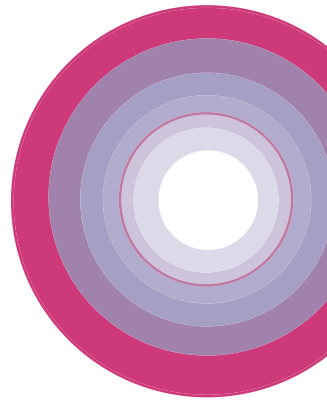


corporate plan and 2007/08 budget



this document

The Financial Ombudsman Service's year runs from 1 April to 31 March. In June each year we publish our *annual review*, which records what happened in the previous year. In January each year we publish our *corporate plan and budget*, which looks forward.

This document consults on our workload forecasts and proposed budget for the financial year 2007/08. It also provides an update on progress with our corporate plan, and our agenda for the three years from 1 April 2007 to 31 March 2010.

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responses

We invite your views on our workload forecasts and proposed budget for 2007/08, and on our corporate plan. Please send your comments by 16 February 2007 to:

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1 introduction

The Financial Ombudsman Service was established by law as a unified service for resolving disputes between consumers and businesses providing financial services – fairly, reasonably, quickly and informally. It replaces eleven stand-alone complaints-handling schemes*. Since 2000 we have:

- dealt with more than 3,000,000 enquiries;
- provided independent resolution in more than 500,000 cases; *and*
- helped reduce the sources of financial complaints by feeding back to consumers, industry and regulators the lessons learned from our work.

Each year the ombudsman service produces a budget – setting out the resources and income required for this work – for approval by the Financial Services Authority (FSA). This consultation paper consults on a draft of our budget for the 2007/08 financial year, in the context of our corporate plan for the next three years.

When the Financial Ombudsman Service was set up, about 350 staff dealt with around 25,000 cases a year at an average cost per case of more than £750. By 2005/06, following a sustained period of rapid growth in workload, about 1,000 staff dealt with around 119,000 cases at an average cost per case of less than £500.

Most financial sectors contributed to the growth in workload, which has also been affected by the widening of the ombudsman service's jurisdiction. But the most substantial factor has been a surge of disputes about mortgage endowments, which have provided more than half the new cases received to date.

In 2005/06 we received over 69,000 mortgage endowment cases, and there have been high levels of these cases so far during 2006/07. But an increasing number of mortgage endowment sales are likely to start falling outside the time limits set by the FSA for bringing complaints. So the number of new mortgage endowment cases is likely to reduce during 2007/08, although the timing and scale of this is uncertain at present.

This means that, following a period of rapid growth in workload and staff, we are currently experiencing a period of relative stability in numbers. But we face considerable uncertainty about our future workload.

A prospective fall in the number of mortgage endowment cases, balanced by a gradual reduction in staff by natural turnover, will be offset to some degree by cases from our new consumer credit jurisdiction, which opens on 6 April 2007. This will cover around 100,000 businesses with standard consumer credit licences issued by the Office of Fair Trading (OFT).

In recent years our overriding priority has been coping with the rapid growth in cases without compromising the quality of our work. Resolving our stock of cases and further improving the quality of our work will be a key priority for the coming period, but increasingly we are also planning for the longer term.

This includes ensuring that the way in which we plan and carry out our work remains effective and capable of retaining the confidence of all our stakeholders. Our stakeholders are not just the consumers and financial services businesses whose cases we handle. They also include the bodies which regulate the activities of those businesses, together with government bodies and Parliamentarians. All our stakeholders rightly expect us to deliver a modern public service with high standards.

Chapter 2 of this document summarises how our corporate plan was implemented in 2006/07. Chapter 3 outlines factors we need to take into account in updating our corporate plan for the future. Chapter 4 sets out the actions we propose to take in order to deliver this work. Chapters 5 to 8 set out the factors underlying our proposed budget for 2007/08, and the levies and case fees that will be required to fund this.

*The eleven stand-alone complaints schemes replaced by the Financial Ombudsman Service were:

2001: Banking Ombudsman scheme
2001: Building Societies Ombudsman scheme
2001: Insurance Ombudsman scheme
2001: Investment Ombudsman scheme
2001: Personal Investment Authority Ombudsman scheme
2001: Securities and Futures Authority complaints scheme
2001: Financial Services Authority complaints scheme
2001: Personal Insurance Arbitration Service
2004: Mortgage Code Arbitration scheme
2005: General Insurance Standards Council's dispute-resolution scheme
2005: Adjudicator for National Savings & Investments.

2 how we delivered our corporate plan in 2006/07

The *corporate plan* we published in January 2006 summarised our overall aims:

- to provide fair, consistent, authoritative and persuasive outcomes to complaints, and be recognised as an expert organisation in consumer dispute-resolution;
- to be demonstrably accessible and impartial, and give a good standard of customer service to consumers and to businesses providing financial services;
- to have well-trained and highly-motivated staff; be efficient, effective and flexible; and make good use of technology;
- to coordinate our work with associated regulatory and dispute-resolution bodies, so far as is consistent with our independent roles;
- to be open about our work and governance, and ensure stakeholders understand our role and have confidence in our work; *and*
- to provide a comprehensive service covering, as far as practicable, activities that consumers identify as financial.

