Financial Ombudsman Service

Annual Report and Accounts

for the year ended 31 March 2023

Financial Ombudsman Service
for small businesses

Claims Management Ombudsman
a Financial Ombudsman service

Financial Ombudsman Service Limited

Annual Report and Accounts for the year ended 31 March 2023

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About the Financial Ombudsman Service

We were set up by Parliament under the Financial Services and Markets Act 2000 to resolve complaints between financial businesses and their customers. Our role is to make an independent and fair decision based on the facts.

Our service is free for consumers, and every year well over one million people contact us. We help individuals, small businesses and charities.

When we uphold a complaint, the action we require financial firms to take depends on when the event happened and when the complaint was brought to us. The Financial Conduct Authority (FCA) sets our award limit and reviews it every year.

As we resolve complaints, we see the impact on people from every part of society. We regularly publish data on the complaints we handle, as well as our final decision letters, and we share insights into trends to prevent further complaints arising and issues escalating.

By providing fair and timely resolutions to disputes, the Financial Ombudsman Service plays an essential role for complainants and businesses, and – as part of the wider 'regulatory ecosystem' – helps underpin confidence in financial services.

Our year at a glance 2022/23

Overall volumes of complaints

165,149 complaints received

209,471 complaints resolved

29,854 final decisions

35% of complaints upheld

Key outcomes

Number of open cases older than 18 months down from **26,444** at the start of the year to **7,472** at the end of the year

Median waiting time down from **6.4** months in 2021/22 to **4.8** months in 2022/23

92% overall quality score for investigations (84% in 2021/22)

81% consumer satisfaction for upheld cases (88% in 2021/22)

78% business satisfaction with our service (80% in 2021/22)

89% of people had some awareness of us when prompted (91% in 2021/22)

70% staff engagement score (79% in 2021/22)

Key financials

£246.3m operating income
(£221.7m in 2021/22)

£230.8m operating expenditure
(£235.9m restated* in 2021/22)

£125.5m surplus reserves
(£109.2m restated* in 2021/22)

* Restatement in 2021/22 relates to changes to the accounting and reporting of the intangible assets under IAS 38, as detailed in the financial statements, note 2 'Changes in accounting policy and disclosures'

Chairman's foreword

I'm pleased to report that we made great improvements in the quality of our service, consistently exceeding and improving our target quality score for investigations throughout the reporting period. However, we recognise that we can do more.

The financial year, 2022/23, was an important one in the story of the Financial Ombudsman Service – not for one specific event, but because we have continued to transform our organisation. We've improved our funding model, continued our digital transformation, and restructured our organisation. In doing so, we've laid the foundations for a better experience and level of service for all our customers, whether consumers or businesses.

I'm pleased to report that we made great improvements in the quality of our service, consistently exceeding and improving our target quality score for investigations throughout the reporting period. However, we recognise that we can do more.

When considering the needs of our customers – both consumers and businesses – it's important to recognise that our organisation is called upon at what is often a stressful period for customers, some of whom come to us in very difficult circumstances.

For that reason, we've been working hard to ensure cases are resolved more quickly and I'm delighted to see that over the reporting period we made further progress on timeliness – cutting the median time between a case starting and reaching resolution, by more than half.

Establishing a new Executive team has been key, and in October 2022 I was delighted to welcome Abby Thomas as our new Chief Executive and Chief Ombudsman. We also established a new post, the Deputy Chief Ombudsman, appointing James Dipple-Johnstone to the role. He also started in October alongside Karl Khan, our new Chief Operating Officer. Our Chief People Officer, Jane Cosgrove and our Chief Finance and Risk Officer, Jenny Simmonds, came to us in January 2023 and, more recently, we have welcomed our new Director of Communications, Owen Brace.

The new team benefit from prior roles in industry, consultancy, the public and regulatory sectors, and dispute resolution services. They bring with them extensive experience of data, analytics and digital services, a passion for customer service and a solid understanding of how to lead an organisation through transformation.

This experience has been vital to us in this year of change. In addition to restructuring our existing casework teams, we have looked at what it would take to achieve the level of service and efficiency that we desire for our customers. We recognise that we need to attract people with the right skills, which is why it's so important to diversify our workforce in every respect, including geographically.

To that end, we've been increasing operations outside London – establishing a new Customer Call Hub at our Coventry Office and recruiting investigators in the North West.

When considering the needs of our customers – both consumers and businesses – it's important to recognise that our organisation is called upon at what is often a stressful period for customers, some of whom come to us in very difficult circumstances.

We recognise that we need to attract people with the right skills, which is why it's so important to diversify our workforce in every respect, including geographically.

We have also reviewed our costs and funding. Our service is, and must remain, free for all complainants at the point of delivery. However, we expect to consult on our approach to charging claims management companies and other relevant professional representatives for bringing cases, following the recent amendment made by His Majesty's Treasury to the Financial Services and Markets Act 2000.

None of the progress we've made would be possible without the people at the Financial Ombudsman Service. I'd like to thank them for their unwavering commitment. With their support, I am confident that we'll continue to innovate and make progress on our new agenda.

Z. Manzoor

The Baroness Zahida Manzoor CBE
Chairman
23 November 2023

Chief Executive and Chief Ombudsman's report

I'm pleased to say that we have improved our time to resolve cases significantly – cutting the median time it takes from almost six and a half months in 2021/22, to less than five months in 2022/23, and less than three and a half months by the end of the year.

In October 2022, I joined the Financial Ombudsman Service to lead it at a period of economic uncertainty and through a time of great change – both externally and internally.

Our purpose is simple. We help customers resolve financial disputes, quickly and informally, and on a fair and reasonable basis. Since joining, I have been impressed by the dedication of my team to this purpose, and the overall quality with which they perform this work.

I also feel strongly that we needed to support our customers – both consumers and businesses – by resolving their cases at greater pace.

I'm pleased to say that we have improved our time to resolve cases significantly – cutting the median time it takes from almost six and a half months in 2021/22, to less than five months in 2022/23, and less than three and a half months by the end of the year.

We've also made good progress with the number of cases awaiting a resolution. Our end-of-year figure for 'work in progress' cases dropped from 112,000 in 2021/22, to 71,000 by April 2022/23 – despite the number of cases we received remaining consistent.

Among cases older than 12 months, that figure fell from 32,800 cases to fewer than 13,000 – of which 6,500 were held pending legal action or other matters beyond our control.

I'm pleased to note that we were able to improve our quality scores at the same time as delivering better service, with an overall score of 92%, versus 84% the previous year.

In addition, we've offered improved value for money. Notwithstanding significant inflationary pressures, we've held our underlying operational expenditure flat year on year. While I am grateful for the whole team's efforts to deliver these achievements, we still have much to do. We've targeted ambitious service standards for 2023/24, requiring us to resolve 70% of cases in three months and 90% in six (equating to a median time to resolve of two months).

Our transformation agenda in 2022/23 was geared to help us achieve these goals. In the first half, we created a new Customer Call Hub in our Coventry office so that casework teams can focus on resolving cases. In the second half, we streamlined our support teams, reducing the size and cost of our communications, governance and administrative functions by half. Our savings have been reinvested in casework and prevention, enabling us to set up a forecasting and planning function and a data, insight and reporting team.

Most importantly, in March 2023 we launched our Target Operating Model programme for casework. This programme aligns our organisation with industry by creating sector specific casework directorates, whilst maintaining our dedicated team supporting small to medium enterprises (SMEs). We also launched our North West hub, attracting a high calibre of staff. Our organisational changes will underpin our service standards and give us the scope and flexibility we need to manage future demand in a changing world.

Looking to the future, we're exploring other ways intelligent automation can help us streamline cases and improve efficiency, as well as to give us sharper data and insights.

While the level of change for our people has been significant, we've also embarked on a digital transformation. We're developing our digital experience so that our customers, both consumers and businesses, can raise and monitor their cases more quickly and easily.

Looking to the future, we're exploring other ways intelligent automation can help us streamline cases and improve efficiency, as well as to give us sharper data and insights. Having more granular data and robust information at our fingertips won't just help us work smarter, it will help us develop enhanced insight for the whole industry.

Take authorised push payment (APP) fraud, for example, where financial businesses have welcomed information and guidance from us and we've regularly shared insight with others in the regulatory family. I am pleased to note that uphold rates on APP cases have reduced over the last year from around 75% to 50%, which suggests industry has learnt from complaint outcomes and guidance issued by relevant bodies.

We have also sought to support regulatory family members as they develop policy and regulation, including working with the Payments Systems Regulator (PSR) on their plans for mandatory reimbursement, and the Financial Conduct Authority (FCA) on the implementation of the Consumer Duty. On the latter, we've worked hard to ensure we are ready for implementation of the Duty internally, and engaged with businesses and other stakeholders, often alongside the FCA, to ensure consistency.

At the time of writing, the Consumer Duty has just come into force. As the year goes on, we're committed to helping financial businesses navigate the Consumer Duty and properly manage any complaints where it applies.

In the coming year, we'll develop our refreshed strategy and three-year plan. The strategy and plan need to answer a simple question: how can we ensure that every customer – whether a consumer or a business, and irrespective of the outcome of their case – benefits from their experience of the Financial Ombudsman Service? I look forward to engaging with all our stakeholders to understand their perspectives, whilst continuing to improve the service we offer to our customers, in 2023/24.

Abby Thomas
Chief Executive and Chief Ombudsman
23 November 2023

Strategic report

Demand for our services

James Dipple-Johnstone
Deputy Chief Ombudsman

We're a demand-led service.
The volume and mix of complaints we resolve fluctuates to reflect the external events impacting financial services. Regardless of challenges we might face, customers rightly expect us to resolve disputes quickly and fairly, while keeping the quality of our work high. Our changes this year have focused on that.

During the year we developed a new structure for our casework operations. Investigators and ombudsmen moved to work in sector-based directorates led by an ombudsman director covering banking, insurance, pensions, investments and mortgages, consumer credit, and a small/micro-enterprise team. We also established a casework policy directorate to ensure consistency of approach – something customers told us they cared about – and we've focused on drawing out improved insight from our cases so firms can learn and better resolve disputes locally.

What we saw in our casework

Banking

61,995
New cases

76,637
Resolved cases

36%
Upheld

> The investigator helped and guided me perfectly [to] get my life savings back from an awful fraud.

Customer comment
June 2022

Fraud and scams

Over 2022/23 we received 21,673 new fraud and scam complaints, up from 18,764 in 2021/22. We upheld 45% of these compared to 64% in the previous year.

The tactics used in the frauds we see vary – from cloned websites to 'get rich quick' scams on social media. Financial pressures from the pandemic and cost-of-living crisis may have made consumers more susceptible, and fraudsters' tactics continue to evolve. This year we saw a rise in 'hybrid' scams, which combine the features of different scam types.

We've seen increasing volumes of cases involving complicated payment journeys, with transactions passing through multiple accounts, including the customer's own.

To help businesses better understand their obligations we created and sent out a 'minimum standards' document. Throughout the year, we met regularly with the Payment Systems Regulator (PSR) and others in the Wider Implications Framework family to share information about the frauds and consumer behaviour we are seeing.

Account closures

We received 2,708 complaints from consumers and businesses unhappy that their current, savings or e-money accounts had been closed. This is a 7% increase on last year's figure of 2,536.

We've worked with stakeholders to update guidance for respondent firms and to provide clearer information requests so that businesses understand what we are asking for and can send us what we need to resolve disputes more quickly. We also expanded our resource to progress these cases more efficiently and supported our staff to obtain specialist qualifications in areas like anti-money laundering requirements and counter-terrorist financing (CTF) reporting.

This led to our highest level of complaint resolutions in any one year – around 5,000 account closure cases.

People story

Amelie was buying a property and emailed her solicitor about the purchase. Unfortunately, a fraudster was able to intercept their emails and, using the solicitor's email address, pretended to be Amelie's solicitor.

The fraudster told Amelie to send the deposit to a new account. When she attempted to send the money to the new account, she received a 'no match confirmation of payee' result.

She tried several different ways to spell the name. This alerted her bank's systems. Her bank blocked the payment, asking her to call. She called the bank, which expressed concern and advised her that the only way to know whether she was really paying her solicitor was to call them and verify the details. The bank told Amelie about email intercept scams, describing all the typical features.

Amelie understood the risk of not speaking to her solicitor. She rang them, but the solicitor wasn't available to take her call. Amelie then phoned the bank, saying she was sure it would be fine and that she wanted the payment to be made.

Still concerned, the bank once again asked Amelie to call her solicitor before they processed the payment. She hung up but later called the bank back, saying she'd spoken to the solicitor. This wasn't true. We did not uphold the complaint as we felt the bank had given Amelie several clear warnings which she'd ignored, despite understanding the risks.

Consumer credit

Motor finance commission

Motor finance commission was the most complained about product in consumer credit, with 11,446 new complaints in 2022/23. Chiefly, these cases centred on whether commission arrangements were properly disclosed to consumers and, ultimately, whether they led to unfairness.

Complaints involving Section 75 and chargebacks

In 2022/23, we continued to see complaints caused or affected by the Covid-19 pandemic. These included complaints about travel, or other services that didn't go ahead, where consumers invoked their rights under Section 75 of the Consumer Credit Act. We increased the number of investigators who were dedicated to these cases, enabling us to reduce the number of cases by the end of the year – upholding about 40% in favour of the consumer.

39,607
New cases

55,535
Resolved cases

41%
Upheld

Insurance

39,711*
New cases

45,109
Resolved cases

31%
Upheld

Motor insurance

The pandemic, along with the war in Ukraine, disrupted supply chains and led to costs increasing in the second-hand vehicle market in 2022/23. Policy holders increasingly challenged insurers about the valuation of their vehicle as part of an insurance claim and brought complaints to our service about low valuations – leading to 14,467 new complaints, compared to 11,475 last year. We also became aware that some insurers were using only one vehicle valuation guide, instead of cross-referencing with multiple guides to reach a fair value.

As well as working directly with businesses, we raised this issue with the FCA, who included it in a letter to CEOs of insurers in September 2022. Towards the end of the year, we also began to see an increase in enquiries from people whose vehicle was stolen through deception, for example by someone posing as a potential buyer and stealing the key.

* Since we published our Annual Complaints Data in June 2023, we've adapted the way we calculate data to align with our new structure. There may be, therefore, some slight variance between the data in this document and that in our Annual Complaints Data.

People story

Mo put his car up for sale online. A couple came to view it and paid the full asking price with a cheque. Mo handed over the car, keys and vehicle documents.

When the cheque bounced – because it had been stolen and displayed a forged signature – Mo lodged a claim with his insurer. They applied the 'theft by deception' clause to decline the claim, so he brought his complaint to us.

The exclusion was clear but we needed to decide whether it was fair for the insurer to apply it.

Mo told us that, as a cheque is a valid form of payment, he'd thought it was fine to accept it. We asked if he'd requested the couple's contact details in case there was a problem. He said he'd initially wanted to keep the car until the cheque cleared, but the couple said they'd travelled for hours and had been expecting to drive it back. And they seemed genuine.

After careful consideration, we felt the insurer had applied the exclusion fairly. Mo knew the couple's cheque wasn't guaranteed until it had cleared and had intended to keep the car, which showed he recognised the risk. We felt Mo was deceived into handing over his car with the stolen cheque, but he could have done more to protect himself.

Mortgages, Pensions and Investments

Mortgages

11,288
Resolved cases

8,421
New cases

28%
Upheld

Over the past few years, we've had many complaints about the fairness of standard variable rates (SVRs). A judicial review, which concluded in July 2022, clarified our jurisdiction to consider these complaints, and allowed us to move forward with resolving cases. We've since been working with lenders to gather and review evidence, resulting in us giving answers to about 1,300 customers over 2022/23.

We observed an uptick in complaints about first charge mortgages following sharp increases in mortgage rates this autumn. These primarily impacted borrowers coming off fixed-rate loans at historically low rates and those on SVRs who couldn't re-mortgage. They included complaints from customers in financial difficulties, and those who had not received the rate they expected. We have updated our online resources accordingly to guide lenders.

> Faced with what seemed an insurmountable impasse with the mortgage lender, you managed to broker a favourable resolution which meant we could keep the house.

Customer comment
September 2022

People story

When Amy's relationship broke down, she and her ex-partner agreed she'd continue to live in the house and take over the mortgage. Amy contacted the bank to ask about transferring the mortgage into her sole name and getting a new fixed rate. The bank explained how to apply to transfer the mortgage but didn't tell her she'd need to finalise the transfer before she could apply for a new fixed interest rate.

When Amy applied for a new fixed interest rate, the bank rejected her application because she didn't have her ex-partner's consent to apply for it. The bank said it couldn't apply a rate without his consent unless the mortgage was switched first.

Amy re-applied. The bank agreed to her taking the mortgage over and offered her the best interest rate it had available, which by then was 5.45%.

We didn't think the bank had been clear about what Amy needed to do. That caused delays and, as interest rates were rising quickly, meant Amy missed out on a better fixed rate.

The bank agreed to move Amy's mortgage on to the 3.15% fixed rate it had had available in September 2022, rather than October's rate of 5.45%. It reduced her monthly payments, refunded the extra amount she'd already paid, and awarded her £300 compensation for distress and inconvenience.

Pensions

6,683
New cases

10,302
Resolved cases

43%
Upheld

We've been focusing on cutting how long our customers wait for their cases to be resolved across all areas of our casework. However, this has been a particular priority in our pension teams. Here we're seeing longer waiting times for customers, especially when an ombudsman's final decision is needed.

Due to the complex nature of some pension complaints, it can take time to resolve these cases. So, building on our recruitment of more specialist investigators in 2021/22, we've increased our ombudsman resource in our pension teams.

> The person who handled my complaint... kept me updated at regular intervals, very quickly understood the issues and took a lot of stress off me by dealing directly with my pension company.

Customer comment
February 2023

The British Steel Pension Scheme (BSPS) redress scheme

A total of 538 customers came to us about defined benefit transfers relating to transfers from the British Steel Pension Scheme (BSPS). We worked closely with both the FCA and the Financial Services Compensation Scheme (FSCS) in preparation for the launch of the FCA's redress scheme, helping to shape the scheme and ensure it is easy to use by complainants.

With the FCA, FSCS and the Money and Pensions Service (MaPs), we also held joint events for steelworkers in South Wales, Scunthorpe and Middlesbrough and for representatives in Westminster and the Senedd in Cardiff.

