planned to increase the individual case fee to £650 – its first increase since 2013 – and to change the number of "free" cases firms get each year to 10 for firms outside our group-account fee arrangement, and 50 for each of the eight groups that are part of it. For the reasons outlined above, we also proposed to maintain a minimum of six months' operating expenditure as reserves.

In March 2020, recognising the pressures and challenges firms were facing in the wake of Covid-19, and working closely with the FCA, we proposed a package of adjustments to the budget we'd consulted on in December 2019. These proposals, which were approved by the FCA board, comprised a combination of targeted interventions to benefit smaller firms in particular, and broader steps to benefit other firms that contribute to our funding. We will absorb the cost of these changes by using more of our reserves than originally planned.

Our revised proposals are consistent with the strategy and funding principles that we have widely consulted on, including the principle that our funding arrangements be sensitive to the political and economic environment. This is essential in enabling us to provide the level of service people need and expect – especially given the increased potential for financial hardship and vulnerability at this time. In particular, we've increased our case fee for the first time since 2013, and slightly increased the proportion of our funding we receive from our levy, although by less than we proposed in our consultation.

In light of these budget adjustments, in 2020/21:

- Around 70% of our income will come from case fees, with 30% coming from our levy – compared with a proposed split of 60:40 in our consultation, and a longer term aim of reaching a broadly 50:50 balance.
- Our compulsory jurisdiction levy will be £83.9m, and our voluntary jurisdiction levy £0.95m. We asked the FCA to freeze the minimum levies at their 2019/20 levels.
- The individual case fee will be £650 for all cases closed after 1 April 2020, regardless of when the case was referred to us – in line with our consultation.
- Businesses outside the group-account fee won't be charged for the first 25 complaints we receive from their customers – maintaining "free" cases at their current level, rather than reducing this to 10 as proposed in our consultation. This means 9 in 10 of the businesses whose customers complain to us won't pay any case fees at all.
- Groups in the group-account fee arrangement won't be charged for the first 50 complaints we receive from their customers – as set out in our consultation.

Other features of our 2020/21 budget include:

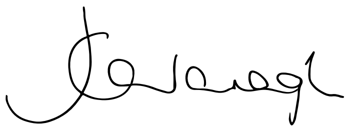
- An overall increase in people related costs – both employees and contractors – reflecting a further investment in case handlers, both in-house and contractors, to focus on reducing waiting times and to help move PPI towards a conclusion. We also expect to incur one-off costs associated with bringing PPI to a conclusion.
- Bad debt provision of £12.0m, reflecting the ongoing potential financial vulnerability of a range of firms in our jurisdiction – rising from £2.0m in our consultation budget.
- A decrease in property costs on 2019/20 figures – though slightly higher than our 2020/21 consultation budget in view of our decision to increase our budget for PPI resolutions, resulting in a 12-month extension of a lease that we'd previously expected to terminate.

To absorb the cost of these changes, we'll use more of our reserves than originally proposed – a total of around £53.2m.

As noted elsewhere, we continue to assess our physical geographic presence and our budget includes plans to increase the number of case handlers in our Coventry office. In the longer term, our aspiration remains to make further changes to our funding that will support the delivery of our future strategy – and put our finances on a sustainable footing for the future. We'll keep in close touch with our stakeholders about our plans, recognising that immediate priorities for firms, regulators and our service have shifted in response to the Covid-19 crisis. We'll use what we've learned so far to inform our future strategy, especially around the continuing rollout of smarter working.

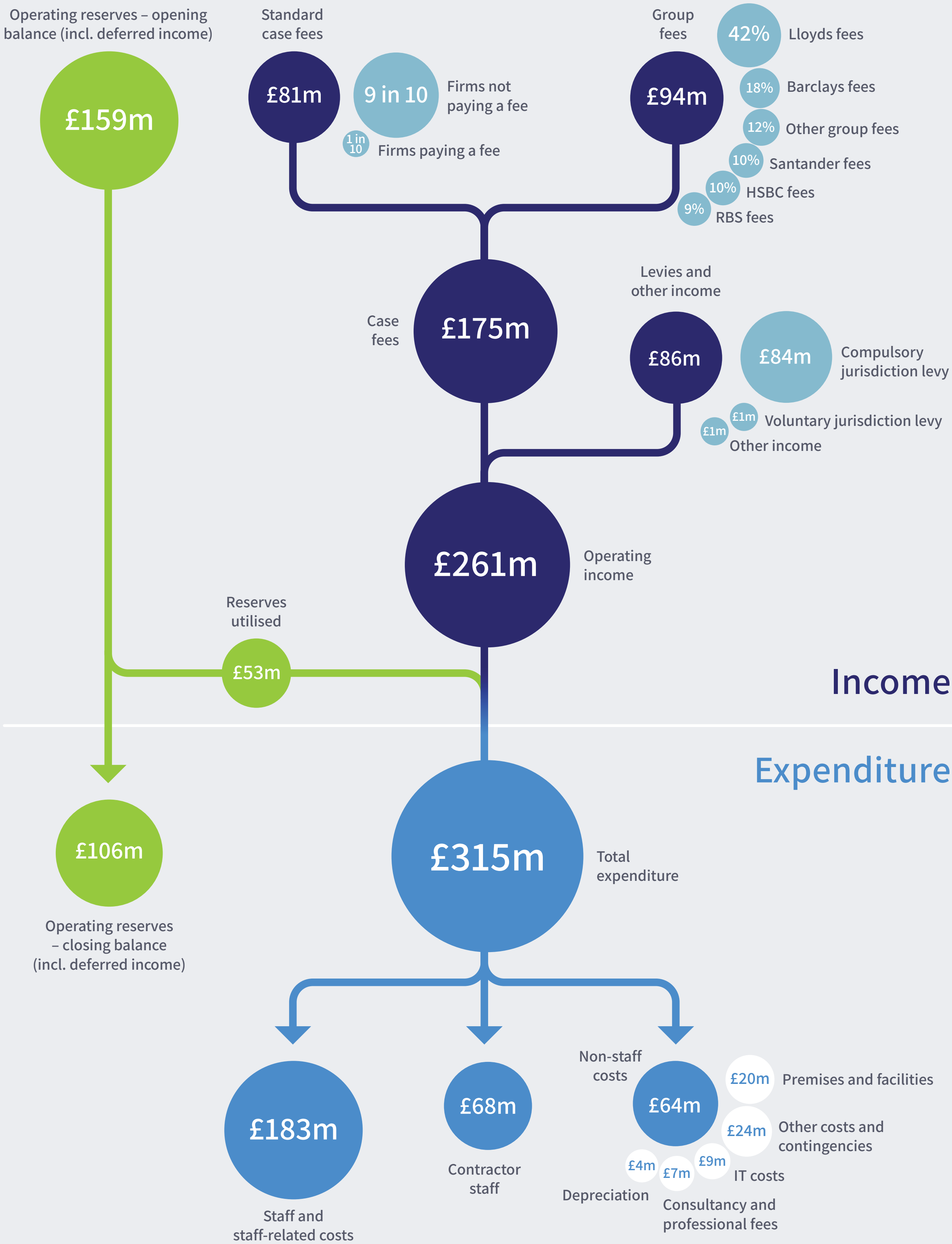
As we look ahead, we'll need to consider the impact that the adjustments we've made this year – including the reduction in our reserves – will have on future years' funding, especially in light of the growing trend toward complexity we're seeing in our work.

By order of the board



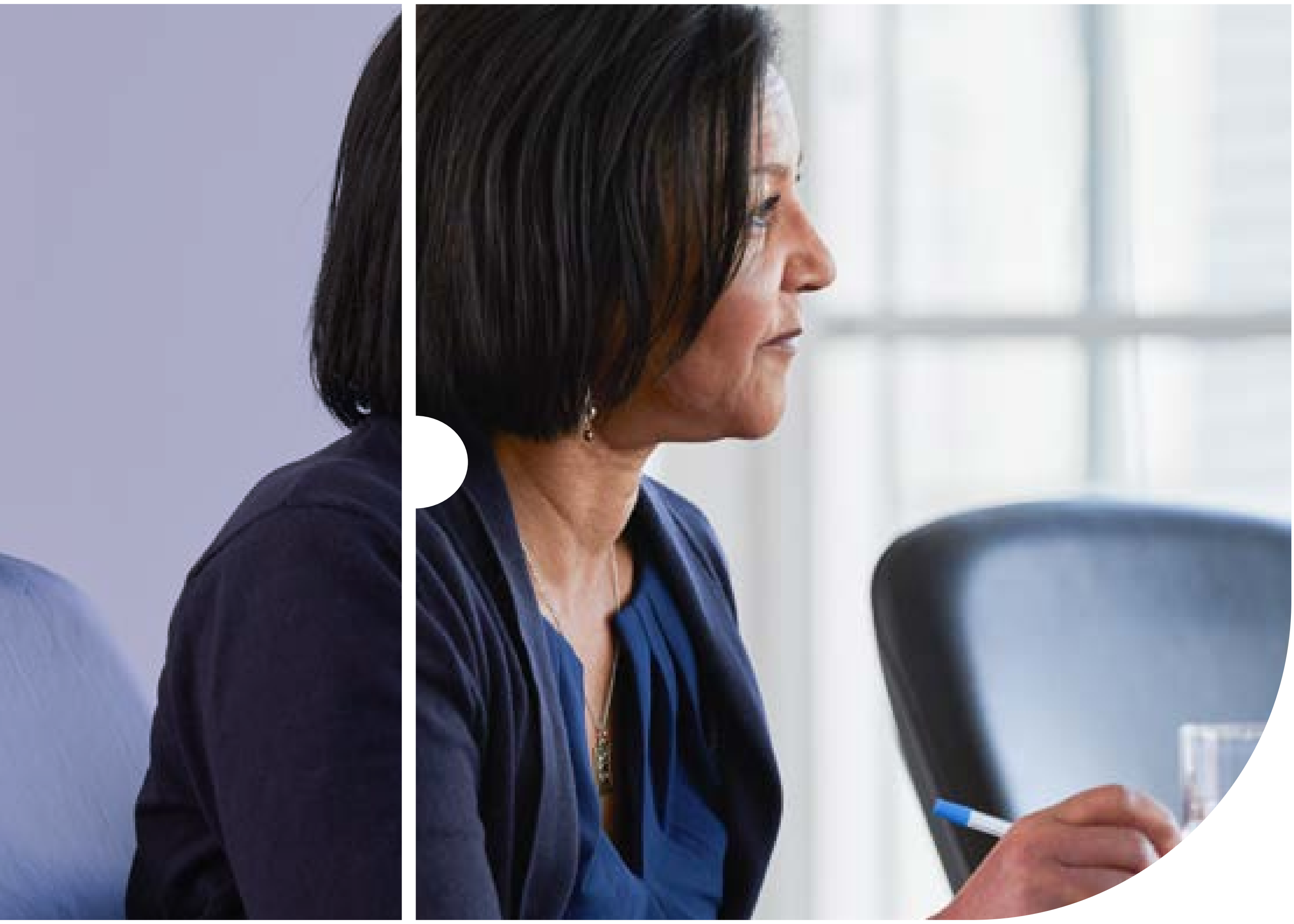
Julia Cavanagh
Company secretary
27 October 2020

The financial flow of our resources in 2020/21



Figures rounded to nearest million.

Directors' report



This directors' report looks at our wider operations during 2019/20, including how we've supported, engaged with and developed our people and the diversity of our organisation. It also reviews our environmental and sustainability performance, how we've progressed our plans for working smarter and managing information, and how we've considered our social impact and played a part in our local community.

Diversity, inclusion and wellbeing

This year we published our third annual report on diversity, inclusion and wellbeing.

Our 2019/20 report features individual employees' stories to highlight how diversity and inclusion helps us to do our job, and looked at the impact of our policies on real lives. The report also reflected on the progress, achievements, and the influence of our 13 employee networks – as well as the areas we're working to improve, such as the representation of black and minority ethnic colleagues at more senior levels.

One of the highlights of our year was receiving external recognition of our values-led culture and commitment in this area. This includes:

- Reaching the finals of the HR excellence awards.
- Being highly commended at the Public Services People Managers Association awards and winning the 'working families best practice' award.
- Winning two 'Inclusive Companies 2019' awards – one for our 'Embrace' network, voted the 'Outstanding Diversity Network', and one for Caroline Wayman, who was voted 'Chief Executive of the Year'.
- Placing 35th in Stonewall's 2020 top 100 LGBT employers list and our OutRight network being "highly commended" in the 2020 Index.

In 2019/20, our equality, diversity and inclusion team changed its name to the inclusion and wellbeing (I&W) team, to reflect its strengthened focus on wellbeing. The team continued their work to embed I&W initiatives into our wider strategy, which encompasses mental, physical and financial wellbeing, and is incorporated into our social responsibility and sustainability action plan. We updated this plan in 2019/20 using feedback from a dedicated staff survey.

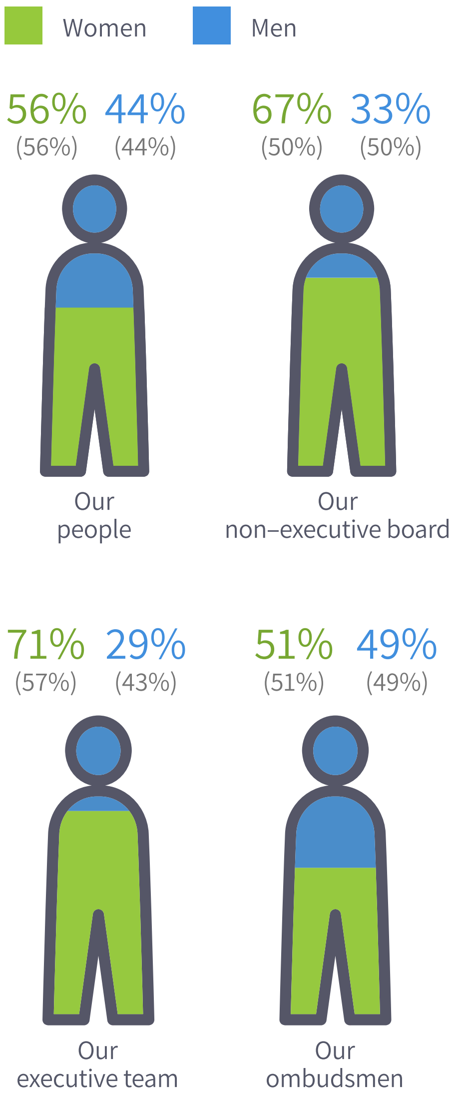
Through our internal communications and online information, we have worked hard this year on the support networks and mechanisms we have available to staff across a range of wellbeing issues – from mental health to domestic abuse. We have encouraged managers to stay connected, and help them to pick up on issues so they can support their staff.

These efforts continued as our staff began to work remotely because of Covid-19. It's vital to us that our staff feel supported and have the resources they need to manage their wellbeing when not in the office. We adopted a flexible approach to working hours, dependents' leave, and provision of new IT equipment and chairs to help our staff at a very challenging time. Our employee networks have run targeted support groups for parents, carers, those experiencing anxiety, and those who have needed to shield.

Our diversity in 2019/20

All percentages shown in brackets apply to financial year 2018/19

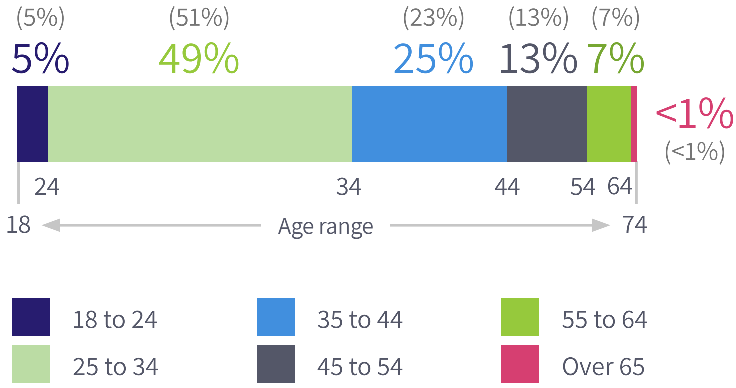
Gender split



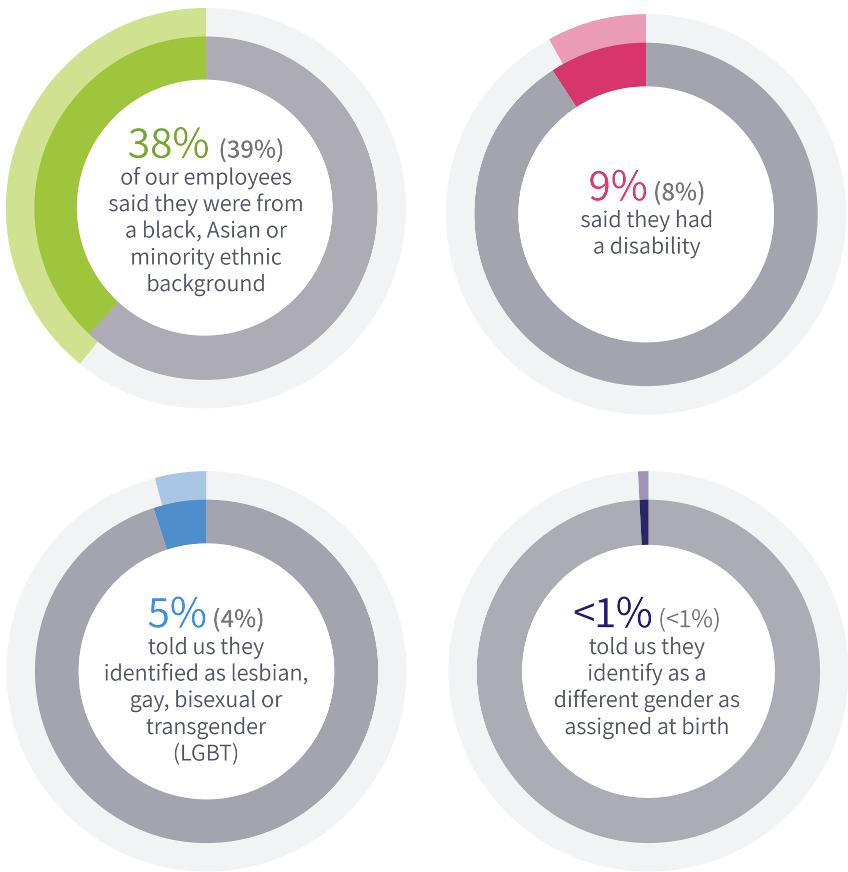
70% (67%) of our people had completed diversity records*

* This includes gender identity for the first time in 2019/20. Excluding gender identity, 78% of our people had completed diversity records compared with 76% in 2018/19.

