report and financial statements

Financial Ombudsman Service Limited
(a company limited by guarantee)

company registration no. 3725015

directors

Sue Slipman OBE – *chairman*

Brian Landers – *deputy chairman*

Lawrence Churchill
Robert Crawford
Ed Hucks
Roger Jefferies
Sir Christopher Kelly KCB
Kate Lampard
Helena Wiesner

company secretary

Barbara Cheney

registered office

South Quay Plaza II
183 Marsh Wall
London
E14 9SR

bankers

Lloyds TSB Bank plc
1st floor
25 Gresham Street
London
EC2V 7HN

auditors

Deloitte & Touche
London

directors' report

The directors of the Financial Ombudsman Service Limited present their report for the year ended 31 March 2003 together with audited financial statements of the company for the same period.

principal activities

The principal activity of the Financial Ombudsman Service is the provision of an informal dispute resolution service for consumers and providers of financial products. It was created as part of the government's legislation for the financial services market, and derives its statutory authority from the Financial Services and Markets Act 2000. The company was incorporated in 1999, to consolidate into a single statutory body the complaints handling and ombudsman services formerly provided by a number of statutory and voluntary schemes.

The company received its powers as the 'scheme operator' provided for in Schedule 17 of the FinancialServices and Markets Act 2000 through the enactment of secondary legislation on 1 December 2001.

financial results

The company presents its results for the year to 31 March 2003. During this period the company had an operating surplus after tax of £3,265,175 (2002: £261,826), which was transferred to reserves. The surplus was almost wholly due to the exceptional number of cases resolved during the year. Our plan has always been to keep our reserves below £1m, and to return any surplus to firms. Accordingly, we will take the projected level of our accumulated reserves into account when setting the tariff rates and case fees for 2004/05.

The company derives its income from firms covered by the ombudsman service, partly from an annual levy and partly from case fees which become payable when chargeable cases are closed. The amount of the annual levy paid by each firm depends on its size and the industry sector. Consumers do not pay to bring a complaint to the ombudsman, and the company receives no government funding.

directors

The directors of the FinancialOmbudsman Service during the year were as follows:

Andreas Whittam Smith CBE– *to 22 February 2003*
Sue Slipman OBE – *from 22 February 2003*
Brian Landers
Lawrence Churchill
Robert Crawford
Ed Hucks
Roger Jefferies
Sir Christopher Kelly KCB
Kate Lampard
Richard Thomas – *to 30 September 2002*
Helena Wiesner

directors' report (continued)

directors (continued)

No director has any interests in the transactions of the company. In the event of the winding up or dissolution of the company, each director's responsibility for payment of the company's debts and liabilities is limited to £1.

fixed assets

The movements in fixed assets during the year are set out in note 13 to the accounts.

supplier payment policy

The Financial Ombudsman Service's policy is to pay all suppliers within 30 days of date of invoice.

employment policies

disabled employment policy

The Financial Ombudsman Service complies as far as possible with the contents and aims of the Code of Good Practice on the Employment of Disabled People issued by the Employment Service.

The company:

- has ensured that there is full disabled access to its offices and all facilities;
- considers all applicants for vacancies on merit. Where necessary, special arrangements are made for interviewing disabled applicants;
- is developing awareness amongst staff of the assistance needed by their disabled colleagues at work; *and*
- reviews its policy annually and makes changes as required by legislation and best practice.

diversity

The Financial Ombudsman Service is fully committed to a policy of treating all employees and job applicants equally. All selection and recruitment decisions, both internal and external, and the progression of employees within the company are based on merit and not on any consideration of race, colour, religion, disability, nationality, ethnic origin, sex, sexual orientation, age, part-time hours or marital status.

directors' report (continued)

employment policies (continued)

employee consultation

Senior members of staff meet a representative group of staff, the Employee Communications Forum, every month. The purposes of the meetings are:

- to give all staff an opportunity to raise questions, make suggestions or air matters of concern, through their representative on the forum; *and*
- to allow managers to consult staff on proposals prior to implementation and keep staff informed of the development of the Financial Ombudsman Service.