These aims led to the adoption of a comprehensive agenda for delivery over the following three years. Things we did during 2006/07 towards delivering that agenda included:

- In close liaison with the Department of Trade and Industry (DTI) and the OFT, we prepared for the implementation of the new consumer credit jurisdiction from 6 April 2007. This included: consulting on and making rules for the new jurisdiction; communicating information about the new jurisdiction to the industry and to consumer bodies; training our staff; and adapting our business processes and IT systems.
- Jointly with the FSA, we started a review of the funding arrangements for our existing compulsory jurisdiction. Following discussions with those affected, we published a wide-ranging discussion paper. We are currently considering the responses to that, with a view to issuing a further paper on the way forward during the first half of 2007.
- We worked closely with the FSA on topics which affected both our dispute-resolution role and the FSA's regulatory role. This included operating and raising the profile of the 'wider-implications process', which was introduced by the FSA and the ombudsman service to general acclaim. It also involved assisting the FSA in its preparations for a move towards more principles-based regulation.
- Discussions were opened with firms and other stakeholders about how to increase the information we publish about our approach to cases and about outcomes – while continuing to strike an appropriate balance between responding to requests that we should say more, to enhance the predictability of our approach, and avoiding the appearance of acting as a quasi-regulator.
- We continued to review our enquiry-handling and case-handling processes and systems, and introduced improvements enhancing their user-friendliness for consumers and for businesses providing financial services in general, as well as their adaptability for different types of case. We further extended the scope and coverage of our quality assurance systems, and we updated the methods by which we survey consumer satisfaction with our services.

- Our 'smaller-businesses taskforce' coordinated a number of measures to make matters simpler for the vast majority of smaller financial services businesses which seldom deal with the ombudsman service, and which need guiding through our process when they do. These included changes in process, production of special publications and the publishing of specially-structured explanatory material on our website.
- We implemented improved systems for monitoring and evaluating management information, which have enhanced our ability to identify areas for priority attention. To help us match resources to workload in changing times, we made further improvements to our model for forecasting future work. This includes reviewing the stages at which cases are likely to be resolved and the staff numbers required to handle the work effectively.
- We extended the technical skills of our staff so that a larger proportion could deal with complaints from more than one financial sector. This included a range of training initiatives and the introduction of a skills database. To improve flexibility of resources, we used contract staff for some work that is likely to decline. Additionally, we introduced more robust, representative and business-focused arrangements for staff consultation and communication.
- We started the planning stage of a significant medium-term programme to introduce new IT and telephony systems with increased flexibility, security, resilience and scalability. And we reviewed and tested our disaster recovery and business continuity plans, to ensure they remain robust despite new and increased risks.

The year has also seen continued work on a number of initiatives aimed primarily at improving the output of our existing processes. These have included:

- targeted initiatives to speed up how we resolve longer-running cases;
- improvements in the time taken before a case is allocated to an adjudicator, in parallel with improvements to the way consumers are kept informed;
- prioritising urgent cases, while maintaining different service levels for mortgage endowment and other cases; *and*
- external liaison work designed to help reduce the causes of complaints and encourage the resolution of more complaints before they reach the ombudsman service.

This external liaison work included: answering more than 20,000 enquiries to our technical advice desk (for businesses providing financial services and for consumer advisers); speaking at more than 130 conferences and training workshops; dealing with more than 500 enquiries from Members of Parliament and over 3,500 calls from the media; and issuing more than 2,500,000 leaflets and other publications.

We have maintained close relations with other bodies which have similar public-interest responsibilities. These include the government departments and regulators most directly connected with financial services and consumer credit – principally HM Treasury, the DTI, the FSA and the OFT.

Public bodies we work closely with include other government departments and redress schemes (nationally and internationally) who look to the Financial Ombudsman Service model in designing other redress schemes. On cross-border issues within the European single market, we have maintained close contact with the European Commission – and we are represented on the steering committee which is leading the updating and extension of FIN-NET, the European network of financial dispute-resolution bodies.

3 key issues for 2007/08 and beyond

The Financial Ombudsman Service's overall priority for 2007/08 and beyond is to continue to deliver an efficient and effective service which retains the confidence of consumers, financial services businesses and all our other stakeholders in the essential role we fulfil. This chapter describes some important factors we need to take into account in planning that.

our roles

Our key roles are:

- resolving complaints – in a way that is impartial, fair, accessible, timely, informal and efficient and is free to consumers – and awarding fair redress where appropriate;
- encouraging the resolution of complaints before they reach the ombudsman service, by providing clear information about our approach; *and*
- encouraging the elimination of the sources of financial complaints, by providing clear information about the lessons that can be learned from our work.

We are part of the statutory arrangements designed to underpin public confidence in financial services. As an alternative to the civil courts, we also form part of the arrangements for the administration of justice.

a joined-up service

The background to our planning includes government policy on extending out-of-court redress schemes and public-service delivery.

As the government has extended the range of FSA-regulated activities, the FSA has correspondingly extended our compulsory jurisdiction over the businesses it regulates. As a result, the number of FSA-regulated businesses we cover has grown to around 21,000 from around 8,000 when the Financial Ombudsman Service was set up. Further extensions to FSA regulation, and to our compulsory jurisdiction, will cover FSA-regulated businesses that manage or administer personal pensions and also those offering home-reversion plans and Islamic home-purchase plans.

In 2005 Parliament legislated to enable National Savings & Investments to join our voluntary jurisdiction, in place of the previous stand-alone arrangements. And the *Consumer Credit Act 2006* gives us a new consumer credit jurisdiction covering around 100,000 OFT-licensed consumer credit businesses. This new jurisdiction will open for most consumer credit activities on 6 April 2007. This will extend the availability of out-of-court redress to new areas – involving new kinds of issues and a different range of consumers.

A range of government policies on public service delivery may have implications for the Financial Ombudsman Service. *The Hampton Review*, for example, strongly encourages public service providers to join together to deliver better services, so that economies of scale can be generated and customers can benefit from fewer and clearer points of entry for a service. And the wider agendas for public-service reform and *Modernising Government* place emphasis on increasing value for money and the sharing of common services.