Ages ranged from 18 to 74



Our people



Mental Health First Aid (MHFA)

During the year we invested in training more of our people to be Mental Health First Aiders (MHFAs), and to refresh current MHFAs' training – to ensure there's enough of this valued support across the service. Like physical first aid, MHFA is intended to support people through single instances of mental health problems as they manifest at work. We recruited and trained a further 16 people to make sure we have the same level of physical and mental first aid. A key part of mental health first aiders' role is to signpost people to appropriate support – whether this is from their manager, our employee assistance programme, health services, or a combination.

Since launching the initiative, we've seen a decrease in absence levels relating to mental health, which has contributed to a decrease in overall sickness absence (see sickness absence on page 65). In 2019/20 we also worked with our charity partner Papyrus to develop a guide to supporting people with thoughts of suicide, and ran suicide awareness training.

Events we celebrated this year

International women's day	Mental health awareness week	International day of families	International day against homophobia, biphobia, interphobia and transphobia	Loneliness awareness week
World suicide prevention day	Black history month	World mental health day	Diwali	International coming out day
National work life week	Carers' rights day	16 days of actions against domestic violence	International day of disabled persons	Christmas jumper day

Workplace adjustment policy

Our workplace adjustment policy helps us ensure that employees can perform to their best ability and thrive in their careers, by encouraging people to tell us if they need reasonable adjustments. Shaped with our disability network, Enable, and our mental wellbeing network, it sets out how we will identify challenges and barriers faced by people with disabilities or long-term health conditions – whether physical or mental – and make adjustments. These might be changes to people's working environment or working patterns, or providing IT equipment or software. This has also continued as staff transitioned to working remotely.

9% of our staff have told us that they have a disability or long-term condition, and since the launch of the policy we've had 126 referrals to the workplace adjustment process. Learning from the adjustments we make helps us to be a better employer and create a more inclusive workplace.

Environmental performance and sustainability

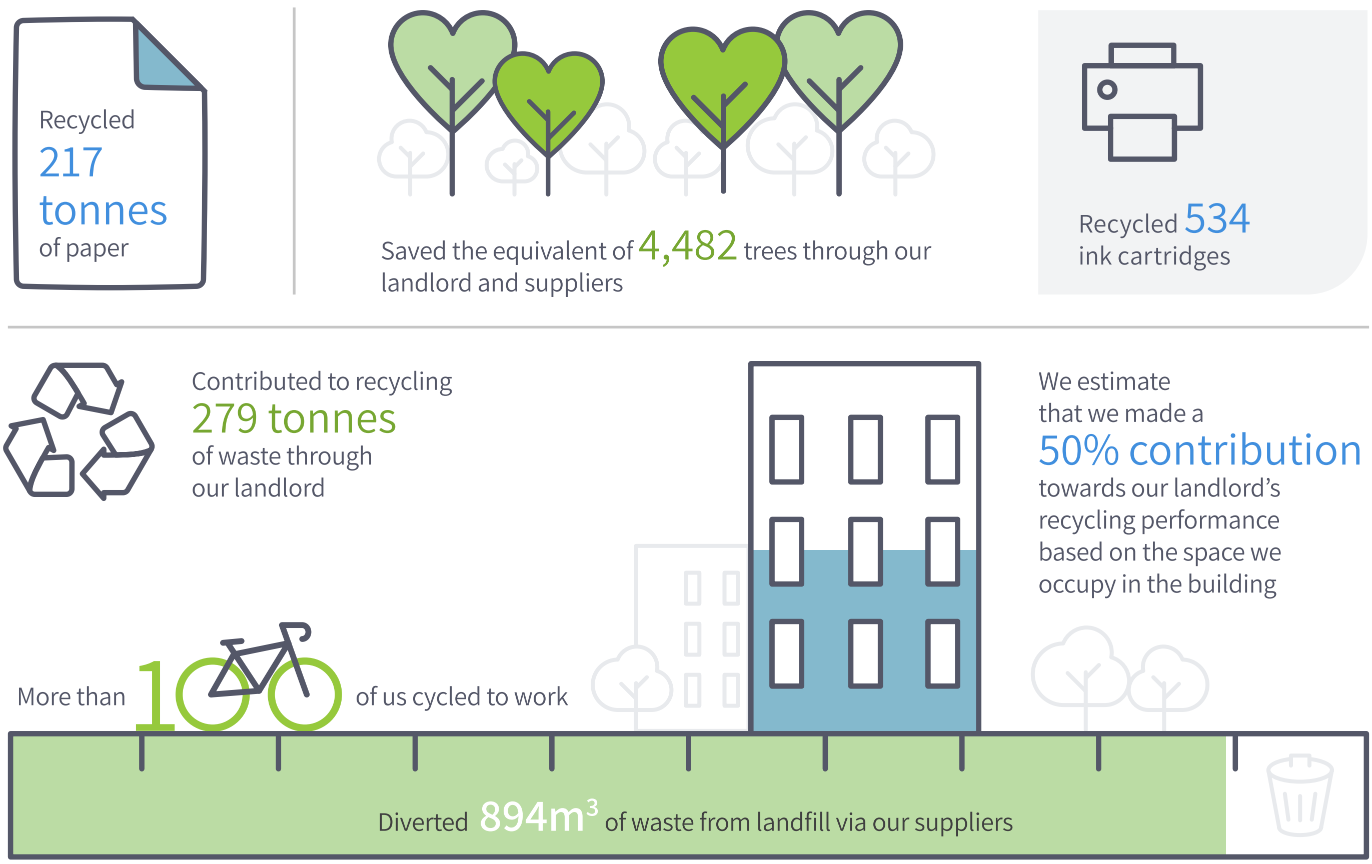
This year we've maintained our commitment to running a sustainable organisation and proactively minimising our impact on the environment. This is mainly through our property portfolio, energy consumption, paper, and waste. We also ensure our suppliers share our values and commitments.

Building on the success of our first Carbon Trust plan, we've continued to work towards our aim of reducing our carbon footprint by 45% by 2022. We've also reduced our property portfolio – by releasing over 60,000 square feet this year. This both helped reduce our carbon footprint and allowed us to use our space more efficiently.

Our people support our environmental objectives – through minimising waste and disposing of it in the right way, using technology and office space well, and switching off electrical devices when we don't need them. This year, we've reduced our paper use as a result of providing suitable laptops and other equipment for employees, and through the new technologies we've introduced, including our new case management system, we've required fewer printed documents.

We've dramatically reduced the number of single-use plastics and disposable cups by giving all staff a reusable cup. And as we've introduced more environmentally-friendly products and devices, we've extended the life of our used monitors by either donating them to charity or making them available for staff to take home, helping to facilitate effective home working as part of our smarter working programme.

This year we:



In 2019/20 we ran a staff survey to gather feedback on our social responsibility and sustainability policy, and used it to update our action plan, which brings together initiatives from across the organisation.

The policy has four pillars: our organisation; our people; our community and customers; and our environment. This section covers our organisation and our environment, while our people, community and customers are covered in the 'corporate social responsibility' section on page 66.

Our properties

Our offices are in South Quay, part of Tower Hamlets in London, with the majority of our estate at Exchange Tower. We continue to lease two floors at the Friargate building in Coventry, owned by Coventry City Council.

As part of our strategic Horizons programme, this year we've acted to ensure we're using our workspace efficiently – helping to contribute to better financial and environmental performance. This included running a study to look at how frequently our desks were being used. In London, we identified improvements we could make in desk utilisation, so we decided not to renew our lease on one of our floors at Exchange Tower – saving around £1.1m a year. We also decided to not renew the lease at nearby South Quay Building, saving a further £2.2m a year and reducing our property portfolio by a further 15%.

Our property portfolio is kept under regular review – including assessing our physical presence nationally – and we'll look for future opportunities to help us be more sustainable and reduce our carbon footprint. Figures in this section combine estimates received from our Exchange Tower landlord and our own estimations for our Walbrook building.

As part of our post-Covid plans, and in accordance with our ongoing property strategy, we are evaluating how much office space we'll need and can afford, and plan to reduce costs by exiting some of our property portfolio in the South Quay area of Tower Hamlets.

Property performance

Electricity	2019/20	2018/19	2017/18
Non-financial indicators (kWhs)	3,414,541	3,944,364	5,661,074
Financial indicators (excl. VAT)	£481,889	£491,371	£736,423

Business travel

Personal mileage amounts	2019/20	2018/19	2017/18
Mileage	17,147	37,751	94,333
CO_2 e Kg*	5,034	11,083	27,693

Our figures include mileage allowance and taxis booked through our corporate account. Transport costs claimed through individual employee expenses are not included.

* CO_2 calculated using the National Energy Foundation formula.

Paper consumption

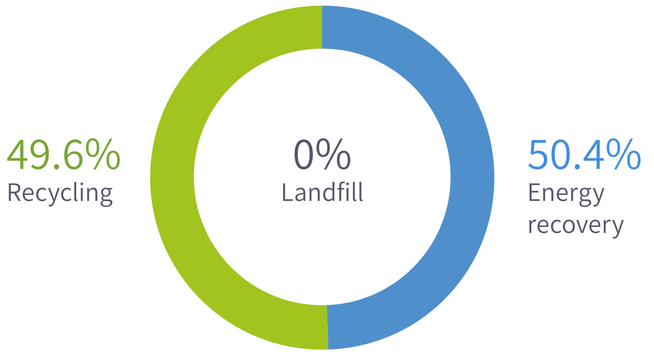
During the year, we introduced our new case management system, Phoenix, and our smarter working programme. Both of these have reduced our need to print, leading to a reduction in printing and general paper use at our offices. For example, by improving our workflows, Phoenix has reduced unnecessary documents being generated, making it easier to correspond with customers solely over email. And by centralising all our printing, it has reduced erroneous printing and paper consumption. As our people have been working remotely since March, our paper reduction has fallen even further. We have been communicating with our consumers and businesses by phone and email, as we haven't been in the office to use our central print functionality.

We continue to scan every item of correspondence we receive from our consumers and businesses – we have an efficient process in place for businesses to send their files electronically, which has reduced transportation as well as saving time and money. Since we launched Phoenix, we have seen more correspondence being sent electronically, and this will increase as we wind down our legacy system.

	2019/20	2018/19	2017/18
Sheets of paper	3.6m	12.85m	9.46m
Cost of paper	£17,729	£60,648	£35,499
Scanned correspondence – number of pages	3.3m	4.7m	5.5m
Business files received electronically	165,530	103,925	84,423

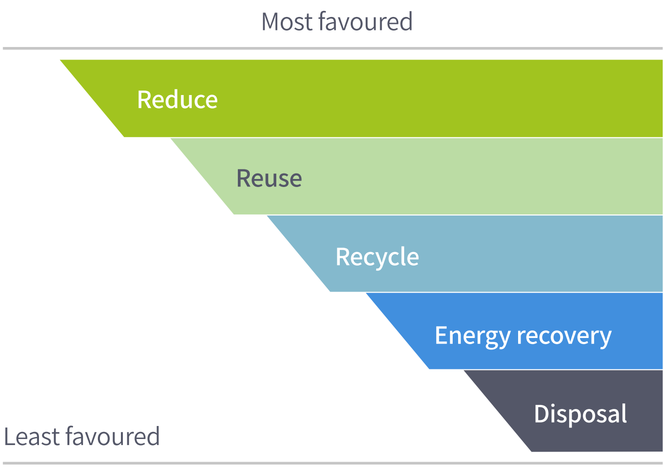
Our waste

We encourage our people to dispose of their waste in a way that helps to reduce our impact on the environment. Every floor of our offices has recycling, non-recycling and food waste bins. Under our service charge, our landlord disposes of the waste we generate as part of its own waste strategy. Based on our occupancy, we estimate that we've contributed half of the waste recycling achievements at our Exchange Tower office.



The materials we recycle are paper and cardboard, cans, plastics, glass and dry mixed recyclables. Waste that can't be recycled is burned for recovered energy: the ash from the incinerating process is used in the construction industry, and the air pollution residue is recycled into building blocks as well as refuse-derived fuels.

Our preferred environmental option



In addition, we recycle confidential papers and any written correspondence we receive through our suppliers.

	2019/20	2018/19	2017/18
Paper recycled (kg)	216,910	264,380	657,391
Waste diverted from landfill (cubic metres)	894	1,131	2,661

This data is provided by SITA (confidential waste) and Restore (archive).

Sustainable procurement

We want to work with suppliers who take their impact on society and the environment as seriously as we do. This year, we introduced an annual social responsibility questionnaire to key suppliers, and updated our contract management training and guidance with a stronger emphasis on social responsibility.

The questionnaire asks suppliers to share and demonstrate their approach to corporate social responsibility and environmental protection to ensure they share our values.

When tendering for products and services, we use a framework agreement which has strict environmental standards which suppliers must adhere to. Suppliers' performance is closely monitored.

We also review our suppliers' *Modern Slavery Act* (MSA) statements to make sure they're up to date and signed off by the CEO, and review our MSA policies annually. This year, we've strengthened our internal procurement documentation and included guidance on the *Social Value Act* and the *Equality Act*. We've also updated our contract management training to place a greater emphasis on social responsibility and equality, diversity and inclusion. These are now a standard agenda item with our key suppliers.

Smarter working

Our smarter working programme aims to transform the way we work through better use of technology and workspaces. It means managers and their teams have more options for choosing the best workspace for the particular work they're doing.

It supports our wider work to provide flexibility in where and how our people can do their job – which helps us both to improve people's wellbeing and to maintain and attract a diverse workforce. And it also helps us to improve our efficiency and reduce costs by way of the savings we can make in physical office space.

Informed by workshops and a staff survey we ran in 2019, we launched our transition to smarter working in early 2020, initially to 600 people in our support teams. The launch focused on making our people feel prepared, and included an online toolkit, workshops on using new technology effectively, and on cultural aspects including how to engage dispersed teams. We're monitoring the benefits we expect to see, and will be incorporating our findings into a business case for a wider rollout of the programme to our casework teams.

Following government advice on Covid-19, we directed our people to work from home, so we could continue to serve our customers remotely. This required a rapid response to increase IT capacity to support remote working. We were able to achieve 75% of our normal view and case resolution output within a week, subsequently building on this capacity, with almost all our staff working remotely by the time the government restrictions formally began.

Following this change, we explained to customers that, as far as possible, they should contact us via online channels for the duration of the time we're operating remotely. However, to ensure we remain accessible to those who are unable to communicate this way, a small number of colleagues have since been visiting our offices to manage correspondence received by post.

Health and safety

We're committed to protecting the health, safety and wellbeing of everyone who works for us and with us. Our dedicated health and safety team includes our property management team, managers, first aiders, mental health first aiders, fire marshals and our health and safety steering group, who help raise awareness of health and safety matters.

In 2019/20 we:

- Continued to support our people with workplace adjustments. 35 people were supported with a workplace adjustment this year and 228 people with workplace comforts such as back rests and foot rests (read more about our workplace adjustments policy on page 59).
- Since the outbreak of Covid-19, contacted all 156 of our staff who have a workplace adjustment to ask what they needed to overcome any barriers caused by working remotely. If they had experienced difficulties, we explored options to overcome them, including providing adjustments at their homes. We ran virtual assessments to ensure their home working environment was safe and comfortable.
- Created a mandatory e-learning module about effective remote working, provided equipment through our IT portal, and made approximately 400 office chairs available to all staff.
- Reviewed our fire risk and general assessments, linking in with landlords ensuring processes were aligned, and we continued to engage with our people making them aware of information on health and safety matters.
- Continued to run e-learning training, which included manual handling, working at heights and fire marshal training. Our first aiders continued to receive specialist training from St John's Ambulance. We also launched our management health and safety e-learning module, which provided managers with important information to help them support the safety and wellbeing of their people. 469 colleagues completed health and safety training.
- Continued to support our people requiring assistance when leaving our buildings in an emergency by creating personal practical plans to help them exit safely. We currently have 34 plans in place.
- Rolled out smarter working to our support functions (see page 63). Health and safety was at the heart of ensuring our people, including managers responsible for teams, understood and followed guidance when working remotely – including how to ensure a safe working environment.
- Reviewed our health and safety policy.
- Increased the number of our trained mental health first aiders (see page 59).

During the year, our people reported:

- Work-related accidents – 22 (32 in 2018/19).
- Ill-health requiring first aid – 56 (44 in 2018/19).
- RIDDOR incidents (Reporting of Injuries, Diseases and Dangerous Occurrence Regulations) – 0 (1 in 2018/19).