Additionally, regular staff meetings are held at all levels.

corporate governance

The directors are committed to high standards of best practice in corporate governance. Whilst not bound by the provisions of the Combined Code for Corporate Governance, the Financial Ombudsman Service aims to ensure that it complies with best practice in all relevant areas.

The board now consists of the chairman, the deputy chairman and seven other directors, all of whom are non-executive directors. Members of the board are appointed by the FinancialServices Authority, and HM Treasury approves the appointment of the chairman. All members of the board are appointed in the public interest and represent a wide range of business, financial and consumer expertise. The Board has no involvement in considering individual complaints. The rôle of the board is to ensure that the ombudsman service is properly resourced and is able to carry out its functions effectively, impartially and independently – free from any control or influence by those whose disputes are resolved by the ombudsman service. Biographical details of the board are on page 68.

The board meets ten times a year. In advance of each meeting, detailed papers are circulated to ensure that the directors are able to make informed decisions at meetings. The company secretary attends and minutes all meetings of the board and the audit committee. The directors believe they have full and timely access to all relevant information required to carry out their functions. Registers of directors' and ombudsmen's interests are also maintained.

During the year, the board appointed Michael Barnes CBE to succeed Sir Edward Osmotherly as the Independent Assessor. This appointment followed a national advertisement and interview selection procedure. The Independent Assessor's report and details of his rôle are on page 41.

directors' report (continued)

audit committee

The audit committee meets formally three times a year. Its remit is to:

- make recommendations to the board in respect of the external auditors' appointment;
- review the draft report and financial statements before submission to the board;
- discuss with the auditors problems arising from the external audit;
- receive reports from the internal auditors;
- ensure compliance with all requirements governing financial reporting; *and*
- review risk management controls.

Members of the audit committee were:

Brian Landers – *chairman*
Robert Crawford
Ed Hucks
Roger Jefferies
Richard Thomas – *to 30 September 2002*

auditors' independence

The company has reviewed its relationship with its auditors, Deloitte & Touche, and has concluded that there are sufficient controls in place to ensure the required level of independence. During the year, no fees other than for audit and tax advice were paid to Deloitte & Touche.

internal controls

The board of the Financial Ombudsman Service has overall responsibility for establishing key procedures designed to achieve a sound system for internal control and reviewing its effectiveness. The Financial Ombudsman Service's key internal control and monitoring procedures include:

financial reporting

There is a comprehensive budgeting system, with the annual budget being approved by the boards of both the Financial Ombudsman Service and the Financial Services Authority. Monthly results with revised forecasts are reviewed at each board meeting;

directors' report (continued)

internal controls (continued)

monitoring systems
The audit committee receives regular reports at their meetings. In March 2003 the audit committee appointed BDO Stoy Hayward as internal auditors, to assist in the evaluation of the adequacy and effectiveness of the company's systems of internal control. BDO Stoy Hayward will work closely with the management and the external auditors to ensure that significant issues are reported to the audit committee; *and*

risk management
The Financial Ombudsman Service operates a risk management process that identifies the key risks facing the company, which is formally reviewed by the audit committee twice a year. A risk register, which identifies the key risks, the impact should they occur, and the actions being taken to manage those risks is maintained by the company. The risk register is discussed by the audit committee and is approved by the board of directors.

auditors

Deloitte & Touche have expressed their willingness to continue in office as auditors. A resolution to reappoint them will be proposed at the forthcoming annual general meeting.

Approved by the board of directors and signed on behalf of the board

BCheney

Barbara Cheney
company secretary
18 June 2003

directors' responsibilities in respect of the financial statements

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year, and of the income and expenditure of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures as explained in the financial statements; *and*
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that the financial statements comply with these requirements.