Against that background, the government's proposals for further statutory redress schemes based on the Financial Ombudsman Service model – as well as its encouragement for

industry to develop other voluntary schemes – result in a greater focus on existing providers of redress schemes. We will therefore need to continue engaging constructively with those proposing and developing such schemes, to assist in the provision of independent redress.

mortgage endowment cases

As outlined in chapter 1 of this document, time-limit rules mean that the present high level of mortgage endowment cases should decline, although the timing and scale of the decline is currently uncertain. One particular uncertainty is whether there will just be a steady decline, or whether the decline will be preceded by a 'spike' of new cases, as awareness of the time limits prompts consumers, and those advising them, into action. The ombudsman service needs to be ready to deal with both eventualities.

The decline in the number of incoming mortgage endowment cases which need investigation is likely to be accompanied by a significant rise in the number of such cases where, according to the financial services business concerned, the case is out-of-time under the relevant time-limit rules made by the FSA. This is a further contingency for which we must prepare.

Where it is apparent from the outset that we cannot consider the merits of the case because of a time bar, the financial services business will not generally have to pay a case fee. But our experience indicates that, even in apparently straightforward cases, it can require considerable work before consumers accept that their claim is out-of-time and that we do not have power to look at the merits of their case. So we face the prospect of carrying out a significant amount of work for which we will not always receive case fees. This will potentially affect our cost base, and our unit cost.

In view of the surge in mortgage endowment cases, and the fact that any loss does not crystallise until the future date when the policy matures, in January 2004 we announced different service standards for mortgage endowment cases – coupled with arrangements to prioritise certain categories of cases. The continuing high volume of mortgage endowment cases means that different service levels will be necessary for a time. But, subject to the considerable uncertainty about the volume of new cases, our objective is to significantly improve the timeliness of mortgage endowment cases during the period.

claims-management companies

Consumer complaints are sometimes encouraged by those with a financial interest, such as claims-management companies. These companies have made a considerable impact in the area of mortgage endowment complaints.

Now that the number of new mortgage endowment cases appears to have peaked, we are increasingly seeing claims-management companies threatening legal challenges to the time limits set by the FSA for bringing complaints – and to how these limits are applied. At the same time, many of these companies are also seeking other financial areas in which to develop complaints business.

Perceived abuses by some claims-management companies led Parliament to legislate for the regulation of this sector – which in due course should have an effect on how these companies operate. But they are likely to remain a factor in the inflow of new cases.

economic factors

Relative stability in the economy and in the stock market has meant comparative stability in the number of investment-related cases we have received, apart from complaints about mortgage endowments.

Changes in the economic climate – such as the contingencies considered by the FSA's financial risk outlook – may affect the behaviour of consumers and financial services businesses, and so affect the scale and nature of our incoming work.

An economic upturn may, for example, encourage consumers to feel confident and borrow more, while a downturn – whether generally, or in an area such as house prices – may affect their safety margins and their propensity to complain.

Economic factors affect how businesses providing financial services handle complaints, and may also lead them to amalgamate, reorganise or go out of business.

The disruption associated with some amalgamations and reorganisations can stimulate complaints. When financial services businesses cease trading their customers may have access to the Financial Services Compensation Scheme, but the ombudsman service is often left with irrecoverable debts for unpaid case fees.

The Financial Ombudsman Service needs to ensure it has a sustainable business model that is capable of handling volatilities in case numbers and types.

resource issues

A number of issues have the potential to affect the cost of providing our service. These include:

- **staff resources:** Overall staff numbers are relatively stable after five years of constant increase. So a smaller proportion of our staff is new and at the bottom of the relevant pay scale. In combination with a turnover rate that is still relatively low, and the marginal effect on pension costs of new age-discrimination legislation, this means that staff unit-costs are likely to increase in real terms.
- **internal capability:** Likely future changes in the balance between the different types of complaint mean that we need to continue to focus on developing our staff to be broadly-skilled and flexible in the types of case they have the capability to handle. This means there is a need to retain existing knowledge and expertise through peaks and troughs in workload. Coupled with this is the need for even greater investment in the professional development and training required to share knowledge and expertise.
- **infrastructure:** We have expanded within our existing building on terms that provide reasonable flexibility should we need to contract. Our existing IT and telephony systems were 'leading-edge' and have enabled us to expand and adapt. But, like all systems, they have a limited life. We need to invest in their replacement if we are to deliver a service that continues to meet rising expectations.

Such factors have the potential to affect significantly both our cost base and the value-for-money of our service. Our corporate plan needs to include a range of initiatives that will take these factors into account while also reducing other costs where practicable.

4 actions we will take in 2007/08 and beyond

Taking into account the factors outlined in the previous chapter, we propose a range of actions for the three years from 1 April 2007 to 31 March 2010. These include continuing many, and updating some, of the work streams described in the *corporate plan* published in January 2006.

The required actions fall largely into four broad themes: processes and systems; flexible resources; accountability; and serving justice. The actions will be delivered by a range of work both in 2007/08 and in the following two years.

processes and systems

Our objective is continuous improvement of our processes and systems, so that they remain capable of delivering a cost-effective redress service which meets ever-rising expectations.

The secure foundations provided by our original business processes and infrastructure helped us cope effectively with a rapidly increasing workload and a constantly changing mix of complaint types. But such processes and systems require regular evaluation and re-engineering if they are to remain capable of delivering a service that meets increasing expectations, while remaining cost-effective.