Investments

7,314
New cases

9,668
Resolved cases

30%
Upheld

Minibonds

We continued to receive cases from consumers who'd lost money after investing in 'minibonds' in 2022/23. A minibond is considered a high-risk investment product and the FCA banned the promotion of speculative minibonds to retail investors in January 2020.

Looking into these complaints, we've found problems with the way issuers have promoted the product – misleading consumers about the risks, and failing to follow the FCA Handbook. When they have, we've often found consumers wouldn't have passed the requirements if the firm had checked, and that customer investment experience hasn't been tested properly or isn't sufficient for the product. The bond was therefore inappropriate, and the business should have rejected the application.

The uphold rate for minibonds cases was very high in 2022/23 – 86% against an average uphold rate of 35%. Throughout the year, we shared what we saw, and our concerns about how high-risk investments are marketed, with the FCA as part our work with them on their Consumer Investment Strategy.

Funeral plans

July 2022 saw the expansion of our jurisdiction to cover complaints about prepaid funeral plans. Since then, 102 complaints have come to us. Most customers we've heard from are unhappy with the arrangements they entered into many years ago. They signed up for plans that looked affordable but say it wasn't made clear to them that they wouldn't be able to cancel without losing what they'd already paid. Some complain they've paid more than it would cost to arrange a funeral at today's prices.

Some of these consumers are in vulnerable situations. Some are making a complaint about a funeral plan for a loved one they're grieving for. Others thought their loved one's plan would cover all the funeral costs, including items such as flowers, when often they don't.

To help ensure issues are resolved as early as possible for customers, and that businesses understand our approach, we have regular meetings with the biggest funeral plan providers.

Cross-cutting themes and consistency

Our Casework Policy Directorate works with the sector-based teams to build our capability to resolve complex cases and novel or challenging policy questions in a timely and robust manner. It works to build knowledge of casework policy across the organisation to ensure we have, and apply, clear frameworks and consistency. Priorities for this year have been preparing for the Consumer Duty and taking forward our work on motor finance commission.

We've also cross-referenced Independent Assessor feedback with our own insight, and service-complaint and quality-assurance data throughout the year. To ensure our decision-making is consistent we have:

- updated our internal processes and guidance for greater consistency
- enhanced our case management system so that we can capture better insights and track our performance against our new service standards
- created a cycle of regular diagnostic reviews enabling our quality team to support casework colleagues continually improve

Vulnerability

Identifying vulnerability early helps us deliver the best service possible and can also be relevant to reaching a fair outcome on a complaint. So, throughout the year, we continued to build our collective awareness of how vulnerability presents in our casework by improving:

- the way we identify and handle cases involving vulnerability
- reporting, so we can share more valuable data and insights with industry, and so prevent complaints arising

> The work we've achieved together over the last year is just the start of something much bigger. We look forward to working with the Financial Ombudsman to make sure that when a victim-survivor reaches out for help from their bank they are treated fairly and get the right response the first time.

Dr Nicola Sharp-Jeffs OBE
Founder and CEO of Surviving Economic Abuse

Resolving cases quickly is a priority across all our casework. But it's even more important when a customer is vulnerable or the survivor of abuse. In complaints involving these issues, we've used mediation where possible to help customers and firms mutually agree resolutions, without the need for a lengthy investigation.

We've worked with charities and groups, such as Surviving Economic Abuse (SEA), Women's Aid and Refuge, to raise our own awareness and understanding of the issues consumers face. And we've shared our insights with the six biggest banks to help them learn from each other and improve the support they provide.

Through the changes we're making to our casework structure, we're providing additional roles to help customers who require more support and we're embarking on a significant training programme with our teams. We expect this, and the other changes we're making, to make us better able to apply our skills to help customers needing more support.

People story

Beth was a victim-survivor of domestic, including economic, abuse. She had a joint mortgage with the abuser.

After separation, Beth moved out of the property for her safety and the abuser refused to make payments towards the mortgage, forcing Beth into financial difficulties. The mortgage fell into arrears, but the abuser refused to agree to put the property on the market.

Several years went by and the property was repossessed. The impact on Beth's credit rating meant she couldn't rent a new property or even take a phone contract. After escalating a complaint to the business, and being advised by Surviving Economic Abuse, Beth contacted the Financial Ombudsman Service which was able to look at the case quickly.

Beth was treated with dignity and respect. The case-handler listened, understood and validated her experience. The case handler contacted the business, explaining Beth's exceptional circumstances and the business agreed to amend her credit file to accurately reflect her creditworthiness, rather than the abuse she'd experienced.

Beth said this outcome was lifechanging and meant she could finally feel free.

Our thanks to Surviving Economic Abuse for writing this story for our Annual Report.

Small to medium enterprises (SMEs)

1,595
Resolved cases

1,191
New cases

30%
Upheld

Coronavirus Business Interruption Loan Scheme

Complaints about the Coronavirus Business Interruption Loan Scheme relate to how insurers and brokers have handled claims in the context of the Covid-19 pandemic. We've continued to receive large volumes of these cases throughout 2022/23.

Due to the size of these loans, many businesses had to seek redress through the courts. That meant we were progressing our cases in parallel with the courts, but we've been encouraged to see our thinking was closely aligned with court judgments.

We worked closely with industry, both the Association of British Insurers (ABI) and directly with insurers through our SME Advisory Group and individually, to progress these cases. We've also updated our dedicated SME site.

Other notable changes

Over the year, we saw a change in the type of complaints we receive about merchant services, mirroring the way the industry's changing, so we're working with the FCA to share poor practice when we see it. We also saw an increase in complaints involving commercial fraud and scams, most commonly invoice intercept scams and director/senior manager impersonation scams. We're working closely with banking colleagues on this issue.

Complaint management companies (CMCs)

Complaints about CMCs and their handling of claims continued to fall in 2022/23, as the deadline for making a complaint about payment protection insurance (PPI) took effect.

Of the 361 new complaints we did receive, most were from consumers who were unhappy about how CMCs pursued their fees. We upheld 47% of complaints about CMCs.

Our operations and performance

Karl Khan

Chief Operating Officer

Since we launched our new strategy in 2020, we have deliberately set ourselves stretching and ambitious targets for each of its three pillars:

- Enhancing our service
- Preventing complaints and unfairness arising
- Building an organisation with the capabilities it needs for the future

In 2022/23, we made significant progress in improving the level of customer service that we offer, whilst going through a period of transformation as an organisation. Some key performance highlights from the year include:

- reducing the median time customers had to wait for a resolution to their complaint from 6.4 months in 2021/22 to 4.8 months in 2022/23
- reducing by 70% the number of open cases older than 18 months, from over 26,000 at the start of the year to fewer than 8,000 at the end of the end of the year
- achieving an overall quality score of 92% for investigations – seven percentage points above our target score
- meeting our target for staff engagement by earning a score of 70%
- completing our most recent five-year carbon management plan with the Carbon Trust, achieving a 60% reduction in emissions against a target of 45%

But we know there is still more to do as we strive to be a forward-looking, high-performing and efficient organisation that provides a meaningful and responsive service to all our customers – whether they're finance firms, small businesses or consumers.

For this reason, we're improving productivity by planning and designing a new operating model and building new technology solutions. For example, we're currently developing our approach to self-service for consumers and businesses, and examining how we can make better use of our data and share our insights. The latter is an important and impartial source of information for consumer groups, financial businesses and the regulatory family.

The following sections provide more detail on our performance in 2022/23.

Enhancing our service

Our older cases are a priority, so we set ourselves a challenging target to reduce cases older than 18 months to zero by the year end. From an original pool of around 60,000 cases that were, or could have gone, over 18 months in the year, we ended the year at 7,472. These included some older cases that we needed to work on as a group, as they raised interrelated issues and were sometimes impacted by external factors (such as a judicial review, a firm administration or regulatory action), which meant we couldn't work on them immediately.

In addition, other cases were delayed by a variety of factors including: problems in obtaining evidence; legal challenges short of a judicial review; changes in personnel; or waiting times at the service at the start of the year. Of the open cases at year end, 3,661 were either at decision stage or awaiting decision.

We continue to work hard to resolve our older cases. Our focus now is to resolve all cases older than 12 months, currently 5,938 workable cases.

Linked to our focus on resolving our oldest cases, consumer satisfaction scores decreased over the year, particularly for cases we didn't uphold. We know that the longer it takes us to resolve a complaint, the less likely a customer is to be satisfied with our service.

We seek feedback from our consumer customers at key stages in the journey – initial enquiry, investigation process and case closure – to understand the quality of their experience. The results of these surveys show that while we remained above our satisfaction target for consumers who have their cases upheld, we have more work to do to ensure customers who don't get the outcome they were hoping for still have a good experience with our organisation.

In addition, the surveys we carry out with respondent businesses demonstrated a satisfaction level of 78%, three percentage points above our target for the year (75%).

Satisfaction and timeliness are not the only dimensions of quality we monitor. We also have an extensive internal quality checking process. This provides assurance at three critical stages of a complaint's journey – case set-up, investigation and decision – with around 5% of cases randomly selected for a multipoint check.

How we performed

Our aims	2022/23	Variance from target	2021/22
Deliver the budgeted cost per case of £1,239	£1,063	-£176	£1,073
Median time from conversion to resolution is no more than 4.2 months	4.83 months	0.63 months	6.41 months
No open cases older than 18 months by the end of 2022/23	7,472 cases	7,472 cases	9,081 cases
Consumer satisfaction for upheld cases is 80% or above	81%	1%	88%
Business satisfaction is 75% or above	78%	3%	80%
Quality score target of 85% for case set-up	93%	8%	89%
Quality score target of 85% for investigations	92%	7%	84%
Quality score target of 85% for final decision	98%	13%	99%
No more than 0.65% of closures result in an upheld service complaint	0.61%	-0.4%	0.64%

We're proud of the quality and fairness of our decisions but we also want to ensure we give our answers in a timely and efficient way. The new service standards we introduced for 2023/24 are designed to provide assurance and accountability for the service we provide. We will measure the success of how we're doing using our new set of service standards under three main areas:

- timeliness: meeting the targets we set for the time it takes us to respond to customers and resolve complaints
- quality: as well as resolving complaints quickly, we'll continue to provide answers customers can trust while giving excellent customer service
- customer experience: creating an easy-to-use service, with people being aware of who we are and how we can help

Preventing complaints and unfairness arising

Throughout 2022/23, we continued to share regular insight about the complaint trends and issues we see, to support our strategic priority of preventing complaints arising. This included:

- four sets of quarterly data on complaints about products and services
- two sets of half-yearly financial business data, and
- an annual complaints dataset accompanied by sector-by-sector insight

We shared this insight in ten editions of our newsletter, Ombudsman News.

Our Business Support Hub also supports financial businesses settle issues with customers before a formal complaint reaches us. Last year, it received more than 10,000 enquiries from over 1,400 different businesses. In a survey of users, 100% told us we'd given them the guidance that helped them resolve matters with their customer.

Given this approach, it is pleasing that in our March 2023 survey, 75% of businesses rated the resources as 'very helpful' or 'quite helpful'.

We're also proud to be part of a wider regulatory family, and collaboration across this group remains strong. We published the Wider Implications Framework Annual Report for 2022 – outlining how we're working together to address issues that might impact the financial services industry.

Resolving financial complaints gives us unique insight that we can share as an impartial source of information with consumer groups, financial businesses, journalists and policy makers. We continue to develop our data-driven strategy, which will enable us to maximise the value of our insight, and make it more readily available to stakeholders. This will help firms improve their products and processes, increasing consumer trust in financial services.

Public awareness of our service is also key in this space, and this has scored highly throughout the year, with almost nine in ten (89%) consumers having some awareness of us when prompted. As we moved into 2023/24 we worked with YouGov to introduce a more robust and ambitious survey, to provide more insight on how we can further improve in this area.

How we performed

Our aims	2022/23	Variance from target	2021/22
75% of businesses find our overall insight and information resources helpful	75%	N/A	75%
Prompted awareness of our service is 80%	89%	9%	91%

Building an organisation with the capabilities it needs for the future

In February and March 2023, we proposed significant changes to our enabling teams and casework structure. These proposals are designed to make our service fit for the future.

We have continued to work towards our ambition of becoming a more diverse organisation, but there's still more to do. Our target for senior managers who identifying as being from Black, Asian and minority ethnic backgrounds was 20%, and we achieved 18%. Representation of minority ethnic colleagues in the whole organisation is higher, at 36%. Among our senior managers, 46% identify as female, which is 4% short of target – although 49% of our Ombudsman Panel identify as female.

You will find more about Diversity and Inclusion in the People section of this report.

How we performed

Our aims	2022/23	Variance from target	2021/22
Our staff engagement score is at 70% or above	70%	0%	79%
At least 85% of our staff feel included, respected and accepted within our organisation	84%	-1%	84%
At least 20% of our senior managers identify as being from Black, Asian or other minority ethnic backgrounds	18%	-2%	15%
50% of our senior managers identify as female	46%	-4%	45%
Our overall staff attrition (excluding redundancies) is no more than 15%	17%	2%	26.6%
Overall lost sickness time rate is no more than 3%	2.5%	-0.5%	2.6%
Reduction in our carbon footprint over five years of 45%	59.7%	14.7%	N/A

By order of the Board

Jenny Simmonds
Company Secretary
23 November 2023

Directors' report

Our people

Jane Cosgrove
Chief People Officer

We are committed to supporting and investing in our people to provide the best service we can to all our customers.

We firmly believe that behind every happy customer is a happy employee and it's only by building a great place to work that we can all provide the service our customers deserve.

This year, our key people achievements include:

- preparing for the launch of our new operating model which was successfully implemented in the first quarter of 2023/24
- a new Customer Call Hub in our Coventry office and our expansion to other parts of the UK, such as the North West and Scotland
- building a positive environment by listening to feedback from colleagues to shape our development, values and service delivery

All of this will help us evolve into an organisation that can respond in an efficient way as demand for our services change. In turn, that will help us perform our essential role more effectively to support consumers and the financial services industry by resolving disputes.

Recruiting and retaining the right skills and capabilities

This year we've focused on building the right skills by reaching out to wider pools of talent, developing new and existing colleagues, and supporting the overall wellbeing and engagement of all our colleagues.

We've recruited and trained a new team of over 70 colleagues in our Coventry offices for the Customer Call Hub as part of our new approach to improve our regional recruitment.

In December 2022, we launched a recruitment pilot in the North West, recruiting the first tranche of a target of 50 fixed-term contract colleagues, who will work remotely. We'll evaluate how successfully the training, support and upskilling function remotely, with limited in-person collaboration.

We continue to review and improve the way we recruit investigators, using social media and situational judgement testing, which has enabled us to onboard more than 200 colleagues.

In common with many other organisations, we've experienced increased staff turnover in 2022/23. Our voluntary turnover was, however, maintained at between 16% and 18%, ending the year at 17%. Total turnover for the year was 19%. We've used existing temporary resource contracts to maintain delivery of core casework where turnover was higher.

We continue to focus on wellbeing and support for colleagues, particularly through times of organisational change. Our Employee Assistance Programme offers confidential counselling, advice and professional support with any personal or work matter, including legal, health and finance. In addition to our usual benefit offering, in 2022/23 we awarded those staff on a full-time salary of £50,000 or less a £1,000 cost-of-living payment, paid in two instalments to permanent, fixed-term contract and apprenticeship employees.

The overall lost time rate for sickness at the end of this year was 2.5% – equivalent to 5.6 days lost per full-time equivalent (FTE) employee and ahead of our target of no more than 3%.

Our values

We began 2022/23 by designing significant changes to the way we're structured and work – the ideal time to consider our organisational values.

Our new values set out how we play our PART – through purpose, ambition, respect and trust. They encapsulate what we look and feel like as an organisation when we are working at our best and will be embedded throughout the organisation over the next financial year.

Diversity and inclusion

The better we reflect the communities we serve, the better our service to customers will be. So, we've been working towards targets for diversity, inclusion and wellbeing (DIW) since 2016 and reporting pay gap and representation data since 2017.

In 2020, we introduced a three-year inclusion strategy to take us to 2023. Over that period, we've consistently reduced our gender and ethnicity pay gaps.

We're ambitious about DIW, so as well as publishing our gender pay gap data in line with our legal duty, we publish our ethnicity pay gap data. And, while we strive to close our pay gaps, we're working to widen participation at every level of the organisation supported by our very active Employee Networks.

We launched a Diversifying Leadership Programme to challenge the barriers and issues faced by colleagues from Black, Asian, Mixed and minority ethnic backgrounds around career progression.

The programme focused on core leadership principles and attributes including influence, decision making, strategic thinking, confidence, and authenticity.

Thirteen colleagues took part in the pilot programme which ran up to May 2023 with all participants successfully graduating with accreditation from the Institute of Leadership and Management. We have already seen colleagues from the cohort successfully securing management opportunities.

The skills and confidence I developed on the programme prompted me to apply for a more senior role, that I wouldn't have put myself forward for in the past. I've now secured an internal promotion and attribute my success mainly to completing this programme.

Participant
Diversifying Leadership Programme

To better support applicants with a disability or long-term condition through the recruitment process, we embedded the Disability Confident Scheme, enabling us to achieve the highest accreditation as a Disability Confident Leader.

Our job adverts have clear minimum criteria and – along with our website – signpost that we are a Disability Confident Leader and what this means. At application stage and throughout the recruitment process we ask candidates if they require any reasonable adjustments and ensure we follow up.

Our Workplace Adjustments Policy ensures that anyone can request adjustments while working for us. These may include physical adjustments, such as ergonomic equipment and assistive technology as well as changes to working patterns or the way information is shared. Our partners, Microlink, provide workplace assessments to ensure appropriate adjustments and training are in place.

We also work with the Business Development Forum and our internal Employee Networks to provide tailored development support for colleagues with disabilities.

In line with our commitment to employee wellbeing, over 60 managers attended a programme on mental health to improve the support we provide to colleagues. And to support our work on diversity and inclusion, we rolled out an anti-racism allyship programme to all senior leaders.

We are currently working on our new inclusion strategy to take us through to 2026, which we anticipate publishing in 2023.

Read our full 2022 DIW Report and find out more about DIW at the Financial Ombudsman.

Colleague involvement and consultation

Our colleagues play a vital role in ensuring our organisation works effectively and we create a positive culture.