The directors are responsible for ensuring that proper accounting records are kept, which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are satisfied that the company has adequate resources to continue in business for the foreseeable future and consequently the going concern basis continues to be appropriate in preparing the financial statements.

independent auditors' report to the members of the Financial Ombudsman Service Limited

We have audited the financial statements of the Financial Ombudsman Service Limited for the year ended 31 March 2003 which comprise the income and expenditure account, the balance sheet, the cash flow statement, notes 1 to 6 to the cash flow statement and notes 1 to 19 to the accounts. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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

independent auditors' report to the members of the Financial Ombudsman Service Limited (continued)

basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 2003 and of its surplus for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche
Chartered Accountants and Registered Auditors
London

18 June 2003

income and expenditure account

for the year ended 31 March 2003

	note	2003 £'000	2002 £'000
turnover	2, 3	37,497	27,351
administrative costs		(34,168)	(26,487)
		3,329	864
other operating income	4	150	10
operating surplus for the year		**3,479**	**874**
interest receivable	5	221	107
interest payable and similar charges	6	(450)	(691)
surplus on ordinary activities before taxation	7	**3,250**	**290**
tax credit/(charge) on surplus on ordinary activities	8	15	(28)
surplus on ordinary activities after taxation		**3,265**	**262**
balance of income over expenditure brought forward at 1 April		**763**	**501**
balance of income over expenditure carried forward at 31 March		**4,028**	**763**

All amounts relate to continuing activities.
There were no recognised gains or losses other than the reported surplus for the year.
Notes 1 to 6 to the cash flow statementand notes 1 to 19 to the accounts form an integral part ofthese financial statements.

balance sheet as at 31 March 2003

	note	2003 £'000	2003 £'000	2002 £'000	2002 £'000
fixed assets					
tangible assets	13		9,461		10,587
current assets					
debtors (amounts falling due within one year)	14	4,896		4,492	
debtors – establishment cost recovery fund	14	–		3,040	
cash at bank and in hand		3,119		4,313	
		8,015		11,845	
current liabilities					
creditors: amounts falling due within one year	15	(3,948)		(8,169)	
net current assets			4,067		3,676
total assets less current liabilities			**13,528**		**14,263**
creditors: amounts falling due after more than one year	16		(9,500)		(13,500)
net assets			**4,028**		**763**
capital and reserves					
accumulated balance of the income and expenditure account			4,028		763
			4,028		**763**

signed on behalfof the board of directors

Sue Slipman
chairman

Sue Slipman

Notes 1 to 6 to the cash flow statementand notes 1 to 19 to the ac counts form an integral part ofthese financial statements.
These financial statements were approved by the board ofdirectors on 18 June 2003.

cash flow statement

for the year ended 31 March 2003

	note	2003 £'000	2002 £'000
net cash inflow from operating activities	1	4,542	7,842
returns on investments and servicing of finance	2	(368)	(445)
taxation	3	(22)	(5)
capital expenditure and financial investment	4	(1,346)	(2,237)
net cash inflow before financing		2,806	5,155
financing			
movement in long term borrowings		(4,000)	(1,000)
(decrease)/increase in cash in the year	**5, 6**	**(1,194)**	**4,155**

notes to the cash flow statement

for the year ended 31 March 2003

1 reconciliation of operating surplus to net cash inflow from operating activities

	2003 £'000	2002 £'000
operating surplus for the year	3,479	874
depreciation	2,464	1,676
loss on disposal of tangible fixed assets	8	83
decrease in establishment cost recovery fund	4,560	–
(increase) in debtors	(1,897)	(772)
(decrease)/increase in creditors	(4,072)	5,981
net cash inflow from operating activities	**4,542**	**7,842**

notes to the cash flow statement for the year ended 31 March 2003 (continued)

2 returns on investments and servicing of finance

	2003 £'000	2002 £'000
interest received	221	107
interest paid	(589)	(552)
	(368)	**(445)**

3 taxation

	2003 £'000	2002 £'000
UK corporation tax paid	(22)	(5)
	(22)	**(5)**

4 capital expenditure and financial investment

	2003 £'000	2002 £'000
payments to acquire tangible fixed assets	(1,356)	(2,237)
receipts from sales of tangible fixed assets	10	–
	(1,346)	**(2,237)**