In the interests of our people's safety, we acted early and decisively in response to Covid-19. Before restrictions on movement were put in place, we installed additional hand sanitisers at our offices, deep-cleaned our offices, and established a working group to review the latest information and communicate to our people. As we explain on page 34, as government instructions developed, we managed an effective transition to remote working for our employees, while maintaining our core service for our customers. As we consider and plan for a phased return to the office, we will continue to closely monitor official advice and guidance to ensure we cover key areas including cleaning, social distancing and other health and safety requirements.

Sickness absence

Through the focus on wellbeing and supporting managers in how they respond to sickness, our sickness absence rate fell this year to 3.7% – the equivalent of 9.6 days lost per person. This was better than our target of no more than last year's performance of 3.9%.

We're working to make sure this improvement continues, having implemented a new policy in 2018. This year we launched a wellbeing strategy, and sought the advice of occupational health specialists. The focus of the new approach is supporting people's wellbeing, and ensuring that people who've experienced health problems both return to health and remain healthy at work. Managers have received training in how to support members of their teams in this way. We have also run campaigns to promote healthy hearts and blood pressure checks, and will continue to focus on proactive health management to support people's wellbeing so that we can reduce sickness absence further.

Building on our work in previous years, we've continued to encourage conversations between employees and managers on challenging topics – including menopause, cancer and domestic abuse. This year we held events and created guidelines for managers and employees on such topics, to help overcome stigma surrounding them. We also signed the Employers' Initiative on Domestic Abuse, and are running a campaign to promote awareness of our safeguarding policy and domestic abuse guidelines.

In line with national trends our sickness absence has dropped significantly since April 2020 and the shift to remote working prompted by the pandemic.

Benefits and financial wellbeing

Supporting our employees' financial wellbeing is a core part of our strategy. We offer a wide range of financial benefits to make our employees' money go further, and to help protect them from financial hardship in times of need or crisis.

For employees who have passed probation, we provide private medical insurance, critical illness cover, income protection, and life assurance, and offer a wide range of optional benefits, including travel and dental insurance, and a technology scheme. Our pension for all employees is non-contributory up to 12%, and increases up to a further 3% matched, and we offer regular pension and retirement workshops throughout the year. In the past year we've provided all eligible employees with access to a virtual GP service and added a fitness test as an additional health assessment option. We also increased the amount people can spend through our cycle to work scheme from £1,000 to £2,000.

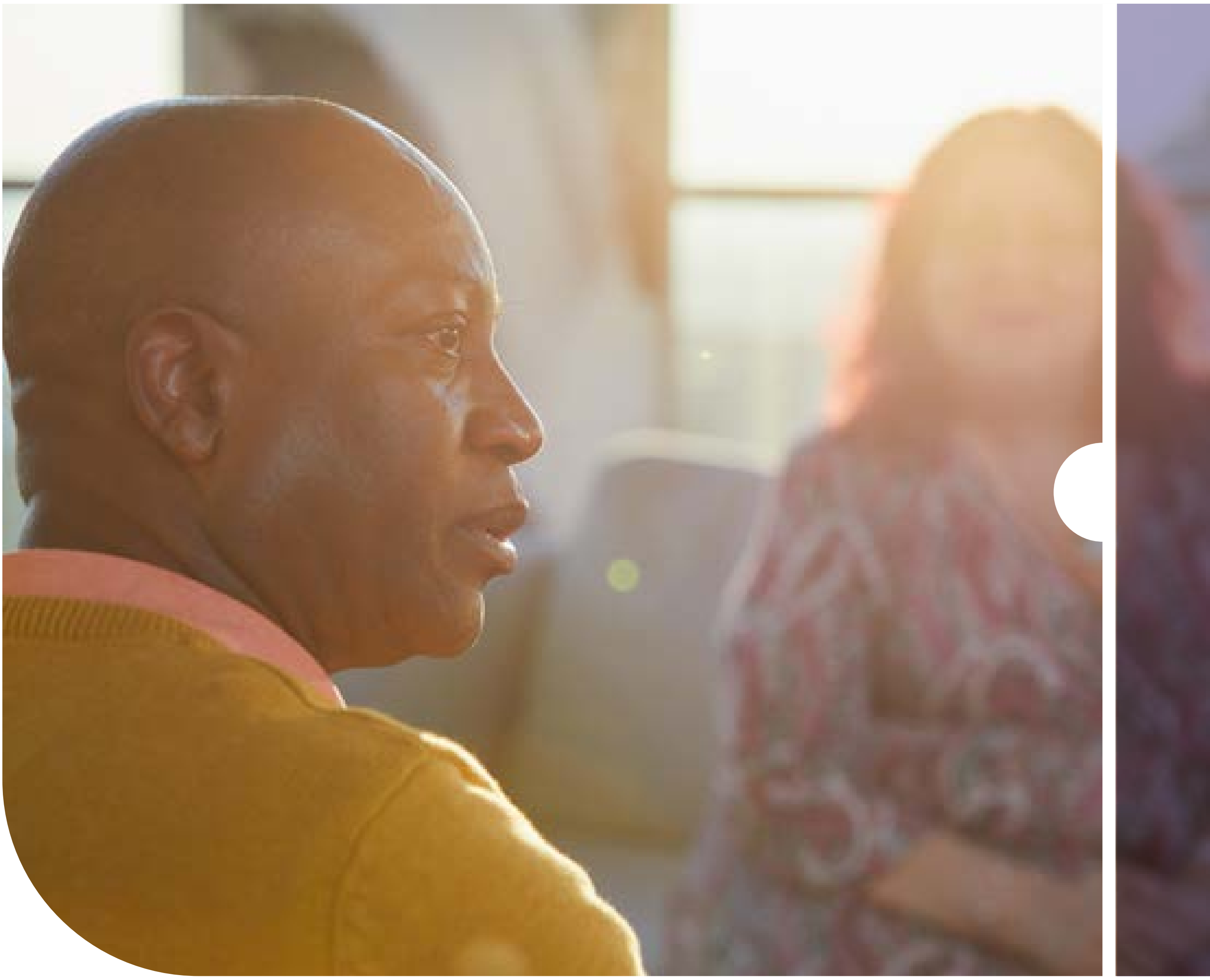
In October 2019, we surveyed staff on benefits and financial wellbeing, and found that 92% of our people think our benefits are valuable. We'll use the feedback and market insight as we continue to assess the benefits we provide. Following previous feedback from staff in April 2019, we trialled a rental deposit scheme and following responses in this year's survey we've made the offering permanent from 2020.

Corporate social responsibility

Since our service was established, our people have come together to contribute to our local communities and support charitable initiatives.

This activity is led by our Giving Something Back Committee, which shares and champions opportunities to work with and support our partner organisations. Our chosen charity partner this year is young suicide prevention awareness charity Papyrus.

Our people also continued to participate in payroll giving schemes – including Pennies From Heaven, where people's salaries are rounded down to the nearest pound and the difference donated to charity, and Pay It Forward, where people donate directly from their salary.



Volunteering

Our volunteering policy gives people up to two days' paid leave to volunteer through East London Business Alliance (ELBA) or City Gateway.

Through City Gateway, we've continued our twice-weekly literacy lunch sessions during the school term. The sessions are open to women who primarily or entirely speak languages besides English and have been developed to help marginalised women in the local community (aged 19+) to learn and practise their English as well as gain confidence in communication.

We've continued our **literacy lunch sessions** through City Gateway

> When I was younger the support offered to young people in terms of careers and job opportunities was relatively non-existent.
>
> There were some very limited work experience placements, mainly geared to you being free manual labour for a week or two. Failing that if you were lucky you received a 10-minute slot at the local careers centre, however unless you were predicted exceptional grades you were told the outlook was grim.
>
> I have never forgotten that period in my life, when I needed support the most it was impossible to find. Ever since I've started full time employment I've looked for volunteering opportunities to support, encourage and motivate the next generation around the subject of employment and forging out a career.
>
> We have hosted a number of volunteering sessions at the service. Primarily these have involved feeding back to school leavers on presentations, answering questions about what it's like to work in a professional environment, sharing hints and tips about interviews, CVs and the importance of hard work, commitment and enthusiasm once employed.
>
> Taking the time to listen to their concerns and being able to give valuable insight is so important as they move towards taking the first step on the career ladder.

ELBA volunteering opportunities by Desmond Gaffney (head of casework)

Learning and development

In 2019/20 we looked to shift the emphasis of our learning and development activity, empowering our people to take control of their own learning and development. In practice, this has meant moving away from face-to-face training, using techniques and resources such as digital platforms – which will be especially valuable while our people necessarily work from home due to the Covid-19 pandemic – and coaching and mentoring by peers.

We've also moved towards experiential "blended learning", such as online resources, peer-to-peer learning, drop-in sessions and team challenges. We've used this approach in our management development programme, and we're offering training for our senior investigators and senior advisers designed to deliver a better customer experience. Working closely with our wellbeing manager, we released an e-learning course for all our people on safeguarding – helping us to identify signs of potential safeguarding concerns from our casefiles or from conversations with consumers or colleagues (see page 65).

Our learning and development team have also been supporting organisation-wide programmes aligned to our strategy, such as developing an investigation career journey framework, and the rollout of smarter working. In addition to ongoing workshops and online resources focusing on working with change, uncertainty and ambiguity, we've provided "career conversations" workshops, and a "shaping your career journey" online programme, to support employees as we move our PPI casework further towards its conclusion. We provided resilience workshops for staff to help enhance their emotional intelligence and boost their wellbeing.

Following an initial phase involving our executive team, we've now launched the next stage of "reverse mentoring", where senior colleagues are mentored by more junior colleagues, to help promote inclusive leadership. All participants from the executive stage said they would recommend the programme to a colleague. We continue to support individuals across the service for professional and personal development through sponsorship so people can grow and perform in their jobs more effectively.

More recently, we've provided online resources for our leaders and managers to help them in motivating, collaborating and engaging their teams during remote working. When upgrading our case-handling system, we developed online training for all our new investigators in case- and call-handling.

Apprenticeships

As an organisation with more than 250 employees, we are in the scope of the Government's Public Sector Apprenticeship Target. This means we should employ at least 2.3% of our workforce as new apprenticeship starts from 1 April 2017 to 31 March 2021, and report annually on the average we've achieved each year. This section represents our Data Publication Return.

This year, we expanded our apprentice programme, taking on our first cohort of early careers apprentices, and continued to use the programme to attract, develop and retain the talent we need to meet our strategic priorities. Our apprentices work in both our casework and support teams, and experience a blend of training and working, as well as mentoring by their managers. Since we began our apprenticeship programme, 22 apprentices have passed their qualifications, 17 with distinction.

Our apprenticeships strategy has four objectives

- To broaden and support all the different ways people enter our service – whether at entry level or an experienced hire, career changer or returner.
- To offer a variety of programmes designed to upskill and develop colleagues at different points in their careers.
- To create robust and effective professional development for investigators.
- To prioritise the professional development of some skills over others, according to organisational needs.

Some highlights and developments from 2019/20 include:

- Having 59 people start new apprenticeships.
- 19 people passing their ILM apprenticeship at either level 3 or 5.
- Holding two events for our apprentices in National Apprenticeship Week in February 2020.
- Giving awards to those who had shown exceptional commitment to our values, to rising stars who showed accelerated growth, and to an apprentice champion.
- Holding a graduation event for our existing staff who completed a qualification via an apprenticeship.

We're pleased with these achievements – and proud of the enthusiasm both new and existing colleagues have shown for developing their careers with us via an apprenticeship. Some of our apprentices have shared their experience in personal stories on our website.

Despite these positives, however, we haven't been able to extend apprenticeship opportunities to as many people as we'd wanted to – and we haven't met the Government's public sector apprenticeships target this year.

Reflecting the challenges we outlined in our 2018/19 *annual report and accounts*, the primary challenge we're facing is that there isn't yet a suitable apprenticeship standard that covers our investigators' full development. From August 2019, we piloted a 15-month customer service level 3 apprenticeship programme which involved 17 investigators in our academy. Our initial assessment, based on our conversations with course providers, was that while this programme wasn't directly focused on case handling, it could be tailored to our investigators' role. Unfortunately, as part of our ongoing evaluation, our people's feedback suggested our own in-house training was far more rigorous and valuable than the standard offered by the provider. We took the decision to stop this pilot after six months, and this has affected our ability to meet our apprenticeship target for this year.

We've nonetheless learned from this experience, and are now looking to refine our requirements so that we can find a specialist programme more tailored to our needs. We are also considering the option of becoming a trailblazer organisation, setting our own investigator standard.

What our apprentices' line managers say

> **"A real ambassador for apprenticeships in general and has spent time collaborating with peers to help us show what working for the Ombudsman is like.**

> **"He has been a role model in his behaviour since he joined the ombudsman service, isn't daunted by tasks he is given to work on and sees them as a challenge to aid his development.**

> **"He has grown from strength to strength and has maintained such a positive momentum in his apprenticeship to date – never shying away from a challenge, but at the same time not shying away from asking for help too.**

Public sector target activity return 2019/20

Reporting requirement	Description	Our data for 2019/20
Figure A	The number of employees whose employment in England by the body began in the reporting period in question.	352
Figure B	The number of apprentices who began to work for the body in that period and whose apprenticeship agreements also began in that period (this includes employees who were already working for the body before beginning their apprenticeship, as well as new apprentice hires).	59
Figure C	The number of employees employed in England that the body has at the end of that period.	2,744
Figure D	The number of apprentices who work for the body at the end of that period.	42
Figure E	Figure B expressed as a percentage of figure A.	16.8%
Figure F	Figure D expressed as a percentage of figure C.	1.5%

Employee engagement

It's essential our people understand the role they and everyone else has to play in our service's success: both currently and as we put in place our future strategy and supporting plans.

Our internal communications and engagement team – which was strengthened and restructured last year – is now well established. The team has close working relationships across service, allowing us to understand and engage people sensitively and effectively.

In 2019/20, remaining flexible and adaptable to uncertainty has been a constant theme – particularly in light of uncertainty around future volumes of PPI complaints, and later in the year, the unprecedented impact of the Covid-19 crisis. In this light, making sure our managers are equipped to lead and engage their teams has been a key part of our employee engagement approach. Senior managers have helped shape our strategic priorities and direction of travel through interactive meetings led by our executive team. And as part of a wider refresh of our internal communications channels, we introduced a monthly managers' bulletin, which gives all the tools and information our managers need to help them lead their teams.

As we've continued to develop our future strategy, we sought contributions and views from people from across our service – including via face-to-face sessions. Through our regular internal communications channels, we've updated all our people on our organisational performance and priorities, within the context of the wider financial landscape – from sending regular updates from the executive team, to creating new dedicated areas on our intranet. And our executive team have held monthly lunches with groups of people from across the service, including all new investigators. At these lunches, people have had open discussions with members of our executive about what matters to them.

In January 2020 we began the phased roll-out of our employee survey: an approach which will allow us to understand what matters most to different parts of the organisation. The first phase of this survey was for our investigation teams – the largest part of our organisation. It had a high response rate of around 74%, and showed strong engagement and commitment scores. We've also continued to work with independent engagement experts Qlearsite, who support us with our staff surveys. We launched Open Door, a new way for people to share their thoughts and ideas about a range of topics. This started with social responsibility and sustainability, and the feedback has helped shape our updated policy in this area.

Since the outbreak of Covid-19, which has meant all our people need to work from home, our focus has been making sure our people still feel connected to their colleagues and to the service as a whole. Through existing and new internal channels, we have developed approaches to help all our people feel connected, engaged and informed – from providing regular updates from the executive team, to encouraging teams to maintain informal conversations and social events.

Managing information and protecting personal data

We handle a lot of personal data, so we take our information management very seriously.

In 2019/20 we:

- Appointed a new data protection officer and strengthened our data protection governance arrangements.
- Refreshed and implemented a new privacy management programme.
- Created a new privacy and security training and awareness programme for the next financial year.
- Reviewed and revised our privacy impact assessment (PIA) and data protection impact assessment (DPIA) process, to further embed data privacy in our operations.
- Rapidly mobilised remote working across the service while ensuring our people were taking appropriate privacy and security measures. We supported this through investing in new technology to help our people to work securely.

This year we resolved more than a quarter of a million complaints – as part of which we've necessarily needed to handle significant amounts of sensitive personal and financial information about people across the UK. We have a legal duty under the *EU General Data Protection Regulation 2018* (GDPR) and the *Data Protection Act 2018* (DPA) to ensure that all the personal data we hold, including information about our own people, is used responsibly and protected at all times.

In November 2019, we appointed our new chief information officer (CIO), Nicola Wadham. Reporting directly to the chief ombudsman & chief executive, Nicola leads our technology and wider information functions through significant cultural and operational change as we develop new ways of delivering our service through technology. Central to this change is that we maintain the standards we've embedded as part of the GDPR and DPA.

Freedom of information

The volume of Freedom of Information requests increased by 8% in 2019/20 to 455 requests. We responded to 73% of these within 20 working days, compared to 89% in the previous year – and believe this is being driven by the higher volume of increasingly complex requests, coupled with the stretched resources of our team.

The most common requests continue to be for information about volumes and outcomes of complaints that isn't available in our regular data publication, and for information relating to our publications, processes or guidance.

We've maintained our commitment to publishing information in our regular publications and on our website. We signpost people to this published information when what they've requested is already publicly available. We will also be publishing information about the number of freedom of information requests we receive and respond to each quarter on our website.

By order of the board

Julia Cavanagh
Company secretary
27 October 2020

Governance

Members of our board 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 chair, 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. In line with the legislation mentioned above, all board members are independent.

Under our articles of association, the board must consist of a minimum of three directors. On 31 March 2020, the board consisted of six non-executive directors. Members of the board are required to complete an annual declaration about their current interests and those of people connected with them – and to confirm that those interests don't conflict with their position as a director of the Financial Ombudsman Service (see conflicts of interest on page 77).