The Information and Consultation Council (ICC) is a consultation forum of elected representatives of colleagues across the Financial Ombudsman Service which meets regularly with senior leadership and Executive team members and has provided us with invaluable feedback as we go through significant change.

We undertake an annual colleague engagement survey to allow employees to share views anonymously on a wide range of topics. The outcomes of these surveys provide the foundation for our people strategy and group people plans.

The response rate of 69%, 25 percentage points higher than last year, with 1,699 employees responding. Senior leaders worked with respective teams and the ICC to review findings and create action plans based on survey findings.

Our 13 Employee Networks are voluntary groups that come together through shared identity or life experiences. In 2022, they organised over 35 events to engage colleagues on important subjects.

Speaking up

We encourage colleagues to speak up if they're concerned about wrongdoing at work, and provide several ways to raise concerns. We have a partnership with a whistleblowing service, Safecall, which enables staff to raise concerns anonymously at any time.

We record any approaches, safeguarding colleagues' anonymity, made through Safecall or escalated to the colleagues who lead 'speak up' investigations. Over the reporting period we had 16 reports raising concerns – with some relating to the same incident.

Each report is reviewed and forwarded to the Audit, Risk and Compliance Committee, so that they are notified. The results of any investigations required are also reported to the Audit, Risk and Compliance Committee.

Transforming the service

Since 2021, we have been working to continually improve how we meet customers' needs, starting with an action plan to address the recommendations arising from the independent review commissioned by our Board in 2021.

An improved funding model

In 2022, we published a discussion paper that set out options for possible changes to our funding model. Where changes were supported, and feasible in the timeframe, we consulted further during our 2023/24 Plans and Budget process prior to implementation.

These changes are reflected in the 2023/24 funding model:

- Levies are now linked to overhead expenditure, which are those costs that aren't materially affected by changes to the volume of cases we investigate.
- A change to how we charge firms that are part of the group-fee arrangement will better align to our 'polluter pays' principle and reduce our level of tolerance (that is, the level at which we charge or credit group account firms where actuals are greater or lesser than our full year forecast), from 15% to 5%.
- The free case allocation in the group fee arrangement has been removed.

Other potential changes to the funding model, which we consulted on during 2022/23 and which gained support from respondents in principle, are under review for the 2024/25 financial period. These will be further evaluated alongside new considerations that have emerged. We're aiming to publish funding model proposals in our 2024/25 Plans and Budget consultation towards the end of 2023 calendar year.

What's next?

We want to help more people, more quickly, by maintaining the quality of our work while improving our pace. In our next phase of transformation, we will build on the strong foundations of our work to date and explore all avenues to serve our customers even better.

We will continue to simplify and streamline our processes and push the boundaries of how we use technology to be even more efficient and deliver an even better customer experience. This will allow our teams to use their specialist skills to best effect and resolve more cases within shorter timeframes.

Throughout all our change activity, our customers – be they consumers or respondent businesses – will continue to be at the heart of everything we do.

Risk and assurance

Our Board-owned risk management framework has continued to support our structured and thorough approach to risk. Identifying, monitoring, and managing key risks is crucial to our ability to meet our statutory objectives and deliver our strategy and plan. We continued to enhance our risk management maturity in 2022/23, focusing on three main areas.

1. Evolving Executive and Board risk reporting

We focused on the top risks for the Financial Ombudsman Service, improving trend analysis on how risks had moved and drawing out mitigating actions more clearly. Targeted interventions saw the majority of our top risks reduce by the year end.

2. Standardising our risk assurance process

We've introduced greater standardisation in approach to enhance compliance with our risk framework and support stakeholders to manage their risks. Conducting more granular analysis of the data has allowed better review of risk performance and identifying risk trends.

3. Using risk appetite statements

We put this in place at the start of the year, to help guide relevant risk owners to understand and align with our risk assurance and mitigation goals.

Summary of top risks

Description of key risk	How we've mitigated the risk
If we're not able to reduce our backlog of cases at sufficient pace, we will deliver poor timeliness and customer experience	**What we've done** Our focus on enhanced productivity and prioritising case resolution, supported by a Queue Reduction Incentive Scheme in Q3 and Q4, resulted in 210,000 cases being resolved across the course of the year. This resulted in the total number of open cases falling by over 40,000, and the median time to resolve a complaint decreased from 6.4 months in the previous year to 4.8 months in 2022/23. **Further mitigations planned and underway** We're supporting more efficient resolution through the casework Target Operating Model implementation, and significant new tooling to assist performance management and efficient allocation of cases. We launched an 'outcome closure' scheme at the start of 2023/24 to encourage earlier resolutions by respondent businesses. And we're using flexible resource to clear remaining stock in hand while ensuring we meet our new service standards going forward.
If we do not improve our productivity and efficiency, we are at risk of becoming financially unsustainable as we deplete our financial reserves	**What we've done** We posted a financial surplus rather than the large, budgeted deficit. We also introduced a more refined financial forecasting process to improve the accuracy of our medium-term financial projections going forward to ensure our funding approach recovers the costs anticipated to be incurred. **Further mitigations planned and underway** We're focused on supporting more efficient resolution through the casework Target Operating Model implementation. And we're continuing to focus on smarter cost management to ensure money is only spent where it matters the most.
If we don't maintain a highly secure security environment, we could be at risk of a significant cyber breach during a period of heightened attacks	**What we've done** We obtained the Cyber Essentials certificate and evidenced a high compliance rate (~99%) with National Institute of Standards and Technology (NIST) requirements after a detailed review. **Further mitigations planned and underway** We're addressing the small number NIST compliance gaps identified in our review. We will also be setting up a Security Operations Centre to further support the security of our digital journey platforms and tooling.

Description of key risk	How we've mitigated the risk
If we can't clearly deliver on, and demonstrate, our compliance with data protection legislation we may be subject to legal action, loss of public confidence and financial penalties	**What we've done** We completed a structured project to ensure we had adequate records of processing activity in place by March 2023 and a process to capture ongoing records, along with establishing appropriate ongoing governance. This exercise included completing a gap analysis to help direct further remedial work in 2023/24. **Further mitigations planned and underway** In addition to continuing to maintain the records we've created, we will address remaining lower-risk systems to ensure appropriate records of processing activity and data retention rules are in place.
We may not be able to retain people or attract people due to higher salaries available elsewhere – particularly during a period of very high inflation – which could adversely impact the level of service we can provide	**What we've done** We enhanced recruitment processes and casework attraction strategy and made cost-of-living payments to help staff in an ongoing high inflationary period. We reduced staff turnover to below 20%. **Further mitigations planned and underway** We are implementing our Target Operating Model which has a clearer structure and team and individual accountabilities. We are also refreshing our reward strategy and employee proposition to ensure we can attract and retain the right talent for current and future operational needs.
We may not have sufficient capacity and capability to deliver on our plans arising from the Oaklin 2021 Periodic Review while continuing to provide our core service and addressing our queues	**What we've done** We recruited key roles in Q4, including the Director of Transformation and various Heads of Department in the Transformation team, to ensure we have the right level of experience, capability and capacity to execute our transformation programme. We also made other permanent and temporary appointments to support the activity. **Further mitigations planned and underway** Our risk focus will evolve from mobilisation and delivery of capability to ensuring organisation-wide engagement and adoption of the capability delivered to achieve the planned outcomes.
If communication on our change activity is poor or lacking in tangible content, we may not sufficiently reassure our people and our stakeholders about the progress being made in improving service standards	**What we've done** We set out a case for improving our communications as part of the Target Operating Model changes. To have clearer accountability and more efficient ways of working, we restructured our Communications team, with employee consultation on this completed before year end. **Further mitigations planned and underway** Our new Director of Communications joined in July 2023 to lead the reshaped Communications team and Communications Strategy. The team will work closely with all other functions across the organisation to ensure a co-ordinated, relevant and timely approach, in the communication of all matters, including change activity.
If we don't ensure our executive management governance framework is appropriate for our current circumstances – and works in an efficient and effective way – this could impact our decision making	**What we've done** We completed the recruitment of our executive roles by mid-January and implemented revised governance structures at Executive committee level to enhance our oversight and decision making. **Further mitigations planned and underway** A focused central business management team will ensure effective and efficient management of core governance processes, as well as supporting strong ways of working between the Executive team and the Board. Our new in-house internal audit function has a full programme of work, and we have started to implement the recommendations arising from our independent Board Effectiveness review.

Emerging risks at year end

In April and May 2023, we conducted our annual risk refresh exercise. This ensures our top risks are the most relevant for the year ahead, and that we're considering potential emerging risks for the organisation. Our risk refresh moved the focus of many of our top risks towards the successful adoption of changes we're implementing. This encompasses changes to our ways of working (including successful delivery of our new service standards) and the safe and successfully delivery of digital journey platforms and tooling with appropriate security arrangements in place.

The Risk and Assurance team continued to work with enabling functions, operational teams and the Executive to identify new and emerging risks throughout the year, though the top risks at the end of Q2 2023/24 remained those identified in the table above.

We also work to continuously improve our risk framework, further embedding best practice into our risk and assurance activity. Planned enhancements to our risk framework in 2023/24 include:

- a range of more granular risk refresh and identification exercises to reflect our new operational model and priorities
- enhanced risk partnering and deep dives to support active risk mitigation, and
- the development of key risk indicators as part of our wider data-driven approach to better quantify and anticipate areas of key risk

By order of the Board

J L Simmonds

Jenny Simmonds
Company Secretary
23 November 2023

Our operational impact

Environmental, social and governance

Environmental performance and sustainability

Recycled just over **40** tonnes of waste through our landlord at Exchange Tower where we contributed to around **36%** of this, in a tenanted building

Recycled **11,556** kilos of paper, saving **193** trees

Diverted **48** tonnes of waste from landfill through our suppliers

Continued to keep our people informed around environmental initiatives, campaigns and raising awareness throughout the year – through a variety of communications

Corporate and social responsibility

We recognise that we have an impact on the world, from our people and community, to how we procure goods and services, and how we recycle and reuse.

Read our social responsibility and sustainability policy on our website

Carbon management

We began the year by completing our most recent five-year carbon management plan with the Carbon Trust, cutting emissions, largely by reducing our property portfolio and energy usage.

We're still working with the Carbon Trust and focusing on key departments – for example in Property, IT, Procurement, Finance, HR and Legal – to develop next steps. We're setting targets and timeframes to drive environmental progress and working towards net zero.

> We are delighted to confirm that the Financial Ombudsman Service have exceeded their target to reduce absolute emissions from heating, electricity, transport, waste, and water by 45% – achieving a reduction in absolute emissions of 59.7%.

The Carbon Trust
April 2022

Property

We've further reduced our property portfolio in line with our property strategy – releasing just over 70,000 square feet across our Coventry and London buildings. This has decreased desk capacity by over 800 desks, which better reflects our needs as a hybrid working organisation and will contribute to cutting energy usage. Reusing furniture from property exits, we've enhanced our workspaces to create more collaboration spaces, donating furniture we no longer need to charity.

We've also embedded 'secure follow-me printing' – installing 27 multifunctional devices (MFDs) to replace all printers and copiers (130 machines), decreasing the amount of paper we use helping to reduce our electricity usage. We continue to use our company electric van which falls within the ultra-low emission category (ULEZ).

Procurement

Environmental sustainability and social responsibility play an important part in the way we choose suppliers.

We discuss sustainability, environmental, economic and social policies with our key suppliers as part of our contract management processes. Where appropriate, when we put our requirements out to tender, we score suppliers on questions, which include environmental and corporate social responsibility.

Key suppliers are also required to:

- pay their staff the London Living Wage, and
- undertake a biannual questionnaire on modern slavery, equality, diversity, and inclusion as well as ethical and environmental standards

We work with suppliers who support our environmental values. For example:

- Our caterers give our colleagues a discount for using their reusable cups, which all new staff receive on their first day
- Our cleaning partner, MITIE Cleaning, is discontinuing the use of plastic liners from internal bins and looking at more sustainable products
- Our suppliers are helping us review our lighting – our biggest energy expense – and to reduce energy use longer term, while we replace end-of-life lighting with LED

Looking ahead

Alongside our ongoing work with the Carbon Trust, suppliers and landlords, over the next financial year we aim to close our IT datacentres and move systems to the cloud to cut energy usage.

We're already encouraging customers to communicate with us digitally. The next step is to launch consumer and respondent portals, which will also help drive environmental improvements, by reducing paper, use of toners and transportation. This applies to both our incoming and outgoing mail.

Performance		2022/23	2021/22	2020/21	2019/20	2018/19
Electricity	Kilowatt hours	**1,813,991***	1,620,564	2,083,881	3,414,541	3,944,364
	CO_2e kg using government GHG emission factors	**350,790**	344,094	485,836	872,757	1,116,531
Travel**	Business mileage	**24,139**	8,858	2,802	17,147	37,751
	CO_2e kg using government GHG emission factors	**7,000**	2,569	813	5,034	11,083
CO_2e ratio	CO_2e kg using average headcount	**144**	128	167	315	386
Paper consumption	Sheets of paper	**0.3m**	1.1m	1.0m	3.6m	12.9m
	Scanned correspondence – number of pages	**0.7m**	0.6m	0.8m	3.3m	4.7m

* Based on energy consumption data provided by our landlords in Coventry and London. Average figures calculated due to bulk data being processed and shared from our landlord at Exchange Tower.

** Mileage amounts include taxi bookings with third parties (for business travel) and business mileage claimed on expenses. Emissions factor is based on medium petrol car. Mileage increased in the financial year 2022/23 due to the creation of regional hubs.

Health and safety

Our health and safety management systems and processes continued to perform well. No injuries were reported to the Health and Safety Executive under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013. Three minor accidents occurred.

Support

- Regular reminders of emergency procedures
- 46 assessments to ensure people are working safely in the office and 169 at home
- 352 inductions for new colleagues
- 14 personal emergency evacuation plans and encouragement to request these if colleagues need them
- Updates and information to support managers and first aiders
- Additional equipment for staff with special responsibilities
- Workplace adjustments for those who need them

Training

- 14 new first aiders and arranged requalification for 12 existing first aiders
- 83 people in health and safety through our online modules
- Three property colleagues in Legionella Awareness

Preparing for the future

- Reviewed our health and safety policy and statement
- Completed and reviewed fire risk assessments, working closely with landlords
- Completed water risk assessments
- Updated our health and safety e-learning modules – including training for managers, fire marshal awareness, manual handling and working at height
- Completed a noise assessment and provided equipment and guidance where required
- Added stress management to our health and safety review
- Completed an initial risk assessment to identify additional conflict management training for staff who need it in their role

Handling personal data and FOI

The amount and type of personal information we process varies, depending on the individual circumstances of a complaint and why we are processing personal information.

The Financial Ombudsman Service has been subject to the Freedom of Information Act since November 2011. Our publication scheme provides a guide to the information that's available without the need to make a specific written request. We also publish statistical information about the requests we handle and how we respond.

We publish statistical information about our FOI requests and responses on our website

Modern slavery

We consider the inherent risk of modern slavery and human trafficking occurring in our business to be low. But nonetheless we take our responsibility to identify and effectively respond to any incidents of modern slavery and human trafficking.

See our statement under the Modern Slavery Act 2015 on our website

By order of the Board

Jenny Simmonds
Company Secretary
23 November 2023

Finance report

The Financial Ombudsman Service is funded by financial businesses through a combination of levies, individual case fees, and income from our group-account fee arrangements.

Jenny Simmonds
Chief Finance and Risk Officer

Overview

We set out our plans and priorities in our 2022/23 Plans and Budget after carefully considering:

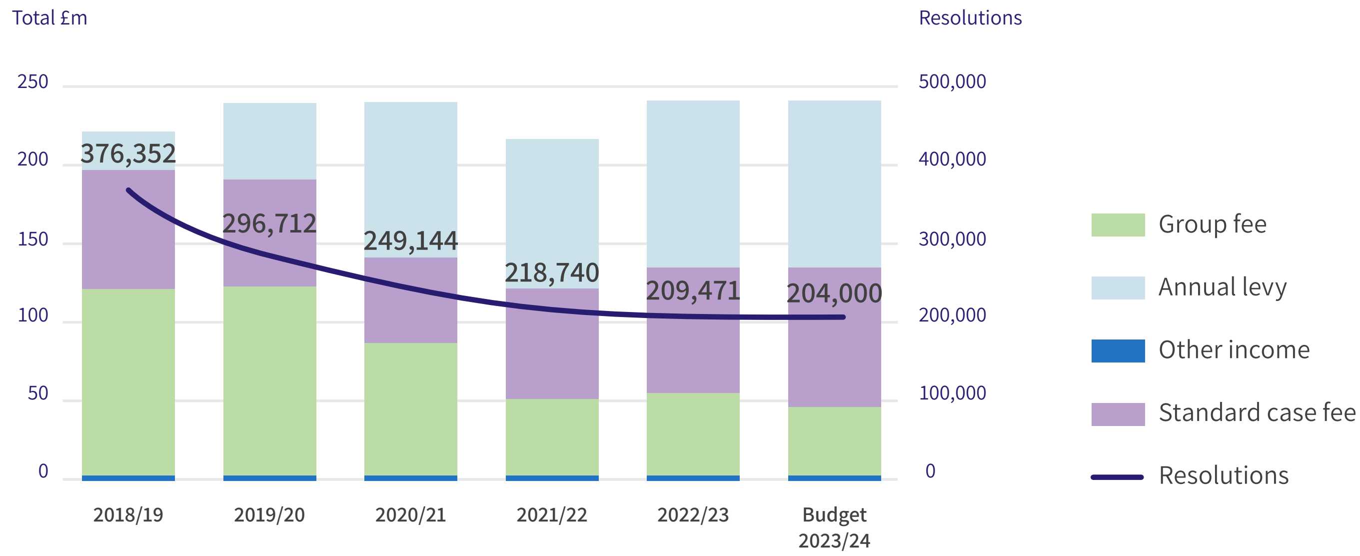
- the feedback on our funding proposals set out in a discussion paper on our future funding consulted in June 2022, with a response to the feedback published thereafter
- the scale of the changes needed and as set out in our 2021 Action Plan to improve our efficiency and cost-effectiveness, and
- the investment required to deliver on that

This chapter explains our financial performance, including how far our actual performance aligned with our expectations. A summary of our key financial metrics is set out in the table below.

