

# Resource Accounts 2007-08



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Session 2007-08

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# Annual Report to the accounts for the year ended 31 March 2008

## Introduction

The Parliamentary Commissioner for Administration (PCA), otherwise known as the Parliamentary Ombudsman, is an independent office-holder appointed by the Crown under the Parliamentary Commissioner Act 1967 to investigate complaints about government departments, their agencies and some other public bodies in the UK. The Parliamentary Ombudsman is wholly independent of Government.

The Parliamentary Ombudsman is also currently appointed as the Health Service Commissioner for England (HSCE), an independent office-holder appointed by the Crown under the Health Service Commissioners Act 1993. The HSCE, otherwise known as the Health Service Ombudsman, is responsible for investigating complaints against NHS services provided by hospitals, health authorities, trusts, general practitioners, dentists, pharmacists, opticians and other healthcare practitioners. The Health Service Ombudsman can also investigate complaints against private health providers if treatment was funded by the NHS.

The Office of the Parliamentary Commissioner for Administration and the Health Service Commissioner for England, now known generally as the Office of the Parliamentary and Health Service Ombudsman (PHSO), exists to support the work of the Ombudsman. These accounts cover the resources and activities of PHSO.

## Role, aims and objectives

### Our role

The role of PHSO is to provide a service to the public by undertaking independent investigations into complaints that government departments, their agencies and some other public bodies in the UK, and the National Health Service in England have not acted properly or fairly, or have provided a poor service.

### Our aims and objectives

During the financial year PHSO had two strategic aims, each supported by three objectives:

Aim: to deliver a high quality complaint handling service to customers, the objectives for which are:

- to deliver a high quality service based on understanding our customers' needs and making our service accessible to all who need it;
- to maintain a high quality service by anticipating the impact of changes in customers' needs and public service policy, and developing our capacity to respond; and
- to operate a high quality service by developing high performing staff and getting the best from our resources.

Aim: to contribute to improvements in public service delivery by being an influential organisation, sharing our knowledge and expertise, the objectives for which are:

- to establish a distinct and recognised role in the administrative justice landscape and regulatory environment;
- to be recognised and utilised by others as a source of expertise in good administration and complaint handling; and
- to be an authoritative voice on delivering systemic change, actively sought out by others.

### **Principal activities**

The principal activities of PHSO covered by these accounts were:

- investigation of complaints from members of the public, referred to the Parliamentary Ombudsman by Members of the House of Commons about maladministration in government departments, their agencies and some other public bodies in the UK; and
- investigation of complaints against NHS services provided by hospitals, health authorities, trusts, general practitioners, dentists, pharmacists, opticians and other healthcare professionals.

## Management commentary for 2007-08

The achievements of the past year are set out in PHSO's combined statutory annual report for 2007-08, which will be laid before Parliament on 6 October 2008. The report will be available from The Stationery Office or by downloading from PHSO's website ([www.ombudsman.org.uk](http://www.ombudsman.org.uk)).

During 2007-08 we undertook a major restructuring programme focused on enabling us to move closer towards achieving our strategic aims and objectives. Central to the new structure, completed in the late autumn of 2007, was a recognition of both the individual benefit that we provide to complainants through our core business of investigating complaints, and the wider public benefit which stems from the effective use of our evidence base and our expertise in good administration and good complaint handling to drive improvements in public service delivery and to inform public policy. This thinking was at the heart of the publication in March 2007 of our *Principles of Good Administration* and in October 2007 of our *Principles for Remedy*. This Framework of Principles, along with an enhanced understanding of the importance of human rights in our work, enables us to set out clearly what the Ombudsman expects of public bodies, and indeed the tests which we apply to our own work.