Changes to board appointments

Baroness Zahida Manzoor CBE succeeded Sir Nicholas Montagu KCB as chairman after his term ended on 1 August 2019.

On 31 August, Baroness Diana Warwick and Sienne Veit stepped down from the board when their terms came to an end. On 22 February 2021, Alan Jenkins will step down from the board when he reaches the end of his final term.

Following the recruitment process that began in May 2020, Heather Lauder and Graham Brammer joined the board on 1 September 2020, and Bill Castell on 12 October 2020. Sarah Lee will join on 3 January 2021. New board members' biographies are available on our website from their start date.

Recruitment

The recruitment process for non-executive positions is open and transparent, with advertisements running in the national media.

We make appointments as an equal opportunities employer, in line with the principles of fairness and impartiality and our commitment to diversity and inclusion. Board appointments are made by the FCA, and in the case of the chair, with HM Treasury approval.

Following an open recruitment process which began in 2018/19, Baroness Zahida Manzoor CBE was appointed to succeed Sir Nicholas Montagu KCB as chairman when his final term came to an end on 1 August 2019. As noted in last year's report, Baroness Manzoor has more than twenty years' experience of operating at board level in large organisations. She has served as The Legal Services Ombudsman for England and Wales and The Legal Services Complaints Commissioner. She was one of eight Regional Chairmen overseeing the NHS and was involved in leading significant transformation programmes. Until May 2019, she was a House of Lords Government Whip and Minister for the Home Office, International Trade and the Department for Health and Social Care.

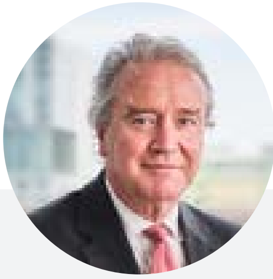
Two board members reached the end of their terms at the end of August 2020, and another board member is due to reach the end of his term in February 2021. A recruitment process began in May 2020 to fill the vacancies left by departing board members and to increase the board size to seven. Following a tender exercise, the service appointed Odgers Berndtson to help support the search. Adverts were placed in the national media and on a number of online platforms to ensure a wide and inclusive search.

More generally, all non-executive directors go through an extensive induction programme to introduce them to the ombudsman service. This includes meeting our executive team, being guided through the way we resolve complaints, familiarisation with our wider support framework, and receiving a directors' handbook of information about the board and the service. Throughout the year, both as a group and individually, the board undertake a number of activities to maintain and enhance their knowledge of our work.

Board membership as at 31 March 2020

Baroness Zahida Manzoor CBE
Chairman
Appointed 1 August 2019
Term expires 1 August 2022

Baroness Manzoor CBE was appointed to the House of Lords in 2013, where she served as House of Lords Government Whip and Minister between March 2018 and May 2019.



Gerard Connell
Non-executive director
Appointed 11 December 2014
Term expires 11 December 2020

Gerard is chairman of the Defence Infrastructure Organisation. He is also a non-executive director of the Nuclear Decommissioning Fund Company Ltd and of Defence Equipment & Support.

Alan Jenkins
Non-executive director
Appointed 23 February 2011
Term expires 22 February 2021

Alan is a non-executive director of the Pension Protection Fund; Northcourt Ltd; Gross Hill Properties Ltd; Sydney and London Properties Ltd; GPS Associates; GPS Malta Ltd; and chairman of the Roehampton Club Ltd. He is also a trustee of the charity, Kids for Kids.

Jenny Watson CBE
Member of the Board
Appointed 1 June 2017
Term expires 1 June 2022

Jenny is chair of the National Online Self Exclusion Scheme and chair of the Independent Complaints Panel at Portman Group (until September 2020), chair of House of St Barnabas, a non-executive director of the Financial Reporting Council, a non-executive director of the Reclaim Fund, Chair of governors at Mossbourne Parkside Academy, and a member of the Mossbourne Federation Central Governing Body.

Baroness (Diana) Warwick
Member of the board
Appointed 1 September 2017
Term expired 31 August 2020

Sienne Veit
Member of the board
Appointed 1 September 2017
Term expired 31 August 2020

More detail about our board members' background and experience is available at www.financial-ombudsman.org.uk/who-we-are/staff/board-directors.

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, our head of board and executive secretariat, is the board secretary.

The strategic 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 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, apart from in the case of the appointment of the chief ombudsman).
- 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 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.
- Approve the annual report and financial statements.

The board is made up entirely of non-executive directors. Members of the executive team attend board meetings on the invitation of the chairman. The board combines executive and non-executive insight to govern the service effectively.

The chairman ensures that the service has a clear strategy and direction – with effective management for its current and future needs. She leads the board and ensures it meets its statutory and corporate responsibilities and is effective in its corporate decision-making.

The chairman provides oversight to ensure the information provided to the board is of sufficient accuracy and quality, including in terms of the clarity of content and the purpose and action required. The chairman has an important role in role-modelling the ombudsman service's culture and values and its commitment to diversity and inclusion, as well as acting as an ambassador for the service externally. The chairman and chief ombudsman & chief executive meet weekly to discuss the operation and development of the service, and the chairman meets other members of the executive team on a one-to-one basis at regular intervals.

The chief ombudsman & chief executive 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 the executive team, role-modelling the ombudsman service's culture and values.

The chairman and the chief ombudsman & chief executive set board agendas in advance, ensuring an appropriate balance between strategic matters and operational and assurance business. The schedule of matters reserved for the board sets out the key areas on which the board and its committees receive assurance during the course of the year – including the service's performance, management of corporate risks and the effectiveness of internal systems and controls.

Board meetings

Discussions on key strategic issues have continued to focus on modernising and developing the ombudsman service, particularly as it prepares for a time when it is no longer receiving high volumes of PPI complaints.

Central to this has been the development of the service's future strategy and defining the focus of the strategic priorities, alongside reforming its funding arrangements (see page 53). As the service builds capacity to ensure it can match its resources to the demand for its help and that it can respond flexibly to continuing volatility in its casework, the board's focus on cost effectiveness and efficiency has been key – as has its oversight of service performance, principally the commitment to reducing waiting times and providing answers on older cases.

Towards the end of the year, as the situation began to unfold in relation to the Covid-19 pandemic, and in the ensuing months, the board kept in close contact about the service's business continuity planning, and then about how it was responding in the light of Government advice. This included closing the office and building the necessary capacity for its people to work at home, and then planning a safe and phased return subsequently. As the service finalised its budget, the board also approved some late changes to the funding arrangements which the service had proposed and agreed with the FCA, designed to help minimise the impact on financial businesses during the Covid-19 crisis.

As noted throughout this report, the impact of Covid-19 will continue to be felt for some considerable time yet, and will provide a backdrop to board discussions on both operational and strategic matters throughout 2020/21 and possibly into future years.

Minutes of board meetings are available on our website at www.financial-ombudsman.org.uk/who-we-are/governance-funding/board-meetings.

Conflicts of interest

Under the *Companies Act 2006*, the board can authorise any potential conflicts of interest that may arise – and impose whatever limits or conditions they consider appropriate.

A register of conflicts is maintained and reviewed regularly to keep all the details up to date. Before a new non-executive director is appointed, they must seek appropriate authorisation for any potential conflicts of interest, and board members must seek authorisation as and when potential conflicts arise during their tenure on the board.

Tenure policy

Directors are appointed for an initial period of no more than three years – or no more than five years in the case of the chairman.

Unless a director resigns before the end of their term of office, their period of office finishes at the end of the term.

Non-executive directors 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. For the chair, this ten-year period includes any time during which they acted as a non-executive director. A non-executive director who wants to resign before their term of office would otherwise be due to end must give at least three months' notice in writing, both to the chairman and to the FCA.

Performance evaluation

Each year the board carries out a formal evaluation of its own performance and that of its committees.

In this evaluation, the board considers the balance of its skills, experience and knowledge of the service, its diversity, how it works together as a unit, and other factors that influence its effectiveness. As part of the evaluation, the senior independent director (who acts as an alternative point of contact to the chair) meets with members of the board on a one-to-one basis to discuss the performance of the board and the chair. This director is currently Alan Jenkins.

For 2019/20, the exercise was conducted internally; next year's will be undertaken by an external provider, in line with good governance practice, which recommends an independent evaluation every three years. The internal assessment took the form of confidential questionnaires completed by board members, the executive team, the board secretary, and in the case of the audit committee, the head of risk and governance, the financial controller, the external auditors, the National Audit Office and the then internal auditors, Deloitte.

The board welcomed the findings which showed that the board was working well and operating effectively. It was agreed the board struck the right balance between strategic leadership and operational oversight responsibilities – although, as always, this was an area that should be kept under review, including in relation to the role played by "critical friends". The results also indicated good relationships between the board and the executive and a strong culture of openness.

The board agreed some areas of focus and improvement, including:

- Keeping the board size and composition under review against the service's long-term strategic vision to ensure it had the right skills mix and experience among its membership.
- Ensuring the right balance between board and audit committee oversight of key corporate risks.
- Being disciplined about board paper length, structure and purpose.
- Setting out firm timescales for actions and follow up work.

Indemnity of directors

Directors' and officers' liability insurance cover is in place for non-executive directors.

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

Corporate governance

As a company limited by guarantee, the Financial Ombudsman Service is committed to maintaining the highest standards of corporate governance in line with best practice.

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

The company has no share capital and no shareholders – and we exercise our right under the *Companies Act 2006* not to hold annual general meetings. Our non-executive directors aren't submitted annually for re-election. But we continuously engage with a wide range of people who have an interest in our work – including, where appropriate, at chair-to-chair level. These stakeholders include financial businesses and trade bodies, consumer groups, regulators and government, parliamentarians, claims management companies and the media. The sections on 'our commitments' on page 30, and 'our stakeholder relationships' on page 41, highlight examples of our key engagement during the year.

Appointment of ombudsmen

Our board is responsible for appointing ombudsmen on terms that guarantee their independence.

As at 31 March 2020, the ombudsman panel was led by Caroline Wayman, as chief ombudsman & chief executive – supported by two principal ombudsmen, six lead ombudsmen and directors of casework, three lead ombudsmen, 30 ombudsman leaders, 246 ombudsman managers, one managing ombudsman, two senior ombudsmen, and 103 other ombudsmen. Each member of the panel is appointed by the board under paragraphs 4 and 5 to Schedule 17 of the *Financial Services and Markets Act 2000*.

Our ombudsmen's professional qualifications and experience reflect the diversity of our customers and the problems people ask us to resolve. Their wide-ranging backgrounds include financial services, law, teaching, local government, human resources and charities and the third sector – and we publish brief career histories on our website at www.financial-ombudsman.org.uk/who-we-are/staff/ombudsmen.

Time commitment and attendance at board meetings

On average, the chairman spends two days each week on ombudsman service business.

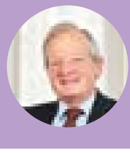
The time commitment of other board members amounts to around two days each month. The executive team is grateful to the chairman and board members for the additional time they give to support our strategic development.

The board met seven times during the financial year 2019/20. This table shows the number of meetings attended during the year.

	Board meetings
Sir Nicholas Montagu, chair	2/2
Baroness Zahida Manzoor	5/5
Gerard Connell	7/7
Alan Jenkins	6/7
Diana Warwick	7/7
Jenny Watson	7/7
Sienne Veit	6/7

Board committees: Audit committee

Committee board members

The committee met four times during the financial year 2019/20. This table shows the number of meetings attended during the year.

	Meetings attended
Gerard Connell, chair	4/4
Alan Jenkins	4/4
Jenny Watson	4/4

The board is satisfied that the combined knowledge and experience of the audit committee members ensures that it can fulfil its responsibilities effectively. During the year, as well as its review of the directors' report and financial statements, the committee's main business included:

- Reviewing the key corporate risks and progress in reaching tolerance levels, including noting a "deep-dive" risk review focused on the service's flexibility and resilience to changing priorities and the surrounding environment.
- Noting the service's continuity planning in preparation for the possibility of a "no deal" exit from the European Union.
- Recommending the service's 'smarter working' business case for approval by the board.
- Reviewing updated policies on gifts and hospitality, social responsibility and sustainability, revenue recognition and investments.
- Noting updates on various pension matters, including the FCA's Master Trust application.
- Agreeing the objectives of the internal audit plan over the medium term, and agreeing the in-year plan and any amendments.
- Monitoring progress against the annual internal audit plan and reviewing all the findings from completed internal audits in the year and considering our internal audit requirements for future years.
- Reviewing advisory reports undertaken by the internal auditors, including the "lessons learned" review of the implementation of the service's new case-handling system.
- Noting the corporate risk register, and entries on registers covering gifts and hospitality, single tender actions, fraud, whistleblowing, investment and data protection.
- Reviewing and/or investigating the findings from whistleblowing referrals, as appropriate, whether raised through the formal 'speak up' process or through other relevant informal channels.
- Agreeing the external audit and production of the *annual report and accounts*.

The chief ombudsman & chief executive, chief financial officer, financial controller and head of risk and governance are invited to attend all audit committee meetings. The NAO and the ombudsman service's internal auditors are also invited to attend the meetings. The chair updates the board on the committee's activities and the minutes are also shared.

Audit committee's terms of reference

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"). The NAO has direct access to the chair to discuss financial reporting matters and is invited to all audit committee meetings. Our *annual report and accounts* is subject to audit by the Comptroller and Auditor General, head of the NAO.

The committee's full terms of reference are available at www.financial-ombudsman.org.uk/files/2630/audit_committee.pdf

Remuneration committee

The committee met twice during the financial year 2019/20. This table shows the number of meetings attended during the year.

	Meetings attended
Jenny Watson, chair	2/2
Sir Nicholas Montagu	1/2
Baroness Zahida Manzoor	0/0*
Gerard Connell	2/2
Diana Warwick	2/2

* Committee meetings took place before Baroness Manzoor's start date.

During the year, the committee's main business included:

- Agreeing changes to the service's reward strategy.
- Agreeing recommendations on the annual pay review and executive salary at risk payments.

The chief ombudsman & chief executive, and the director of human resources and organisation development are routinely invited to attend the remuneration committee meetings. However, neither attends when their own individual performance is due to be discussed. The chair updates the board on the committee's activities and the minutes are also shared.

Committee board members

Remuneration committee's terms of reference

Remuneration strategy
To oversee the remuneration strategy for the executive and other senior posts within the organisation, and support the chief ombudsman & chief executive in reviewing overall executive performance.

Executive remuneration
To consider and agree proposals from the chief ombudsman & chief executive about the remuneration of senior executive staff (no director or executive shall be involved in any decision about their own remuneration).

Overall remuneration
To consider proposals from the chief ombudsman & chief executive regarding overall remuneration across the service, ensuring in the case of ombudsmen that the remuneration terms are consistent with their independence. In considering these recommendations, the committee shall:

- have regard to the service's key commitments and performance against them and take into account any other factors which it deems necessary, including internal and external comparative information and data and information supplied by external parties.

Employee reward and benefits
To consider and agree proposals from the chief ombudsman & chief executive about any proposals for major changes to the employee reward and benefit structure.

The committee's full terms of reference are available at www.financial-ombudsman.org.uk/files/2632/remuneration_committee.pdf

Nomination committee

The nomination committee was not required to meet as a separate entity during 2019/20, with nomination matters, such as the ongoing recruitment process of the new chairman, being picked up during the course of relevant discussions at board meetings.

All members of the board are on the nomination committee, and so it comprises:

Baroness Zahida Manzoor, chair
Gerard Connell
Alan Jenkins
Sienne Veit
Jenny Watson
Diana Warwick

Committee board members

Nomination committee's terms of reference

Board composition
To review the structure, size and composition (including the skills, knowledge and experience) required of the board, including at the end of a board member's current term and when vacancies arise, and make recommendations on behalf of the board to the Financial Conduct Authority for it to approve:

- the appointment of board members; and
- the re-appointment of board members.

Board sub-committees
To appoint members of board sub-committees, taking account of the skills, knowledge and experience required.

Chief ombudsman & chief executive appointment
To make recommendations to the board about the appointment of the chief ombudsman & chief executive.

Recruitment
To ensure that all appointments it advises on, or makes, are made with regard to being a good equal opportunities employer, observing the basic principles of open and transparent recruitment processes, fair, impartial and consistent selection processes, and selection on merit.

The committee's full terms of reference are available at www.financial-ombudsman.org.uk/files/2631/nomination_committee-terms-of-reference.pdf

The independent assessor

The role of independent assessor (IA) is a board appointment, and its remit is governed by formal terms of reference.

The IA can consider complaints from consumers and businesses about the level of customer service we've provided – rather than whether it was right for us to uphold or reject a consumer's complaint about a business.

The IA 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 IA's feedback and recommendations are discussed – as well as any underlying themes in the complaints the IA has received and the action that's being taken to address them.

The IA's annual report to the board and our response will be published on our website in Q3 2020/21. The board accepted the report's recommendations in full, noting how the findings were key to helping the service to learn lessons and improve.

The IA at the time of the report, Amerdeep Somal, came to the end of her term in September 2020, and the board would like to thank her for her commitment and dedication to the role, throughout which her independence and focus on fairness has shone through.

The executive team

The board is supported by the executive team, who are responsible for the day-to-day management of the service.

Led by Caroline Wayman, chief ombudsman & chief executive, 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.
- Manage risks.

As at 31 March 2020, our executive team were:

- Caroline Wayman, chief ombudsman & chief executive;
- Julia Cavanagh, chief financial officer/company secretary;
- Annette Lovell, director of strategy and engagement;
- Caroline Nugent, director of HR;
- Richard Thompson, principal ombudsman and quality director;
- Garry Wilkinson, principal ombudsman and director of investigation; and
- Nicola Wadham, chief information officer.

Statement of directors' responsibilities

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. They have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS).

