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
London

auditors

Deloitte & Touche LLP
London

directors' report

The directors of the Financial Ombudsman Service Limited present their report for the year ended 31 March 2004, 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 Financial Services 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 2004. During this year the company had an operating surplus after tax of £4,533,453 (2003: £3,265,175), which was transferred to reserves. The surplus was largely due to the exceptional number of cases resolved during the year. Our reserves policy, agreed in consultation with the financial services industry, is to keep reserves at 5% of our expected annual expenditure. Accordingly, in 2005/06, we expect to be able to reduce the annual levy charged to firms by approximately £4 million.

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' report (continued)

directors

The Financial Services Authority appoints all members of the board, and HM Treasury also approves the appointment of the chairman. Directors are appointed for a period of up to four years and they may be reappointed for a further term, which must not exceed six years in total. The directors of the Financial Ombudsman Service, the expiry dates of their contracts and attendances at board meetings during the year were as follows:

director	contract expires	attendance
Sue Slipman OBE	22 February 2006	9/9
Brian Landers	22 February 2005*	9/9
Lawrence Churchill	22 February 2005**	8/9
Robert Crawford	22 February 2005*	8/9
Ed Hucks	22 February 2005**	8/9
Roger Jefferies	22 February 2005**	9/9
Sir Christopher Kelly KCB	22 February 2005**	9/9
Kate Lampard	22 February 2005**	8/9
Helena Wiesner	22 February 2005*	8/9

* Expiry of second, and final, term
** Expiry of first term

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.

directors' report (continued)

employment policies

The Financial Ombudsman Service continues to monitor its recruitment policy to ensure it provides equal opportunities and fair treatment in all aspects of employment, and does not tolerate any form of harassment either by or against employees. There are opportunities for staff to work part-time, flexible hours, to job-share and to work from home. The service provides a comprehensive training programme involving internal and external courses. A modular qualification for adjudicators has been developed internally to enhance adjudicators' skills, and includes case-handling, product knowledge and management modules.

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.

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 its facilities;
- considers all applicants for vacancies on merit. Where necessary, special arrangements are made for interviewing disabled applicants;
- raises 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.

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, a staff satisfaction survey was carried out during the year. Full results and analyses were circulated to staff together with details of follow-up action.

directors' report (continued)

corporate governance

The directors are committed to high standards of best practice in corporate governance. While 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 in the public interest and represent a wide range of business, financial and consumer expertise, further details of which may be found in the biographies on page 87. 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.

The board met nine times during the year. Detailed papers were circulated in advance of each meeting to ensure that the directors were able to make informed decisions at meetings. The company secretary attended and minuted all meetings of the board and its committees. 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. The board meeting in June 2003 was held away from the office over a period of two days to give the directors an opportunity to review their strategic vision, direction, structure and their responsibilities.

Decisions taken by the board include:

- the appointment of the ombudsmen and the Independent Assessor;
- the making of rules in respect of the scheme's voluntary jurisdiction, subject to the approval of the FinancialServices Authority (FSA);
- the making of rules relating to the levying of case fees, subject to the approval of the FSA; *and*
- the approval of and recommendation to the FSA of the annual budget.

directors' report (continued)

committees

The board appointed a stakeholder dialogue committee in July 2003 and a remuneration committee in March 2004. Details of the board committees are as follows:

audit committee

The audit committee met three times during the 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 issues 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 (with attendance at meetings shown in brackets):

Brian Landers – chairman (3/3)
Robert Crawford (3/3)
Ed Hucks (3/3)
Roger Jefferies (3/3)

The committee reviewed and approved the financial statements and external auditors' report. It considered various internal audit reports and agreed an internal audit plan for the coming year. A risk management model was developed with the full board, with the assistance of the internal auditors.

stakeholder dialogue committee

The stakeholder dialogue committee met twice during the year. Its remit is to support the board in developing the strategic vision for the Financial Ombudsman Service as an organisation by:

- overseeing a planned and managed cycle of stakeholder dialogues, building on the work currently undertaken by the organisation;
- overseeing the embedding of the outcomes of stakeholder dialogue within the management processes of the organisation; *and*
- making recommendations to the board on any future actions necessary to achieve best practice across all functions of the organisation.

directors' report (continued)

committees (continued)

Members of the stakeholder dialogue committee were (with attendance at meetings shown in brackets):