### Our workload and performance: facts and figures

Being accountable for our performance against the plans and targets we have set ourselves is important to us. Overall, we made big strides during the year on a number of our priorities, for example in implementing changes required to improve our services for the future, which dominated the year; and commencing key programmes of work around knowledge management and outreach. However, in others, such as some of our operational service standards and targets, we have not achieved what we set out to deliver. This was due to a range of issues and developments during the year that we have addressed. Lessons learnt have been taken on board and steps taken to ensure that we continue to make the service improvements achieved in previous years.

Our 2007-08 Corporate Business Plan identified six key corporate priorities for the year. These were:

- achieving our service standards and improving outcomes for complainants;
- developing and using management information to improve performance;
- getting the most from staff, systems and financial resources;
- managing change;
- capturing, organising and sharing our knowledge; and
- developing our external relations, influence and impact.

## Achieving our service standards and improving outcomes for complainants

### *Enquiries we received*

During the year we received 12,532 enquiries against a planning assumption of 16,000. Enquiries to PHSO can be initiated by telephone, email or in writing and our response time is monitored as part of our performance reporting framework. Both our service standards for acknowledging email and written enquiries (100% in 1 day and 2 days respectively) were met.

Of the enquiries received, 6,964 related to parliamentary bodies, 4,011 were about health and 1,557 were about bodies outside our jurisdiction.

### *How enquiries were closed*

In line with the new robust assessment processes introduced in 2006-07, enquiry cases are closed following decisions on whether we can accept the complaint for investigation (that is, if it is within our jurisdiction); and, if we can, whether we should, through assessment of:

- whether the body complained about has had a proper opportunity to resolve it;
- whether there is evidence of maladministration leading to an unremedied injustice; and
- whether there is a reasonable prospect of a worthwhile outcome to an investigation.

In some instances it may be possible to resolve cases through intervention short of an investigation by working with the relevant parties to the complaint and we will do this wherever possible.

During the year, we:

- closed 11,698 enquiries (assumption 16,000);
- closed 3,551 of these after further detailed assessment of whether the complaint should be accepted for investigation (assumption 5,000);
- ended the year with 1,316 enquiries in hand (forecast at or around 750); and
- had a further 191 enquiries in hand which had been referred back to complainants for further information.

Looking at our planning assumptions, the shortfall in cases closed and the increase in cases in hand was partly due to the reduction in enquiries received and partly to other factors, such as productivity and resourcing issues which are now being addressed. As a result of this, only 76% of enquiries were closed within 40 days against our service standard target of 90%.

Overall, 76% of enquiries were either not properly made (that is, cases which have not been put to PHSO in writing or, in parliamentary cases, have not been referred by an MP), or premature or were about a body that was outside our jurisdiction. That is a cause of concern for us and we have recently implemented a 'Pathway' approach on our website

which will make it easier for people to know whether PHSO is the right place for them to bring their complaints, and the right time to do so.

### ***Investigations we carried out***

During the year we:

- accepted 951 cases for investigation (assumption 1,400);
- completed 959 investigations (assumption 1,400);
- ended the year with 618 investigations in hand at 31 March 2008 (forecast aim at or around 620); and
- had 73 cases over 12 months old at 31 March 2008 (target 60).

The shortfalls in investigations accepted and completed compared to our planning assumptions were partly due to the full year impact of the more robust processes introduced last year for acceptance of cases for investigation; and partly because of the reduced number of closed enquiries. However, the number of cases remaining in hand at the end of the year was almost the same as in 2006-07 (617).

While we did not achieve the further improvements we wanted to make to reduce further the number of old cases in hand (to 60), we have sustained the significant reduction made last year (from 243 to 73) which had previously been a significant drag on our overall performance. We will maintain a close watch on the number of old cases.

On our customer service standard for investigations:

- overall, we improved completion of cases within 6 months from 43% in 2006-07 to 45% but remained short of our target of 55%, reflecting the increasing complexity of cases taken on for investigation; and
- we also improved overall performance against our standard for completion at 12 months from 79% to 87%, exceeding our target of 85%.