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company, and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the financial accounts.
- 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.
- Enable them to ensure that the financial statements comply with the *Companies Act 2006* and are in accordance with the accounts direction given by HM Treasury under paragraph 7(5) of Schedule 17 to the *Financial Services and Markets Act 2000*.

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

Going concern

The directors are satisfied that the Financial Ombudsman Service is in a position to meet its obligations as they fall due, and is therefore a going concern.

We have prepared budgets and cash flows for 2020/21 and 2021/22, which show year end reserves of £107m and £101m in the bank at 31 March 2021, reducing to £90m and £66m respectively by 31 March 2022. The financial statements have accordingly been prepared under the going concern accounting convention.

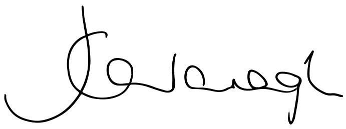
Statement of disclosure of information to auditor

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
27 October 2020

Risk management and internal control

Our risk management framework focuses on ensuring that the right people are having the right conversations about risk.

To achieve this, and manage risks appropriately, it's important we identify key risks for the organisation and agree how to respond to them, bearing in mind our statutory objectives and the resources we have.

The board has overall responsibility for our risk management framework. It sets the risk appetite for the service and agrees our corporate risk themes. Each quarter, the risk and governance team brings together updated risk information from across the service to support any analysis relating to each theme.

In 2019/20 we continued to develop our risk framework, improving the consistency of our risk capture between different areas, and where appropriate, updating our approach to risk or bringing in new analyses to support how we manage and report on risk. We introduced a more structured framework for agreeing risk tolerance levels with risk owners. We more fully integrated risk reporting into our quarterly performance reports to the board, while continuing to undertake deep dive reviews on specific areas of risk at our audit committee. These activities are in addition to the regular risk discussions taking place with senior managers, executive directors, and the executive team.

Our executive team sets the risk tolerance for their areas of responsibility, reviews mitigation plans and monitors risk movements. The risk and governance team engages with the executive and risk owners to discuss their current risks, their target levels of risk, what they need to do to reach them, and their timings.

Each thematic risk report is discussed at the appropriate committee or governance forum for approval – for example, people risks are discussed quarterly at our 'people matters' committee. The risk and governance team is responsible for assessing the extent of risk coverage across the ombudsman service. It provides independent challenge on risk assessments; collates risk information; monitors risk movement, and agrees the quarterly risk report with the executive team for the board.

The team reviews risk to give risk register owners feedback about the content of their registers, including whether risk mitigations and timeframes have been sufficiently defined.

Thematic risks for 2019/20

The executive team, with support from the rest of the organisation, identifies and monitors potential risks to achieving our commitments.

The audit committee oversees this process and the board sets out its expectations on our tolerance for risk.

In May 2019, the board approved revised thresholds and reasons in support of different levels of risk tolerance to help guide tolerance discussions with risk owners.

The executive team takes collective responsibility for overseeing the risk tolerance and mitigations in place for these risks. Risk owners update their risk assessment on a quarterly basis at minimum – or more often for projects and programmes. These assessments are subject to independent review by the risk and governance team each quarter, as part of the formal reporting process to the executive team and board.

The quarterly risk reports for the executive team and board provide summary ratings for each risk theme, supported in each case by category level assessments, all derived from the individual risks identified and owned through the service. The audit committee also reviews the overall risk picture each quarter, considering each theme with reference to both completed and planned internal audits. The audit committee chair updates the board regularly on these discussions to inform their perspective on risk, and produces an assurance report to the board setting out how the committee has discharged its delegated responsibility.

Our year end risk reporting incorporated assessments relating to the impact of Covid-19, with a preliminary risk report provided to the board at the end of March, which was then updated for the formal Q4 report in April. Because of the speed with which the service was able to respond to the initial impacts of the virus and subsequent lockdown measures, we found that the impact on our risk picture had been relatively limited – but we raised our assessment of one risk category – relating to external change – to critical, reflecting considerable uncertainties in the medium to long term. Reflecting on risks arising from Covid-19 became the main focus of our scheduled annual board risk "stand back" session in April 2020. Our updated risk assessment for the end of Q1, 2020/21 continued to show steady progress in addressing wider organisational risks, but we retained our external change risk rating at critical.

Thematic risks for 2019/20

Risk theme	What we've done in 2019/20 to address the risk	What more we'll do in 2020/21
Customer service – including case outcomes, knowledge and accessibility. Commitment area: Our customers Our people	• We have adopted a range of measures to meet the needs of vulnerable customers. Support is provided via our accessibility team and a new designated practice group. • We have successfully implemented our investigation model as part of our contingent workforce – providing us with a more flexible operating model. • We've successfully launched new teams to consider complaints under our new CMC remit and our expanded remit to deal with complaints from small and medium-sized enterprises. • We implemented our case progression tool in our investigation area, providing investigators, managers and leaders with better visibility of existing caseload priorities and delivery. • We launched a new website with improved accessibility, functionality and more information for consumers and businesses.	• We're continuing to develop, pilot and launch new tools to support our core casework operations – looking at how to optimise use of time to meet customer needs and how to improve consistency and responsiveness for customers. • We'll continue to build on the capability of our new website, and continue to explore the use of a portal for customers to access their cases, which integrates with our improved case management system, Phoenix. • We'll continue improving our business information tools to help us to identify and address trends more efficiently and effectively. • We're making use of a range of tools and techniques – for example, remote learning – to help support and develop our casework capabilities.
Flexibility and resilience – including adapting to change, continuous improvement, operational resilience and prioritisation. Commitment area: Our service Our people	• As part of our Horizons programme of work, we successfully rolled out Smarter working for our support functions – providing more remote working functionality and tools to help collaboration. • We also worked on our longer-term strategy plans, and consulted on our future funding arrangements, to ensure, as we look ahead to the conclusion of PPI, that our service is able to effectively manage demand for our help and meet stakeholders' expectations. • We adapted at pace to deal with the disruption caused by the Covid-19 lockdown – tripling our capacity to work from home and working towards restoring an accessible phone service, so that by year end we had managed to replicate much of our "business as usual" service. • Under the direction of our new CIO we revised our approach to portfolio management, providing a clearer picture of the range of change activity we need to deliver.	• Our new strategic proposals will consider how best to support service operations in a flexible and resilient way. • So far this year we've taken a range of actions to support our staff to work safely from home – including e-learning modules on health and safety and data protection, establishing a portal to order equipment to improve home working capabilities, distribution of surplus office chairs to those in most need, and support through areas such as an increased allowance for dependents' leave. We're continuing to consider ways we can optimise our service and move towards a "new normal". • In PPI, as the picture becomes clearer, we're playing our part in bringing this mass mis-selling closer to its conclusion, while recognising the impact of Covid-19 on firms' immediate priorities and operational resilience.
Running the service – including support areas' capacity and infrastructure, and supplier and third-party management. Commitment area: Our service Our people	• We completed a major governance review assessing the way our most senior committees work and making several changes to roles and remit to ensure we were focused on the right areas looking forward. • We recruited new data governance and quality experts to help us take forward our approach to managing information, and refreshed the purpose and objectives of our information oversight committee, with our new CIO joining. • We continued to make greater use of our new procurement software, improving our monitoring of spend against contracts and providing more contract management training.	• We've developed a forward road-map of activity and new "business as usual" processes to help support committees to continue to be effective and help take forward the service's commitments. • We will continue to work on upgrading our support systems in HR and finance, to ensure we have the right capabilities in place to support our operations and our customers. • We'll be making use of a new data quality tool to identify data anomalies and quality issues, and help resolve them. This will help ensure we maintain high quality data to support our casework and the insights we can provide.

Risk theme	What we've done in 2019/20 to address the risk	What more we'll do in 2020/21
Our people – including retention and recruitment, absence management, staff development and workforce representation. Commitment area: Our people	• We've launched Smarter working for support functions, enabling our staff to work more flexibly and with more collaboration tools and spaces within the office – as well as help us recruit from a wider pool of candidates. • We embedded our new wellbeing strategy, and now have a dedicated wellbeing team. • We've improved the training and mentoring we offer all our staff, and particularly our new investigators in our academy. • We've improved our sickness rate following introduction of a new framework to better equip management with the right tools to manage employee absence. • We published our third diversity and inclusion report.	• We'll continue to update our staff with as much information as we can as PPI comes to a close, and particularly the staff who'll be most affected. • We'll continue to seek staff feedback via surveys and engagement tools, and update staff on our strategic plans. • We'll aim to increase the diversity of our service through our talent management and workforce/ succession planning. • We've made use of our "open door" insight survey tool to conduct regular feedback gathering with our people on how they're feeling and what we can do to support them – the actions we've taken in response have led to an increased proportion of our staff telling us they're coping better with balancing home and work.
Our obligations – including internal and external legislative obligations across our service. Commitment area: Our service	• We continued our work to ensure we're compliant with GDPR, and refreshed our data protection advisory group which provides regular oversight, supporting our data protection officer. • We built on lessons learned from unplanned building evacuations, working with our landlords to ensure that our evacuation procedures were prompt and clear. • We ensure compliance with anti-slavery legislation as each year, with our annual statement approved by our board. • We are committed to meeting corporate social commitments by making sure our suppliers comply with the London living wage. We exceeded our previous target of a 30% carbon footprint reduction, reducing it by 67% per person. There's more information in the section 'environmental performance and sustainability' on page 60.	• We have worked with the Carbon Trust to develop our new five-year carbon management plan with a target of achieving a 45% reduction on our current baseline by 2022. We aim to achieve this through property rationalisation, case handling technology, and smarter working practices. • We'll continue building momentum in and awareness of our new complaints remit and work with stakeholders to ensure they understand our approach. • We'll continue to improve our case management system, with a view to integrating a customer portal.
Our stakeholders – including our external relationships with government, regulators, and the financial services and consumer advice sectors. Commitment area: Our reach and our impact	• We maintained our programme of stakeholder engagement at senior and operational levels, ensuring both that we're accountable for our performance, and that we have the constructive working relationships we need to resolve complaints effectively and prevent them arising. This included our regular engagement with the FCA and HM Treasury, as well as with the parties affected by the extensions to our jurisdiction which took effect on 1 April 2019. There's more information in the sections 'our commitments' on page 30 and 'our work with the regulator' on page 41. • We maintained our working group to review the impact of the UK's exit from the EU, and proactively monitored the potential impact on our staff and wider stakeholders. • In December 2019, we consulted with stakeholders on our strategic plans and budget model, having consulted in July 2019 on initial funding proposals.	• We will continue to engage with our stakeholders as we shape our strategic proposal. • We will continue to share with relevant stakeholders our insights to prevent complaints, especially what we're seeing from the new complaints we've received from larger SMEs and against CMCs.

Internal audit opinion

The head of internal audit provides an annual internal audit opinion based on the work undertaken each financial year. This is based on an assessment of the adequacy and effectiveness of our governance, risk and control environment, and whether these are sufficient to help us achieve our commitments.

We continue to operate a "three lines of defence" model – with risk and governance and other assurance and oversight functions acting as our second line, and internal audit as the third.

Following an open procurement process, we appointed RSM to the role for the 2019/20 year onwards, and the RSM partner on the audit contract took on the role as our head of internal audit. Our 2019/20 audit plan was prepared by RSM and approved by the audit committee in April 2019. The plan was produced following an extensive consultation process with senior internal stakeholders as well as review of key documentation and risk analysis, and provided for a three-year planning horizon with a risk-based approach to audit coverage.

Internal audit is responsible for reviewing the risk management activities of various business areas, taking an independent view of the operational effectiveness and efficiency of our internal controls.

Audit findings include an overall assurance assessment of any significant findings and associated risks. The audit work for 2019/20 covered a wide range of areas. In casework, audits covered our new SME and CMC jurisdictions; the work of our operational contact and customer help teams; our short-term lending and managed operations functions, and our quality assurance framework. All of these audits received a "reasonable" assurance opinion. Elsewhere, audit work focused on change programmes and procedures and in particular information technology. The audit committee continues to monitor implementation of agreed actions arising from internal audit reports.

The head of internal audit's opinion was that overall we had an "adequate and effective framework for risk management, governance and internal control."

Audit work identified enhancements to this framework to ensure it remains adequate and effective, which we continue to implement.

External audit

The Comptroller and Auditor General, head of the NAO, was appointed as our external auditor in April 2013 under the *Financial Services Act 2012*. The NAO liaise directly with internal audit as appropriate. They attend our audit committee and have direct access to the chair of the audit committee to discuss financial reporting matters.

Remuneration report

The board consists entirely of non-executive directors who don't participate in the reward, pension or benefit schemes that we run for our employees.

The fees paid to directors aren't specifically related to individual or collective performance, and directors aren't entitled to compensation for loss of office.

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

During 2019/20 the outgoing chair received an annual fee of £74,970. The new chair received an annual fee of £75,000. 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, the chair of the remuneration committee and the senior independent director. Fees paid to non-executive directors will remain unchanged in 2020/21. Apart from the small increase for the new chair, fees have been unchanged since April 2012.

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

During the year, the independent assessor, Amerdeep Somal, received a salary of £105,535 for 4 days a week (2018/19: £103,382), pension contributions of £15,830 (2018/19: £15,507) and other benefits amounting to £3,702 (2018/19: £4,009).

Fees for the board (audited)	Notes	**Total fees for year ended 31/3/20 £**	Total fees for year ended 31/3/19 £
Sir Nicholas Montagu	1	**25,278**	74,970
Baroness Zahida Manzoor	2	**50,000**	-
Gerard Connell	3	**29,500**	29,500
Alan Jenkins	4	**29,500**	29,500
Jenny Watson	5	**29,500**	29,500
Diana Warwick		**24,500**	24,500
Sienne Veit	6	**6,125**	-
Total		**194,403**	187,970

Notes

1 Nicholas Montagu's term in office ended on 1 August 2019.
2 Zahida Manzoor's term of office commenced on 1 August 2019.
3 Gerard Connell's fee includes an additional fee for chairing the audit committee.
4 Alan Jenkins' fee includes an additional fee as the senior independent director.
5 Jenny Watson's fee includes an additional fee for chairing the remuneration committee.
6 Sienne Veit elected to receive a fee from 1 January 2020.

Expenses incurred by board members (audited)

In line with the memorandum of association, the directors are entitled to be paid travel, hotel and other expenses which are reasonable and have been properly incurred. The expenses incurred by, or on behalf of, the directors during 2019/20 are shown in the table.

Expenses incurred by board members (audited)	Travel £	Accommodation £	Entertaining £	**Total £**
Sir Nicholas Montagu	-	-	115	**115**
Baroness Zahida Manzoor	51	329	5	**385**
Gerard Connell	-	332	128	**460**
Alan Jenkins	-	329	98	**427**
Jenny Watson	-	329	90	**419**
Diana Warwick	89	329	90	**508**
Sienne Veit	-	331	90	**421**
Total	**140**	**1,979**	**616**	**2,735**

Executive remuneration

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

Salaries

Salaries for members of the executive team are reviewed annually by the remuneration committee. Any increases reflect changes in responsibility, inflation, market movements and individual performance.

Reward scheme

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

The level of payment is determined by the remuneration committee, who can also award up to an additional 5% of salary to individual executives for exceptional performance. Reward payments are also considered in line with our progress against the Women in Finance Charter commitments.

Pensions

Members of the executive team are eligible to join the non-contributory defined-contribution FCA pension scheme, which is open to all employees except non-executive directors. The employer makes a core contribution to the scheme calculated as a percentage of salary linked to age, at the rates in the table below. In addition, employees can make extra contributions from their flexible cash benefit allowance and salary up to a maximum of 40% of their salary. For employees who choose to do this, the employer makes a matched contribution to the scheme up to 3% of the employee's pensionable salary.

In 2016, the remuneration committee approved an alternative cash arrangement of 13% for those employees on higher salaries, including the executive team, who want to leave the pension scheme. This alternative arrangement was introduced as a result of the reduction in the tax-free pension allowances that became effective from 6 April 2016.

There are further details about the cost of the pension scheme in note 25 to the financial statements.

Age	Contribution rate
16 to 29	8% of pensionable salary
30 to 34	10% of pensionable salary
35 and over	12% of pensionable 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), income protection cover, critical illness cover, personal accident insurance, health screening, virtual GP and a private medical insurance plan, including family cover. All employees – including the executive team – receive a £800 cash benefit allowance each year, which they can spend on other benefits available under the flexible benefit plan.

Remuneration and benefits for the executive team (audited)

Executive team members	Notes	Salary* £	Pension** £	Other benefits*** £	**Total for year ended 31/3/20 £**	Total for year ended 31/3/19 £
Caroline Wayman	1/2	269,687	30,462	6,692	**306,841**	306,027
Julia Cavanagh	2	203,810	23,021	11,230	**238,061**	237,917
David Cresswell	2/3	3,621	1,610	455	**5,686**	310,823
Annette Lovell	1/4	174,277	18,171	5,307	**197,755**	185,502
Chris McDermott	5	-	-	-	**-**	351,562
Caroline Nugent	1/2/6	158,500	17,875	5,981	**182,356**	150,273
Richard Thompson	2	167,944	19,977	5,538	**193,459**	187,537
Garry Wilkinson		176,864	18,441	6,749	**202,054**	201,842
Nicola Wadham	7	67,083	7,000	2,369	**76,452**	-
Total		**1,221,786**	**136,557**	**44,321**	**1,402,664**	**1,931,483**

* Salary cost comprises base salary including salary at risk.

** Pension cost comprises employer pension contributions paid to the pension scheme on behalf of the individual together with any payments made to the individual in lieu of pension following the changes in pension legislation described above.