	2021/22 Actual £m	2022/23 Actual £m	2022/23 Budget £m	2022/23 vs 2021/22 actuals £m	2022/23 Actual vs budget £m
Operating revenue	221.7	246.3	242.6	24.6	3.7
Operating expenditure (excl restructuring)	(234.6)	(222.8)	(273.1)	11.8	50.3
Restructuring costs	(1.3)	(8.0)	(18.0)	(6.7)	10.0
Total operating expenditure	(235.9)	(230.8)	(291.1)	5.1	60.3
Surplus	(14.7)	18.2	(48.9)	32.9	67.1
Reserves	109.2	125.5	61.1	16.3	64.4
Reserves – months of operating expenditure	5.6	6.5	2.7	0.9	3.8
Unit cost (£)	1,073	1,063	1,239	10	176

Income

The structure of how we are funded remained unchanged during the year.



Group-account fee arrangement

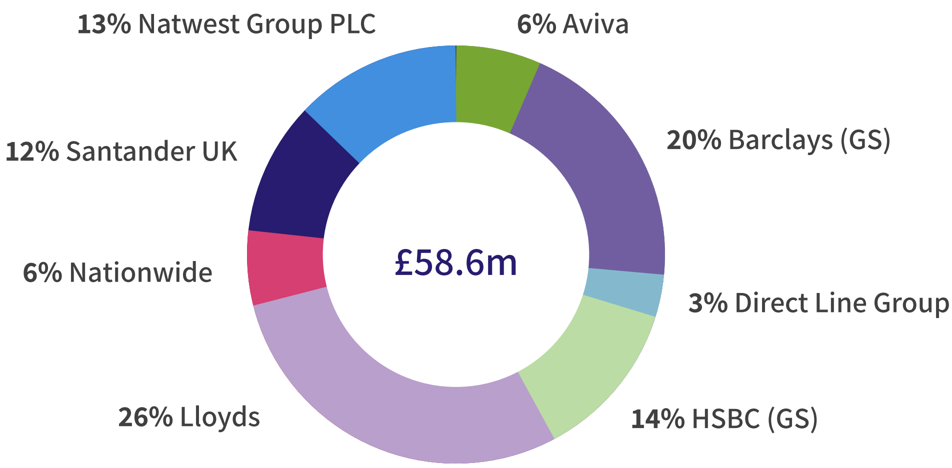
Our group-account fee arrangement covers eight financial services groups: Lloyds, Barclays, HSBC, NatWest, Nationwide, Santander, Aviva, and Direct Line Group. This remains the same as last year.

This arrangement helps us to predict, and therefore plan, our funding and gives us some stability. Groups' fees are calculated in advance, based on their share of the overall complaints we expect to resolve. This takes into account our existing 'stock' of complaints, and cases we have budgeted to deal with. At the end of the year, we calculate a true-up for a firm if the actual volume of resolved complaints is more than 15% higher or lower than budgeted.

This funding arrangement accounted for 33% of our total volume of resolved complaints this year (2021/22: 33%) and represented 42% of our total case fee income (2021/22: 44%).

Income from group-account fee firms came to £58.6m, which was £2.3m lower than budget due to final charges being £1m lower than budgeted and a year-end true-up credit of £1.3m.

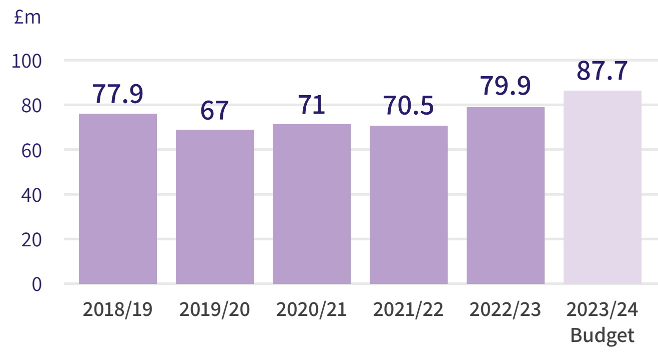
Income was £4.3m higher than 2021/22 because, although the volume of resolved complaints was lower, five of the eight firms were within the 15% tolerance on volumes and so didn't receive a credit.



Case fees (non-group)

Our fee was £750 a case, with an annual free case allowance of three cases a firm. This meant we charged firms outside the group-account fee arrangement for the fourth and each subsequent complaint. Seven in ten businesses, whose customers referred complaints to us, did not pay any case fees at all in 2022/23.

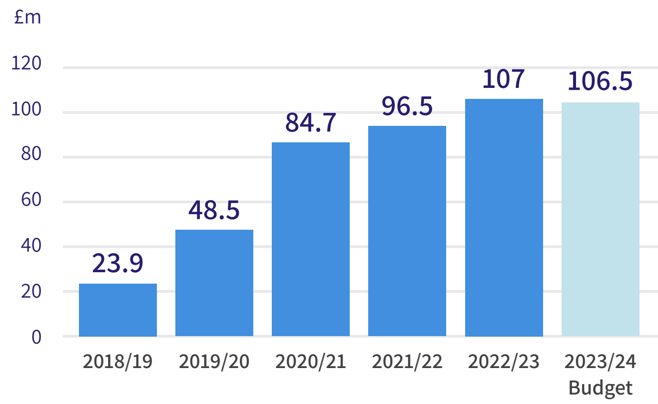
The volume of resolved complaints for firms outside the group-account arrangement was in line with budget. However, case fee income of £79.9m was £5.3m higher than budget due to a higher percentage of cases being chargeable than was anticipated, and £9.4m higher than 2021/22 because we had a lower volume of free cases.



Levy

The FCA collects the compulsory jurisdiction levy according to the amount of work we expect from each industry sector. We bill the voluntary jurisdiction levy based on a minimum levy and tariff rates.

In 2022/23, the total levy income was £107.5m, of which our compulsory jurisdiction levy was £106.2m against a budget of £106m (2021/22: £95.8m) and our voluntary jurisdiction income was £0.8m, lower than budget of £1m but marginally up on last year.



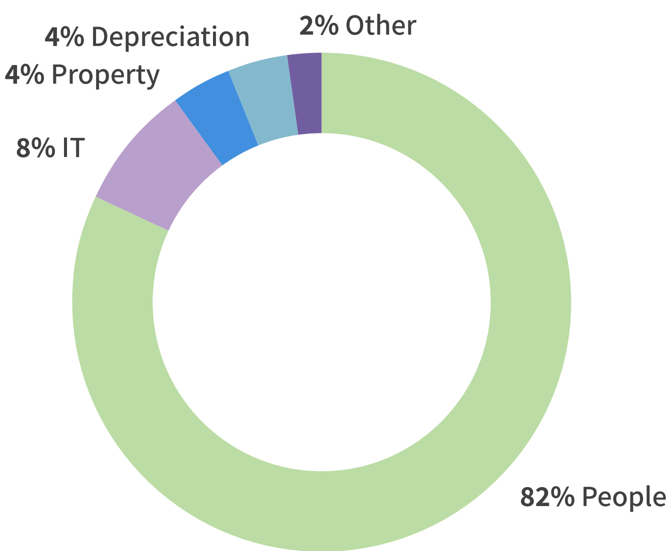
Other income

We generated £0.3m income from of other income sources, including our sub-lease and publications.

Operating expenditure

Our overall spend for the year was below budget. The principal variances were:

- **Restructuring and one-off costs relating to transformation:** in 2021/22, this comprised of leaver payments of £1.3m. For 2022/23, this comprises of leaver payments, costs to deliver our new customer call hub, and costs for projects to start our digital journey totalling £8m. Against budget, we deferred £11m into 2023/24 to appropriately sequence our transformation programme such that it could be efficiently adopted by the organisation.
- **Operating expenditure excluding restructuring:** this was £11.8m lower than in 2021/22 (£50.3m less than budget). Following a review of the accounting policy for intangible assets (see note 2), there's been a change in policy which we applied retrospectively. This resulted in a reduction in operating costs of £3.9m in 2022/23 and an increase of £2.3m in 2021/22. In addition, we have reassessed a number of provisions, including dilapidations, which has resulted in a one-off release of c£3.5m. Excluding these one-off items, underlying operating expenditure is in line with 2021/22. Costs are lower than budget due to the above and a lower headcount, which arose when we paused recruitment during transformation as we worked through our new target operating model.



People costs

As in previous years, expenditure on people was our highest cost at 82% of the total, excluding restructuring costs. We continued using contracted case handlers as well as permanent employees to allow us to scale up and down in response to changes in demand.

We reduced our spend on casework contractors by £13.2m against our original budget, because new case volumes were lower than we had expected.

Our spend includes £2m in one-off payments to staff at the lower end of the pay scale to support them through the increased cost of living.

Systems and technology costs

In line with our IT strategy, we continued to invest in technology which focuses on:

- strengthening our data insights capability
- providing digital channels for consumers and businesses to engage with us, and
- exploring opportunities for automation to support efficiency

Our IT spend in 2022/23 of £21.9m – on projects, managed services, licences, and maintenance – was aligned to operational priorities and less than our 2021/22 spend of £24m.

We're adopting cloud-based technologies where appropriate and have exited our data centres in Q1 of 2023/24. This will allow us to benefit from regular functional improvements from our 'software as a service' (SaaS) solutions and to respond to changes in demand more readily.

We have established partnerships with IBM and Tata Consulting Services. Cloud hosting of our core systems can scale with demand which also helps us to be more responsive. The IT infrastructure and equipment we have enables us to offer fully remote, in-office or hybrid working arrangements giving flexibility in working arrangements for our staff.

Property costs

We've seen a reduction in our property-related costs compared to 2021/22. While staff returning to the office on a four-days a fortnight basis increased costs, this has been more than offset by a reassessment of the dilapidation provisions. Against budget, property-related costs were £2.7m lower. During the year we exited four more floors in Exchange Tower, London and one in Friargate, Coventry – giving us future annualised savings of £4.2m.

Bad debt

In our 2022/23 budget we made allowances for:

- bad debt related expenses of £3m, and
- a specific provision of £14m for de-recognised income – including £12m relating to Amigo Loans Ltd entering a scheme of arrangement before we issued final invoices. Our case fees are shown net of this provision.

The total impact on the financial statements for 2022/23 of derecognised income was £15.4m and bad debt cost was £0.2m. This is £1.4m lower than budget and £2.4m higher than 2021/22.

Unit cost

The unit cost of resolving a complaint is:

- our total operating expenditure – excluding significant one-off costs, such as those relating to restructuring related to our transformation programme
- divided by the total number of complaints we resolve in the year

Our cost per case has increased in recent years as the benefit from economies of scale have reduced with lower mass-claims volumes. To counter this, we continue to focus on initiatives to achieve efficiency across all types of operating expenditure. In 2022/23, our cost per case was £1,063 – 14% lower than budget and 1% lower than in 2021/22, the latter primarily due to review of accounting policy on intangibles.

Reserves

Under our long-standing multi-year reserves strategy, to help us gear up our PPI operations and provide stability in the context of volatile demand – and then to wind down our PPI operations and set ourselves up to operate in a post-PPI world – we used the funds generated from:

- a special PPI levy, charged in 2011/12, and
- supplementary PPI case fees from 2012/13 and 2013/14.

This strategy resulted in us moving from a surplus in the early years to a deficit in the latter years. Post-PPI, our positive financial performance in 2022/23 has increased surplus reserves. We are in the process of reviewing, as part of our three-year plan, the best use of these surplus reserves to ensure high customer service standards, a fair charge to industry and our financial sustainability.

Our closing reserves for the year finished at £125.5m against a budget of £61.1m because of the surplus from continuing operations in the year.

Cash management

We review our cash balances daily and update our forecasts quarterly. Our closing cash balance on 31 March 2023 was £202.7m – £50.6m higher than at the end of the previous financial year. The increase was driven primarily by higher receipts from the compulsory jurisdiction levy (£66m received by 31 March 2023 relating to the next financial year, compared to £38m by 31 March 2022), together with the surplus for the year.

In accordance with the investment strategy approved by the Audit, Risk and Compliance Committee, on 31 March 2023 we had £165m invested:

- between seven institutions
- for periods of up to five months
- at rates between 3.84% and 4.67%

In addition, we had £10m on overnight deposit with an eighth institution at a rate of 4.14%.

Total interest received over the year amounted to £3.9m – a substantial increase from £0.3m in 2021/22.

Creditors' payment terms

We have a policy to pay creditors within agreed terms.

Our 2023/24 budget

Our strategic plans include complaint trends and how we're planning to develop and resource our service. Our budget is subject for approval by the Financial Conduct Authority (FCA), which publishes details of our fees on its website.

Find out more about our Strategic Plans and Budget for 2023/24 on our website

By order of the Board

Jenny Simmonds
Company Secretary
23 November 2023

Governance

Members of our Board are appointed under Schedule 17 of the Financial Services and Markets Act 2000, which states "the Chairman and other members of the Board must be persons appointed, and liable to removal from office" by the FCA.

The Chairman's appointment must also be approved by HM Treasury and the legislation also provides that "the terms of their appointment must be such as to secure their independence".

The recruitment process for non-executive positions is open and transparent. This includes running advertisements in the national media. We make appointments as an equal opportunities employer, in accordance with the principles of fairness and impartiality, and our commitment to diversity and inclusion.

Under our articles of association, the Board must consist of a minimum of three directors. On 31 March 2023, the Board consisted of seven non-executive directors.

Members of the Board are required to complete an annual declaration of their current interests and those of people connected with them. And they must confirm those interests don't conflict with their position as a Director of the Financial Ombudsman Service. See page 49 for conflicts of interest.

Statement of corporate governance arrangements

The Financial Ombudsman Service is committed to maintaining robust levels of governance assurance commensurate to the size, scale and complexity of business operations. The Financial Ombudsman has developed its governance framework over time, driven by legislation and direction from the FCA. Accordingly, we do not follow the UK Corporate Governance code per se, however, we draw upon it where relevant to help inform practice in certain areas.

Our governance structure is broadly aligned to the Wates Corporate Governance Principles 2018 for large private companies. We have summarised below how the Financial Ombudsman Service's governance framework aligns to the Wates Principles.

Purpose and leadership

"A Board develops and promotes the purpose of a company and ensures that its values, strategy and culture align with that purpose."

The Chairman of the Financial Ombudsman Service Board and the Chief Executive made the evolution of our strategy, values and culture a key focus during 2022/23, further building on the recommendations from the 2021 independent Board-commissioned review. Our statutory purpose remains at the heart of this strategy, with the progression of our transformation programme and the implementation of our new casework operating model announced at the end of the year being key components to successful delivery.

Board composition

"Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company."

In 2020/21, the Chairman refreshed the composition of the Board. Members were selected based upon the skillset required to guide the Financial Ombudsman Service through its digital and operational transformation agenda and to ensure financial sustainability. The Board member composition, and the respective Chairs of Board sub-committees, are also periodically reviewed by the Nominations Committee to ensure that fresh perspectives and approaches are incorporated to maintain ongoing effectiveness.

In line with best practice, we periodically commission a review of board effectiveness. Our most recent review – conducted this financial year – found the Board was effective, with some examples exemplary or excellent practice. It also confirmed that the Board membership comprised significant and relevant expertise, with strong diversity, and a Chairman with the vision and skill to guide the Board and the organisation to deliver on its strategy.

Director responsibilities

"A Board should have a clear understanding of its accountability and terms of reference. Its policies and procedures should support effective decision-making and independent challenge."

When onboarding new Board members, their induction includes orientation sessions where they are familiarised with their responsibilities and accountabilities.

Find out more about the Board of Directors and our sub-committees

Terms of reference, policies and procedures are reviewed on a periodic basis to ensure they continue to support effective decision-making – the Chairman involves Board members in such reviews.

The Board also abides by an internal code of conduct which reflects the provisions of the Code of Conduct for Board Members of Public Bodies issued by the Cabinet Office (with some amendments to reflect the statutory basis of the Financial Ombudsman Service, its governance arrangements and relevant policies). And they observe all relevant legislation (e.g. the Companies Act, the Financial Services and Markets Act 2000, etc) together with the Seven 'Nolan Principles' of Public Life.

Opportunities and risk

"A Board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks."

The creation, and preservation, of providing a value-for-money service is a focus within all monthly Board meetings and additional Board strategy days are held twice a year to ensure that the short, medium- and longer-term customer experience ambitions are appropriately balanced. Transformation programme initiatives, with oversight provided by the Transformation Committee, deliver improvements and capabilities across different time horizons, acknowledging execution complexity and to appropriately sequence user adoption.

Additionally, the Board is supported by the Audit, Risk and Compliance Committee to make sure that risks are identified, regularly reviewed and the appropriate mitigations and internal controls are in place. More details on the composition and activities of the Audit, Risk and Compliance Committee and other sub-committees can be found later on in the report.

The Board also attends the Oversight Committee of the Financial Conduct Authority several times a year and provides an annual assurance letter covering (amongst other things), the Financial Ombudsman Service's operational performance, keys risks and mitigating actions, quality control, and budget.

Remuneration

"A Board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company."

The Board has delegated the responsibility of reviewing and monitoring remuneration of our people to the Remuneration and People Committee. Additional oversight for Board and Executive terms and conditions is provided by the Nominations Committee, attended by the whole Board. The remuneration of directors and any pensions contributions is reported within our Annual Report and Accounts each year.

Appropriate and fair levels of remuneration are applied throughout the organisation to reinforce the shared purpose of all colleagues, using benchmarking against appropriate external reference points as guidance to achieve this.

Stakeholder relationships and engagement

"A Board has a responsibility to oversee meaningful engagement with material stakeholders, including the workforce, and have regard to that discussion when taking decisions. The Board has a responsibility to foster good relationships based on the company's purpose."

The Board and our Executive team actively seek opportunities to engage with all key stakeholders – whether members of the regulatory family, consumer groups, regulated financial firms, HM Treasury or employees – with both formal and informal interactions occurring throughout the year. There are roles within our casework and Communications team structures focused on providing the right liaison points to this wide range of stakeholders.

This is critical to our success, given our organisational purpose and the role that we fulfil within the financial services industry and the UK economy. The Board always have regard to all stakeholders during their decision making.

The remainder of this report goes into more detail around the activities and performance of the Board, and the five sub-committees that complement it, by covering the key areas of focus including, remuneration, audit, risk, assurance, nominations, transformation, and quality.

2022/23 Board membership

Our Board is made up entirely of non-executive directors. The background and experiences of the Board cross multiple sectors and disciplines, and the skills and competencies they bring are rich and varied – from careers in finance, law, and technology to careers in HR, customer-focused operations and public policy.