### ***Outcomes of our investigations***

Overall during the year we fully upheld 37% of complaints investigated (34% in 2006-07); partly upheld 18% (28%); and did not uphold the remaining 45% (38%). The picture is quite different for parliamentary and health investigations; we upheld the complaint in full or in part in 68% of parliamentary investigations, in health investigations we upheld the complaint in full or in part in 49% of cases.

### ***Compliance with recommendations***

Over 99% of the recommendations we made during the year have been accepted or are currently being considered by the body or practitioner complained about.

The majority of recommendations in our parliamentary investigations were for financial compensation for inconvenience or distress, underlining an apology. Others included financial compensation for loss, or some action to remedy the failure identified.

The majority of recommendations in our health investigations focused on an apology or reconsideration of the decision. Others included action to remedy the failure identified, or some action to prevent a recurrence (for example, a review of or changes to procedures, or staff training). Financial remedies have also featured, for example as compensation for direct financial loss or in recognition of the distress and inconvenience caused by poor complaint handling.

### ***Requests to us for information***

During the year we received 207 requests for information under the Freedom of Information Act and Data Protection Act (over 250 were received in 2006-07) and we closed 262. We reported last year that due to the volume of requests and specific difficulties with responding to many of these (due to the special legislative position of the Ombudsman), we did not always meet the statutory timescales for responding to requests. In 2007-08 we addressed this issue and significantly reduced both the volume of cases in hand to 13 and the time taken to reply with 52% being resolved within the relevant time limit.

### ***Complaints about us***

As a measure of the performance of our own service, over the year we:

- received 773 complaints about us (significantly down from 1,219 in 2006-07);
- resolved 964; and
- ended the year with 99 in hand (296 in 2006-07), exceeding our target of having no more than 120 in hand at 31 March 2008.

Since 1 January 2008 all complaints about us have been handled within a new 'single-tier' system, our service standard for which is to provide a substantive response on 90% of these within 16 weeks. During the year we achieved 58%, which we will be seeking to improve on over the first full year of the new system.

Of the complaints we received about us:

- 431 were about our handling of enquiries;
- 137 were about health investigations;
- 190 about parliamentary investigations; and
- 15 about Freedom of Information Act/Data Protection Act.

Of these:

- 107 were fully or partly upheld, a significant improvement over the 157 in 2006-07, within which:
  - errors upheld about our decisions were down from 34 to 22;
  - errors partly upheld were down from 69 to 32; and
  - service complaints were down from 54 to 53.

### ***Judicial reviews of our decisions and actions***

There were ten applications for judicial review of our decisions and two county court claims in the year.

Of the ten judicial review applications, nine were refused permission to proceed (although one of these is now the subject of an appeal and another a renewal application). The other judicial review was granted permission to proceed but was dismissed by the court.

One of the county court claims was dismissed by the court; the other was withdrawn by the claimant.

### ***Casework quality***

Several steps were taken in the year to improve the quality of our casework, which will be continuing in 2008-09.

In October 2007 we introduced a new Delegation Scheme and Accountability Framework related to exercising decisions on casework; and a new Outcomes and Learning Directorate was set up to ensure that the lessons from our work are captured and used appropriately internally and externally. We have also undertaken assurance work to ensure that we apply our *Principles of Good Administration* and *Principles for Remedy* in practice in our casework and in our service to customers.

Progress on quality can be seen in the reduced number of upheld complaints about our decisions.