5 reconciliation of net cash flow to movement in net debt

	2003 £'000	2002 £'000
(decrease)/increase in cash	(1,194)	4,155
cash inflow from decrease in debt financing	4,000	1,000
movement in net debt for year	2,806	5,155
net debt at 1 April	(9,187)	(14,342)
net debt at 31 March	**(6,381)**	**(9,187)**

6 analysis of changes in net debt

	at 1 April 2002 £'000	cash flows £'000	at 31 March 2003 £'000
cash at bank and in hand	4,313	(1,194)	3,119
long term loans	(13,500)	4,000	(9,500)
	(9,187)	**2,806**	**(6,381)**

notes to the accounts

for the year ended 31 March 2003

1 status of the company

Financial Ombudsman Service Limited is a company limited by guarantee and registered in England and Wales (3725015). The liability of each of the members is limited to the amount of £1 guaranteed in the Memorandum of Association.

2 principal accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards of the United Kingdom. A summary of the principal accounting policies is set out below.

turnover

annual levy – each firm that comes under the jurisdiction of the Financial Ombudsman Service is required to pay an annual levy based on the permissions given to that firm by the Financial Services Authority.

case fees – each firm that has a chargeable complaint referred for investigation to the Financial Ombudsman Service is required to pay a case fee upon closure of that complaint.

service charges – the Financial Ombudsman Service provides accounting and other services to some of the former schemes.

recognition of income – income is recognised when invoices are raised on firms and former schemes as above. For cases transferred from the Personal Investment Authority Ombudsman Bureau at 30 November 2001, and for cases billed by the Financial Ombudsman Service, at conversion, between 1 December 2001 and 31 March 2002, income is recognised upon closure of the case (see ‘deferred income’ on page 58).

notes to the accounts for the year ended 31 March 2003 (continued)

2 principal accounting policies (continued)

tangible fixed assets

Depreciation is calculated so as to write off the cost, less estimated residual value, of tangible fixed assets on a straight-line basis over the expected useful economic life of the asset concerned, starting from the beginning of the financial year following the year in which they are brought into use, and with a full annual charge in the year of disposal, as follows:

leasehold improvements	over ten years
premises fees and stamp duty	over five years
computer hardware	over three years
computer software	over five years
computer systems development and fees	over five years
office furniture and equipment	over five years
fixtures and fittings	over ten years

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

pension scheme payments

The company operates both a defined benefit pension scheme and a money purchase scheme, both being part of the Financial Services Authority tax-approved pension plan. The costs of the contributions to the defined benefit scheme are accounted for in accordance with SSAP 24, where the charge to the income and expenditure account relates to the cost of the pension spread over the service life of the employees, and is determined by independent qualified actuaries undertaking a formal valuation every three years. The costs of the contributions to the money purchase scheme are charged to the income and expenditure account as incurred.

operating lease commitments

Operating lease costs are charged to the income and expenditure account to reflect usage of the assets leased.

notes to the accounts for the year ended 31 March 2003 (continued)

2 principal accounting policies (continued)

deferred income

The accounting policy used by the Personal Investment Authority Ombudsman Bureau for billing chargeable cases was continued in the Financial Ombudsman Service from 1 December 2001 to 31 March 2002. Case fees were billed to firms and credited to the deferred income account on the conversion of the case. Amounts are released to case fee income only on closure of the case. The balance in the deferred income account therefore represents the number of open cases being:

- those cases originally converted and billed in the Personal Investment Authority Ombudsman Bureau prior to 1 December 2001 and transferred to the Financial Ombudsman Service at that date; *and*
- those cases converted and billed in the Financial Ombudsman Service between 1 December 2001 and 31 March 2002.

3 turnover

	2003 £'000	**2002 £'000**
annual levy	16,365	–
case fees	21,103	3,529
service charges	29	23,822
	37,497	**27,351**

The figure for annual levy includes an amount of £1,676,432 (2002: £nil) representing establishment costs recovered from firms in the year.