Sue Slipman – chairman (2/2)
Brian Landers (2/2)
Lawrence Churchill (2/2)
Ed Hucks (1/2)
Sir Christopher Kelly KCB (2/2)

A schedule of policy issues was continuously updated during the year by the executive team. This provided the committee with details of a wide range of issues, how they came to light, the stakeholders affected, actions taken to address them and feedback given to the relevant stakeholders. Examples of the issues that arose during the year are listed on page 37.

remuneration committee

The remuneration committee met once during the year. Its remit is to:

- consider and agree proposals from the chief ombudsman about the remuneration of senior executive staff and ombudsmen;
- give advice about the policy for, and scope of, pension arrangements for all staff;
- review and note annually the remuneration trends across the organisation; *and*
- advise on any proposals for major changes to employee benefit structures.

Members of the remuneration committee were (with attendance at meetings shown in brackets):

Sir Christopher Kelly KCB – chairman (1/1)
Lawrence Churchill (0/1)
Robert Crawford (1/1)
Kate Lampard (1/1)

The committee reviewed, and approved, proposals for revising the salary structure for senior staff and ombudsmen following the pay and grading project undertaken for all staff at the Financial Ombudsman Service.

directors' report (continued)

performance evaluation

The chairman met each director individually to assess the board's view of the performance of the FinancialOmbudsman Service, the operation of the board (including its method of operation, contributions by directors and the sub-committee structure), the role and performance of the executive team and proposals for further development.

auditors' independence

The company has reviewed its relationship with its auditors, Deloitte & Touche LLP, 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 LLP.

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 system is designed to provide reasonable, but not absolute, assurance against material mis-statement or loss. As part of this process, the board and audit committee initiate reports from either the executive team or the internal auditors, where necessary.

The Financial Ombudsman Service's key internal control and monitoring procedures include:

financial reporting

There is a comprehensive budgeting system, with the annual budget (which sets out workload assumptions, financial plans and priorities) 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.

monitoring systems

The audit committee reviews regular reports at their meetings from the internal auditors. The board receives a management information pack of key performance indicators at each of its meetings.

risk management

The Financial Ombudsman Service operates a risk management process that identifies the key risks facing the company. A risk management model was developed, which identifies key risks, an impact analysis, the current risk management strategy, its effectiveness, any further action required and the risk owner. This model was approved by the board and is regularly reviewed by the executive team.

directors' report (continued)

auditors

On 1 August 2003, Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP under the provisions of section 26(5) of the Companies Act 1989. Deloitte & Touche LLP have expressed their willingness to continue in office as auditors of the company and a resolution to reappoint them will be proposed at the forthcoming annual generalmeeting.

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

Barbara Cheney
company secretary
10 June 2004

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; *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.

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 2004 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 mis-statements.

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 2004 and of its surplus for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

10 June 2004

income and expenditure account

for the year ended 31 March 2004

	note	2004 £'000	2003 £'000
turnover	2, 3	40,535	37,497
administrative costs		(36,322)	(34,168)
		4,213	3,329
other operating income	4	342	150
operating surplus for the year		**4,555**	**3,479**
interest receivable	5	158	221
interest payable and similar charges	6	(182)	(450)
surplus on ordinary activities before taxation	7	**4,531**	**3,250**
tax credit on surplus on ordinary activities	8	2	15
surplus on ordinary activities after taxation		**4,533**	**3,265**
balance of income over expenditure brought forward at 1 April		**4,028**	**763**
balance of income over expenditure carried forward at 31 March		**8,561**	**4,028**

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 2004

	note	2004 £'000	2004 £'000	2003 £'000	2003 £'000
fixed assets					
tangible assets	13		7,859		9,461
current assets					
debtors: amounts falling due within one year	14	6,383		4,896	
cash at bank and in hand		5,088		3,119	
		11,471		8,015	
current liabilities					
creditors: amounts falling due within one year	15	(3,269)		(3,948)	
net current assets			8,202		4,067
total assets less current liabilities			**16,061**		**13,528**
creditors: amounts falling due after more than one year	16		(7,500)		(9,500)
net assets			**8,561**		**4,028**
capital and reserves					
accumulated balance of the income and expenditure account			8,561		4,028
			8,561		**4,028**

signed on behalfofthe board ofdirectors

Sue Slipman
chairman

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 10 June 2004.