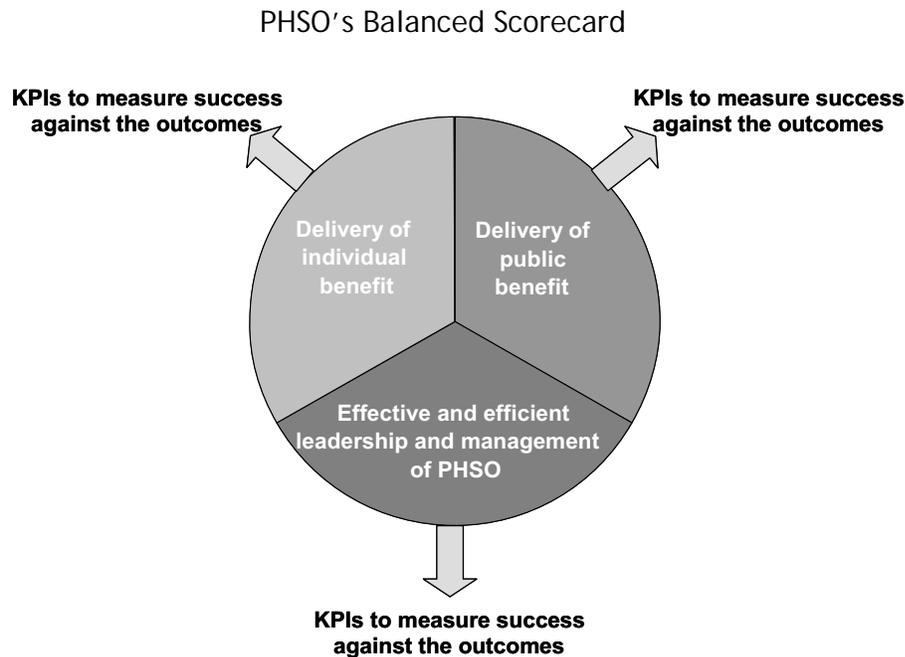
### ***Joint investigations with the Local Government Ombudsmen***

We have developed our approach to working with the Local Government Ombudsmen for England following enactment of the Regulatory Reform Order (RRO) enabling joint investigations to be carried out. We ensured that all key stakeholders were notified of the RRO provisions, and in March 2008 we published our first joint report, *Injustice in residential care*. Several further joint investigations are in train and will be reported on in 2008-09.

### **Developing and using management information to improve performance**

#### ***Improving our corporate performance framework***

This year we developed and implemented an improved Corporate Performance Framework, which is based on an adapted balanced scorecard and which reflects our strategic and business plans. Our framework includes Key Performance Indicators (KPIs) to measure, monitor and review: long-term performance against our strategic objectives; performance against our annual internal targets and service standards; and the effectiveness of our performance in managing our business. This is shown in the following diagram.



Our KPIs can be found in our 2008-11 Strategic Plan, which will be published on 6 October 2008. Our internal targets and service standards can be found in our 2008-09 Corporate Business Plan, which will also be published on 6 October 2008. Both plans are available from PHSO's website ([www.ombudsman.org.uk](http://www.ombudsman.org.uk)).

A key element of our performance management system is an effective research plan designed to populate our KPIs with information from our internal systems and from external sources. This was designed during the year and has been implemented.

### ***Improving our case management and data quality***

Significant steps were taken during the year to improve the quality of our data through enhancement of our case management system, replacement of our HR system and regular audits of data produced.

### **Getting the most from staff, systems and financial resources**

#### ***Applying our Principles of Good Administration to our own work***

Ensuring that we live up to our own principles of what makes for good administration is of fundamental importance to us, both internally and in the way we carry out our casework. We maintain a constant focus on improving how we do our work and putting in place improvements where necessary in the service we provide.

#### ***Investing in our people and taking forward our Equality and Diversity Strategy***

PHSO successfully achieved Investors in People re-accreditation in 2007-08 and we directly invested nearly £400k in the learning and development of our staff over the year, supported by a dedicated team. Particular emphasis this year was on management training with a Management Development Programme and an Aspiring to Management Programme being introduced. Substantial effort was also put into improving the

effectiveness of our performance management systems. We will be building further on this in 2008-09.