4 other operating income

	2003 £'000	**2002 £'000**
conference fees	58	9
publications	74	–
miscellaneous	18	1
	150	**10**

notes to the accounts for the year ended 31 March 2003 (continued)

5 interest receivable

	2003 £'000	2002 £'000
bank interest	219	107
other interest	2	–
	221	**107**

6 interest payable and similar charges

	2003 £'000	2002 £'000
bank loan and overdraft	450	691
	450	**691**

7 surplus on ordinary activities before taxation

	note	2003 £'000	2002 £'000
this is stated after charging:			
staff costs	9	19,590	17,298
depreciation	13	2,464	1,676
loss on disposal of tangible fixed assets		8	83
other operating lease rentals		27	29
auditors' remuneration	12	24	55
establishment costs	14	4,560	–

8 tax credit/(charge) on surplus on ordinary activities

analysis of tax credit/(charge) on ordinary activities

	2003 £'000	2002 £'000
United Kingdom corporation tax at 19% (2002: 20%) based on the surplus for the period	(13)	(23)
adjustment in respect of prior years	28	(5)
	15	**(28)**

notes to the accounts for the year ended 31 March 2003 (continued)

8 tax credit/(charge) on surplus on ordinary activities (continued)

factors affecting tax credit/(charge) for the current period

The tax assessed for the period is lower than that resulting from applying the standard rate of corporation tax in the UK: 19% (2002: 20%). The differences are explained below:

	2003 £'000	**2002 £'000**
surplus on ordinary activities before taxation	3,250	290
tax at 19% (2002: 20%) thereon	(617)	(58)
effects of:		
non taxable income	602	35
utilisation of tax losses	2	–
prior period adjustments	28	(5)
current tax credit/(charge) for year	**15**	**(28)**

Corporation tax is not provided on the surplus generated from the company's principal activities.

9 staff costs

	note	**2003 £'000**	**2002 £'000**
salary costs		15,727	13,946
social security costs		1,587	1,309
other pension costs	10	1,674	1,535
flexible benefit costs		602	508
		19,590	**17,298**

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

	2003	**2002**
case handling	221	201
other	282	260
	503	**461**

notes to the accounts for the year ended 31 March 2003 (continued)

10 pension costs

The Financial Ombudsman Service is part of the Financial Services Authority's (FSA) tax-approved pension plan open to permanent employees. The pension plan was established on 1 April 1998 and operates on both a defined benefit and defined contribution (money purchase scheme) basis. Since 1 April 2000, all employees joining the Financial Ombudsman Service have been eligible only for the defined contribution section of the plan. The defined benefit section of the plan is non-contributory for members. The defined contribution section is part of a flexible benefits programme and members can, within limits, select the amount of their overall benefits allowance that is directed to the pension plan.

Up to the year ended 31 March 2003 the company accounted for pensions in accordance with Statement of Standard Accounting Practice No 24 'Accounting for Pension Costs' and followed the transitional arrangements permitted by FRS17 under which disclosure on retirement benefits is given by way of a note in the financial statements.

The latest full actuarial valuation of the FSA pension plan was carried out as at 1 April 2002 by an independent actuary using the projected unit method. As mentioned above, the Financial Ombudsman Service is part of the FSA pension scheme, with 141 active and deferred members out of a total of 2,282 members. During the year independent actuarial advice has been obtained, in order to calculate the share of the assets and liabilities of the FSA scheme relating to those present and past employees of the Financial Ombudsman Service.

The figures below relate solely to the obligations of the Financial Ombudsman Service, in respect of the defined benefit section of the FSA pension plan had FRS 17 been implemented in the year.