So we will undertake a range of actions to review and renew the effectiveness and efficiency of the processes we use to handle the enquiries and cases we receive, and the systems and infrastructure that underpin these processes.

We will continue to review and improve our enquiry-handling, case-handling and quality-assurance processes – in order to deliver an increasingly user-friendly, cost-effective and timely service, with quality outcomes for consumers and for businesses providing financial services.

In doing so, we will enhance the adaptability of our processes to a changing mix of complaint types. This will include exploring whether the most effective outcomes are likely to be delivered by solutions specifically tailored to some particular types of case or user. This work will build on initiatives already undertaken in relation to (for example) mortgage endowment cases, split-capital investment trust cases and cases involving those financial services businesses which seldom use the ombudsman service.

And we will proceed to the next phases of our medium-term programme for introducing new IT and telephony systems that will enhance flexibility and resilience. This includes extending document-imaging, so that we can continue our work even if an emergency prevents access to our files, and further protection against constantly developing external threats to the security of IT systems.

The new systems will be scalable in order to deal with fluctuations in volumes, and provide greater flexibility to cope with a widening range of activities. We aim to deliver the medium-term advances incrementally, without any adverse effect on current operations.

flexible resources

Our objective is to manage staff and other resources so as to provide an efficient and effective service, irrespective of future fluctuations in numbers and types of cases.

Uncertainties about short-term and longer-term fluctuations in workload, coupled with a need to contain costs, require us to: maintain maximum flexibility of resources; allocate those resources according to the particular priorities of the time; examine costs, and reduce them where practicable.

Our policies for recruiting and retaining staff will be kept under review. Appropriate budgetary provision will be required to ensure we remain competitive as an employer and can retain skilled and knowledgeable staff.

Building on the foundation of our recently-launched skills database, we will continue to enhance our systems for developing and training our staff. This will ensure we can retain the knowledge and expertise that our staff have built up, and enhance the ways in which we share and add to that knowledge. As the total number of staff declines through natural turnover, our aim is to increase flexibility through further increases in the proportion of staff possessing the technical skills to handle cases from more than one financial sector.

We will continue to develop our systems for: predicting future workloads; identifying trends; prioritising allocation of resources; and assuring the quality of the output. We aim to improve our service standards for most types of case, while maintaining, in the short term, a different set of service standards for mortgage endowment cases.

In due course, we will launch a study to consider what changes are likely in the world around us – both within the period to 2010 and beyond – including: general working and communication methods; the expectations of those who use our service; the profile of businesses providing financial services; the social profile of consumers; and the role of third parties such as claims-management companies.

These changes are likely to affect: the expectations of our users; the types of disputes we will be required to handle; and the working conditions we will need to offer in order to retain and recruit quality staff.

accountability

Our objective is to enhance dialogue with our stakeholders so that we remain responsive to their needs and to the public interest, while continuing to provide an impartial service.

It is fundamental that we remain independent and impartial in deciding cases. But it is also important to maintain dialogue with firms, consumers and other stakeholders in order to provide our service in a way that meets reasonable expectations.

The range of options for the future funding of our compulsory jurisdiction has been helpfully narrowed by the responses to a wide-ranging discussion paper on this topic, issued jointly by the ombudsman service and the FSA. Further work is required to analyse how these options would operate in various possible scenarios.

To allow sufficient time to complete this – and taking into account both associated system changes and the need to give FSA-regulated businesses ample advance notice – it will not be possible straight away to introduce significant changes in the way we are funded. So, later on in this document, we consult on our budget for 2007/08 in the usual way.

In the first half of 2007 the ombudsman service and the FSA aim to build on the responses to the discussion paper by producing a further paper – on the way forward. This will also have implications for the voluntary jurisdiction of the ombudsman service.

We will continue to work closely with the FSA as it moves towards implementing regulation that is more principles-based. And we will continue to explore ways of enhancing the predictability of our approach, through the information we publish about cases and outcomes in ways that are consistent with this more principles-based approach.

We will continue our regular consumer-satisfaction surveys, and support them with focused research on our accessibility to consumers. Other research will include a comprehensive rolling programme of quarterly reviews, to seek objective feedback from all types of financial services businesses, and a review of our existing liaison arrangements with different industry sectors.

In addition, we need to ensure that our service contributes to the wider public good, by helping to reduce the causes of complaints and to increase the resolution of complaints before they reach the ombudsman service. This work is underpinned by our range of external liaison activities.

As our 'smaller-businesses taskforce' concludes its work, we will establish a new 'accessibility taskforce'. This will review the accessibility and availability of our service to all consumers of financial services, whoever they are and whatever their backgrounds. It will take into account, among other things, the extension of our role into new areas of consumer credit with a different customer base.

As a public-service organisation, we have already committed ourselves to external scrutiny through a three-yearly independent review. The last review was in 2004, so we have started to prepare for a further external review during 2007. The external review will have two themes:

- It will help to inform the work of our 'accessibility taskforce' – by considering, from an external perspective, whether the ombudsman service ought to do more in order to be visible and accessible to those it is designed to serve.
- It will also consider whether the ombudsman service is making the most effective use of the information and experience derived from its dispute-resolution work, in order to add value for the benefit of industry, consumers and regulators.

serving justice

Our objective is to help secure wider public benefits by using our expertise and resources to help enhance and extend accessible and effective dispute-resolution.

As previously mentioned, the scope of the ombudsman service has been extended on a number of occasions, and further extensions are in prospect. We have replaced eleven stand-alone complaints-handling bodies with a single independent ombudsman service. Our remit has also been extended to sectors where there were previously no independent dispute-resolution bodies.