We have continued to implement our Equality and Diversity Strategy with relevant awareness training. A Workforce Diversity Action Plan was agreed including targets of increasing the number of black and minority ethnic group staff working for PHSO to better reflect the profile of potential complainants. Performance against this is being regularly monitored.

### ***Managing our resources effectively***

Our detailed financial results are included in these resource accounts. In summary, our performance against the financial targets in our 2007-08 Corporate Business Plan was as follows:

- our net resource underspend of £174k was within our target limit for underspending of less than £500k;
- our capital underspend of £199k was outside our target limit for underspending of £100k due to a decision to defer replacement of IT hardware;
- we recovered 100% of income due in the year, although excess income recovered was £53k above the £40k target we set due to factors outside our control;
- we remained within the Net Cash Requirement sanctioned by Parliament;
- we paid 99.2% (2006-07: 99.6%) of supplier invoices within our target of 30 days;
- our resource budgets were managed to within 1% of tolerances set, within our target of limiting variance to no more than 2%; but capital budgets were outside the 5% tolerance at 12.9% due to the deferment of IT spending mentioned above; and
- our depreciation charges for the year of £1,301k were within our target of being no more than £200k more than our capital investment of £1,360k (actual variance - £59k) which evidences the maintenance of our capital base.

Over the year our staffing numbers reduced by 21.6 full-time equivalent (fte), and full year turnover was very high at 25% which had an impact on our performance. This was due mainly to the effects of our restructuring programme. A substantial amount of resource was invested in 31 recruitment exercises aimed primarily at strengthening our casework, management and corporate capability. 48 of the 52 positions advertised were filled successfully at the first attempt, with 3 of the other 4 being filled subsequently.

Average sick absence in 2007-08 for PHSO employees was 5.9 days per fte, which was well within our target of being no more than 7.0 days per fte. This was also significantly lower than the public sector average and on a par with the private sector.

### **Managing change**

#### ***Reorganising the way we do things***

Over the course of this year we implemented a fundamental organisational restructuring under a programme called Organising for the Future, the key aim of which was to strengthen our capacity to deliver on our strategic objectives.

The new structures were successfully implemented by November 2007. This included a new Customer Services and Assessment Directorate to improve our front-end processes for handling customer enquiries and assessing whether complaints should be investigated. It also included setting up an Outcomes and Learning Directorate to ensure that the lessons from our casework are captured and disseminated, and to provide enhanced capacity to develop effective casework guidance, supporting improvements in the quality of our work and caseworker skills. The embedding of the new structures and the new ways of working has been supported with development awaydays and team events. Performance has been affected by a high number of caseworker vacancies, an issue which is being addressed.

Corporately, we put in place a new Division to manage our Policy Information and Communications. This includes four teams covering external liaison and outreach; policy and research; internal and external communications; and knowledge and information management. These functions are recognised as essential to the future development and effectiveness of PHSO, and continuing to strengthen their capability will be a priority in 2008-09.

### **Capturing, organising and sharing our knowledge**

#### ***Managing our knowledge and information better***

Getting the most from the extensive knowledge and information held both by the organisation and our staff is essential to improving the effectiveness of PHSO. In 2007-08 we launched and communicated internally and externally our programme to manage the improvements we recognise are required in this area. A new and experienced senior manager was appointed in February 2008 as Head of Knowledge and Information Management to lead the programme, and a practical plan and associated governance for delivery of the programme was developed.

This includes five interconnected workstreams covering people; information content; culture; processes; and technology. During the year key activities included completing a joint review with The National Archives of our records management arrangements, which provides a clear plan to ensure that these reflect best practice as well as expectations in accordance with our own *Principles of Good Administration*. We also developed and implemented a new corporate business classification (taxonomy) for our casework management system to support our casework-related reporting ability.

### **Developing our external relations, influence and impact**

#### ***Applying Principles of Good Administration and Principles for Remedy in our casework***

Our *Principles of Good Administration* were published in March 2007 and our *Principles for Remedy* in October 2007 and we have applied them increasingly in our casework throughout 2007-08. Our casework conference for staff in 2008 focused specifically on sharing good practice in applying both sets of *Principles* in our casework.