Drawing on their respective expertise, they provide exceptional strategic leadership and direction. Their strong strategic input has been particularly valuable as the Financial Ombudsman Service has embarked on its ambitious transformation journey.

Baroness Zahida Manzoor CBE
Chairman
Appointed 2 August 2019

Bill Castell
Non-Executive Director
Appointed 12 October 2020

Shrinivas Honap
Non-Executive Director
Appointed 30 September 2021

Jacob Abboud
Non-Executive Director
Appointed 1 April 2021

Sarah Lee
Non-Executive Director
Appointed 4 January 2021

Nigel Fretwell
Non-Executive Director
Appointed 30 September 2021

Ruth Leak
Non-Executive Director
Appointed 1 April 2021

Find out more about our Board on our website

The role of the Board

The Companies Act 2006 requires Directors to act in a way that they consider would be most likely to promote the success of the 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 Financial Ombudsman is properly resourced and able to carry out its work effectively and independently
- agree the strategic direction of the Financial Ombudsman and its key commitments
- oversee and monitor the Financial Ombudsman'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 '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
- be an ambassador for the Financial Ombudsman Service and role-model our culture, values and commitment to diversity and inclusion

Section 172(1) statement

The Financial Ombudsman Service is committed to working transparently and taking account of the needs of those who use, fund and work for us, as well as having regard to a wider set of stakeholders who have an interest in what we do and how we do it.

When making strategic decisions about how we can operate effectively and successfully, the Board considers views across all its stakeholders to inform its thinking and to understand the impact of any decisions it makes. Our Board has a duty to do so under Section 172 of the Companies Act 2006.

Board meetings

The Chairman is responsible for leading the Board, and the Chief Executive and Chief Ombudsman is responsible for providing leadership across the Financial Ombudsman Service with the Executive team.

The Chief Executive and Chief Ombudsman, and other members of the Executive team, attend Board meetings at the Chairman's invitation. This enables the Board to benefit from non-executive and executive insight.

The Chairman and the Chief Executive and Chief Ombudsman 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 where the Board and committees receive assurance over the year, including issues relating to performance, management of corporate risks, and the effectiveness of internal systems and controls.

Minutes of all our Board meetings are published on our website

Conflicts of interest

We maintain and regularly review a register of conflicts. Before a new non-executive director is appointed, and during their tenure, they must seek the Chairman's authorisation for any other roles they wish to undertake, to ensure there are no conflicts of interest. Non-executive directors must also flag any potential conflicts as they arise during their tenure.

Under the Companies Act 2006, if a conflict of interest arises, which the Board considers manageable, they can approve an appointment subject to whatever limits and conditions the Board considers appropriate.

Non-executive directors must also flag any potential conflicts as they arise during their tenure on the Board.

Tenure policy

Under our Articles of Association, non-executive directors may serve a maximum of ten years. In the case of the Chairman, this ten-year period includes any time during which they acted as a non-executive director.

Non-executive 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 non-executive director resigns before the end of their term of office, it finishes at the end of the term.

If a non-executive director wants to resign before their term of office ends, they must give at least three months' notice in writing, both to the Chairman and to the FCA.

Performance evaluation

In Q4 2022/23, the Chairman appointed Liz Cross, Founder and Managing Director, The Connectives, to undertake a Board Effectiveness review, which concluded in July 2023. Her evaluation was informed by a desk top review of relevant papers and documents, individual meetings with members of the Executive Management Team and non-executive directors, and attendance at the Board and Board sub-committee meetings to observe proceedings.

Overall, the evaluation found the Financial Ombudsman Service Board has very effective structures and frameworks in place to facilitate strong stewardship and transparent governance, and to support the Board in its role to promote the long-term sustainable success and viability of the organisation.

The Board and Executive Management Team is grateful to Liz Cross for her review and the assurance it provided on Board performance – as well as the opportunity it provided to continue to strengthen and improve the Board's effectiveness. Her report also offered some suggestions for continuous improvement.

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 whether they are acquitted or if the court rules in their favour.

Corporate governance

Under changes introduced by the Financial Services and Markets Act 2000, the Comptroller and Auditor General is responsible for the audit of our annual accounts.

Like other members of our regulatory family, the Financial Ombudsman 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 are not submitted annually for re-election.

Time commitment and attendance at Board meetings

On average, the Chairman spends two to three days each week on Financial Ombudsman business.

The time commitment of other Board members amounts to around two to three days each month. However, as 2022/23 was a period of significant change, they have spent much more time on Financial Ombudsman matters over the past year.

The Executive team is grateful to the Chairman and to Board members for the additional time they have given to support our strategic development and transformation.

The table below shows each Board member's meeting attendance. The figures below include Board meetings and any sessions where the Board discussed the long-term strategic plans and short-term strategic objectives.

Board members	Meetings attended
Baroness Zahida Manzoor	12/12
Jacob Abboud	11/12
Bill Castell	11/12
Nigel Fretwell	10/12
Shrinivas Honap	12/12
Ruth Leak	12/12
Sarah Lee	12/12

Board committees

Audit, Risk and Compliance Committee

The committee considers matters relating to:

- financial reporting
- internal controls and risk management
- compliance, whistleblowing, and fraud
- internal audit
- external audit

Total meetings: 4

Audit, Risk and Compliance Committee members	Meetings attended
Shrinivas Honap (Chairman)	4/4
Jacob Abboud	4/4
Bill Castell	4/4

The Board is satisfied that the combined knowledge and experience of the Audit, Risk and Compliance Committee members means it can fulfil its responsibilities effectively. Other internal attendance is by invitation and as appropriate to the business being discussed. The National Audit Office (NAO) and the Financial Ombudsman's internal auditors also attend the meetings.

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

- reviewing assumptions and proposals for alternative funding models for the 2023/24 draft budget ahead of it being presented to the Board for consideration
- reviewing corporate risks
- monitoring implementation of the new risk appetite
- reviewing reports undertaken by the internal and external auditors
- reviewing data protection, risk management, accounting and other relevant policies
- approving a new internal audit charter and reviewing the plan for the year
- receiving the 2021/22 external audit and overseeing the preparation, and then reviewing the 2021/22 Annual Report and Accounts

The Chair of the Committee updates the Board on the Committee's activities, and the minutes are also shared.

Remuneration and People Committee

The Committee considers matters relating to:

- remuneration strategy
- executive and employee remuneration
- people strategy
- employee proposition
- talent management

Total meetings: 4

Remuneration and People Committee members	Meetings attended
Nigel Fretwell (Chair)	4/4
Baroness Zahida Manzoor	4/4
Sarah Lee	4/4

Other internal attendance is by invitation, and as appropriate to the business being discussed. During the year, the Committee's main business included:

- agreeing the annual pay review, for all staff and the Executive
- agreeing the annual performance payments, for all staff and the Executive
- agreeing recommendations in relation to cost of living payments for eligible staff
- reviewing the evolving People Strategy and considering the revised framework
- reviewing human capital initiatives and people-related performance
- reviewing the Diversity, Inclusion and Wellbeing policy
- reviewing and supporting implementation of the new Target Operating Model
- considering future workforce planning needs

The Chair of the Committee updates the Board on the Committee's activities, and the minutes are also shared.

Quality Committee

The Committee consider matters relating to:

- performance against defined quality measures and targets
- effectiveness and consistency of casework processes
- consumer and business satisfaction
- service complaints and the remedial actions

Total meetings: 3

Quality Committee members	Meetings attended
Ruth Leak (Chair)	3/3
Shrinivas Honap	3/3
Sarah Lee	3/3

Other internal attendance is by invitation, and as appropriate to the business being discussed. During the year, the Committee's main business included:

- reviewing the current Quality Assurance Framework and agreeing to review throughout the year
- reviewing plans to improve the end-to-end customer journey
- agreeing the service standards for 2023/24
- reviewing the plans to support vulnerable customers
- reviewing the customer service experience and service
- reviewing lessons to be learned, including from the findings of the Independent Assessor
- reviewing the role and purpose of the Committee after the full year

The Chair of the Committee updates the Board on the Committee's activities, and the minutes are also shared.

Following the Committee's review, it was decided to stand down the Quality Committee as of 1 April 2023. It had been set up on a time-limited basis and has been superseded by permanent executive appointments and other key meetings.

Transformation Committee

The Committee considers matters relating to:

- the portfolio of work to deliver the Action Plan for change
- key deliverables and benefits from the changes, and progress against programme milestones and other metrics
- risks to delivery
- additional investments identified as important, for discussion and approval, in order to deliver on the strategy of the organisation

Total meetings: 7

Transformation Committee members	Meetings attended
Jacob Abboud (Chair)	7/7
Nigel Fretwell	6/7
Ruth Leak	7/7

Other internal attendance is by invitation, and as appropriate to the business being discussed. During the year, the Committee's main business included:

- monitoring the progress of work on significant technology and change programmes, such as the digital portal and intelligent automation
- reviewing proposals for a new casework operating model and the planned impact on ways of working, process efficiency and tooling requirements
- reviewing the transformation programme key risks, mitigating actions and benefits realisation
- agreeing the transformation programme scope, phasing and budget, both for current year and future years

The Chair of the Committee updates the Board on the Committee's activities, and the minutes are also shared. On 1 April 2023, changes to the Transformation Committee members were agreed, with Shrin Honap joining the committee and Nigel Fretwell standing down.

Nomination Committee

The Committee considers matters relating to:

- Board composition
- Board sub committees
- organisational design and leadership structure
- Chief Executive and Chief Ombudsman appointment
- executive and other relevant appointments

Total meetings: 3

Nomination Committee members	Meetings attended
Baroness Zahida Manzoor	3/3
Jacob Abboud	3/3
Bill Castell	3/3
Nigel Fretwell	2/3
Shrinivas Honap	3/3
Ruth Leak	3/3
Sarah Lee	2/3

On 1 April 2023, Nigel Fretwell assumed the responsibility of the Senior Independent Director (SID) in place of Sarah Lee.

Other internal attendance is by invitation, and as appropriate to the business being discussed. During the year, the committee's main business included:

- agreeing appointments to the Ombudsman Panel
- agreeing the appointments of the Chief Executive and Chief Ombudsman, Chief Operating Officer, Deputy Chief Ombudsman, Chief Finance and Risk Officer and Chief People Officer
- agreeing changes to the board sub committee framework and to the Committee
- agreeing the appointment of the Senior Independent Director

The Chair of the Committee updates the Board on the Committee's activities, and the minutes are also shared.

Please see our website for full terms of reference for each committee

The Independent Assessor

The Service has done better this year at putting things right and so there has been a decrease in percentage of cases for which I have made recommendations... the Service should be proud of how its staff interact with customers.

Dame Gillian Guy
Independent Assessor, April 2023

Our Independent Assessor (IA) considers complaints from consumers and businesses about the level of customer service we have provided, rather than whether it was right for us to uphold or reject a consumer's complaint about a business.

The role of the IA is a Board appointment, and its remit is governed by formal terms of reference. The current IA, Dame Gillian Guy CBE, was appointed in October 2020.

The IA regularly meets:

- the Chairman of the Board and the Chief Executive and Chief Ombudsman
- other non-executive directors and members of the Executive team
- relevant staff from the Financial Ombudsman

This allows her to discuss the themes and insights from cases she sees, lessons to be learned and actions to help improve service.

The Financial Ombudsman received 3,717 service complaints in 2022/23, which represents 1.8% of the 209,491 cases that we resolved. In 649 cases the complainant referred their complaint to the Independent Assessor for her review. Dame Gillian made recommendations on 40% of the complaints she reviewed, which was a small decrease from the previous year.

The largest area of complaint (47%) was around 'adequacy of the investigation'. Dame Gillian found that we failed in communication or timeliness in 82% cases that she'd classified as 'unsatisfactory'.

Her recommendations included "managing expectations, setting boundaries and explaining limitations at an early stage" to prevent customers feeling disappointed when their case concludes. Dame Gillian's feedback is always valuable and we have accepted all of her recommendations this year. We've also implemented several measures including:

- reducing the time to respond to service complaints in our service level agreement for managers
- changing our internal categorisations for service complaints, to align with those used by the IA
- introducing new service standards, which we've published on our website
- consulting our staff on further improvements to how we structure our service-complaints process

You will find both the Independent Assessor's annual report and our Management response on our website.

Internal audit

Internal audit provides assurance on the Financial Ombudsman Service's governance, risk management and internal controls.

A Head of Internal Audit was appointed in September 2022 to establish an in-house internal audit function, working with the existing outsource internal audit provider. The Head of Internal Audit has direct rights of access to the Chair of the Board, the Audit, Risk and Compliance Committee Chair and the Chief Executive, and attends every Audit, Risk and Compliance Committee meeting updating on the plan and reporting on key controls.

Internal audit completed a risk-based internal audit programme for 2022/23 in compliance with the Internal Audit Charter and the Public Sector Internal Audit Standards. The Head of Internal Audit's annual internal audit opinion provided a 'moderate' assurance on governance, risk management and internal controls, as some improvements are required to enhance the adequacy and effectiveness of governance, risk management and internal control.

External audit

The Comptroller and Auditor General, Head of the NAO, was appointed our external auditor by the Financial Services and Markets Act 2000. The NAO liaises with internal audit as appropriate, attends the Audit, Risk and Compliance Committee meetings and has direct access to the chair of the Audit, Risk and Compliance Committee to discuss financial reporting.

Remuneration report

Board members' fees

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

Non-executive directors' fees are set annually by the FCA and adopted by the Board. The Remuneration Committee considers and approves executive remuneration.

The Chairman 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, Risk and Compliance Committee, the Chair of the Remuneration Committee, the Chair of Transformation Committee, the Chair of the Quality Committee and the Senior Independent Director. Fees paid to non-executive directors will remain unchanged in 2023/24. Apart from the small increase for the new Chair in 2020/21, fees have been unchanged since April 2012.

In this report, the disclosures on Board fees, remuneration, expenses, benefits for the Executive team, pay multiples and exit packages have been audited. Other disclosures have not been audited.

Fees and expenses for the Board* (fees are audited)

Board member	Notes	Total fees for year ended 31/03/23	Expenses** for year ended 31/03/23	Total fees for year ended 31/03/22	Expenses** for year ended 31/03/22
Baroness Zahida Manzoor		£75,000	£837	£75,000	£343
Bill Castell		£24,500	£190	£24,500	£28
Sarah Lee	1	£29,500	–	£28,250	–
Jacob Abboud	2	£29,500	–	£29,083	£131
Ruth Leak	3	£29,500	£2,898	£26,583	£2,420
Nigel Fretwell	4	£29,500	£746	£14,428	£654
Shrinivas Honap	5	£29,500	£1,664	£14,428	£1,004
Heather Lauder		–	–	£9,833	£227
Graham Brammer		–	–	£6,542	–
Total		**£247,000**	**£6,335**	**£228,647**	**£4,807**

* Table only contains Board members who accrued or received fees in the respective reporting periods.

** In line with the articles of association, the directors are entitled to be paid travel, hotel and other expenses which are reasonable and have been properly incurred. Expenses reflect amounts actually incurred. Additional associated income tax and National Insurance liabilities are paid over in line with HM Revenue and Customs guidelines.

Notes

1. Sarah Lee's fee includes an additional fee as the Senior Independent Director from 1 July 2021.
2. Jacob Abboud's fee includes an additional fee for chairing the Audit, Risk and Compliance Committee from 1 May 2021 to 31 October 2021 and for chairing the Transformation Committee from 1 November 2021.
3. Ruth Leak's fee includes an additional fee for chairing the Quality Committee from 1 November 2021.
4. Nigel Fretwell's fee includes an additional fee for chairing the Remuneration Committee from 1 November 2021.
5. Shrinivas Honap's fee includes an additional fee for chairing the Audit, Risk and Compliance committee from 1 November 2021.

Our Independent Assessor, Dame Gillian Guy, was paid at a rate of £106,500 for four days a week (2021/22: £106,500). During the year, she received pension contributions of £12,780 (2021/22: £12,780) and other benefits amounting to £3,086 (2021/22: £3,705).

Executive remuneration

The remuneration packages for members of the Executive team comprise base salary, an executive bonus (up to 5% of salary), pension scheme, flex benefit allowance and an enhanced benefits package.

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.

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 pensionable 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.

There is an alternative cash arrangement of 13% for those employees on higher salaries, including the Executive team, who want to leave the pension scheme and who have fixed protection from HMRC. There are further details about the cost of the pension scheme in note 26 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, 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 an £800 cash benefit allowance each year, which they can spend on other salary sacrifice benefits available under the flexible benefit plan.

Remuneration and benefits for the Executive team (audited)

Executive team member	Notes	FYE salary active members	Salary	Pension*	Taxable benefits**	Total for year ended 31/03/23	Total for year ended 31/03/22
Abby Thomas	3	280,000	£141,659	£18,719	£616	£160,994	–
Julia Cavanagh	2/4	209,405	£55,774	£5,974	£57	£61,805	£251,107
Caroline Nugent	1/2/5	164,542	£199,258	£13,049	£1,702	£214,009	£193,791
Nicola Wadham	2/14	170,000	£171,929	£21,807	£3,012	£196,748	£190,340
Rae Stewart	6	150,000	£28,209	£6,083	£322	£34,614	£99,135
Colin Douglas	7	150,000	£106,210	£12,141	£1,065	£119,416	£4,967
Carys Williams	8	160,000	£99,111	£12,879	£741	£112,731	£4,637
James Dipple-Johnstone	9	180,000	£91,488	£10,684	£1,166	£103,338	–
Karl Khan	10	180,000	£91,369	£12,934	£1,435	£105,738	–
Jenny Simmonds	11	180,000	£44,225	£5,168	£560	£49,954	–
Jane Cosgrove	12	180,000	£35,129	£4,573	£329	£40,031	–
Yvette Bannister	15	147,595	£123,434	£17,118	£3,212	£143,764	£137,520
Caroline Wayman			–	–	–	–	£13,512
Annette Lovell	16		–	–	–	–	£135,104
Richard Thompson	17		–	–	–	–	£270,659
Garry Wilkinson	18		–	–	–	–	£391,728
Deborah Oliver			–	–	–	–	£20,064
Total			**£1,187,795**	**£141,129**	**£14,218**	**£1,343,142**	**£1,712,564**

* 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 described above.