During 2007/08 we will start providing an independent dispute-resolution service for complaints involving:

- advice on self-invested personal pensions;
- sale and administration of home-reversion plans and Islamic home-purchase plans; *and*
- most significantly, a wide range of consumer credit activities.

For some years we have covered complaints about loans and credit cards provided by FSA-regulated businesses. 2007/08 will see us covering complaints about loans and credit cards provided by other businesses. We will also cover complaints about a range of businesses including store-card providers, hire companies, credit brokers, debt-adjusters, debt-counsellors, debt-collectors and credit reference agencies.

During 2008/09, when the scope of consumer-credit licensing is extended, our remit is likely to be widened again to cover complaints about both debt administration and credit information services.

The activities for which new redress schemes are proposed, and the way in which such schemes are delivered, are constantly developing. Some areas associated with financial services remain under review. And the government plans to introduce or encourage redress schemes in other areas. For example, its proposals for a statutory scheme for complaints about legal services in England and Wales are based on the Financial Ombudsman Service model. And these proposals are paralleled by the Scottish Executive's intention to produce a similar scheme for complaints about legal services in Scotland.

Those involved in developing schemes such as these have already spent considerable time with us, investigating our processes and experience. We will need to continue to engage constructively with them, while maintaining our focus on existing work.

Nationally, we will continue to cooperate with our colleagues in the British and Irish Ombudsman Association. In Europe, we will continue to work with the European Commission and with our colleagues in the steering committee of FIN-NET, to provide a comprehensive network of redress for cross-border financial disputes in the developing European single-market.

5 overview of budget

Chapters 5 to 8 report on our performance during 2006/07 and consult on our workload forecasts, proposed expenditure and funding for 2007/08.

2006/07

In the current year, the numbers of new complaints referred to us are expected to be in line with the budget on which we consulted in January 2005.

The number of cases we resolve and close is likely to be 7% below budget, because we capped the number of adjudicators in post earlier than planned – to reflect updated projections of the fall in incoming work for future years.

2007/08

We are entering a period of uncertainty, where we will need to carefully monitor the pattern and timing of an anticipated decrease in new cases. We face the dual challenge of continuing to handle historically high numbers of cases in progress, while at the same time gradually matching our resources to a declining intake of new cases.

In addition, we expect to receive a large number of time-barred mortgage endowment complaints for which, in many cases, we will not receive case fees – even though the associated work must still be funded. This produces a distorting effect in our plans, and makes it difficult to present figures comparable to those we have presented in past years.

As the volume of new cases declines, we intend to reduce the high number of cases in progress by closing more cases than we receive. The cost of the staff required to do this means that our expenditure for 2007/08 will increase by about 3% compared to our forecast for 2006/07, but it will fall by 3% compared to our budget for 2006/07. We anticipate a managed reduction in staff through natural turnover, and we will continue to review, on an individual basis, whether to fill vacancies that arise.

We have held the case fee at £360 for four years. For 2007/08 we propose to increase this to £400. The alternative would have been a disproportionate rise in the annual levy, resulting in the levy providing about 40% of income. That would be out of line with the preference for a greater proportion of our income coming from case fees, as expressed in response to the discussion paper on the funding of our compulsory jurisdiction.

6 2006/07 forecast

This chapter deals with the current year, 2006/07.

new cases

Our budget for 2006/07 assumed that we would receive 105,000 new cases – a 7% decrease from the previous year. A decrease in the number of new mortgage endowment cases (which still remain at a high level) has been largely offset by an increase in banking cases and, to a lesser extent, insurance cases.

We forecast that by 31 March 2007 we will have received 60,000 new mortgage endowment cases and 45,000 new cases of other types, in line with the budget total of 105,000.

cases resolved

Our budget for 2006/07 assumed that we would resolve and close 125,000 cases. Our current forecast is that we will close about 116,000 cases – reflecting a mid-year reduction in target of 9,000.

This results from a decision not to recruit as many adjudicators as originally planned, in the light of our latest forecasts of the decline in future workload. Any further adjudicators we took on would probably become surplus to requirements soon after becoming fully productive.

productivity

Our budget for 2006/07 assumed that productivity would fall marginally, to reflect an increase in the proportion of more complex cases which are vigorously contested by the parties involved. Our current forecast is that productivity will fall slightly more than anticipated.

timeliness

Timeliness figures – which are based on the age of cases when closed – are expected to be in line with our budget for 2006/07. The target is likely to be met, even though we have focused on closing the older cases.

unit cost

Our budget for 2006/07 assumed that our unit cost (total costs, less financing, divided by the number of cases closures) would be £472. Our current forecast is marginally higher at £477, reflecting the revised figure for the number of cases we now expect to resolve and close.

	actual 12 months 2005/06	actual 9 months 2006/07	forecast 12 months 2006/07	budget 12 months 2006/07
opening work-in-progress				
mortgage endowment cases	49,608	48,000	48,000	47,924
other cases	22,701	17,800	17,800	17,832
total	72,309	65,800	65,800	65,756
new cases				
mortgage endowment cases	69,149	38,192	60,000	60,000
other cases	43,774	34,444	45,000	45,000
total	112,923	72,636	105,000	105,000
cases resolved				
mortgage endowment cases	70,757	48,515	68,500	76,000
other cases	48,675	34,654	47,300	49,000
total	119,432	83,169	115,800	125,000
closing work-in-progress				
mortgage endowment cases	48,000	37,677	39,500	31,924
other cases	17,800	17,590	15,500	13,832
total	65,800	55,267	55,000	45,756
work in hand (weeks)				
mortgage endowment cases	32.5	27.5	30.0	22.5
other cases	20.3	20.0	17.0	14.2
total	28.4	24.8	24.7	19.2
productivity				
mortgage endowment cases	5.6	4.7	5.1	5.2
other cases	3.5	3.5	3.5	3.5
total	4.5	4.1	4.3	4.4
% closed within 6 months				
mortgage endowment cases	45%	46%	45%	45%
other cases	74%	81%	80%	80%
total	59%	60%	60%	60%
unit cost	433	n/a	477	472