### ***Strengthening our outreach***

In light of customer and stakeholder feedback we have recognised the need to strengthen how we approach and execute more effective relationships with the bodies we deal with. We therefore developed and agreed an external relations strategy and established a new team, External Liaison and Outreach, to deliver it. This year the team has been focusing on setting out guidance to communicate better to our stakeholders the approach we take in considering complaints and the expectations we have of bodies within jurisdiction. A key product from this will be a new document, the third in the Ombudsman's trilogy of principles - the *Principles of Good Complaint Handling* - which is being consulted on and will be launched in autumn 2008.

### ***Working towards new NHS complaint handling arrangements***

Throughout 2007-08 we worked closely in support of the Department of Health's intention to introduce revised complaint handling arrangements for health and social care. This included responding positively to their consultation document *Making Experiences Count*, which was heavily influenced by criticisms we have made of the current system in our report, *Making things better? A report on reform of the NHS complaints procedure in England*, published in March 2005. We strongly supported the Department of Health's proposals for abolishing the second stage complaint handling role currently carried out by the Healthcare Commission and the introduction of new arrangements for a simpler process, with the emphasis on NHS bodies dealing more effectively with complaints made to them.

In the latter part of 2007-08 we commenced planning for the changes needed in PHSO to deal with implementation of the new arrangements which will take effect from 1 April 2009. This will significantly increase the workload of PHSO and substantial resources will be invested in 2008-09 to ensure that we are ready to take this on.

### ***Reporting on our casework and learning***

The following reports to Parliament were published in 2007-08:

- *Tax credits: Getting it wrong?* - October 2007
- *The introduction of the ban on swill feeding* - December 2007
- *Injustice in Residential Care* - March 2008.

As a result of the creation of our new Outcomes and Learning Directorate in 2007-08, we are now much better placed to publish regular summaries of cases and the first of these, *Remedy in the NHS*, was published in June 2008.

The investigation into the prudential regulation of Equitable Life also continued during 2007-08. The report of that investigation has since been published, in July 2008.

## Relationships with other organisations

PHSO provides clinical advice to the Scottish Public Services Ombudsman, the Public Services Ombudsman for Wales and the Northern Ireland Ombudsman. PHSO recharges for these services, and the funds recovered are included as Appropriations in Aid in the accounts.

PHSO is co-located in Millbank Tower with the London office of the Local Government Ombudsman for England. As a part of these co-location arrangements, some cross-charging for accommodation and shared services takes place. The related income is disclosed as Appropriations in Aid in the accounts.

The Office of the Information Commissioner leases space in Millbank Tower from PHSO.

## The future

PHSO's strategy and plans for 2008-11 are set out in its rolling Three Year Strategic Plan, and are available from PHSO's website ([www.ombudsman.org.uk](http://www.ombudsman.org.uk)).

PHSO reviews and refreshes its three year strategic plan every year. Our objectives and priorities for the period from 2008-11 are based on previous achievements, but they have been refined both in the light of our developing understanding of our business and also to reflect significant changes in the environment in which we work.

## Aims and objectives

PHSO's aim and vision are to provide an independent, high quality complaint handling service that rights individual wrongs, drives improvements in public services and informs public policy.

PHSO's two strategic objectives for the period 2008-11 are:

- to provide an independent, high quality and accessible complaint handling service that rights individual wrongs; and
- to drive improvements in public services and inform public policy.

## A new approach to NHS complaint handling

The Ombudsman has argued for improvements in the NHS complaints procedure for many years and is pleased to see the changes that will be introduced from April 2009.