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

Notes

1 Executive directors are required to seek approval for, and declare, any other non-executive positions they hold. Caroline Wayman is a non-executive director at the Crown Prosecution Service (CPS), holding the role of Senior Independent Director. Caroline is also chairman of their nominations and governance committee. The role pays a fee of £13,040 per annum. Annette Lovell is a Lay Member of the Office for Legal Complaints (OLC). Her appointment is for three years to 28 February 2021. The role pays a fee of £10,000 a year. Caroline Nugent is on the board of the Chartered Institute of Personnel and Development (CIPD); this is a non-fee paying position.

2 Caroline Wayman, Julia Cavanagh, Richard Thompson, Caroline Nugent and David Cresswell elected to allocate £10,000 of the employer pension contribution into the pension scheme. The remaining employer contribution is paid as a non-pensionable cash supplement. The combined value of these amounts is calculated as 13% of the pensionable salary. Both amounts are included under "pension" in the table above.

3 David Cresswell left the service on 8 April 2019. His salary for 2018/19 includes a redundancy payment of £137,202, which was paid as part of his final salary in April 2019.

4 Annette Lovell increased her working pattern from 4 to 5 days per week from 1 October 2018.

5 Chris McDermott left the service on 15 March 2019. His salary for 2018/19 included leaving payments totalling £141,500.

6 Caroline Nugent joined the service on 23 May 2018.

7 Nicola Wadham joined the service on 1 November 2019.

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

Executive team members	Notes	Travel £	Accommodation and subsistence £	Entertaining £	Professional subscriptions £	Total for the year ended 31/3/20
Caroline Wayman		1,512	1,053	9	-	**2,574**
Julia Cavanagh		266	202	-	501	**969**
David Cresswell		-	-	-	-	**-**
Annette Lovell		801	1,070	-	-	**1,871**
Caroline Nugent		518	411	-	216	**1,145**
Richard Thompson		473	329	5	345	**1,152**
Garry Wilkinson		1,191	329	5	-	**1,525**
Nicola Wadham		96	-	-	-	**96**
Total		**4,857**	**3,394**	**19**	**1,062**	**9,332**

Hutton fair pay ratio (audited)

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

The remuneration* of the highest-paid director** in the Financial Ombudsman Service in the financial year 2019/20 was £276,379 (2018/19: £276,272). This was 6.54 times (2018/19: 6.20 times) the median remuneration of the workforce, which was £42,289 (2018/19: £44,574). No employee received remuneration in excess of the highest paid director. 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 2019/20 was 7.04 times, compared to 7.16 in 2018/19.

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

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

Exit packages (audited)

Exit packages by cost band	2019/20* number (redundancy)	2019/20 number (other)	2018/19* number (redundancy)	2018/19* number (other)
Less than £2,000	-	17	1	9
£2,001 to £5,000	11	22	9	25
£5,001 to £10,000	23	4	26	4
£10,001 to £25,000	35	6	32	5
£25,001 to £50,000	51	9	37	3
£50,001 to £100,000	7	4	9	2
£100,001 to £125,000	-		1	-
£125,001 to £150,000	1	-	1	-
Total	**128**	**62**	**116**	**48**
Total payments (£)	**£3,138,292**	**£814,797**	**£2,705,707**	**£440,503**

* In 2018/19 we reported that, in keeping with our operational plans, 116 colleagues left the service as part of a redundancy programme and we indicated a further 83 colleagues would leave by 30 June 2019. The total number for 2019/20 was 128 including the 83 referred to last year.

The table above comprises the exit packages for leavers in 2019/20. Further amounts totalling £Nil have been accrued at 31 March 2020 representing payments due for leavers in 2019/20 (31 March 2019: £4,246 for leavers in 2018/19) and £Nil for leavers in 2019/20 (31 March 2019: £1,944,792 for leavers in 2019/20). The total charged within the financial statements for 2019/20 is £2,008,297 relating to exit packages (2018/19: £5,095,248). The highest pay-out during the year was £137,202 (2018/19: £141,500).

The certificate and report of the Comptroller and Auditor General to the Houses of Parliament

Opinion on financial statements

I certify that I have audited the financial statements of the Financial Ombudsman Service for the year ended 31 March 2020 under the *Financial Services and Markets Act 2000*. The financial statements comprise the statement of comprehensive income, statement of other comprehensive income, statement of changes in equity, statement of financial position and statement of cash flows and the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law, the accounts direction issued by HM Treasury under the *Financial Services and Markets Act 2000* and International Financial Reporting Standards as adopted by the European Union. I have also audited the information in the remuneration report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2020 and of the deficit for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- the financial statements have been prepared in accordance with the *Companies Act 2006* and HM Treasury directions under the *Financial Services and Markets Act 2000*.

Opinion on regularity

In my opinion, in all material respects the income and expenditure 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Financial Ombudsman Service in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the Financial Ombudsman Service's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Financial Ombudsman Service have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Financial Ombudsman Service's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the directors for the financial statements

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.
- Such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- Assessing the Financial Ombudsman Service's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK).

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Financial Ombudsman Service's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Conclude on the appropriateness of the Financial Ombudsman Service's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Financial Ombudsman Service's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause Financial Ombudsman Service to cease to continue as a going concern.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

Other information

The directors are responsible for the other information. The other information comprises information included in the annual report, but does not include the parts of the remuneration report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the remuneration report to be audited have been properly prepared in accordance with the *Companies Act 2006* and the accounts direction issued by HM Treasury under the *Financial Services and Markets Act 2000*;
- in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report; and
- the information given in the Strategic Report and 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 which I report to you if, in my opinion:

- adequate accounting records have not been kept by the Financial Ombudsman Service or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the remuneration report to be audited are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit; or
- certain disclosures of trustees' remuneration specified by law are not made; or
- a corporate governance statement has not been prepared by the company.

Report

I have no observations to make on these financial statements.

Gareth Davies **30 October 2020**
Comptroller and Auditor General

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

Financial statements

Statement of comprehensive income for the year ended 31 March 2020

	Notes	2020 £000	2019 £000
Continuing operations			
Revenue	4	**242,604**	227,830
Administrative expenses	5	**(276,405)**	(270,137)
Operating (deficit)		**(33,801)**	(42,307)
Finance income	6	**1,571**	1,780
Finance costs	6	**(937)**	(134)
(Deficit) before income tax		**(33,167)**	(40,661)
Corporation tax expense		**(317)**	(354)
(Deficit) for the year from continuing operations		**(33,484)**	(41,015)

Statement of other comprehensive income for the year ended 31 March 2020

	Notes	2020 £000	2019 £000
(Deficit) for the year		**(33,484)**	(41,015)
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Re-measurements of post-employment benefit obligations	25	**2,356**	731
Total other comprehensive income		**2,356**	731
Total comprehensive (expense) for the year		**(31,128)**	(40,284)
All operations are continuing			

Statement of changes in equity

	Notes	Accumulated surplus
Balance as at 31 March 2018 as previously reported		**229,731**
Impact of change in accounting policy	3	**(518)**
Balance as at 31 March 2018 (adjusted)		**229,213**
Total comprehensive (expense) for the year		**(40,284)**
Balance as at 31 March 2019	23	**188,929**
Adjustment to reserves at 1 April 2019	2	**1,627**
Balance as at 1April 2019 (adjusted)		**190,556**
Total comprehensive (expense) for the year		**(31,128)**
Balance as at 31 March 2020	23	**159,428**

Statement of financial position as at 31 March 2020

	Notes	2020 £000	2019 £000
Non-current assets			
Property, plant and equipment	9	**3,254**	4,581
Right of use assets	10	**43,395**	-
Intangible assets	11	**13,851**	18,087
Trade and other receivables	12	**266**	331
		60,766	22,999
Current assets			
Trade and other receivables	12	**23,605**	27,325
Short-term deposits	13	**46,000**	64,000
Cash and cash equivalents	14	**139,567**	127,034
		209,172	218,359
Total assets		**269,938**	241,358
Current liabilities			
Trade and other payables	15	**61,144**	42,251
Lease liabilities	16	**8,335**	-
Provisions for other liabilities and charges	18	**1,451**	1,750
Current corporation tax liability		**157**	190
		71,087	44,191
Non-current liabilities			
Trade and other payables	15	**598**	1,991
Lease liabilities	16	**34,246**	-
Provisions for other liabilities and charges	18	**3,848**	2,213
Post-employment benefits	25	**731**	4,034
		39,423	8,238
Total liabilities		**110,510**	52,429
Total equity			
Accumulated surplus	23	**159,428**	188,929
Total equity and liabilities		**269,938**	241,358

The notes on pages 102 to 127 are an integral part of these financial statements.

The company is exempt from the requirement of part 16 of the *Companies Act 2006* as stipulated in schedule 17, s.7A of the *Financial Services and Markets Act 2000*.

The financial statements on pages 99 to 127 were approved and authorised for issue by the board of directors on 27 October 2020, and are signed on behalf of the board of directors by:

Z. Manzoor

The Baroness Zahida Manzoor CBE
Chairman
27 October 2020

Company number: 03725015

Statement of cash flows for the year ended 31 March 2020

	Notes	2020 £000	2019 £000
Cash flows from operating activities			
Cash inflow/(outflow) from operations		**412**	(33,399)
Corporation tax paid		**(350)**	(275)
Net cash inflow/(outflow) from operating activities		**62**	(33,674)
Cash flows from investing activities			
Purchase of property, plant and equipment	9	**(225)**	(1,022)
Purchase of intangible assets	11	**(370)**	(4,766)
Decrease in short-term deposits	13	**18,000**	30,000
Interest received		**1,741**	1,853
Net cash used in investing activities		**19,146**	26,065
Cash flows from financing activities			
Lease liability payments – principal		**(5,892)**	-
Lease liability payments – interest		**(783)**	-
Movement in long-term borrowings		**-**	-
Net cash used in financing activities		**(6,675)**	**-**
Net increase/(decrease) in cash and cash equivalents	14	**12,533**	(7,609)
Cash and cash equivalents at beginning of the year	14	**127,034**	134,643
Cash and cash equivalents at end of the year	14	**139,567**	127,034

Notes to the statement of cash flows for the year ended 31 March 2020

	Notes	2020 £000	2019 £000
(Deficit) for the year from operations before financing and corporation tax		**(33,801)**	(42,307)
Adjustment for:			
Depreciation – property, plant and equipment	9	**1,552**	2,208
Depreciation – right of use assets	10	**8,907**	-
Amortisation – intangible assets	11	**2,636**	1,196
Interest expense – lease liabilities	16	**783**	-
Interest expense – dilapidations provision		**66**	-
Loss on disposal of property, plant and equipment	9	**-**	17
Loss on disposal of intangible assets	11	**181**	29
Impairment of intangible assets	11	**1,789**	-
(Decrease)/increase in provisions		**(1,000)**	376
Defined benefit pension costs	25	**(1,035)**	(1,035)
Defined benefit pension past service costs	25	**-**	11
Changes in working capital			
Decrease in receivables		**1,542**	7,135
Increase/(decrease) in payables		**18,792**	(1,029)
Cash inflow/(outflow) from operations		**412**	(33,399)

Notes to the financial statements for the year ended 31 March 2020

1. Status of the company

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

The nature of the service's operations is set out in the strategic report.

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

2. Significant accounting policies

Basis of preparation

The financial statements have been prepared on a going concern basis, under the historical cost convention in accordance with IFRS as adopted by the European Union and those parts of the *Companies Act 2006* applicable to companies reporting under IFRS.

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

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

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

Revenue recognition

The intent under-pinning the design of the service's funding model 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. Case fees are charged on a fixed basis irrespective of the time and costs incurred relating to the specific case. Costs directly incurred in dealing with cases are expensed as incurred.

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services rendered. Under IFRS 15, there are five criteria that need to be met in order for revenue to be recognised:

- identify the contract and customer;
- identify the performance obligations;
- determine the transaction price;
- allocate the transaction price to the performance obligations; and
- recognise revenue when the performance obligations are satisfied.

Sources of revenue

Annual levy

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

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

For both the Compulsory and Voluntary Jurisdictions performance obligations are satisfied over the course of the year. Therefore levy income is recognised in the period to which the levy relates.

Group fees

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

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 – the point at which performance obligations are met.

Standard case fees

Businesses that fall outside the group fee arrangement are required to pay a standard case fee of £550 upon closure of the twenty-sixth chargeable complaint referred for investigation to the service and each subsequent complaint in any one financial year. IFRS 15 dictates that revenue should be recognised once performance obligations have been satisfied.

- **General casework** – for cases in progress at the end of the year an adjustment is made to revenue to reflect instances where our performance obligations have been met but we have not billed.

  As a result of adopting the standard we made a one-off adjustment to reduce our opening reserves position as at 1 April 2018 by £518k; removing the effect of the previous policy where we recognised a percentage of the case fee at conversion.

- **PPI casework** – the uncertainty around our PPI workload means there is less certainty around whether cases will close shortly after we have made our first assessment or whether additional work will be required. As a result we only recognise revenue once our performance obligation of resolving and closing the complaint has been fulfilled.

Supplementary case fees

The supplementary case fee was designed to collect sufficient funds to manage the costs associated with handling the unprecedented high volumes of PPI cases over multiple years. Businesses that fell outside the group fee arrangement and had chargeable PPI complaints referred to the service were required to pay a supplementary case fee for the twenty-sixth and all subsequent complaints formally taken on for investigation in the two financial years 1 April 2012 to

31 March 2014. The supplementary case fee was set at £350 for the two years 1 April 2012 to 31 March 2014. From 1 April 2014, the supplementary case fee has been set at £0.

These fees are treated in a similar way to PPI case fees and recognised in the month when our performance obligations are met and the cases are resolved. The vast majority of these cases have now been resolved and we do not expect to carry forward any revenue relating to supplementary fees past the next financial year.

Property, plant and equipment

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

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

Leasehold improvements and premises fees	Over the remaining period of the lease
Computer equipment	Over three years
Furniture and equipment	Over three to five years
Fixtures and fittings	Over the remaining period of the lease
Motor vehicles	Over four years
Right of use assets	Over the remaining period of the lease

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

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

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

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

Intangible assets

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

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

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

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

Intangible assets	Over the remaining period of the lease
Computer software and licences	Over five years
Internally-generated software	Over two to seven years

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

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

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

Impairment of property, plant and equipment and intangible assets

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

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

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

Financial instruments

Trade receivables

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

Trade payables

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

Cash and cash equivalents

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

Leasing

Prior to the current accounting period, leases were classified as finance leases whenever the terms of the lease transferred substantially all the risks and rewards of ownership to the lessee. All other leases were treated as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the income statement on a straight-line basis over the period of the lease. The Service had no finance leases.

From 1 April 2019, the service is applying the new accounting standard, IFRS 16 'Leases'. This standard requires companies to take account of future lease commitments by recognising the asset and the liability on their balance sheets. The majority of the service's leases will be covered by this standard. However, there are some short-term and low-value leases that will continue to be treated as operating leases and payments made will be charged to the income statement on a straight-line basis over the period of the lease.

Provisions

The company exercises judgement in measuring and recognising a number of provisions – for bad debts and credit notes (see note 17.2) and for dilapidations (see note 18). The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Employee benefits

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

Money purchase scheme (defined contribution)

The money purchase section of the Plan is a defined contribution plan where the service pays contributions at defined rates to a separate entity.

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

Final salary section (defined benefit)

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

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

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

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

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

Changes in accounting policy and disclosures

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

IFRS 16 'Leases' deals with accounting for leases and requires companies to take account of future lease commitments by recognising the asset and the liability on their balance sheets. IFRS 16 came into effect for accounting periods beginning on or after 1 January 2019 and replaced IAS 17 'Leases'. The new standard includes criteria for identifying a lease. Paragraph 9 states that "a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration". Applying paragraph B9, to meet the definition of a lease the customer must have both the right to obtain substantially all the economic benefits from use of an identified asset throughout the period of use and the right to direct the use of the identified asset throughout the period of use.

The standard specifies how companies should recognise, measure, present and disclose their leases and provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

The Service has applied the following practical expedients:

- We have applied the transition requirements to those leases that were previously identified as leases under IAS 17 and IFRIC 4 'Determining whether an arrangement contains a lease';
- We are not applying the requirement to recognise lease liabilities with a remaining lease term of less than 12 months as at 1 April 2019. The Service will continue to recognise the lease payments in respect of these leases as an operating expense; and
- Initial direct costs have been excluded from the measurement of the right-of-use asset at the date of initial application.

We have not used the practical expedient of using an assessment of onerous leases as an alternative to performing an impairment review at the application date.

The majority of the leases relate to three buildings partly occupied by the service, Exchange Tower and Walbrook in London and Friargate in Coventry. The Walbrook lease comes to an end at 31 March 2021. The Friargate lease ends in October 2027 with a break clause in October 2022. For Exchange Tower, with a lease for each floor, there are a number of end dates, the latest being in August 2029. Leases for Exchange Tower and Friargate also include rent review dates. See note 21 for more detail. The Service also leases items of equipment and a van, all with terms of under five years.

We have excluded the lease for one Exchange Tower floor as the service has entered into a sub-lease for a period ending 23 February 2023. The head lease ends on 23 March 2023. We have not accounted for the investment in the sub-lease as the net impact is not material. We have accounted for the rent on the head lease as 'lease rentals – premises' disclosed in note 5 and the income arising has been accounted for as 'other income' and included in the figure disclosed in note 4.

There are a number of equipment leases which have been excluded as they are "low value" (defined as being less than $5,000). Costs are not material and are included in 'lease rentals – other' disclosed in note 5.

At 31 March 2020 there is a commitment to enter a new lease for one floor in Exchange Tower. The old lease expired on 13 April 2020 and the new lease is for the period 14 April 2020 to 13 April 2025. This will be reflected in 2020/21.