** Taxable benefits represent the gross (pre-tax) value of benefits, whether cash or non-cash, that UK income tax is charged on. The figures in this column include certain employee benefits taken up by executive directors, as explained in the other benefits section above this table.

Notes

1. Executive directors are required to seek approval for, and declare, any other non-executive positions they hold. Caroline Nugent was on the Board of the Chartered Institute of Personnel and Development (CIPD) until her date of leaving; and this was a non-fee-paying position.
2. Julia Cavanagh, Caroline Nugent and Nicola Wadham elected to allocate £4,000 per annum 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. Abby Thomas took up the position of Chief Executive and Chief Ombudsman on 3 October 2022.
4. Julia Cavanagh left the Financial Ombudsman on 19 June 2022.
5. Caroline Nugent left the Financial Ombudsman on 30 September 2022. Her salary for 2022/23 included leaving payments totalling £97,971 which comprised £60,000 for loss of office, £37,971 redundancy and £42,507 for a period of gardening leave which commenced on 28 June 2022.
6. Rae Stewart joined the Financial Ombudsman on 1 September 2021 on an interim basis and left on 30 June 2022.
7. Colin Douglas joined the Financial Ombudsman on 21 March 2022 on an interim basis and left on 20 January 2023.
8. Carys Williams joined the Financial Ombudsman on 21 March 2022 on an interim basis and left on 7 October 2022.
9. James Dipple-Johnstone took up the position of Deputy Chief Ombudsman on 3 October 2022.
10. Karl Khan took up the position of Chief Operating Officer on 3 October 2022.
11. Jenny Simmonds took up the position of Chief Finance and Risk Officer on 5 January 2023.
12. Jane Cosgrove took up the position of Chief People Officer on 23 January 2023.
13. Owen Brace took up the position of Director of Communications on 3 July 2023.
14. Nicola Wadham left the Financial Ombudsman on 18 August 2023.
15. Yvette Bannister is contracted to work a four-day week.
16. Annette Lovell left the Financial Ombudsman on 30 June 2021, salary is inclusive of leaving payments.
17. Richard Thompson left the Financial Ombudsman on 5 November 2021, salary is inclusive of leaving.
18. Garry Wilkinson left the Financial Ombudsman on 4 March 2022, salary is inclusive of leaving payments.

Executive team interim appointments (audited)

Chandra Hirani took up the position of interim Chief Financial Officer on 1 June 2022 until 30 January 2023 and was paid an acting up allowance at a rate of £20,000 per annum. Total paid in the year to 31 March 2023 was £13,282.

Becky Willis took up the position of interim HR Director on 15 March 2022 until 28 February 2023 and was paid an acting up allowance at a rate of £20,000 per annum. Total paid in the year to 31 March 2023 was £19,251 which included £914 paid in April 2022 in respect of March 2022.

Phillipa Cook took up the position of interim Director of Communications on 23 January and held the position at 31 March 2023 and was paid an acting up allowance at a rate of £20,000 per annum. Total paid in the year to 31 March 2023 was £3,818.

Executive team secondments (audited)

Nausicaa Delfas joined the Executive team as interim Chief Executive and Chief Ombudsman on secondment from the Financial Conduct Authority on 17 May 2021. She left the Financial Ombudsman on 7 October 2022. Fees payable to the Financial Conduct Authority for 2022/23 amounted to £199,800 (2021/22: £300,000).

Simone Ferreira joined the Executive team as Interim Chief of Staff on secondment from the Financial Conduct Authority on 16 August 2021. She left the Financial Ombudsman on 31 March 2023. Fees payable to the Financial Conduct Authority for 2022/23 amounted to £273,360 (2021/22: £170,850).

Executive team expenses

Expenses incurred by, or on behalf of, members of the Executive team*					
Executive team member	**Travel**	**Accommodation and subsistence**	**Entertaining**	**Professional subscriptions**	**Total for year ended 31/03/23**
Abby Thomas	£344	–	–	–	£344
James Dipple-Johnstone	£314	–	–	–	£314
Jane Cosgrove	£286	–	–	–	£286
Jenny Simmonds	–	£174	–	£415	£589
Karl Khan	£284	£342	–	–	£626
Nicola Wadham	£2,007	£786	£26	–	£2,819
Colin Douglas	£215	–	–	–	£215
Caroline Nugent	£101	–	–	£221	£322
Yvette Bannister	£239	–	–	£316	£555
Total	**£3,790**	**£1,302**	**£26**	**£952**	**£6,070**

* No expenses were incurred in the year by Julia Cavanagh, Rae Stewart, or Carys Williams.

Expenses incurred by, or on behalf of, Executive team interim appointments*					
Executive team member	**Travel**	**Accommodation and subsistence**	**Entertaining**	**Professional subscriptions**	**Total for year ended 31/03/23**
Chandra Hirani	£117	–	–	–	£117
Becky Willis	£312	–	–	£195	£507
Phillipa Cook	£347	£174	–	–	£521
Total	**£776**	**£174**	**–**	**£195**	**£1,145**

* Expenses incurred during the interim appointment period only.

Expenses were also incurred by secondees as part of their secondment to the Financial Ombudsman Service from the Financial Conduct Authority.

Expenses incurred by, or on behalf of, Executive team secondees					
Executive team member	**Travel**	**Accommodation and subsistence**	**Entertaining**	**Professional subscriptions**	**Total for year ended 31/03/23**
Nausicaa Delfas	£126	–	–	–	£126
Simone Ferreira	£334	–	–	–	£334
Total	**£460**	**–**	**–**	**–**	**£460**

Pay multiples (audited)

This section shows the relationship between the remuneration of the highest-paid director and the remuneration of employees at the 25th, 50th and 75th percentile of pay and benefits of our total workforce. The 50th percentile is also known as the median – the midpoint of our range of salaries.

For these purposes, total remuneration includes basic salary, bonuses and taxable benefits. It does not include pension contributions or cash in lieu of pension contributions. To keep comparisons consistent, it doesn't include compensation for loss of office either.

The remuneration of the highest-paid director in the financial year 2022/23 was an annual rate of £283,780 (2021-22, actual £223,884). In 2022/23, zero (2021/22, zero) employees received remuneration in excess of the highest-paid director. Remuneration ranged from £21,936 to £283,780 (2021/22, £23,944 to £223,884).

Total workforce means all permanent and contingent members of staff.

Ratio of the remuneration of the highest-paid director* to the remuneration of the total workforce (excluding highest-paid director)

Year	25th percentile pay ratio	Median (50th percentile) pay ratio	75th percentile pay ratio
2022/23	7.55	6.46	4.52
2021/22	6.49	5.21	3.79

* For the purpose of this note and the two below, 'director' refers to both non-executive directors and members of the Executive team but does not include FCA secondments.

Pay and benefits of the total workforce at the 25th, 50th and 75th percentile of pay and benefits of the total workforce (excluding the highest-paid director*)

	25th percentile		Median – 50th percentile*		75th percentile*	
Year	Total pay and benefits	Salary component of pay and benefits	Total pay and benefits	Salary component of pay and benefits	Total pay and benefits	Salary component of pay and benefits
2022/23	£37,611	£33,000	£43,925	£43,925	£62,750	£62,750
2021/22	£34,508	£30,901	£42,941	£39,038	£59,040	£54,773

* The figures shown for the 50th and 75th percentiles relate to contingent workers who do not receive any employment benefits.

Average percentage change in the remuneration of the total workforce from 2021/22 to 2022/23 (excluding highest-paid director*)		Percentage change in the remuneration of the highest-paid director* from 2021/22 to 2022/23	
Salary and allowances	Performance pay and bonuses	Salary and allowances	Performance pay and bonuses
4.29%	-23.30%	26.75%	0%

The changes in the pay ratios compared to the previous year's are consistent with our expectations and reflect the application of our Recognition and Reward Policy.

The increase in salary and allowances is due to the pay increase in 2022/23 together with a one-off cost-of-living payment of £1,000 paid to employees earning below £50,000 in 2022/23. The decrease in performance pay and bonuses is due to a lower bonus paid in 2022/23 compared to 2021/22.

The Chief Executive Officer was the highest-paid director during the year in 2022/23, whereas in 2021/22 the Chief Finance Officer was the highest-paid director, explaining the increase in salary and allowances for the highest-paid director and the increase in the pay ratios at each percentile from 2021/22 to 2022/23.

Exit packages (audited)

Exit packages by cost band	2022/23 number (redundancy – compulsory*)	2022/23 number (other**)	2021/22 number (redundancy – compulsory*)	2021/22 number (other**)
Less than £2,000	–	17	–	4
£2,001 to £5,000	–	10	4	25
£5,001 to £10,000	2	3	14	48
£10,001 to £25,000	4	6	52	56
£25,001 to £50,000	–	2	37	11
£50,001 to £100,000	2	–	14	6
£100,001 to £125,000	2	–	–	–
£125,001 to £150,000	–	–	1	1
£150,001 to £200,000	–	–	–	2
Total	10	38	122	153
Total payments	**£464,728**	**£225,455**	**£3,317,851**	**£2,527,035**

* Compulsory redundancy payments include any associated payments, for example, pay in lieu of notice.

** Other exit packages comprise payments in respect of voluntary redundancy, non-redundancy severance payments and pay in lieu of notice.

The table above comprises the exit packages for leavers in 2022/23. Further amounts totalling £3,642,257 have been provided for at 31 March 2023 for leavers in 2023/24 (31 March 2022: £Nil for leavers in 2022/23) – £2,420,524 as an accrual and £1,221,733 as a provision.

The highest payment made during the year was £122,062 (2021/22: £191,990). The total charged within the financial statements for 2022/23 relating to exit packages is £4,332,440 (2021/22: £1,891,367).

By order of the Board

Jenny Simmonds
Company Secretary
23 November 2023

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 surplus or deficit 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 Ombudsman has statutory powers granted under the Financial Services and Markets Act 2000 to raise fees on an annual basis to finance its operations, subject to approval by the FCA.

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 2023/24 which show year-end reserves of £137m and £166m in the bank at 31 March 2024. These surplus reserves, along with the statutory powers to raise further funding if required, mean that 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
- 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

Jenny Simmonds
Company Secretary
23 November 2023

The certificate and report of the Comptroller and Auditor General to the members of the Financial Ombudsman Service Limited and 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 2023 under the Financial Services and Markets Act 2000.

The financial statements comprise the Financial Ombudsman Service's:

- Statements of Financial Position as at 31 March 2023;
- Statement of Comprehensive Income, Statement of Cash Flows and Statement of Changes in Equity for the year then ended; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and the UK adopted International Accounting Standards.

In my opinion the financial statements:

- give a true and fair view of the state of the Financial Ombudsman Service's affairs as at 31 March 2023 and its surplus for the year then ended; and
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and HMT directions issued 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 for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), applicable law and Practice Note 10 Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (2022). 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 2019. I am independent of the Financial Ombudsman Service in accordance with the ethical requirements that are relevant to my audit of 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

In auditing the financial statements, I have concluded that the Financial Ombudsman Service's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

My evaluation of the directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting included consideration of the company's funding arrangements and assessment of whether any conditions exist which may cast significant doubt on the company's ability to continue to operate. My key observations were that funding is secured by statutory fees and levies raised by the company or via the Financial Conduct Authority and that no events or conditions exist which may cast significant doubts on the company's ability to continue operations. I also reviewed the provisions of the Financial Services and Markets Bill and the implications for the Financial Ombudsman Service as it made its way through the Houses of Parliament prior to Royal Assent. HM Government has no intention, as far as I am aware, to abolish the Financial Ombudsman Service.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Financial Ombudsman Service's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this certificate.

Other information

The other information comprises the information included in the Annual Report but does not include the financial statements and my auditor's certificate thereon. The directors are responsible for the other information.

My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon.

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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions issued under the Financial Services and Markets Act 2000.

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Director's Report has been prepared in accordance with applicable legal requirements.

Matters on which I report by exception

In the light of the knowledge and understanding of the Financial Ombudsman Service and its environment obtained in the course of the audit, I have not identified material misstatements in the Strategic Report or the Directors' Report.

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 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
- certain disclosures of director's remuneration specified by law are not made; or
- I have not received all of the information and explanations I require for my audit.

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for:

- maintaining proper accounting records;
- providing the C&AG with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- providing the C&AG with additional information and explanations needed for his audit;
- providing the C&AG with unrestricted access to persons within the Financial Ombudsman Service from whom the auditor determines it necessary to obtain audit evidence;
- preparing financial statements, which give a true and fair view, in accordance with the Companies Act 2006 and are in accordance with the accounts direction given by HM Treasury under the Financial Services and Markets Act 2000;
- ensuring such internal controls are in place as directors determine are necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error;
- preparing the Annual Report, in accordance with the Companies Act 2006 and accounts direction given by HM Treasury under the Financial Services and Markets Act 2000; and
- assessing the Financial Ombudsman Service's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the entity, 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 the Financial Services and Markets Act 2000.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. 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.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, I:

- considered the nature of the sector, control environment and operational performance including the design of the Financial Ombudsman Service's accounting policies, key performance indicators and performance incentives;
- inquired of management, the Financial Ombudsman Service's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Financial Ombudsman Service's policies and procedures on:
  - identifying, evaluating and complying with laws and regulations;
  - detecting and responding to the risks of fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Financial Ombudsman Service's controls relating to compliance with the Companies Act 2006 and the Financial Services and Markets Act 2000;

- inquired of management, the Financial Ombudsman Service's head of internal audit and those charged with governance whether:
  - they were aware of any instances of non-compliance with laws and regulations;
  - they had knowledge of any actual, suspected, or alleged fraud;
- discussed with the engagement team and the relevant external specialists, including actuarial experts regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the Financial Ombudsman Service for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, complex transactions and bias in management estimates. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override.

I obtained an understanding of the Financial Ombudsman Service's framework of authorities and other legal and regulatory frameworks in which the Financial Ombudsman Service operates. I focused on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the Financial Ombudsman Service. The key laws and regulations I considered in this context included the Companies Act 2006, Financial Services and Markets Act 2000, and employment, pensions and tax legislation.

Audit response to identified risk

To respond to the identified risks resulting from the above procedures:

- I reviewed the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- I enquired of management, the Audit, Risk and Compliance Committee and in-house legal counsel concerning actual and potential litigation and claims;
- I reviewed minutes of meetings of those charged with governance and the Board and internal audit reports; and
- in addressing the risk of fraud through management override of controls, I tested the appropriateness of journal entries and other adjustments; assessed whether the judgements on estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

I communicated relevant identified laws and regulations and potential risks of fraud to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

Other auditor's responsibilities

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

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 I identify during my audit.

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General
27 November 2023

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

Financial statements

Statement of comprehensive income for the 12 months ended 31 March 2023

	Notes	2023 £000	2022 (as restated*) £000
Continuing operations			
Revenue	4	**246,297**	221,692
Administrative expenses	5	**(230,817)**	(235,872)
Operating surplus/(deficit)		**15,480**	(14,180)
Finance income	6	**5,019**	1,073
Finance costs	6	**(1,576)**	(1,529)
Surplus/(deficit) before income tax		**18,923**	(14,636)
Corporation tax expense		**(709)**	(49)
Surplus/(deficit) for the year from continuing operations		**18,214**	(14,685)

* Refer to note 2 for explanation of restatement.

Statement of other comprehensive income for the 12 months ended 31 March 2023

	Notes	2023 £000	2022 (as restated*) £000
Surplus/(deficit) for the year		**18,214**	(14,685)
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Re-measurements of post-employment benefit obligations	24	**(1,935)**	3,531
Total other comprehensive (expense)/income		**(1,935)**	3,531
Total comprehensive income/(expense) for the year		**16,279**	(11,154)

* Refer to note 2 for explanation of restatement.

All operations are continuing.

Statement of changes in equity

	Notes	2023 £000	2022 (as restated*) £000
Accumulated surplus brought forward		**109,209**	120,363
Surplus/(deficit) for the year		**18,214**	(14,685)
Total other comprehensive (expense)/income for the year		**(1,935)**	3,531
Accumulated surplus carried forward	22	**125,488**	109,209

* Refer to note 2 for explanation of restatement.

Statement of financial position as at 31 March 2023

	Notes	2023 £000	2022 (as restated*) £000	2021 (as restated*) £000
Non-current assets				
Property, plant and equipment and right of use assets	9	**25,620**	32,689	40,358
Investment in sub-lease		**-**	131	253
Intangible assets	10	**4,205**	995	402
Trade and other receivables	11	**641**	50	673
		30,466	33,865	41,686
Current assets				
Trade and other receivables	11	**37,153**	28,457	21,721
Short-term deposits	12	**57,000**	15,000	67,000
Cash and cash equivalents	13	**145,692**	137,118	126,107
		239,845	180,575	214,828
Total assets		**270,311**	214,440	256,514
Current liabilities				
Trade and other payables	14	**112,906**	69,775	88,620
Lease liabilities	15	**4,697**	6,441	6,345
Provisions for other liabilities and charges	17	**4,065**	1,608	1,941
Current corporation tax liability		**469**	105	56
		122,137	77,929	96,962
Non-current liabilities				
Trade and other payables	14	**324**	822	649
Lease liabilities	15	**18,212**	22,697	29,009
Provisions for other liabilities and charges	17	**3,584**	3,537	4,248
Post-employment benefits	24	**566**	246	5,283
		22,686	27,302	39,189
Total liabilities		**144,823**	105,231	136,151
Total equity				
Accumulated surplus	22	**125,488**	109,209	120,363
Total equity and liabilities		**270,311**	214,440	256,514

* Refer to note 2 for explanation of restatement.

The notes on pages 68 to 91 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 66 and 67 were approved by the Board of Directors on 23 November 2023, and are signed on behalf of the Board of Directors by:

The Baroness Zahida Manzoor CBE
Chairman
23 November 2023

Company number: 03725015

Statement of cash flows for the 12 months ended 31 March 2023

	Notes**	2023 £000	2022 (as restated*) £000
Cash flows from operating activities			
Cash inflow/(outflow) from operations		**57,915**	(32,328)
Corporation tax paid		**(344)**	-
Net cash inflow/(outflow) from operating activities		**57,571**	(32,328)
Cash flows from investing activities			
Purchase of property, plant and equipment	9	**(542)**	(614)
Purchase of intangible assets	10	**(2,340)**	(836)
(Increase)/decrease in short-term deposits	12	**(42,000)**	52,000
Interest received		**3,125**	217
Net cash (used in)/from investing activities		**(41,757)**	50,767
Cash flows from financing activities			
Lease liability payments – principal	15	**(6,779)**	(6,860)
Lease liability payments – interest	15	**(461)**	(568)
Movement in long-term borrowings		**-**	-
Net cash used in financing activities		**(7,240)**	(7,428)
Net increase in cash and cash equivalents	13	**8,574**	11,011
Cash and cash equivalents at beginning of the year	13	**137,118**	126,107
Cash and cash equivalents at end of the year	13	**145,692**	137,118

* Refer to note 2 for explanation of restatement.
** Refer to the notes to the statement of cash flows for the 12 months ended 31 March 2023 below.