Under the existing three stage system the second stage is provided by the review function of the Healthcare Commission, with a possible third stage when a case is referred to the Ombudsman. The new system will have only two stages: a complainant who remains dissatisfied after a case has been considered locally will be able to refer the complaint straight to the Ombudsman. These reforms should reduce delays for both the complainant and the NHS service provider, and deliver more timely, responsive and effective outcomes. We are working closely with the Department of Health and the Healthcare Commission to bring about a smooth transition to the new system.

A further objective of the new system is to achieve greater alignment between the NHS and the social care system. We are working closely with the Local Government Ombudsmen to make sure that there is a fully integrated approach to complaints that cross boundaries between health and social care.

### **Other factors affecting future development, performance and position**

PHSO's funding arises from a three year settlement sanctioned by HM Treasury, with annual Estimates based on this settlement being approved by Parliament. On 12 April 2007 HM Treasury ministers sanctioned PHSO's three year funding settlement for the period 2008-09 to 2010-11. PHSO's Estimate for each year of the current cycle provides for a gross resource requirement of £24.446 million, and income of £0.420 million (a net resource requirement of £24.026 million).

PHSO has received a 'flat-cash' settlement for the period 2008-09 to 2010-11, which means that salary and other inflationary pressures must be met through savings, rather than being funded through taxation.

Other key external factors which may affect PHSO's future development, performance and positioning include:

- the effects of machinery of government changes, including the impact of the changes during 2007-08 affecting the Ministry of Justice and the Home Office;
- new arrangements for child support; and
- the Government's proposals for constitutional reform.

Key internal factors and plans affecting PHSO's future development, performance and position include:

- achievement of our customer service standards and meeting our internal targets;
- building on the 2007-08 work towards establishing a Quality Framework;
- applying the *Principles of Good Administration*, *Principles for Remedy* and human rights principles in practice in our casework and our service to customers;
- consolidating and embedding the arrangements for working with the Local Government Ombudsman for England on joint investigations and reports;
- consulting on and publishing PHSO's *Principles of Good Complaint Handling* and promoting these appropriately;
- demonstrating the application of our *Principles of Good Administration*, *Principles for Remedy*, *Principles of Good Complaint Handling* and human rights considerations externally;
- delivering year one of our Outreach Implementation Plan;
- publishing a number of special reports to share our learning with other organisations;
- completing the initial phase of the delivery of a replacement system for Visualfiles, our case management system;
- implementing PHSO's new Knowledge and Information Management Programme;
- strengthening our casework resource;

- demonstrating effective people management practices for all staff;
- embedding equality and diversity principles across PHSO; and
- investing in our people.

PHSO continues to be innovative in a number of areas and is consequently prepared to accept higher levels of risk. However, by continually reviewing and monitoring the status of its risks, PHSO proactively manages them.

### **Personal data related incidents**

The Cabinet Office's *Interim Progress Report on Data Handling Procedures* introduced a requirement to report significant personal data related incidents within the Management Commentary, in categories designated by the Cabinet Office. PHSO has had no such incidents in 2007-08.

PHSO complies fully with the Data Protection Act and has a dedicated team in place, managing issues arising. In addition PHSO has appointed a Head of Knowledge and Information Management who will be leading on the management of information risk.

## Governance and accountability arrangements

The Ombudsman appears annually before the Public Administration Select Committee, which Parliament has chosen (through its standing orders) to be its principal liaison mechanism with the Ombudsman, to give evidence on the work of PHSO.

PHSO has produced a governance statement which sets out for our staff and stakeholders the basis on which PHSO has been established; the way in which it is governed and managed; and how it is accountable for what it does. This statement, which was reviewed in March 2007, is available from PHSO's website ([www.ombudsman.org.uk](http://www.ombudsman.org.uk)).