cash flow statement

for the year ended 31 March 2004

	note	2004 £'000	2003 £'000
net cash inflow from operating activities	1	5,252	4,542
returns on investments and servicing of finance	2	(27)	(368)
taxation	3	7	(22)
capital expenditure and financial investment	4	(1,263)	(1,346)
net cash inflow before financing		3,969	2,806
financing			
movement in long term borrowings		(2,000)	(4,000)
increase/(decrease) in cash in the year	**5, 6**	**1,969**	**(1,194)**

notes to the cash flow statement

for the year ended 31 March 2004

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

	2004 £'000	2003 £'000
operating surplus for the year	4,555	3,479
depreciation	2,865	2,464
loss on disposal of tangible fixed assets	–	8
decrease in establishment cost recovery fund	–	4,560
increase in debtors	(1,497)	(1,897)
decrease in creditors	(671)	(4,072)
net cash inflow from operating activities	**5,252**	**4,542**

notes to the cash flow statement for the year ended 31 March 2004 (continued)

2 returns on investments and servicing of finance

	2004 £'000	2003 £'000
interest received	158	221
interest paid	(185)	(589)
	(27)	**(368)**

3 taxation

	2004 £'000	2003 £'000
UK corporation tax paid	(15)	(22)
UK corporation tax received	22	–
	7	**(22)**

4 capital expenditure and financial investment

	2004 £'000	2003 £'000
payments to acquire tangible fixed assets	(1,264)	(1,356)
receipts from sales of tangible fixed assets	1	10
	(1,263)	**(1,346)**

5 reconciliation of net cash flow to movement in net debt

	2004 £'000	2003 £'000
increase/(decrease) in cash	1,969	(1,194)
cash inflow from decrease in debt financing	2,000	4,000
movement in net debt for year	3,969	2,806
net debt at 1 April	(6,381)	(9,187)
net debt at 31 March	**(2,412)**	**(6,381)**

6 analysis of changes in net debt

	at 1 April 2003 £'000	cash flows £'000	at 31 March 2004 £'000
cash at bank and in hand	3,119	1,969	5,088
long term loans	(9,500)	2,000	(7,500)
	(6,381)	**3,969**	**(2,412)**

notes to the accounts

for the year ended 31 March 2004

1 status of the company

Financial Ombudsman Service Limited is a company limited by guarantee and registered in England and Wales (company registration no. 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' accounting policy).

notes to the accounts for the year ended 31 March 2004 (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.

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 2004 (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

	2004 £'000	2003 £'000
annual levy	13,112	16,365
case fees	27,398	21,103
service charges	25	29
	40,535	**37,497**

The figure for annual levy includes refunds of £537 (2003: £1,676,432 additional charges) representing establishment costs refunded to (2003: charged to) firms in the year.

4 other operating income

	2004 £'000	2003 £'000
conference fees	96	58
publications	95	74
miscellaneous	151	18
	342	**150**

notes to the accounts for the year ended 31 March 2004 (continued)

5 interest receivable

	2004 £'000	2003 £'000
bank interest	158	219
other interest	–	2
	158	**221**

6 interest payable and similar charges

	2004 £'000	2003 £'000
bank loan and overdraft	182	450
	182	**450**

7 surplus on ordinary activities before taxation

	note	2004 £'000	2003 £'000
this is stated after charging:			
staff costs	9	25,642	19,590
depreciation	13	2,865	2,464
loss on disposal of tangible fixed assets		–	8
other operating lease rentals		25	27
auditors' remuneration	12	32	24
establishment costs		–	4,560

8 tax credit on surplus on ordinary activities

analysis of tax credit on ordinary activities

	2004 £'000	2003 £'000
United Kingdom corporation tax at 19% (2003: 19%) based on the surplus for the year	(7)	(13)
adjustment in respect of prior years	9	28
	2	**15**

notes to the accounts for the year ended 31 March 2004 (continued)

8. tax credit on surplus on ordinary activities (continued)

factors affecting tax credit for the current year

The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK: 19% (2003: 19%). The differences are explained below:

	2004 £'000	2003 £'000
surplus on ordinary activities before taxation	4,531	3,250
tax at 19% (2003: 19%) thereon	(861)	(617)
effects of:		
non taxable income	853	602
utilisation of tax losses	–	2
marginal relief	1	–
prior period adjustments	9	28
current tax credit for year	**2**	**15**