Notes to the statement of cash flows for the 12 months ended 31 March 2023

	Notes	2023 £000	2022 (as restated*) £000
Surplus/(deficit) for the year from operations before financing and corporation tax		**15,480**	(14,180)
Adjustment for:			
Depreciation – property, plant and equipment and right of use assets	9	**7,493**	8,089
Amortisation – intangible assets	10	**205**	243
Reclassification – property, plant and equipment and right of use assets	9	**23**	-
Interest expense – lease liabilities	15	**461**	568
Interest expense – dilapidations provision	17	**55**	72
Loss on disposal of tangible assets	9	**38**	171
Increase/(decrease) in provisions	17	**2,666**	(974)
Defined benefit pension costs	24	**(1,600)**	(1,600)
Changes in working capital			
(Increase) in receivables**		**(8,464)**	(6,045)
Increase/(decrease) in payables**		**41,558**	(18,672)
Cash inflow/(outflow) from operations		**57,915**	(32,328)

* Refer to note 2 for explanation of restatement.
** The amounts shown for 31 March 2022 have been restated to reflect the £4,222k grossing up adjustment between trade receivables and trade payables in respect amounts due from the Financial Conduct Authority and deferred income respectively. See notes 11 and 14.

Notes to the financial statements for the 12 months ended 31 March 2023

1. Status of the company

Financial Ombudsman Service Limited (the "Financial Ombudsman") 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 consist of our non-executive directors and 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 Articles of Association.

The nature of the Financial Ombudsman'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 International Accounting Standards in conformity with the requirements of the Companies Act 2006 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 Financial Ombudsman operates. A summary of the principal accounting policies is set out below.

Revenue recognition

The intent under-pinning the design of the Financial Ombudsman'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 Financial Ombudsman'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 Financial Ombudsman 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 Financial Ombudsman (for the voluntary jurisdiction)

The Financial Ombudsman considers the performance obligation for the annual levy to be the provision of a dispute resolution service to firms within its jurisdiction. For both jurisdictions, performance obligations are satisfied over the course of the year during which the regulated activity takes place. Levy income is recognised over the same period. The Financial Conduct Authority collects the compulsory jurisdiction levy on behalf of the Financial Ombudsman. Levies due from large firms are invoiced on account, in advance of the financial year to which they relate, typically in February. The remainder of the firms, along with any on account true-ups are invoiced between July and October. Payment terms are 30 days.

Group fees

Group fees are calculated as an annual charge for each group (see page 39) on the basis of their estimated proportion of the total work carried out by the Financial Ombudsman, with reference to recent usage volume patterns. The performance obligation for each group fee arrangement is therefore the resolution of a specified volume of dispute cases. The group fee mechanism makes provision for a year-end adjustment if a group's casework resolutions are 15% higher or lower than the original estimate for any individual group. The impact on revenue of this adjustment is recognised in the period over which the related services are provided. Group fees are invoiced quarterly in advance, payment terms are 30 days. When required, the refund or additional amount due following the year-end adjustment is invoiced or credited in the following year.

Standard case fees

For the year 1 April 2022 to 31 March 2023 businesses that fall outside the group fee arrangement were required to pay a standard case fee of £750 upon closure of the fourth chargeable complaint (2021/22 twenty-sixth) referred for investigation to the Financial Ombudsman and each subsequent complaint in any one financial year.

Case fees become chargeable when we convert a case. We recognise the revenue when we have met our performance obligation of issuing a view and then bill the case in the month after the case has been closed. Payment terms are 30 days.

IFRS 15 dictates that revenue should be recognised once performance obligations have been satisfied – as such, a year-end adjustment is made to revenue to reflect fees for cases where our performance obligations have been met, but we have not billed.

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

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.

Right of use assets

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.

The current property leases relate to two buildings partly occupied by the Financial Ombudsman, Exchange Tower in London and Friargate in Coventry. Various floors were exited in the year, see note 20 for more detail. The Financial Ombudsman also leases items of equipment and a van, all with terms of under five years.

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 68 to 91.

Disclosure	Notes
The nature of our leasing activities	2, 20
Potential exposure to future cash flows not reflected in the lease liabilities	3
Calculation of discounted cash flows	3
Movement in right of use assets	9
Movement in lease liabilities	15
Maturity analysis of contracted undiscounted lease liabilities	15
Dilapidation provisions	17
Lease commitments	20

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 Financial Ombudsman are recognised as intangible assets when the criteria are met.

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.

The assets are valued at their historic cost less amortisation and, where applicable, impairment. The 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:

Computer software and licences	Over five years
Internally generated software	Over five 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.

Financial instruments

Trade receivables

Trade receivables are recognised initially at amortised cost. The Financial Ombudsman has applied the simplified approach to impairment of financial assets by providing for expected credit losses on trade receivables as described by IFRS 9. This requires the use of lifetime expected credit loss provisions for all trade receivables.

These provisions are based on an assessment of risk of default and expected timing of collection, estimated by reference to past default experience, adjusted as appropriate for current observable data. Trade receivables are reviewed periodically, and specific allowances are made where evidence indicates that an outstanding debt has become uncollectable. Allowance losses are recorded within administrative costs in the statement of comprehensive income.

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

IFRS 16 (Leases) requires companies to take account of future lease commitments by recognising the asset and the liability on their balance sheets. The majority of the Financial Ombudsman's leases are covered by this standard. However, there are some short-term and low-value leases that are being 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 16.2) and for dilapidations and restructuring (see note 17). 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 Financial Ombudsman is part of the FCA's 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 Financial Ombudsman 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 errors

No new standards, amendments or interpretations were adopted in the year.

IAS 38 – Intangible assets

IFRS Interpretations Committee (IFRIC) issued a final agenda decision on cloud computing arrangements in April 2021 which considered how to account for configuration or customisation costs where an intangible asset is not recognised. The IFRIC final agenda decision forms part of IFRS guidance and must be followed in order to claim compliance with IFRS Standards.

Following a review of the accounting policy for intangible assets in 2022/23, the Financial Ombudsman assessed whether the IFRIC final agenda decision impacts the Financial Ombudsman reporting. As a result, an update is required of the intangible assets and related disclosures. As any changes resulting from agenda decisions are to be accounted for as a change in accounting policy in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the update is applied retrospectively to years ended 31 March 2022, 31 March 2021 and prior years.

The amount of the correction for each affected line of the Financial Statements is as follows.

Statement of comprehensive income	Notes	2022 £000
Administrative expenses		
IT project costs – increase in charge		**(4,876)**
Amortisation of intangible assets – reduction in charge		2,558
Comprehensive (deficit) for the year – (decrease) in surplus		**(2,318)**
Total comprehensive income/(expense) for the year		
Total comprehensive (deficit) for the year, as originally stated		(8,836)
Current year adjustment for IT project costs and amortisation of intangible assets		(2,318)
At 31 March, restated		**(11,154)**

Statement of changes in equity	Notes	2022 £000
At 31 March, brought forward, as originally stated		**134,214**
Cumulative retrospective adjustment for IT project costs and amortisation of intangible assets		(13,851)
Restated (deficit) for year		(11,154)
At 31 March, as restated		**109,209**

Statement of financial position	Notes	2022 £000	2021 £000
Non-current assets			
Intangible assets			
Intangible assets cost – reduction in cost		(23,118)	(18,242)
Intangible assets amortisation charge for year – reduction in charge		2,558	4,391
Intangible assets amortisation charge cumulative to 31 March – reduction in charge		4,391	-
Intangible assets – net book value at 31 March – reduction		**(16,169)**	**(13,851)**
Net assets – (decrease) in net assets		**(16,169)**	**(13,851)**
Accumulated reserves – (decrease) in reserves		**(16,169)**	**(13,851)**

Statement of cash flows	Notes	2022 £000
Net cash generated by operations		4,876
Expenditure on intangible software development – increase/(decrease)		(4,876)
Net impact		**Nil**

Notes to the cash flow statement	Notes	2022 £000
Surplus/(deficit) for the year from operations – increase/(decrease)		(2,318)
Amortisation of intangible assets – reduction in charge		(2,558)
Net impact		**(4,876)**

3. Significant accounting judgements, estimates and assumptions

Accounting judgements

In the process of applying the Financial Ombudsman'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 in relation to standard case fees, that being the resolution of a case.
- **Intangible assets** – under IAS 38, internal software development costs of £2,020k (2022: £89k) (see note 10) have been capitalised as additions during the year. Internally generated software is designed to support the Financial Ombudsman carry out its statutory functions. These functions are particular to the Financial Ombudsman, 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 Financial Ombudsman 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** – 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.

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 organisation has seven leases that contain such clauses.

Management conducted an assessment of each lease considering the prevailing conditions, i.e. future demand for our services, our goal of maximising utilisation of our office space, the anticipation of more home working and the financial implications of breaking each lease. This included the impact of a review of dilapidation liabilities carried out in 2020/21. Management will conduct a similar exercise to look at our position each year.

The majority of the property leases contain provisions for rent reviews. The lease liabilities include the impact of all rent increases agreed as part of rent reviews which took place in the current and prior years. For the majority of these leases the next rent review will be on 31 August 2024.

We carried out a sensitivity analysis at 31 March 2023 looking at the impact on cash outflows for the remaining leases in place at 1 September 2024 assuming rent increase 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 Financial Ombudsman is using the Public Works Loan Board (PWLB) Standard rates to calculate the discounted cash flows on the remaining lease terms. The Financial Ombudsman believes this is the most appropriate proxy for the incremental borrowing rate.Our funding is based on statute (the Financial Services and Markets Act 2000) and it is reasonable to assume that the Financial Ombudsman would be able to meet its loan repayments over the period of any loan.

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 24) 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 restructuring costs** – the provision for restructuring costs is calculated with reference to a number of staff roles which are expected to face compulsory redundancy but which cannot be individually identified by employee.

4. Revenue

	Notes	2023 £000	2022 £000
Annual levy		**107,530**	96,577
Standard case fees			
Gross fees		**79,788**	70,477
Movement in credit note provision		**(185)**	(18)
Movement in general casework stock		**256**	45
Group fees			
Gross fees		**58,625**	54,313
Other income		**283**	298
		246,297	221,692

5. Administrative expenses

5.1 Expenses by nature	Notes	2023 £000	2022 (as restated*) £000
Staff payroll costs	7	**151,495**	149,650
Contractor and temporary staff costs**		**36,670**	37,039
Other staff costs		**2,430**	2,326
Consultancy and other professional costs		**699**	4,354
Lease rentals		**1,082**	763
Other premises and facilities costs		**7,398**	8,127
IT managed services		**3,461**	3,192
IT project costs		**5,610**	8,687
Software licences, maintenance, and other IT costs		**12,816**	12,101
Depreciation and amortisation	9, 10	**7,698**	8,332
Loss on disposal of fixed assets	9, 10	**95**	577
Bad debts		**209**	(147)
Other costs		**1,039**	785
		230,702	235,786

* Refer to note 2 for explanation of restatement.

** Contractor and temporary staff costs are shown net of £988k costs capitalised as internally generated software costs (2022: £915k). Transfomation/restructuring costs of £8,000k (2022: £1,300k) are included within this table but are excluded from our cost per case calculation.

5.2. Auditors' remuneration	Notes	2023 £000	2022 (as restated*) £000
External audit fee			
National Audit Office		**115**	86
Total of notes 5.1 and 5.2		**230,817**	235,872

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

6. Finance and income costs

	Notes	2023 £000	2022 £000
Finance income			
Bank interest		**3,946**	282
Interest on net defined benefit asset	24	**1,072**	788
Interest from sub-lease		**1**	3
Total finance income		**5,019**	1,073
Finance costs			
Interest on lease liabilities		**(516)**	(640)
Interest on net defined benefit liability	24	**(1,058)**	(882)
Other interest payable		**(2)**	(7)
Total finance costs		**(1,576)**	(1,529)
Net finance income/(costs)		**3,443**	(456)

7. Employees

7.1. Employee benefit expense	Notes	2023 £000	2022 £000
Payroll costs			
Wages and salaries		**102,941**	105,439
Overtime and queue reduction schemes		**5,670**	3,355
Collective reward scheme		**5,200**	5,902
Leaving payments		**4,317**	1,924
Social security costs		**13,154**	12,570
Apprenticeship levy		**541**	493
Other employer's pension costs – money purchase scheme	24	**12,956**	13,433
Flexible benefit costs		**6,824**	7,279
Staff costs capitalised as internally generated software costs		**(108)**	(745)
		151,495	149,650
Other employer's pension costs – defined benefit scheme			
Included in interest payable	24	**1,058**	882
Total employment costs		**152,553**	150,532

7.2. Monthly average number of people employed	Notes	2023 Number	2022 Number
Ombudsmen		**354**	372
Case-handlers		**1,371**	1,427
Other		**757**	904
		2,482	2,703

8. Board remuneration

The Board consists entirely of non-executive directors. Board remuneration payable to directors during the period amounted to £247,000 (2022: £228,647). The Chairman, who is also the highest-paid director, was paid at a rate of £75,000 per annum (2022: £75,000) the Senior Independent Director, the Audit Risk and Compliance Committee Chair, the Remuneration Committee Chair, the Transformation Committee Chair and the Quality Committee Chair were paid at a rate of £29,500 per annum (2022: £29,500) and the other directors were paid at a rate of £24,500 per annum (2022: £24,500). Further details are provided in the remuneration report on page 54.

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

	Right of use assets	Leasehold improvements and premises fees £000	Computer equipment £000	Furniture and equipment £000	Work in progress*	Total £000
Cost						
At 1 April 2021	53,839	3,259	1,143	4,603	161	63,005
Additions	226	-	-	584	30	840
Transfers	-	-	78	83	(161)	-
Reclassifications	157	-	-	-	-	157
Disposals	(4,877)	(299)	(320)	(694)	-	(6,190)
At 31 March 2022	**49,345**	**2,960**	**901**	**4,576**	**30**	**57,812**
Additions	265	-	277	-	-	542
Transfers	-	-	7	-	(7)	-
Reclassifications	-	-	-	-	(23)	(23)
Disposals	(6,012)	(253)	(164)	(2,541)	-	(8,970)
At 31 March 2023	**43,598**	**2,707**	**1,021**	**2,035**	**-**	**49,361**
Accumulated depreciation						
At 1 April 2021	**16,705**	**1,776**	**832**	**3,334**		**22,647**
Charge for the year	7,146	195	322	426	-	8,089
Disposals	(4,471)	(283)	(318)	(541)		(5,613)
At 31 March 2022	**19,380**	**1,688**	**836**	**3,219**	**-**	**25,123**
Charge for the year	6,808	192	83	410		7,493
Disposals	(5,955)	(253)	(164)	(2,503)	-	(8,875)
At 31 March 2023	**20,233**	**1,627**	**755**	**1,126**	**-**	**23,741**
Net book value at 31 March 2023	**23,365**	**1,080**	**266**	**909**	**-**	**25,620**
Net book value at 31 March 2022	29,965	1,272	65	1,357	30	32,689

* Work in progress comprises items not yet assigned as an asset. Costs totalling £23k were released back to operating costs in the year.

10. Intangible assets

	Computer software and licences £000	Internally generated software £000	Work in progress £000	Total £000
Cost				
At April 2021 (as restated*)	**246**	**561**	**81**	**888**
Additions	-	-	836	836
Transfers	-	89	(89)	-
Disposals	-	-	-	-
At 31 March 2022 (as restated*)	**246**	**650**	**828**	**1,724**
Additions	-	-	3,415	3,415
Transfers	-	2,020	(2,020)	-
Disposals	(61)	-	-	(61)
At 31 March 2023	**185**	**2,670**	**2,223**	**5,078**
Accumulated amortisation				
At April 2021 (as restated*)	**147**	**339**	-	**486**
Charge for the year	46	197	-	243
Disposals	-	-	-	-
At 31 March 2022 (as restated*)	**193**	**536**	-	**729**
Charge for the year	23	182	-	205
Disposals	(61)	-	-	(61)
At 31 March 2021	**155**	**718**	**-**	**873**
Net book value at 31 March 2023	**30**	**1,952**	**2,223**	**4,205**
Net book value at 31 March 2022 (restated*)	53	114	828	995
Net book value at 31 March 2021 (restated*)	99	222	81	402

* Refer to note 2 for explanation of restatement.

11. Trade and other receivables

	2023 £000	2022 £000
Trade and other receivables due within one year		
Trade receivables	**4,753**	5,816
Less: provision for bad debts	**(1,122)**	(1,359)
Less: provision for credit notes	**(745)**	(560)
Trade receivables – net	**2,886**	3,897
Prepayments	**5,152**	5,996
Other receivables	**2,386**	2,424
Due from the Financial Conduct Authority*	**13,291**	4,222
Accrued income	**13,438**	11,918
Trade and other receivables due within one year	**37,153**	28,457
Trade and other receivables due after more than one year		
Prepayments – after more than one year	**641**	50
Trade and other receivables due after more than one year	**641**	50

* The balance due from the Financial Conduct Authority at 31 March 2022 has been restated from £Nil to £4,222k to correctly reflect the amount due, it had previously been netted off against the deferred income balance included in trade payables. See also note 14.

12. Short-term deposits

	2023 £000	2022 £000
Short-term Treasury deposits	**57,000**	15,000
Short-term deposits	**57,000**	15,000

As at 31 March 2023, the Financial Ombudsman held Treasury deposits with a maturity of between three and five months with six institutions (31 March 2022: two).

13. Cash and cash equivalents

	2023 £000	2022 £000
Cash at bank and in hand	**27,692**	10,118
Short-term Treasury deposits (deposits with a maturity of less than three months)	**118,000**	127,000
Cash and cash equivalents	**145,692**	137,118

As at 31 March 2023, the Financial Ombudsman held Treasury deposits with a maturity of between one three months with seven different institutions (31 March 2022: ten).