'opening work-in-progress' means the number of cases open at the beginning of the year
'closing work-in-progress' means the number of cases open at the end of the year

7 complaint trends

enquiries

Enquiries to our 'front-line' customer contact division, by telephone and in writing, have been reducing during the year.

	actual 2005/06	budget 2006/07	forecast 2006/07	budget 2007/08
phone calls to our enquiry line	359,131	370,000	320,000	290,000
written enquiries	313,842	320,000	270,000	240,000
total	672,973	690,000	590,000	530,000

Our customer contact division is resolving an average of 160 complaints per week that would otherwise have gone on to be 'full-blown' cases and incurred a case fee.

new cases

The total number of new cases is beginning to fall and this is expected to continue through 2007/08. This reduction is mainly due to mortgage endowment complaints becoming time-barred.

	actual 2005/06	budget 2006/07	forecast 2006/07	budget 2007/08
types of complaint				
endowments linked to mortgages	69,149	60,000	60,000	32,000
pensions	4,053	4,000	4,000	4,000
single premium investment bonds	4,541	3,500	4,000	3,500
other investments	7,201	7,000	7,000	6,500
banking and loans	11,082	10,500	12,000	13,000
mortgages	3,942	4,000	4,500	4,500
insurance	12,955	13,500	13,500	14,500
consumer credit	0	0	0	2,000
contingency		2,500		
total	112,923	105,000	105,000	80,000

As explained previously, because of the nature and scale of the complaints received about mortgage endowments, we treat them as a separate category and set different service levels for them.

mortgage endowment cases

We have assumed that the number of new cases about mortgage endowments will reduce significantly in 2007/08, mainly as a result of the time limits set by the FSA for bringing complaints. There are considerable uncertainties about the future pattern of these cases.

We expect to reach a point when an increasing number of disputes about time bars will overtake a reducing number of disputes about the merits of cases – but it is not possible to predict when, or how quickly, this will happen.

It is unclear how many cases where there is a dispute about time bars will result in the firm having to pay a case fee. As we have explained in *ombudsman news*, our regular newsletter, if it is apparent (with full evidence) that the complaint is time-barred at the time we receive it, no case fee will generally be payable. Our working assumption is that we will receive approximately 12,000 such time-barred mortgage endowment complaints in 2007/08.

These 12,000 or so complaints will represent a substantial block of work to be processed. However, for budget purposes they will not be recorded as 'closed cases' but will instead be treated as non-chargeable 'enquiries'. This is consistent with the way in which we usually record complaints that are resolved in our customer contact division. It is also consistent with the presentation of budget figures for previous years.

Excluding these 12,000 complaints, we expect the number of new mortgage endowment cases to fall from about 60,000 in 2006/07 to about 32,000 in 2007/08. We plan to close 54,000 mortgage endowment cases, though the rate at which we resolve and close these cases will slow over the year as the number of adjudicators reduces. Over the year, we expect the number of mortgage endowment cases in progress to more than halve – from about 40,000 in April 2007 to about 18,000 by March 2008.

other cases

We are assuming an increase in banking complaints – partly as a result of the media focus on disputes about bank charges – and a smaller increase in general insurance complaints. We expect investment complaints to continue at the current level while market conditions remain broadly favourable.

Our new consumer credit jurisdiction comes into force in April 2007. But it will relate only to complaints about events after that date, so we expect only about 2,000 cases in the first year. Overall, we expect the number of new cases, other than mortgage endowment cases, to rise to 48,000 in 2007/08.

We aim to close 52,500 cases (compared to 47,300 this year), with an improvement in both productivity and timeliness. For example, by the end of the budget year we aim to be closing half of the cases within 3 months.

workload plans

	actual 2005/06	forecast 2006/07	budget 2007/08
opening work-in-progress			
mortgage endowment cases	49,608	48,000	39,500
other cases	22,701	17,800	15,500
total	72,309	65,800	55,000
new cases			
mortgage endowment cases	69,149	60,000	32,000
other cases	43,774	45,000	48,000
total	112,923	105,000	80,000
cases resolved			
mortgage endowment cases	70,757	68,500	54,000
other cases	48,675	47,300	52,500
total	119,432	115,800	106,500
closing work-in-progress			
mortgage endowment cases	48,000	39,500	17,500
other cases	17,800	15,500	11,000
total	65,800	55,000	28,500
work in hand (weeks)			
mortgage endowment cases	32.5	30.0	18.1
other cases	20.3	17.0	11.6
total	28.4	24.7	14.9
productivity			
mortgage endowment cases	5.6	5.1	4.7
other cases	3.5	3.5	4.0
total	4.5	4.3	4.3
% closed within 3 months			
mortgage endowment cases	20%	20%	20%
other cases	43%	50%	50%
total	32%	35%	35%
% closed within 6 months			
mortgage endowment cases	45%	45%	45%
other cases	74%	80%	80%
total	59%	60%	60%
% closed within 9 months			
mortgage endowment cases	65%	70%	70%
other cases	84%	85%	85%
total	75%	75%	75%
% closed within 12 months			
mortgage endowment cases	80%	80%	80%
other cases	89%	90%	90%
total	85%	85%	85%

8 2007/08 budget and case fees

income and expenditure

For 2007/08 we are proposing a balanced budget, with income and expenditure of £57.3 million. We also expect to incur £1.5 million capital expenditure on the continued development of our casework system and on replacing our telephone system (which is becoming difficult to support and maintain).