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

9 staff costs

	note	2004 £'000	2003 £'000
salary costs		20,119	15,727
social security costs		2,189	1,587
other pension costs	10	2,460	1,674
flexible benefit costs		874	602
		25,642	**19,590**

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

	2004	2003
adjudicators	301	221
other	333	282
	634	**503**

notes to the accounts for the year ended 31 March 2004 (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 two years ended 31 March 2004 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 FRS 17 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. Independent actuarial advice has been obtained in order to calculate the share of assets and liabilities of the FSA scheme relating to those present and past employees of the Financial Ombudsman Service.

The Financial Ombudsman Service made regular contributions of £680,732 at the agreed rate of 19% of pensionable salaries for final salary section benefits and, in addition, contributed towards the insurance cost of death benefits payable from the plan and the expenses of administering the plan. In addition, the Financial Ombudsman Service made lump sum contributions totalling £666,667 to the plan towards funding the deficit.

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.

The principal assumptions used by the independent qualified actuaries in updating this valuation for FRS 17 purposes are shown below:

(a) main financial assumptions

	31 March 2004 (%pa)	**31 March 2003 (%pa)**	**31 March 2002 (%pa)**
inflation	2.9	2.5	2.5
rate of general long term increase in salaries	4.4	4.0	5.0
rate of increase to pensions in payment	2.8	2.5	2.5
discount rate for plan liabilities	5.5	5.4	6.0

notes to the accounts for the year ended 31 March 2004 (continued)

10. pension costs (continued)

(b) expected return on assets

	at 31 March 2004 long-term rate of return expected (%pa)	value (£m)	at 31 March 2003 long-term rate of return expected (%pa)	value (£m)	at 31 March 2002 long-term rate of return expected (%pa)	value (£m)
equities	7.7	4.01	7.5	2.37	8.0	2.71
government bonds	4.7	0.96	4.5	0.68	5.3	0.30
corporate bonds	5.2	0.05	5.4	0.00	6.0	0.32
other	4.2	0.04	4.0	0.03	4.8	0.03
total market value of assets		**5.06**		**3.08**		**3.36**

(c) analysis of amount charged to operating surplus

	value at 31 March 2004 (£m)	value at 31 March 2003 (£m)
current service cost	0.75	0.76
past service costs	0.00	0.00
total operating charge	**0.75**	**0.76**

(d) analysis of amount credited to other finance income

	for the year ending 31 March 2004 (£m)	for the year ending 31 March 2003 (£m)
expected return on pension plan assets	0.26	0.27
interest on pension plan liabilities	(0.30)	(0.27)
net return	**(0.04)**	**0.00**

notes to the accounts for the year ended 31 March 2004 (continued)

10. pension costs (continued)

(e) analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	for the year ending 31 March 2004 (£m)	for the year ending 31 March 2003 (£m)
actual return less expected return on pension plan assets	0.60	(1.12)
experience gains and losses arising on the plan liabilities	(0.47)	0.12
changes in assumptions underlying the present value of the plan liabilities	(0.54)	(0.20)
actuarial loss recognised in STRGL	**(0.41)**	**(1.20)**

(f) reconciliation to balance sheet

	value at 31 March 2004 (£m)	value at 31 March 2003 (£m)	value at 31 March 2002 (£m)
total market value of assets	5.06	3.08	3.36
present value of plan liabilities	(7.06)	(5.25)	(4.19)
deficit in plan	(2.00)	(2.17)	(0.83)
related deferred tax liability	0.00	0.00	0.00
net pension liability	**(2.00)**	**(2.17)**	**(0.83)**

(g) analysis of movement in deficit during the year

	for the year ending 31 March 2004 (£m)	for the year ending 31 March 2003 (£m)
deficit in plan at beginning of the year	(2.17)	(0.83)
current service cost	(0.75)	(0.76)
contributions and expenses	1.37	0.62
past service costs	0.00	0.00
other finance costs	(0.04)	0.00
actuarial loss	(0.41)	(1.20)
deficit in plan at end of the year	**(2.00)**	**(2.17)**

notes to the accounts for the year ended 31 March 2004 (continued)

10. pension costs (continued)