(a) the major assumptions used by the actuary in valuing the liabilities of the defined benefit section of the scheme were:

	31 March 2003	31 March 2002
rate of salary increase	4.0%	5.0%
corporate bond discount rate	5.4%	6.0%
inflation assumption	2.5%	2.5%
pension increase	2.5%	2.5%

notes to the accounts for the year ended 31 March 2003 (continued)

10 pension costs (continued)

(b) the assets in the scheme and the expected rate of return were:

	expected rate of return 31 March 2003	value at 31 March 2003 £m	expected rate of return 31 March 2002	value at 31 March 2002 £m
equities	7.5%	2.37	8.0%	2.71
corporate bonds	5.4%	0.00	6.0%	0.32
gilts	4.5%	0.68	5.3%	0.30
other	4.0%	0.03	4.8%	0.03
total fair value of assets		**3.08**		**3.36**

(c) the amount to be charged to operating surplus would be:

	2003 £m
current service cost	0.76
past service cost	0.00
total included within operating surplus	**0.76**

(d) the amounts to be included as other finance costs would be:

	2003 £m
expected return on assets	0.27
less: interest cost on scheme liabilities	(0.27)
net finance (charge)/return	**0.00**

notes to the accounts for the year ended 31 March 2003 (continued)

10 pension costs (continued)

(e) the amounts to be included in the statement of total recognised gains and losses (STRGL) would be:

	2003 £m
difference between actual and expected return on assets	(1.12)
experience gains arising on scheme liabilities	0.12
effect of changes in assumptions underlying the present value of the scheme liabilities	(0.20)
total actuarial losses recognised in the STRGL	**(1.20)**

(f) the movement in the scheme surplus/(deficit) during the year would be:

	2003 £m
opening deficit in the scheme	(0.83)
less: current service cost	(0.76)
add: contributions	0.62
other finance income/(costs)	0.00
actuarial losses	(1.20)
closing deficit in the scheme	**(2.17)**

(g) the reconciliation of scheme assets and liabilities to the balance sheet would be:

	2003 £m	2002 £m
market value of scheme assets	3.08	3.36
less: present value of scheme liabilities	(5.25)	(4.19)
related deferred tax liability	0.00	0.00
deficit in the scheme	**(2.17)**	**(0.83)**

notes to the accounts for the year ended 31 March 2003 (continued)

11 directors' remuneration

Directors' remuneration payable during the year amounted to £140,658 (2002: £156,688). The chairman was paid £40,000 per annum up to 21 February 2003 and £45,000 per annum from 22 February 2003 (2002: £40,000). The deputy chairman was paid £16,500 (2002: £15,000) per annum and the other directors £11,000 (2002: £10,000) per annum.

12 auditors' remuneration

	2003 £'000	2002 £'000
audit fee	24	25
other services	–	30
	24	**55**

13 tangible assets

	premises £'000	computer equipment and software £'000	furniture and equipment £'000	total £'000
cost				
at 1 April 2002	4,488	6,334	1,421	12,243
additions	121	1,059	176	1,356
disposals	(7)	(31)	–	(38)
at 31 March 2003	**4,602**	**7,362**	**1,597**	**13,561**
depreciation				
at 1 April 2002	510	898	248	1,656
charge for year	560	1,625	279	2,464
disposals	(2)	(18)	–	(20)
at 31 March 2003	**1,068**	**2,505**	**527**	**4,100**
net book value				
at 31 March 2003	**3,534**	**4,857**	**1,070**	**9,461**
at 31 March 2002	**3,978**	**5,436**	**1,173**	**10,587**

notes to the accounts for the year ended 31 March 2003 (continued)

14 debtors

falling due within one year

	2003 £'000	2002 £'000
trade debtors	3,491	1,736
establishment cost recovery fund	–	1,520
other debtors	648	164
prepayments	757	1,072
	4,896	**4,492**

falling due after more than one year

	2003 £'000	2002 £'000
establishment cost recovery fund	–	3,040
	–	**3,040**

The establishment cost recovery fund totalled £4,559,909 and related to the development of the new organisational structure of the Financial Ombudsman Service. These costs were originally intended to be recovered evenly over a period of three years from 1 April 2002. Accordingly, £1,676,432 (2002: £nil), has been recovered from firms as part of the annual levy during the year to 31 March 2003, and this income is included in turnover for the year (see note 3) and the costs included in administrative costs (see note 7).