Out of our total income and expenditure:

- 97.5% relates to our compulsory jurisdiction
- 2.1% relates to our consumer credit jurisdiction
- 0.4% relates to our voluntary jurisdiction.

	actual 2005/06 £m	budget 2006/07 £m	forecast 2006/07 £m	budget 2007/08 £m
income				
levy	11.7	15.8	16.5	19.4
case fees	39.7	43.3	38.2	37.9
other income	0.0	0.2	0.0	0.0
total	51.4	59.3	54.7	57.3
expenditure				
staff and staff-related costs	40.4	46.0	43.0	43.6
professional fees	0.5	0.6	0.7	0.8
IT costs	1.6	2.2	2.2	2.3
premises and facilities	5.6	6.2	6.1	6.4
other costs	0.7	0.7	0.6	0.7
depreciation	2.9	3.3	2.7	3.2
operating costs	51.7	59.0	55.3	57.0
financing costs	0.3	0.3	0.3	0.3
total costs	52.0	59.3	55.6	57.3
surplus (deficit)	(0.6)	0.0	(0.9)	0.0
cases resolved	119,432	125,000	115,800	106,500
unit cost	£433	£472	£477	£535

Our income forecast for 2006/07 is £4.6 million below budget, resulting from the decision to cap the number of adjudicators in post, which affected the number of cases resolved and closed. But the deficit of £0.9 million for 2006/07 will be financed from reserves, and so will not have to be recovered in 2007/08.

Our expenditure budget for 2007/08 is 3% lower than our expenditure budget for 2006/07; but it is 3% higher than our forecast for the actual spend in 2006/07 – mainly because of increases in pension costs (resulting from age-discrimination legislation), higher property-related costs, and depreciation relating to the proposed capital expenditure.

unit cost

In previous *annual reviews* we warned that our unit cost would rise when the number of mortgage endowment cases fell. This is partly because of differences in relative productivity and partly because fixed costs must be spread over a falling number of cases overall. We are now seeing the effect of this, as predicted.

Our unit cost for 2007/08 will rise significantly to £535, from a forecast of £477 (and a budget £472) in the current year. Our last three *annual reviews* have drawn attention to the fact that our unit cost had reached an unsustainably low level. But we do not see it returning to the level of more than £750 which it was in 2001 when the Financial Ombudsman Service was set up.

staff

For 2007/08 we have budgeted for a reduced headcount of 853.

	actual 2005/06	budget 2006/07	forecast 2006/07	budget 2007/08
casework divisions and ombudsmen	746	780	748	630
customer contact division	102	106	101	101
external liaison and publications	20	21	20	20
knowledge, information and policy	20	22	21	21
service quality	20	21	20	20
support services	58	65	61	61
total	966	1,015	971	853

As previously mentioned, we have stopped automatically replacing staff who leave, and we plan to have reduced our staff numbers to 853 by March 2008, as a result of natural turnover.

case fees for 2007/08

Firms covered by our compulsory jurisdiction currently pay no case fee for the first two cases against them that are resolved and closed each year. After that, firms pay a standard case fee of £360, or a special case fee of £475. The special case fee applies to a small minority of cases – mainly where the complaint is from a small business.

A large majority of the respondents to the discussion paper on the funding of our compulsory jurisdiction favoured removing the concept of a higher special case fee. Accordingly we propose to set the special case fee for 2007/08 at the same level as the standard case fee.

Businesses covered by our voluntary jurisdiction also currently pay no case fee for the first two cases closed each year. Similarly, businesses which will be covered by our new consumer credit jurisdiction from April 2007 will pay no case fee for the first two cases closed each year.

In all three jurisdictions, we propose to set the case fees in 2007/08 at £400 for all cases closed from 1 April 2007, and we will continue to charge the case fee only for the third and subsequent cases closed each year. We expect to resolve and close 106,500 cases and (after allowing for the two 'free' cases) to charge case fees totalling £37.9m. This would provide 66% of our gross income – compared with a forecast of 70% in 2006/07.

annual levy for 2007/08

The remainder of our expenditure – £19.4 m (£15.8m in 2006/07) – would be raised through the 2007/08 annual levy. This is an increase of £2.4 million for our existing jurisdictions, after allowing for the new levy for our new consumer credit jurisdiction.

compulsory jurisdiction levy

Based on our current funding model, the reduction in the number of case fees payable puts greater pressure on the annual levy. In addition, the costs related to the considerable work in handling non-chargeable mortgage endowment disputes involving time-bar issues will have to be recovered. However, it has been possible to allocate these costs to the industry fee blocks associated with mortgage endowments.

The FSA will consult separately on the levy payable by firms in the compulsory jurisdiction. The method of allocating the total levy amongst firms was consulted on in the FSA's consultation paper CP74. Broadly, it involves two stages:

- The total levy is divided among the industry fee blocks (based on activities) according to the number of case-handling staff we expect that we will need to deal with cases relating to each sector.
- The levy for each fee block is then divided among the firms in that block, according to a tariff rate (relevant to that sector) which is intended to reflect the scale of each firm's business.

Although the total levy has increased, the effect of this on firms in different fee blocks varies. That is because the levy depends on the number of cases expected from firms in that fee block. In any event, we estimate that about 85% of firms will pay only the minimum fee for their fee block.