14. Trade and other payables

	2023 £000	2022 £000
Trade and other payables due within one year		
Trade payables	**3,794**	4,706
Other taxes and social security	**3,434**	3,178
Deferred income*		
Compulsory Jurisdiction levy billed in advance	**79,160**	42,163
Other creditors	**908**	557
Accruals		
Employee related	**13,910**	11,652
Casework and temporary staff	**3,894**	1,984
Other	**7,806**	5,535
Trade and other payables due within one year	**112,906**	69,775
Trade and other payables due after more than one year		
Accruals	**324**	822
Trade and other payables due after more than one year	**324**	822

* The deferred income balance at 31 March 2022 has been restated from £37,941k to £42,163k to correctly reflect the gross balance due, it had previously been offset by the amount due to the Financial Conduct Authority. See also note 11.

15. Lease liabilities

	2023 £000	2022 £000
Lease liabilities – due within one year		
Property	**4,301**	5,706
Equipment	**396**	732
Van	**-**	3
Lease liabilities due within one year	**4,697**	6,441
Lease liabilities – due after more than one year		
Property	**18,082**	22,458
Equipment	**130**	239
Van	**-**	-
Lease liabilities due after more than one year	**18,212**	22,697

Movement in lease liabilities in the year	Property £000	Equipment £000	Van £000	Total £000
Total discounted liabilities at 1 April 2022	28,164	971	3	29,138
Discounted additions in the year	-	255	-	255
Rent reviews and changes in lease terms	-	-	-	-
Interest in the year	449	12	-	461
Disposals in the year	(147)	(4)	-	(151)
Adjustments in the year	(23)	8	-	(15)
Repayments in the year	(6,060)	(716)	(3)	(6,779)
Total discounted liabilities at 31 March 2023	**22,383**	**526**	**-**	**22,909**

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 2023 £000	Other 2023 £000	Premises 2022 £000	Other 2022 £000
Payments due:				
Not later than 1 year	**4,665**	**428**	6,060	649
Later than 1 year and not later than 5 years	**15,279**	**132**	16,605	359
Later than 5 years	**3,725**	**-**	7,064	-
Total contracted undiscounted cash flows at 31 March 2023	**23,669**	**560**	**29,729**	**1,008**

16. Financial instruments

Financial risk management

Financial risk management is carried out by the Financial Ombudsman's central finance department under policies approved by the Board to minimise potential adverse effects of risks on the Financial Ombudsman's financial performance. The Financial Ombudsman'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 Financial Ombudsman's financial instruments do not expose it to market risks. In line with the Financial Ombudsman's investment policy, investments are only made through sterling fixed-term deposits, which are not subject to price or foreign exchange risk. Furthermore, the Financial Ombudsman's operations are carried out in sterling and there is no exposure to foreign exchange from currency exposures. The Financial Ombudsman 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 Financial Ombudsman is exposed to credit risk through its cash and short-term deposits with financial institutions and credit exposure to customers through outstanding receivables. The Financial Ombudsman monitors credit ratings daily to ensure the banks continue to meet our investment criteria. On an annual basis, the counterparty list is reviewed, revised and presented to the Financial Ombudsman's Audit, Risk and Compliance 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 Financial Ombudsman 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 Financial Ombudsman monitors its cash balance on a daily basis. Cash flow forecasting is performed and monitored on a monthly basis to ensure the Financial Ombudsman 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 Financial Ombudsman's investment policy. Such cash is only invested in sterling investments with approved financial instruments.

At the reporting date, the Financial Ombudsman held money market funds of £57,000k (2022: £15,000k) and other liquid assets of £145,692k (2022: £137,118k) that are expected to readily generate cash inflows for managing liquidity risk.

16.1 Financial instruments by category

As at 31 March 2023, trade and other receivables, short-term deposits and cash and cash equivalent balances of £234,693k were classified as loans and receivables (2022: £174,579k).

As at 31 March 2023, trade and other payables of £56,979k were classified as loans and payables (2022: £57,572k).

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

16.2 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 are £1,626k (2022: £3,785k).

The Financial Ombudsman 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 Financial Ombudsman's provision for credit notes is as follows:

Movement in the Financial Ombudsman's provision for credit notes	2023 £000	2022 £000
Balance brought forward	**560**	542
Change in provision for the year	**185**	18
Balance carried forward	**745**	560

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

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

Movement in the Financial Ombudsman's provision for bad debts	2023 £000	2022 £000
Balance brought forward	**1,359**	1,024
Change in provision for the year	**(237)**	335
Balance carried forward	**1,122**	1,359

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

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 Financial Ombudsman does not hold any collateral as security.

17. Provision for liabilities

17.1 Provision for dilapidations

	2023 £000	2022 £000
Provision brought forward	**5,145**	6,189
Payments in the year	**(217)**	(752)
New provision in the year	**-**	(364)
Provision released in the year	**(1,030)**	-
Interest accrued during the year	**55**	72
Provision carried forward	**3,953**	5,145

The provision for dilapidations at 31 March 2023 and 31 March 2022 reflects the recommendations made following property reviews undertaken by external consultants in 2021. Provisions exist for all the properties we currently occupy as set out below.

Due within one year	2023 £000	2022 £000
Independent House*	**-**	1,030
South Quay Building**	**10**	10
Exchange Tower	**297**	473
Friargate	**62**	95
	369	1,608

* The provision for Independent House has been released in the year.

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

Due after one year	2023 £000	2022 £000
Exchange Tower	**3,479**	3,434
Friargate	**105**	103
	3,584	3,537

17.2 Provision for restructuring costs

	2023 £000	2022 £000
Provision brought forward	**-**	-
Payments in the year	**-**	-
New provision in the year	**3,696**	-
Provision carried forward	**3,696**	-

The provision for restructuring costs is calculated with reference to a number of staff roles which are expected to face compulsory redundancy during 2023/24.

17.3 Provisions summary

Due within one year	2023 £000	2022 £000
Dilapidations	**369**	1,608
Restructuring	**3,696**	-
	4,065	1,608

Due after one year	2023 £000	2022 £000
Dilapidations	**3,584**	3,537
Restructuring	**-**	-
	3,584	3,537

18. Financial commitments

As at 31 March 2023 there were no capital commitments contracted for but not provided (31 March 2022: £Nil).

19. Events after the reporting period

There are no 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.

20. Property and other lease commitments

The Financial Ombudsman leases its operating premises. The remaining length of these leases varies from under two years up to seven years. These leases are renewable at the end of the lease period at a market rate.

Details of the terms of the leases of the premises as at 31 March 2023 were as follows:

Building	Floor	Start of current lease	End of lease	Future break clauses
Exchange Tower	Various	Various between March 2013 and April 2020	September 2024 (1 lease) October 2024 (2 leases) April 2025 (1 lease) August 2029 (9 leases)	N/A N/A N/A September 2019 to August 2024* September 2024 to August 2029*
Friargate	3	October 2017	October 2027	

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

The Financial Ombudsman also leases various items of equipment, plant and machinery under operating agreements which are excluded from the ROU asset calculation and will continue to be accounted for as lease rentals.

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

21. Related party transactions

a) The Financial Conduct Authority is required under various statutes to ensure the Financial Ombudsman 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 Financial Ombudsman is not controlled by the Financial Conduct Authority but considers it to be a related party.

b) The Financial Ombudsman 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 Financial Ombudsman, at a cost of £158k for the year ended 31 March 2023 (2022: £172k).

c) At 31 March 2023 the balance due from the Financial Conduct Authority is £13,291k (2022: £4,222k). This balance has been included in "trade and other receivables" (see note 11).

d) The Financial Conduct Authority bill the Financial Ombudsman administration charges in respect of the pension scheme. The charge for the year ended 31 March 2023 was £600k (2022: £543k).

e) The Financial Conduct Authority bill the Financial Ombudsman administration charges in relation to their employees that have been seconded to the Financial Ombudsman. The charge for the year ended 31 March 2023 was £520k (2022: £518k).

f) 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.

g) Between May 2021 and March 2023 two secondees from the Financial Conduct Authority held positions on the Financial Ombudsman's Executive team, more details can be found in the remuneration report.

Other than disclosed above, there were no related party transactions during the year (31 March 2022: Nil).

22. Accumulated surplus

	2023 £000	2022 £000
Accumulated surplus before net pension liability	**126,054**	109,455
Net pension surplus/(liability)	**(566)**	(246)
Accumulated surplus after net pension liability	**125,488**	109,209

23. Losses and special payments

	2023 £000	2022 £000
Losses	**972**	472
Recoveries relating to previous year losses	**(527)**	(954)
Special payments	**344**	761
Total	**789**	279

For 2022/23 there is one firm included in 'Losses' where the balance written off in the year was over £300k – Amigo Loans Ltd £372k (2021/22: no firms).

In 2022/23 and 2021/22 the Financial Ombudsman received a number of dividends from firms where write-offs had been included in losses in previous years. One of these firms was over £300k in both years – Casheuronet UK LLC £516k in 2022/23 and £662k in 2021/22.

24. Pension costs

Introduction

The Financial Ombudsman is part of the Financial Conduct Authority's (FCA) HMRC-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 Financial Ombudsman 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.

The FCA is the principal employer of the Plan and retains ultimate responsibility for payment of any debt due in event of a wind-up. The Financial Ombudsman is an associated employer and would be liable for payment of a debt should we cease to participate, calculated in line with section 75 debt provisions. Our understanding is that any surplus can, ultimately, be returned to the principal and associated employers on wind-up, but there's currently no agreement in place that sets out how this would be achieved.

In the unlikely event that the FCA cease to participate in the scheme as the Principal Employer and the Financial Ombudsman continues to participate in the Plan, the FCA would be charged a debt on their obligations in the Plan. In this theoretical scenario there is then a risk that the Financial Ombudsman remains as the sole employer to the plan and become responsible for the assets and liabilities. However, before this event there are many options that the Financial Ombudsman could take to avoid this happening, thus ensuring they are only responsible for paying for any debt related to their liabilities only.

Profile of the plan

Defined contribution scheme

The Financial Ombudsman'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 Financial Ombudsman will pay matching contributions up to a maximum of 3% of the employee's pensionable salary.

Defined benefit scheme

The defined benefit obligation (DBO) includes benefits for current employees, former employees and current pensioners. Broadly, about 69% of the liabilities are attributable to deferred pensioners and 31% to current pensioners. 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 Financial Ombudsman.

The defined benefit obligation includes benefits for deferred members of the plan and current pensioners. At 31 March 2023 there are 79 deferred members (31 March 2022: 81) and 49 pensioners (31 March 2022: 47).

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 16 years reflecting the approximate split of the defined benefit obligation between deferred members (duration of 18 years) and current pensioners (duration of 11 years).

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

Analysis of defined benefit obligation by membership category	**2023 £000**	2022 £000
Deferred members benefits	**19,201**	28,359
Pensioner members benefits	**8,625**	11,029
Total defined benefit obligation	**27,826**	39,388

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 2022 and showed a deficit of £82,500k which includes both the Financial Ombudsman's and the Financial Conduct Authority's participation in the plan. The Financial Ombudsman is currently paying deficit contributions of £1,600k per annum and is expected to continue paying at this level until 31 March 2027. Along with investment returns from return-seeking assets, these contributions are expected to make good this shortfall by 31 March 2027. The next funding valuation will be carried out at 31 March 2025, at which progress towards full-funding will be reviewed.

Risks associated with the plan

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

Asset volatility	The defined benefit obligation is 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 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 has been reduced over the year and continues to be 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 defined benefit obligation for accounting purposes, although this will be partially offset by an increase in the value of the plan's bond holdings. However, the liability matching assets of the plan look to match gilt yields rather than corporate bond yields and so a decrease in the spread between corporate bond yields and gilt yields will worsen the balance sheet position.
Inflation risk	The majority of the plan's defined benefit obligation is linked to inflation, and higher inflation leads to a higher defined benefit obligation (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.
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 defined benefit obligation.

Risk management

The Financial Ombudsman 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 has been reduced over the year and continues to be monitored to ensure it remains appropriate given the plan's long term objectives. The trustees insure certain benefits which are payable on death before retirement.

GMP equalisation

An estimate of the additional liabilities in respect of the October 2018 ruling on GMP Equalisation was first allowed for in the 31 March 2019 balance sheet Defined Benefit Obligation and was recognised in full as a past service cost.

There are no updates to this estimate and the Defined Benefit Obligation at 31 March 2023 continues to make allowance for these liabilities, consistent with last year.

The additional best estimate liability of approximately £2,000 for the second 2020 GMP Equalisation ruling on prior transfers has been excluded on the grounds of materiality.

Reporting at 31 March 2023

The calculations are based on an approximate valuation of the benefits payable in respect of the Financial Ombudsman's members of the final salary section of the plan at 31 March 2023, based on data and financial conditions at the same date. 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	2023 % p.a.	2022 % p.a.
Discount rate	**4.7**	2.7
Retail price index (RPI) inflation	**3.4**	3.6
Consumer price index (CPI) inflation	**2.8**	2.9
Excess pension increases	**3.1**	3.4
Post 88 GMP pension increases	**2.2**	2.3

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

The main demographic assumptions are set out below:

Main demographic assumptions		2023 Years	2022 Years
Life expectancy for member aged 60 at the balance sheet date	Males	**28.3**	28.6
	Females	**30.1**	30.5
Life expectancy at age 60 for member aged 40 at the balance sheet date	Males	**29.7**	30.0
	Females	**31.5**	31.8

Main demographic assumptions	2023	2022
Mortality base table adopted	SAPS S3 light tables for normal health retirees with a scaling factor 106%	SAPS S3 light tables for normal health retirees with a scaling factor 100%
Mortality future improvements adopted	Future improvements assumed to be in line with the CMI 2021 projections model with an 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 the CMI 2021 projections model with an addition to improvements of 0.5% p.a. and a long-term rate of improvement of 1.25%
Cash commutation	Members assumed to exchange 17.5% of their pension for a cash lump sum at retirement	Members assumed to exchange 17.5% of their pension for a cash lump sum at retirement

The plan assets are invested in the following asset classes. Equity and LDI funds are invested in quoted items. Property, bought-in annuity policies and infrastructure are not invested in quoted items. Other relates to cash deposits.

Asset allocation	Value at 31/03/2023 £000	Value at 31/03/2022 £000
Equity	**2,412**	3,315
Property	**941**	1,336
Liability driven investment funds (LDI)	**19,240**	32,486
Bought-in annuity policies	**1,329**	1,791
Infrastructure	**3,169**	-
Other	**169**	214
Total market value of assets	**27,260**	39,142

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

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

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

Reconciliation of funded status to statement of financial position	Value at 31/03/2023 £000	Value at 31/03/2022 £000
Fair value of plan assets	**27,260**	39,142
Present value of defined benefit funded obligation	**(27,826)**	(39,388)
Net pension (liability) recognised on the statement of financial position	**(566)**	(246)

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 31/03/2023 £000	Year ending 31/03/2022 £000
Financing cost		
Interest on net defined benefit (liability)/assets	**(15)**	94
Pension amount recognised in the statement of comprehensive income	**(15)**	94

Re-measurements in other comprehensive income	Year ending 31/03/2023 £000	Year ending 31/03/2022 £000
Returns on plan assets below that/(in excess of) that recognised in net interest	**14,095**	(570)
Actuarial (gains) due to changes in financial assumptions	**(13,100)**	(3,061)
Actuarial (gains) due to changes in demographic assumptions	**(1,426)**	(43)
Actuarial losses due to liability experience	**2,366**	143
Total amount recognised in the statement of other comprehensive income	**1,935**	(3,531)
Total amount recognised in the statement of comprehensive income and other comprehensive income	**1,920**	(3,437)

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

Defined benefit obligation	Year ending 31/03/2023 £000	Year ending 31/03/2022 £000
Opening defined benefit obligation	**39,388**	42,529
Interest cost on defined benefit obligation	**1,058**	882
Actuarial (gains) on plan liabilities arising from changes in demographic assumptions	**(1,426)**	(43)
Actuarial (gains) on plan liabilities arising from changes in financial assumptions	**(13,101)**	(3,062)
Actuarial losses on plan liabilities arising from experience	**2,366**	143
Net benefits paid out	**(459)**	(1,061)
Closing defined benefit obligation	**27,826**	39,388

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

Fair value of plan assets	Year ending 31/03/2023 £000	Year ending 31/03/2022 £000
Opening fair value of plan assets	**39,142**	37,246
Interest income on plan assets	**1,072**	788
Re-measurement (losses)/gains on plan assets	**(14,095)**	569
Contributions by the employer	**1,600**	1,600
Net benefits paid out	**(459)**	(1,061)
Closing fair value of plan assets	**27,260**	39,142

Actual return on plan assets is set out below:

Actual return on plan assets	Year ending 31/03/2023 £000	Year ending 31/03/2022 £000
Interest income on plan assets	**1,072**	788
Re-measurement (losses)/gains on plan assets	**(14,095)**	569
Actual return on plan assets	**(13,023)**	1,357

Analysis of amounts recognised in statement of other comprehensive income:

	Year ending 31/03/2023 £000	Year ending 31/03/2022 £000
Total re-measurement gains/(losses)	**(1,935)**	3,531
Total (losses)/gains	**(1,935)**	3,531

Sensitivity to key assumptions

The key assumptions used for IAS 19, which outlines the accounting requirements for employee benefits, 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	(566)	14	(434)	(986)
Following a 0.1% increase in the inflation assumption	(566)	13	(432)	(985)
Following a 1% decrease in the discount rate	(566)	156	(4,857)	(5,267)
Following a 1% increase in the inflation assumption	(566)	103	(3,636)	(4,099)
Following a 1 year increase in life expectancy	(566)	53	(750)	(1,263)

The sensitivity information shown has been prepared using the same approach used to adjust the results of the latest funding valuation to the balance sheet date. This is the same approach as has been adopted in previous years. The sensitivity showing the impact of a 0.1% and a 1% decrease in the discount rate reflects a change in assumptions, rather than a change in underlying bond yields, and therefore does not allow for the impact on plan assets, other than annuities held by the plan.

Money purchase section (defined contribution scheme)

The total expense recognised in the income statement £12,956k (2022: £13,433k) represents contributions payable to the plan by the Financial Ombudsman at rates specified in the rules of the defined contribution scheme.

Corporate information

Name

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Registered office

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Auditors

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Company limited by guarantee

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for small businesses

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