(h) history of experience gains and losses

	for the year ending 31 March 2004 (£m)	for the year ending 31 March 2003 (£m)
difference between expected and actual return on plan assets:		
■ amount (£m)	0.60	(1.12)
■ percentage of plan assets	12%	(36%)
experience gains/(losses) on plan liabilities:		
■ amount (£m)	(0.47)	0.12
■ percentage of the present value of the plan liabilities	(7%)	2%
total amount recognised in STRGL:		
■ amount (£m)	(0.41)	(1.20)
■ percentage of the present value of the plan liabilities	(6%)	(23%)

11 directors' remuneration

Directors' remuneration payable during the year amounted to £147,000 (2003: £140,658). The chairman was paid £45,000 per annum (2003: £40,000 per annum up to 21 February 2003 and £45,000 per annum from 22 February 2003). The deputy chairman was paid £18,000 (2003: £16,500) per annum and the other directors £12,000 (2003: £11,000) per annum.

12 auditors' remuneration

	2004 £'000	2003 £'000
audit fee	32	24
other services	–	–
	32	**24**

notes to the accounts for the year ended 31 March 2004 (continued)

13 tangible assets

cost	**premises and leasehold improvements £'000**	**computer equipment and software £'000**	**furniture and equipment £'000**	**total £'000**
at 1 April 2003	4,602	7,362	1,597	13,561
additions	16	929	319	1,264
disposals	–	(1)	–	(1)
at 31 March 2004	**4,618**	**8,290**	**1,916**	**14,824**
depreciation				
at 1 April 2003	1,068	2,505	527	4,100
charge for year	575	1,955	335	2,865
disposals	–	–	–	–
at 31 March 2004	**1,643**	**4,460**	**862**	**6,965**
net book value				
at 31 March 2004	**2,975**	**3,830**	**1,054**	**7,859**
at 31 March 2003	**3,534**	**4,857**	**1,070**	**9,461**

14 debtors: amounts falling due within one year

	2004 £'000	**2003 £'000**
trade debtors	5,340	3,491
other debtors	288	648
pre-payments	755	757
	6,383	**4,896**

15 creditors: amounts falling due within one year

	2004 £'000	**2003 £'000**
trade creditors	422	417
corporation tax	7	12
other taxes and social security	646	470
other creditors	165	347
accruals and deferred income	2,029	2,702
	3,269	**3,948**

notes to the accounts for the year ended 31 March 2004 (continued)

16 creditors: amounts falling due after one year

	2004 £'000	2003 £'000
bank loan	7,500	9,500
	7,500	**9,500**

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 2004 was £7.5m. 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 Financial Services 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. On 23 December 2003, the company entered into a five-year lease for half of the seventh floor. Under the lease the company is entitled to a one-year rent free period. On 5 May 2004, the company exchanged contracts on the lease for the ninth floor of South Quay Plaza II. The lease runs until July 2009, with a break clause in December 2006 and a rent review in September 2008. As at 31 March 2004, the company was committed to making the following payments during the next year, in respectof operating leases:

	premises 2004 £'000	other 2004 £'000	premises 2003 £'000	other 2003 £'000
leases which expire:				
within one year	–	2	–	2
between two and five years	106	24	–	9
after five years	1,530	–	1,530	–

notes to the accounts for the year ended 31 March 2004 (continued)

18 contingent liabilities

The chief ombudsman has reported that a number of complaints finalised by one team of adjudicators during the last six months of the year have been handled without following correct procedures. A review of approximately 300 cases is being undertaken to examine whether the outcome in each case was appropriate. Should the outcome be found to be inappropriate, action will be taken to rectify the position. The rectification review has recently begun and is expected to be completed by the end of the current financial year. At this stage it is not possible to quantify the number of cases that require attention or what costs may be incurred in rectification. For these reasons, the directors have been unable to quantify with any certainty a financial provision. These costs, if any, are expected to be paid in the current financial year.

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.

During the year, the Financial Ombudsman Service billed the Financial Services Authority a total of £nil (2003: £7,250) being charges for collection of debts assigned by the Personal Investment Authority Ombudsman Bureau in March 2002.

An amount of £26,038 was due to the Financial Services Authority at 31 March 2004 (2003: £150,264). 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 £7,500,000 at 31 March 2004 (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 (2003: none).