Subject to consultation, typical levies in the compulsory jurisdiction are likely to be:

firm	2005/6 gross levy £	2005/6 net levy £	2006/07 gross levy £	2007/08 estimate £
bank or building society with 2 million relevant accounts	9,053	7,550	11,630	18,000
general insurer with £100 million of relevant gross premium income	8,100	5,200	5,500	6,500
life office with £200 million of relevant adjusted gross premium income	18,600	22,000	24,800	28,400
an investment adviser that holds client money and has 50 relevant approved persons	3,250	5,250	8,000	7,500
three-partner firm of independent financial advisers that does not hold client money	90	90	135	150
mortgage or insurance intermediary firm	50	50	50	50

The 2005/6 net levy represents the 2005/6 gross levy less refund of a £1.7 million surplus.

consumer credit jurisdiction levy

The levy payable by individual businesses which take out or renew licences during 2007/08 is set by the Office of Fair Trading.

voluntary jurisdiction levy

The 2007/08 rates of levy proposed for VJ participants are set out in annex D.

A compulsory jurisdiction – provisional levy 2007/08

These are provisional figures which are expected to form part of a separate consultation by the FSA in January 2007.

industry block	description	tariff basis	proposed tariff rate	2006/07 tariff rate	proposed minimum levy per firm £	proposed total	2006/07 total	proposed contributions by block %	contribution by block % 2006/07
1	deposit acceptors, mortgage lenders and administrators (excluding firms in block 14)	per relevant account	0.009	0.0059	100	£2,516,241	£1,579,296	13.8%	10.0%
2	firms that undertake insurance activities subject to prudential regulation only (excluding firms in blocks 13 & 15)	per £1000 of relevant annual gross premium income	0.065	0.055	100	£1,646,764	£1,403,530	9.0%	8.9%
3	Society of Lloyd's		n/a	n/a	n/a	£28,000	£28,000	0.1%	0.2%
4	firms that undertake insurance activities subject to both prudential and conduct of business regulation (long term life insurers) (excluding firms in block 15)	per £1000 of relevant adjusted annual gross premium income	0.142	0.124	100	£7,075,924	£5,596,540	38.7%	35.5%
5	fund managers (including those holding client money/assets and not holding client money/assets)	per £1000 relevant funds under management	0.0005	0.0007	100	£356,881	£495,325	2.0%	3.1%
6	operators, trustees and depositaries of collective investment schemes	flat fee	0	0	75	£16,750	£36,225	0.1%	0.2%
7	dealers as principal	flat fee	0	0	50	£13,850	£25,500	0.1%	0.1%
8	advisory arrangers, dealers or brokers holding and controlling client money and/or assets	per relevant approved person	150	160	150	£3,822,600	£3,982,800	20.9%	25.3%
9	advisory arrangers, dealers or brokers not holding and controlling client money and/or assets	per relevant approved person	50	45	50	£1,503,000	£1,267,300	8.2%	8.0%
10	corporate finance advisors	flat fee	0	0	50	£26,000	£50,500	0.1%	0.3%
13	cash plan health providers	flat fee	0	0	50	£600	£850	0.0%	0.0%
14	credit unions	flat fee	0	0	50	£27,550	£28,100	0.2%	0.2%
15	friendly societies whose tax exempt business represents 95% or more of their total relevant business	flat fee	0	0	50	£4,550	£7,200	0.0%	0.0%
16	mortgage lenders, advisers and arrangers	flat fee	0	0	50	£367,250	£365,600	2.0%	2.3%
17	general insurance mediation	flat fee	0	0	50	£873,900	£937,300	4.8%	5.9%
	total – all blocks					£18,279,860	£15,804,066		

B compulsory jurisdiction – case fees 2007/08

compulsory jurisdiction – case fee table		
case fee		
standard case fee	£400	(for the third chargeable case and any subsequent chargeable case in this financial year – 2007/08)
special case fee	£400	(for the third chargeable case and any subsequent chargeable case in this financial year – 2007/08)

The definitions of *standard case fee* and *special case fee* are in FEES 5.5 in the *FSA Handbook*.

The definition of *chargeable case* is in the Glossary to the *FSA Handbook*.

C consumer credit jurisdiction – case fees 2007/08

consumer credit jurisdiction – case fee table		
case fee		
standard case fee	£400	(for the third chargeable case and any subsequent chargeable case in this financial year – 2007/08)
special case fee	£400	(for the third chargeable case and any subsequent chargeable case in this financial year – 2007/08)

The definitions of *standard case fee* and *special case fee* are in FEES 5.5 in the *FSA Handbook*.

The definition of *chargeable case* is in the Glossary to the *FSA Handbook*.

D voluntary jurisdiction – levy and case fees 2007/08

voluntary jurisdiction – general levy tariff and case fee table				
industry block and business activity	tariff basis	tariff rate	minimum levy	*case Fee
1V deposit acceptors, mortgage lenders and administrators, including debit/credit/charge card issuers	number of relevant accounts	0.009	£100	£400
2V <i>VJ participants</i> undertaking insurance activities subject only to prudential regulation	per £1,000 of relevant annual gross premium income	0.065	£100	£400
3V <i>VJ participants</i> undertaking insurance activities subject to prudential and conduct of business regulation	per £1,000 of relevant adjusted annual gross premium income	0.142	£100	£400
6V intermediaries	not applicable	not applicable	£50	£400
8V National Savings & Investments	not applicable	not applicable	£10,000	£400
9V Persons not covered by 1V to 8V undertaking activities which would be <i>consumer credit activities</i> if they were carried on from an establishment in the <i>United Kingdom</i>	not applicable	not applicable	£100	£400

*** note on case fees:** As in the compulsory jurisdiction, *VJ participants* will be charged for the third and subsequent chargeable case in this financial year – 2007/08