The adoption of the standard has had a major impact by increasing the value of assets and liabilities. Moving away from the previous practice of disclosing lease commitments and expensing lease costs through the income statement, the service has created "right of use" assets and corresponding lease liabilities on the balance sheet. We have applied the transition requirements to those leases that were previously identified as leases under IAS 17 and IFRIC 4. We are also using the "modified retrospective" option by applying a cumulative catch up calculation in respect of previously-reported operating costs which means that the adjustments will be made at 1 April 2019, with no retrospective application and does not require restatement of comparative figures. The net adjustment to opening reserves at 1 April 2019 is £1.6m.

The Service has amended the initial calculations based on the known environment at the time and in the light of changes to some of the lease terms. The Service has also reviewed the discount rate and is now using the Public Works Loan Board (PWLB) rates to calculate the discounted cash flows on the remaining lease terms. As a result, we have restated our opening position to reflect right of use assets of £47.5m and discounted lease liabilities of £43.9m. The financial statements at 31 March 2020 reflect all the required changes and include a reconciliation between the lease commitments at 31 March 2019 and the discounted lease liability at 1 April 2019 (see note 16).

The following table shows the various disclosures required under the standard with a cross-reference to the relevant note to the financial statements on pages 102 to 127.

Disclosure	Notes	£000
The nature of our leasing activities	2a & 21	N/A
Potential exposure to future cash flows not reflected in the lease liabilities	3	N/A
Calculation of discounted cash flows	3	N/A
Leases not included in the right of use calculations	2a & 21	N/A
Leases not yet commenced to which we are committed	2a	N/A
Total cost of right of use assets at 1 April 2019	10	47,527
Additions to right of use assets in the year	10	2,478
Rent reviews and changes in terms in the year	10	2,297
Depreciation charge for right of use assets	10	(8,907)
Carrying amount of right of use assets at 31 March 2020	10	43,395
Total discounted lease liabilities at 1 April 2019	16	43,888
Discounted additions in the year	16	2,290
Rent reviews and changes in terms in the year	16	2,295
Interest expense on lease liabilities	16	783
Total cash outflow for leases	16	(6,675)
Carrying amount of discounted lease liabilities at 31 March 2020	16	42,581
Maturity analysis of contracted undiscounted lease liabilities	16	N/A
Reconciliation between the lease commitments note at 31 March 2019 and the discounted lease liabilities at 1 April 2019	16	N/A
Total dilapidations provisions at 1 April 2019	18	3,963
Payments in the year	18	(408)
New dilapidations provision (net) in the year	18	1,678
Interest expense on dilapidations provision	18	66
Total dilapidations provisions at 31 March 2020	18	5,299
Lease rentals – premises	5	2,595
Lease rentals – other	5	94
Total interest expense on lease liabilities reported as financing costs	6	849
Lease commitments	21	N/A

b) New standards, amendments and interpretations not yet adopted

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

3. Significant accounting judgements, estimates and assumptions

Accounting judgements

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

- **Revenue** – in accordance with IFRS 15 income can only be recognised once performance obligations have been satisfied. We have determined that only one performance obligation exists – being the resolution of a case. As such it is no longer appropriate to recognise revenue at conversion. Upon adoption we made an adjustment of £518k, reducing our opening reserves position at 1 April 2018, to reflect this.
- **Intangible assets** – under IAS 38, internal software development costs of £263k (2019: £4,766k) have been capitalised as additions during the period. Internally-generated software is designed to support the service carry out its statutory functions. These functions are particular to the service, so this internally-generated software has no market value. Management have made judgements over the service potential and expected benefits of the assets. These expected benefits relate to the fact that such software allows the service to carry out its functions more efficiently than before by using alternative approaches. It will also make it easier to develop and maintain the software.
- **Leases** – we adopted IFRS 16 during the current accounting period. As outlined in the standard, we are required to account for future lease commitments by recognising a right of use asset and the corresponding liability arising over the term of the lease in our opening balance sheet as at 1 April 19.

The standard assumes that if a lease contains a break clause, the break will be exercised unless it is reasonably certain that the break clause will not be exercised. The service has eight leases that contain such clauses.

Management have revisited our initial calculations and conducted an assessment of each lease considering the prevailing conditions at the time ie future demand for our services, our planned roll-out of smarter working, our goal of maximising utilisation of our office space and the financial implications of breaking each lease. We concluded that it would not have been certain that we would not break some of the leases and have amended our opening balances accordingly. Management have conducted a similar exercise to look at our position at 31 March 2020 and concluded there has been no impairment to the right of use asset values during the period.

The majority of the property leases contain provisions for rent reviews. The lease liabilities at 31 March 2020 include the impact of all rent reviews which took place in the year and include annual increases up to the next rent review. For the majority of these leases the next rent review will be on 31 August 2024.

We have carried out a sensitivity analysis looking at the impact on cash outflows for the remaining leases in place at 1 September 2024 assuming rent increases of 5%, 10% and 15%.

Percentage	Current cash outflow £000	Rent increase £000	Revised cash outflow £000
5%	13,631	682	14,313
10%	13,631	1,363	14,994
15%	13,631	2,045	15,676

The service is using the Public Works Loan Board (PWLB) Standard rates to calculate the discounted cash flows on the remaining lease terms. The service believes this is the most appropriate proxy for the incremental borrowing rate. Our funding is based on statute (the *Financial Services and Markets Act*) and it is reasonable to assume that the service would be able to meet its loan repayments over the period of any loan. The service has carried out a sensitivity analysis looking at other proxies for the incremental borrowing rate, as follows.

Proxy	Right of use assets £000	Lease liabilities £000	Net impact £000
PWLB	47,329	43,690	3,639
Public Expenditure System (PES)	46,762	43,197	3,565
Bank of England base rate	49,478	45,553	3,925

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date are discussed below:

- **Defined benefit pension obligations** – the quantification of the pension deficit is determined on an actuarial basis based upon a number of assumptions made by the directors (as listed in note 25) relating to the discount rate, inflation and retail price index (RPI), future pension increases and life expectancy. Any changes in these assumptions will impact the carrying amount of the pension obligation.
- **Provision for bad debts** – under IFRS 9 we use the expected loss model which means we recognise potential bad debts at the point we recognise the receivable.
- **Provision for credit notes** – the provision for credit notes is prepared for both standard case fee credits and supplementary case fee credits. The standard provision is calculated with reference to the historical volume of invoices and credit notes and the supplementary provision is calculated based on the volumes of cases in particular categories where there is a likelihood of credits being requested and approved for those cases.

4. Revenue

	Notes	2020 £000	2019 £000
Annual levy		**48,530**	23,854
Standard case fees			
Gross fees		**67,542**	77,767
Movement in credit note provision		**(147)**	76
Movement in general casework stock		**(404)**	42
Supplementary case fees			
Gross (credits)/fees		**-**	(971)
Movement in credit note provision		**16**	750
Movement in deferred income		**106**	1,132
Group fees			
Gross fees		**126,195**	123,486
Transfer to deferred income		**-**	-
Release from deferred income		**42**	1,085
Other income		**724**	609
		242,604	227,830

5. Administrative expenses

5.1. Expenses by nature	Notes	2020 £000	2019 £000
Staff payroll costs	7	**149,386**	159,417
Contractor and temporary staff costs*		**69,426**	62,232
Other staff costs		**3,054**	3,857
Consultancy and other professional costs**		**8,947**	8,925
Lease rentals: premises		**2,595**	9,019
Lease rentals: other		**94**	140
Other premises and facilities costs		**12,457**	11,411
IT running costs		**10,700**	9,164
Depreciation and amortisation	9/10/11	**13,095**	3,404
Loss on disposal of fixed assets	9/11	**181**	46
Impairment of fixed assets	11	**1,789**	-
Bad debts		**3,480**	1,623
Other costs		**1,127**	834
		276,331	270,072

* Contractor and temporary staff costs are shown net of £3k costs capitalised as internally-generated software costs (2019: £1,117k).

** Consultancy costs are shown net of £36k costs capitalised as internally-generated software costs (2019: £2,859k).

5.2. Auditors' remuneration	Notes	2020 £000	2019 £000
External audit fee			
National Audit Office		**74**	65
Total		**276,405**	270,137

The National Audit Office has not provided any other services to the service other than external audit.

6. Finance and income costs

	Notes	2020 £000	2019 £000
Finance income			
Bank interest		**1,571**	1,780
Total finance income		**1,571**	1,780
Finance costs			
Bank interest		**-**	-
Interest on lease liabilities		**(849)**	-
Interest on net defined benefit liability		**(88)**	(134)
Total finance cost		**(937)**	(134)
Net finance income		**634**	1,646

7. Employees

7.1. Employee benefit expense	Notes	2020 £000	2019 £000
Wages and salaries		**117,262**	126,457
Social security costs		**13,068**	14,191
Apprenticeship levy		**398**	466
Other employer's pension costs – money purchase scheme	25	**13,111**	13,127
Other employer's pension costs – defined benefit scheme	25	**-**	11
Flexible benefit costs		**5,771**	5,955
Staff costs capitalised as internally-generated software costs		**(224)**	(790)
		149,386	159,417
Other employer's pension costs – defined benefit scheme Included in interest payable	25	**88**	134
Total employment costs		**149,474**	159,551

7.2. Monthly average number of people employed	Notes	2020 no.	2019 no.
Ombudsmen		**381**	359
Case-handlers		**1,395**	1,543
Other		**1,009**	1,019
		2,785	2,921

8. Board remuneration

The board consists entirely of non-executive directors. Board remuneration payable to directors during the year amounted to £194,403 (2019: £187,970). The new chairman, appointed on 1 August 2019, who is also the highest paid director, was paid at a rate of £75,000 per annum (2019: the former chairman was paid at a rate of £74,970 per annum), the senior independent director, the audit committee chair and the remuneration committee chair were paid at a rate of £29,500 per annum (2019: £29,500) and the other directors were paid at a rate of £24,500 per annum (2019: £24,500). Further details are provided in the remuneration report on page 89.

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

9. Property, plant and equipment

	Leasehold improvements and premises fees £000	Computer equipment £000	Furniture and equipment £000	Motor vehicle £000	Total £000
Cost					
At 1 April 2019	3,445	10,556	11,206	9	25,216
Additions	-	225	-	-	225
Disposals	(120)	(12)	(1,744)	(9)	(1,885)
At 31 March 2020	**3,325**	**10,769**	**9,462**	**-**	**23,556**
Accumulated depreciation					
At 1 April 2019	1,515	9,408	9,703	9	20,635
Charge for the year	247	582	723	-	1,552
Disposals	(120)	(12)	(1,744)	(9)	(1,885)
At 31 March 2020	**1,642**	**9,978**	**8,682**	**-**	**20,302**
Net book value at 31 March 2020	**1,683**	**791**	**780**	**-**	**3,254**
At 31 March 2019	1,930	1,148	1,503	-	4,581

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

10. Right of use assets

	Property leases £000	Equipment leases £000	Van lease £000	Total £000
Cost				
At 1 April 2019	47,329	198	-	47,527
Additions	2,058	408	12	2,478
Rent reviews and changes in lease terms	2,297	-	-	2,297
Disposals	-	-	-	-
At 31 March 2020	**51,684**	**606**	**12**	**52,302**
Accumulated depreciation				
At 1 April 2019	-	-	-	-
Charge for the year	8,659	244	4	8,907
Disposals	-	-	-	-
At 31 March 2020	**8,659**	**244**	**4**	**8,907**
Net book value at 31 March 2020	**43,025**	**362**	**8**	**43,395**
At 31 March 2019	-	-	-	-

The fair value of right of use assets does not materially differ from the carrying amount of right of use assets disclosed above.

11. Intangible assets

	Computer software and licences £000	Internally-generated software £000	Work in progress* £000	Total £000
Cost				
At 1 April 2019	3,896	9,826	17,597	31,319
Additions	107	-	263	370
Transfers	-	16,071	(16,071)	-
Impairments	-	-	(1,789)	(1,789)
Disposals	-	(211)	-	(211)
At 31 March 2020	**4,003**	**25,686**	**-**	**29,689**
Accumulated amortisation				
At 1 April 2019	3,589	9,643	-	13,232
Charge for the year	175	2,461	-	2,636
Disposals	-	(30)	-	(30)
At 31 March 2020	**3,764**	**12,074**	**-**	**15,838**
Net book value at 31 March 2020	**239**	**13,612**	**-**	**13,851**
At 31 March 2019	307	183	17,597	18,087

* Work in progress comprises direct staff costs and sub-contractor costs used to develop software for the service's use. When the asset is ready for use, the associated costs are transferred from work in progress to the appropriate asset category. The £16,071k costs transferred in the year comprise the costs of our case handling system which were ready for use on 1 April 2019 (£15,571k) and the costs of the website development which was ready for use on 1 June 2019 (£500k). Following an architectural review we identified that our £1,789k investment in our on-line portal had been impaired. More detail can be found in the 'our financial performance' section on page 45.

12. Trade and other receivables

	2020 £000	2019 £000
Trade and other receivables due within one year		
Trade receivables	**9,462**	7,283
Less: provision for bad debts	**(1,081)**	(1,358)
Less: provision for credit notes	**(492)**	(361)
Trade receivables – net	**7,889**	5,564
Prepayments	**5,542**	9,424
Other receivables	**810**	1,072
Accrued income	**9,364**	11,265
Trade and other receivables due within one year	**23,605**	27,325
Trade and other receivables due after more than one year		
Prepayments – after more than one year	**266**	331
Trade and other receivables due after more than one year	**266**	331

13. Short-term deposits

	2020 £000	2019 £000
Short-term Treasury deposits	**46,000**	64,000
Short-term deposits	**46,000**	64,000

As at 31 March 2020, the service held Treasury deposits with a maturity of greater than three months with six different institutions (31 March 2019: eight) for periods between four and five months maturing between 17 July 2020 and 21 August 2020.

14. Cash and cash equivalents

	2020 £000	2019 £000
Cash at bank and in hand	**7,567**	2,034
Short-term Treasury deposits (deposits with a maturity of less than three months)	**132,000**	125,000
Cash and cash equivalents	**139,567**	127,034

As at 31 March 2020, the service held Treasury deposits with a maturity of less than three months with nine different institutions (31 March 2019: nine) for periods between one and three months maturing between 3 April 2020 and 22 June 2020.

15. Trade and other payables

	2020 £000	2019 £000
Trade and other payables due within one year		
Trade payables	**5,437**	3,248
Other taxes and social security	**3,185**	3,248
Deferred income		
Supplementary case fees	**51**	158
Group fees	**76**	118
Compulsory Jurisdiction levy billed in advance	**27,819**	8,631
Other creditors	**1,230**	1,505
Accruals	**23,346**	25,343
Trade and other payables due within one year	**61,144**	42,251

Trade and other payables due after more than one year		
Accruals	**598**	1,991
Trade and other payables due after more than one year	**598**	1,991

16. Lease liabilities

	2020 £000	2019 £000
Lease liabilities due within one year		
Property	**8,059**	-
Equipment	**270**	-
Van	**6**	-
Lease liabilities due within one year	**8,335**	-

Lease liabilities due after more than one year		
Property	**33,992**	-
Equipment	**248**	-
Van	**6**	-
Lease liabilities due after more than one year	**34,246**	-

Movement in lease liabilities in the year

	Property £000	Equipment £000	Van £000	Total £000
Total discounted liabilities at 1 April 2019	43,690	198	-	43,888
Discounted additions in the year	1,869	409	12	2,290
Rent reviews and changes in lease terms	2,295	-	-	2,295
Interest in the year	780	3	-	783
Disposals in the year	-	-	-	-
Repayments in the year	(6,583)	(92)	-	(6,675)
Total discounted liabilities at 31 March 2020	**42,051**	**518**	**12**	**42,581**

A maturity analysis of lease liabilities based on undiscounted gross cash flows is reported in the table below. Amounts exclude VAT.

Maturity analysis – contracted undiscounted cash flows

	Premises 2020 £000	Other 2020 £000	Premises 2019 £000	Other 2019 £000
Payments due:				
Not later than 1 year	**8,601**	**238**	-	-
Later than 1 year and not later than 5 years	**21,439**	**155**	-	-
Later than 5 years	**14,756**	**-**	-	-
Total contracted undiscounted cash flows at 31 March 2020	**44,796**	**393**	**-**	**-**

Reconciliation between the lease commitments note at 31 March 2019 and the discounted lease liabilities at 1 April 2019

	Property £000	Equipment £000	Van £000	Total £000
Total lease commitments at 31 March 2019 (gross)	77,538	230	-	77,768
Adjustments at 1 April 2019 Less: leases excluded from ROU calculation*	(7,337)	(6)	-	(7,343)
Less: changes in anticipated lease terms	(8,855)	-	-	(8,855)
Less: prepayments excluded from cash flows	(1,350)	-	-	(1,350)
Less: VAT excluded**	(12,923)	(22)	-	(12,945)
Less: discount***	(3,383)	(4)	-	(3,387)
Discounted lease liabilities at 1 April 2019	**43,690**	**198**	**-**	**43,888**

* The lease commitments note at 31 March 2019 included one Exchange Tower floor which has been subsequently vacated in 2019/20. The 1 April calculations also reflect the break clauses included within a number of leases.

** The lease commitments note at 31 March 2019 comprised gross costs including VAT. Lease liabilities are included net of VAT.

*** The service has used the Public Works Loan Board (PWLB) discount rates, using rates as at 1 April 2019 or lease commencement date, whichever is later, based on the remaining lease term.

17. Financial instruments

Financial risk management

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

a) Market risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks.

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

b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation.