However, following consultation, it has now been agreed to write off the remaining balance (£2,883,477) against the current year's surplus, in administrative costs (see note 7). Balances carried forward are therefore now £nil for both amounts shown, *ie* as falling due within one year (2002: £1,519,970) and as falling due after more than one year (2002: £3,039,939).

notes to the accounts for the year ended 31 March 2003 (continued)

15 creditors: amounts falling due within one year

	2003 £'000	2002 £'000
trade creditors	417	512
corporation tax	12	23
other taxes and social security	470	405
other creditors	347	459
accruals and deferred income	2,702	6,770
	3,948	**8,169**

16 creditors: amounts falling due after one year

	2003 £'000	2002 £'000
bank loan	9,500	13,500
	9,500	**13,500**

The company took out a revolving loan facility of £25m on 30 March 2000 which was available for draw down until 30 September 2001 and was fully repayable by means of variable annual tranches from 31 March 2002 to be fully repaid by 31 March 2011. The facility was varied by means of an Amendment Letter dated 21 May 2001 amending the revolving loan facility to £18m which was available for draw down until 30 September 2002 and which was repayable by means of variable annual tranches from 31 March 2003 but still to be fully repaid by 31 March 2011. This facility was replaced by a new revolving loan facility of £15m dated 24 January 2003, renewable annually. The amount drawn down at 31 March 2003 was £9.5m. The interest rate payable is 0.15% per annum above London interbank offered rates. A commitment fee of 0.08% is charged on the outstanding sum on the revolving loan facility not yet drawn down. The Financial Services Authority has guaranteed the loan facility.

17 operating lease commitments

The company entered into a fifteen year lease for four floors at South Quay Plaza II in November 1999 with a rent review every five years. Under the lease the company was entitled to a one year rent free period. The FinancialServices Authority is a party to the lease agreement for the four floors as guarantor of performance of the lease in the sum of £1,089,798 per annum. On 6 July 2001, the company entered into a thirteen year lease for the sixth floor with a break clause and rent review in 2004. For both leases rent has been charged from the date at which the premises became available for occupation. As at 31 March 2003, the company was committed to making the following payments during the next year in respect of operating leases:

notes to the accounts for the year ended 31 March 2003 (continued)

17 operating lease commitments (continued)

	premises 2003 £'000	**other 2003 £'000**	**premises 2002 £'000**	**other 2002 £'000**
leases which expire:				
within one year	–	2	–	20
between two and five years	–	9	–	9
after five years	1,530	–	1,530	–

18 contingent liabilities

The Directors are not aware of any issues that might give rise to any contingent liabilities.

19 related party transactions

The Financial Ombudsman Service, together with the Financial Services Authority, was created as part of the Government's legislation for the financial services market and derives its statutory authority from the Financial Services and Markets Act 2000. The Financial Services Authority is regarded as a related party.

In the year to 31 March 2003, no payments were made to the Financial Services Authority (2002: £nil). An amount of £nil was due from the Financial Services Authority at 31 March 2003 (2002: £1,000). This amount is included in 'Other debtors' (see note 14).

During the year, the Financial Ombudsman Service billed the Financial Services Authority a total of £7,250 being charges for collection of debts assigned by the Personal Investment Authority Ombudsman Bureau in March 2002, this amount plus the £1,000 due at 31 March 2002 being received in the year to 31 March 2003.

An amount of £150,264 was due to the Financial Services Authority at 31 March 2003 (2002: £nil). This was the net balance due following the assignment of the Personal Investment Authority Ombudsman Bureau debtors ledger to the Financial Ombudsman Service in March 2002 and is included in 'other creditors' (see note 15).

The Financial Services Authority is a guarantor of the loan facility in the sum of £9,500,000 at 31 March 2003 (see note 16), and also is a party to the lease agreement for four floors at South Quay Plaza II as guarantor of performance of the lease in the sum of £1,089,798 per annum (see note 17).

Other than disclosed above, there were no related party transactions during the year (2002: none).