The Service is exposed to credit risk through its cash and short-term deposits with financial institutions and credit exposure to customers through outstanding receivables. The Service monitors credit ratings on a daily basis to ensure the banks continue to meet our investment criteria. On an annual basis, the counterparty list is reviewed, revised and presented to the service's audit committee for approval. To further manage credit risk, the maximum total principal that can be invested in a single counterparty or multiple counterparties that are under common ownership is based on Standard & Poor's rating of the counterparty. The Service monitors the collection of receivables from its customers, the ageing of debts and the industry sectors they operate in.

c) Liquidity risk

Liquidity risk is the risk that an entity will have difficulties in paying its financial liabilities.

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

At the reporting date, the service held money market funds of £46,000k (2019: £64,000k) and other liquid assets of £139,567k (2019: £127,034k) that are expected to readily generate cash inflows for managing liquidity risk.

17.1 Financial instruments by category

As at 31 March 2020, trade and other receivables, short-term deposits and cash and cash equivalent balances of £209,438k were classified as loans and receivables (2019: £218,690k).

As at 31 March 2020, trade and other payables of £104,323k were classified as loans and payables (2019: £44,242k).

Balances are recognised at their amortised costs and are held as level 1 financial instruments.

17.2 Credit quality of financial assets

Credit quality of financial assets

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

The total of past due receivables is £3,945k (2019: £2,596k).

The Service makes provision for impairment as follows:

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

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

Movement in the service's provision for credit notes	2020 £000	2019 £000
At 1 April 2019	**361**	1,497
Change in provision for the year	**131**	(1,136)
At 31 March 2020	**492**	361

(b) Provision for bad debts – the ledger is reviewed for bad and doubtful debts using the expected loss model.

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

Movement in the service's provision for bad debts	2020 £000	2019 £000
At 1 April 2019	**1,358**	202
Change in provision for the year	**(277)**	1,156
At 31 March 2020	**1,081**	1,358

The carrying amount of the receivables is all denominated in pounds sterling. The large increase in the provision in 2018/19 was primarily driven by the move to the expected loss model and the uncertainty surrounding businesses in the short-term lending sector being able to pay their fees.

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

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

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

18. Provision for liabilities

	2020 £000	2019 £000
Provision brought forward at 1 April 2019	**3,963**	3,587
Payments in the year	**(408)**	-
New provision in the year	**1,678**	376
Interest accrued during the year	**66**	-
Provision carried forward at 31 March 2020	**5,299**	3,963

This note refers to provision for dilapidations only. The provision for dilapidations at 31 March 2020 and 31 March 2019 reflects the recommendations made following property reviews undertaken by external consultants. Provisions exist for all the properties we currently occupy as set out below:

Due within one year	2020 £000	2019 £000
Independent House*	**1,030**	1,236
South Quay Building*	**157**	514
Walbrook House	**116**	-
Exchange Tower	**148**	-
	1,451	1,750

* Discussions are continuing with the landlords for Independent House and South Quay Building; until they are concluded the review by the external consultants remains management's best estimate.

Due after one year	2020 £000	2019 £000
Walbrook House	**-**	141
Exchange Tower	**3,747**	2,038
Friargate	**101**	34
	3,848	2,213

19. Financial commitments

As at 31 March 2020 there were no capital commitments contracted for but not provided (31 March 2019: £Nil).

20. Events after the reporting period

As at the end of the reporting period the Covid-19 pandemic had not had a material impact on the service's finances and no provisions were required. We continue to monitor the situation and its impact on our operational and financial performance. Details of our response to Covid-19 and the financial impact can be found on page 34.

There are no other events after the reporting period that require disclosure. These financial statements were authorised for issue on the date certified by the Comptroller and Auditor General.

21. Operating lease commitments

The service leases its operating premises. The length of these leases varies from between 1 and 10 years. These leases are renewable at the end of the lease period at a market rate. The service also has a sub-lease for a part floor in Exchange Tower. The service also leases various items of equipment, plant and machinery under operating agreements.

From 1 April 2019, the service adopted IFRS 16 'Leases' whereby right of use (ROU) assets have been created and the total discounted lease liabilities are included in the balance sheet. There are a number of leases which are excluded from the ROU calculation and so will continue to be accounted for as lease rentals.

For property, the figures below are for the sub-lease commitments. For the other costs, the figures are for leases of low value.

The expenditure classified as lease rentals is charged to the income statement during the year and is disclosed in note 5.

The future commitments (excluding payments included in the ROU calculation) at 31 March 2020 were as follows:

	Premises 2020 £000	**Other 2020 £000**	Premises 2019 £000	Other 2019 £000
Payments due				
Not later than 1 year	**123**	**1**	8,161	120
Later than 1 year and not later than 5 years	**247**	**-**	33,398	110
Later than 5 years	**-**	**-**	35,979	-
Total	**370**	**1**	77,538	230

For 2019/20, these amounts are stated exclusive of VAT, where applicable (2018/19: inclusive of VAT).

Sub-lease

The service holds a sub-lease for part of one floor of Exchange Tower with a lease expiry date of February 2023. The future aggregate minimum lease payments expected to be received under non-cancellable sub-leases at 31 March 2020 is £343k, exclusive of VAT, all receivable within five years. The head lease ends on 23 March 2023. We have not accounted for the investment in the sub-lease as the net impact is not material. We have accounted for the rent on the head lease as 'lease rentals – premises' disclosed in note 5 and the income arising has been accounted for as 'other income' and included in the figure disclosed in note 4.

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

Building	Floor	Start of current lease	End of lease	Future break clauses
Exchange Tower	Various	Various between March 2013 and September 2019	March 2023 (2 leases) September 2023 (1 lease) April 2025 (1 lease) March 2029 (1 lease) August 2029 (13 leases)	N/A N/A April 2023 March 2023 and March 2025 September 2019 to August 2024* September 2024 to August 2029*
Walbrook House	4 5	April 2018 April 2018	March 2021 March 2021	N/A N/A
Friargate	2 3	October 2017 October 2017	September 2027 September 2027	October 2022 October 2022

* Four leases in the Exchange Tower premises include variable break clauses.

22. Related party transactions

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

b) The service entered into an agency agreement with the Financial Conduct Authority whereby, with effect from 1 April 2004, the Financial Conduct Authority collected tariff data, issued levy invoices and collected levy monies on behalf of the service, at a cost of £139k for the year ended 31 March 2020 (2019: £125k).

c) At 31 March 2020 the net balance due from the Financial Conduct Authority is £9,689k (31 March 2019: £9,106k). This balance has been netted off against Compulsory Jurisdiction levy received in advance included in 'trade and other payables" (see note 15).

d) The Financial Conduct Authority bills the service administration charges in respect of the pension scheme. The charge for the year ended 31 March 2020 was £278k (2019: £173k).

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.

Other than disclosed above, there were no related party transactions during the year (31 March 2019: nil).

23. Accumulated surplus

	2020 £000	2019 £000
Accumulated surplus before net pension liability	**160,159**	192,963
Net pension liability	**(731)**	(4,034)
Accumulated surplus after net pension liability	**159,428**	188,929

24. Losses and special payments

	2020 £000	2019 £000
Losses	**5,544**	470
Special payments	**968**	553
Total	**6,512**	1,023

Included in "Losses" are three firms where the balances written off in the year were over £300,000 (31 March 2019: none) and the impairment of the Portal.

Firms	Loss
Casheuronet UK LLC	£2,208k
MEM Consumer Finance Ltd	£523k
Instant Cash Loans Ltd	£497k
Portal impairment	£1,789k

More detail can be found in 'our financial performance' on page 45.

25. Pension costs

Introduction

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

Since 1 April 2000, all employees joining the service have been eligible only for the defined contribution section of the plan. On 1 April 2010 the defined benefit section of the plan closed and those members who were previously earning final salary benefits had the option to earn future benefits under the defined contribution section. Members with a defined benefit pension are entitled to annual pensions on retirement at age 60, the majority of which increases with RPI inflation, subject to a cap of 5% per annum. Benefits are also payable on death and following other events.

No other post-retirement benefits are provided to these employees.

Profile of the plan

Defined contribution scheme

The service's core contributions (ranging from 8% to 12% of the employee's pensionable salary) to the defined contribution section depend on the employee's age. The defined contribution section is part of a flexible benefits programme and members can, within limits, select the amount of their overall benefits allowance that is directed to the pension plan. The service will pay matching contributions up to a maximum of 3% of the employee's pensionable salary.

Defined benefit scheme

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

The defined benefit obligation includes benefits for deferred members of the plan and current pensioners. At 31 December 2019 there are 89 (31 March 2019: 90) deferred members and 41 (31 March 2019: 41) pensioners.

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

Analysis of defined benefit obligation by membership category	**2020 £000**	2019 £000
Deferred members benefits	**27,863**	29,074
Pensioner members benefits	**7,951**	8,200
Total defined benefit obligation	**35,814**	37,274

The plan duration is an indicator of the weighted-average time until benefit payments are made. For the plan as a whole, the duration is around 21 years, reflecting the approximate split of the defined benefit obligation between deferred members (duration of 23 years) and current pensioners (duration of 13 years).

Funding requirements

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the plan was carried out by a qualified actuary as at 31 March 2019. To correct the funding deficit, the service is paying deficit contributions of £1,035k per annum until 1 April 2021 and £1,600k per annum thereafter. This is expected to make good this shortfall by 31 March 2027.

A contribution of £1,035k is expected to be paid by the service during the year ending 31 March 2021.

Risks associated with the plan

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

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

* There has been significant volatility in asset values and bond yields due to the Covid-19 pandemic. In particular, the corporate bond yields that were used to determine the discount rate for the IAS 19 disclosures as at 31 March 2020 were significantly higher than those in the months leading up to 31 March 2020 and those seen subsequently. See the note on page 127 for sensitivities to the key assumptions adopted to measure the pension liabilities at 31 March 2020.

Risk management

The service and the plan's trustees have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes a significant proportion of growth assets (equities and property) which, though expected to out-perform corporate bonds in the long term, create volatility and risk in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the plan's long-term objectives.

In past years, the service has made reference to a contingent liability in relation to the equalisation of Guaranteed Minimum Payment (GMP). GMP is the minimum pension which a United Kingdom occupational pension scheme has to provide for those who were contracted out of the State Earnings Related Pensions Scheme (SERPS). SERPS was a UK Government pension arrangement, to which employees and employers contributed between 6 April 1978 and 5 April 2002, when it was replaced by the State Second Pension.

Where pension schemes have members with a GMP, the GMP accrual rate for females is generally higher than for males which has caused unequal benefits between males and females.

On 26 October 2018 the High Court ruled in the Lloyds Banking Group case that UK pension schemes that have contracted out of SERPS will need to equalise benefits for the effect of unequal GMP between men and women. The equalisation is retrospective and the period to be reviewed is GMP accrued between 17 May 1990 and 5 April 1997 (after which GMP stopped accruing). The service's GMP equalisation adjustment is 0.03% (£11k) of the defined benefit obligation for 31 March 2019 and was recognised as a past service cost.

Reporting at 31 March 2020

The calculations are based on an approximate valuation of the benefits payable in respect of the service's members of the final salary section of the plan at 31 March 2020. These benefits include retirement pensions and non-lump sum benefits on members' death. The present value of the defined benefit obligation was measured using the projected unit credit method.

The principal assumptions agreed by the board and used by the independent qualified actuaries to calculate the liabilities under IAS 19 are set out below:

Main financial assumptions	**31/03/2020 % pa**	31/03/2019 % pa	31/03/2018 % pa
Discount rate for plan liabilities	**2.3**	2.5	2.6
Retail price index (RPI) inflation	**2.6**	3.2	3.1
Consumer price index (CPI) inflation	**1.8**	2.1	N/A
Excess pension increases	**2.5**	3.1	3.0
Post 88 GMP pension increases*	**1.6**	1.8	2.4

* RPI maximum 3% was used to derive the assumption at 31 March 2018. The assumption at 31 March 2019 and 31 March 2020 (and going forward) is based on CPI maximum 3% as in practice increases are awarded in line with this metric.

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

The main demographic assumptions are set out below:

Main demographic assumptions		**31/03/2020 Years**	31/03/2019 Years	31/03/2018 Years
Life expectancy for member aged 60 at the balance sheet date	Males	**28.6**	27.8	28.2
	Females	**29.8**	29.0	29.4
Life expectancy at age 60 for member aged 40 at the balance sheet date	Males	**30.0**	29.2	29.6
	Females	**31.3**	30.5	31.0

Main demographic assumptions	**31/03/2020**	31/03/2019	31/03/2018
Mortality base table adopted	**SAPS S1 light tables for normal health retirees with a scaling factor 100%**	SAPS S1 light tables for normal health retirees with a scaling factor 100%	SAPS S1 light tables for normal health retirees with a scaling factor 100%
Mortality future improvements adopted	**Future improvements assumed to be in line with CMI 2018 "Core Projections" with an initial addition to improvements of 0.5% p.a. and a long-term rate of improvement of 1.25%**	Future improvements assumed to be in line with CMI 2018 "Core Projections" and a long-term rate of improvement of 1.25%	Future improvements assumed to be in line with CMI 2017 "Core Projections" and a long-term rate of improvement of 1.25%
Cash commutation	**Members assumed to exchange 20% of their pension for a cash lump sum at retirement**	Members assumed to exchange 20% of their pension for a cash lump sum at retirement	Members assumed to exchange 20% of their pension for a cash lump sum at retirement

The plan assets are invested in the following asset classes. All assets have a quoted market value in an active market except the annuity policies:

Asset allocation	Value at 31/03/2020 £000	Value at 31/03/2019 £000
Equity	**3,266**	5,159
Property	**2,780**	2,761
Corporate bonds	**6,168**	3,223
Liability-driven investment funds (LDI)	**16,243**	12,406
Diversified funds*	**3,921**	7,241
Bought-in annuity policies*	**1,726**	1,796
Other	**979**	654
Total market value of assets	**35,083**	33,240

* The plan has invested in individual annuity policies in respect of certain pensioner members in the plan. These annuity policies are held in trustees' name and are an investment asset of the plan. These assets have been valued using assumptions consistent with those used to value liabilities.

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

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

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

Reconciliation of funded status to statement of financial position	Value at 31/03/2020 £000	Value at 31/03/2019 £000	Value at 31/03/2018 £000
Fair value of plan assets	**35,083**	33,240	30,557
Present value of defined benefit funded obligation	**(35,814)**	(37,274)	(36,212)
Funded status	**(731)**	(4,034)	(5,655)
Unrecognised asset due to limit in IAS 19 para 64	**-**	-	-
Net pension liability recognised on the statement of financial position	**(731)**	(4,034)	(5,655)

The amounts recognised in comprehensive income are set out below:

Breakdown of amounts recognised in the statement of comprehensive income and the statement of other comprehensive income	**Year ending 31/03/2020 £000**	Year ending 31/03/2019 £000
Operating cost		
Service cost	**-**	-
Past service cost (including curtailments)	**-**	11
Financing cost		
Interest on net defined benefit liability	**88**	134
Pension expense recognised in the statement of comprehensive income	**88**	145

Re-measurements in other comprehensive income		
Returns on plan assets (in excess of) that recognised in net interest	**(549)**	(1,810)
Actuarial losses/(gains) due to changes in financial assumptions	**(2,933)**	1,460
Actuarial losses/(gains) due to changes in demographic assumptions	**1,338**	(534)
Actuarial losses/(gains) due to liability experience	**(212)**	153
Adjustments to the limit in IAS 19 para 64	**-**	-
Total amount recognised in the statement of other comprehensive income	**(2,356)**	(731)

Total amount recognised in the statement of comprehensive income and other comprehensive income	**(2,268)**	(586)

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

	Year ending 31/03/2020 £000	Year ending 31/03/2019 £000
Opening defined benefit obligation	**37,274**	36,212
Interest cost on defined benefit obligation	**925**	929
Actuarial losses/(gains) on plan liabilities arising from changes in demographic assumptions	**1,338**	(534)
Actuarial losses/(gains) on plan liabilities arising from changes in financial assumptions	**(2,933)**	1,460
Actuarial losses/(gains) on plan liabilities arising from experience	**(212)**	153
Net benefits paid out	**(578)**	(957)
Past service cost (including curtailments)	**-**	11
Closing defined benefit obligation	**35,814**	37,274

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

	Year ending 31/03/2020 £000	Year ending 31/03/2019 £000
Opening fair value of plan assets	**33,240**	30,557
Interest income on plan assets	**837**	795
Re-measurement gains on plan assets	**549**	1,810
Contributions by the employer	**1,035**	1,035
Net benefits paid out	**(578)**	(957)
Closing fair value of plan assets	**35,083**	33,240

Actual return on plan assets is set out below:

	Year ending 31/03/2020 £000	Year ending 31/03/2019 £000
Interest income on plan assets	**837**	795
Re-measurement gains on plan assets	**549**	1,810
Actual return on plan assets	**1,386**	2,605

Analysis of amounts recognised in statement of other comprehensive income:

	Year ending 31/03/2020 £000	Year ending 31/03/2019 £000
Total re-measurement gains	**2,356**	731
Change in irrecoverable surplus effect of limit in IAS 19 para 64	**-**	-
Total gain	**2,356**	731

Sensitivity to key assumptions

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

	Current value £000	Change in asset £000	Change in defined benefit obligation £000	New value £000
Following a 0.1% decrease in the discount rate	(731)	24	(717)	1,424
Following a 0.1% increase in the inflation assumption	(731)	24	(714)	1,421
Following a 1-year increase in life expectancy	(731)	68	(1,095)	1,758

The change in asset values shown above are as a result of the changes to the assumptions also leading to a different valuation of the annuity policies held in the plan.

Money purchase section (defined contribution scheme)

The total expense recognised in the income statement £13,111k (2019: £13,127k) represents contributions payable to the plan by the service at rates specified in the rules of the defined contribution scheme.

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