### Advisory Board

During 2007-08 the Ombudsman was supported by an Advisory Board, of which she was Chair, and the other members of which were:

Cecilia Wells OBE	External Member
Paula Carter	External Member
Linda Charlton	External Member
Tony Redmond	External Member - Chair of the Commission for Local Administration in England

Cecilia Wells, Paula Carter and Linda Charlton were appointed through fair and open competition, and their remuneration is decided by the Ombudsman. Tony Redmond was appointed to the Board by the Ombudsman, and is not remunerated. Further details about remuneration are disclosed in the Remuneration Report.

The role of the Advisory Board is to act as a 'critical friend' and provide support and advice to the Ombudsman in providing leadership and good governance of PHSO and to bring an external perspective to assist in the development of policy and practice. The Advisory Board provides specific advice and support on:

- purpose, vision and values;
- strategic direction and planning;
- accountability to stakeholders, including stewardship of public funds; and
- internal control and risk management arrangements.

The Advisory Board has no role in PHSO's casework processes or decisions.

The Advisory Board has two formal sub-committees, which have key roles in supporting the effective governance of PHSO: an Audit Committee (see below) and a Pay Committee (details of which can be found in the Remuneration Report).

To reflect its advisory nature, executive officials are not members of the Advisory Board but will be in attendance at meetings to provide such corporate input as necessary.

## Executive Board

During 2007-08 management of PHSO's functions and activities was exercised by an Executive Board, chaired by the Ombudsman, and comprising the Deputy Ombudsman, Deputy Chief Executive and the Director of Policy Information and Communications.

The Executive Board is responsible for the delivery of PHSO's strategic vision, policies and services to the public and other stakeholders.

The Executive Board meets regularly and is responsible for co-ordinating activity across PHSO. It is the primary forum for making executive decisions about operational, resource, communications and other administrative matters in order to deliver the Strategic and Corporate Plans, and for monitoring performance. The role of the Executive Board in decision making carries a recognition that, on occasion, there will be some issues for which the decision maker is the Ombudsman alone.

Executive Board members also meet formally with other senior managers to steer and lead on strategically important areas of work.

## Audit Committee

The Audit Committee is chaired by a non-executive, Andrew Puddephatt OBE, and comprises two other non-executive members (Tony Redmond and Jeremy Kean, Finance and IT Director of the Financial Ombudsman Service) and the Ombudsman.

The Committee meets at least four times a year and is tasked with supporting the Ombudsman (as Accounting Officer) and PHSO's Advisory Board in monitoring the adequacy of PHSO's corporate governance and internal control systems.

## Accounting Officer

The Ombudsman is not subject to the Government Resources and Accounts Act 2000. As a result, HM Treasury has no statutory authority to appoint the Ombudsman as Accounting Officer; nor is it able to issue directions to the Ombudsman on the production or laying of the accounts, or on any other matters covered by the Act.

However, in order to recognise the Ombudsman's responsibility properly to account for the resources allocated to her, HM Treasury and the Ombudsman have agreed administratively that the appointment as Ombudsman brings with it the duties of Accounting Officer as laid down in *Managing Public Money*. Her responsibilities as Accounting Officer and for PHSO's system of internal control are set out on pages 25 to 30.

Accounts produced by PHSO are laid before Parliament using the Ombudsman's powers to lay reports under the Parliamentary Commissioner Act 1967 and the Health Service Commissioners Act 1993.

## Auditors

The Comptroller and Auditor General is the auditor of PHSO's accounts. As disclosed in Note 8 to the accounts, a notional cost of £50,000 was incurred on audit services provided by the Comptroller and Auditor General. No non-audit work was undertaken by the auditors.

Internal audit services during 2007-08 were provided by KPMG LLP (UK).

As far as the Ombudsman, as Accounting Officer, is aware, there is no relevant audit information of which PHSO's auditors are unaware. The Ombudsman has taken all necessary steps required to make herself aware of any relevant audit information and to establish that PHSO's auditors are aware of that information.

## Directors' interests

None of the Advisory or Executive Board members held any company directorships or had any other interests during the year that may have conflicted with their management responsibilities.

## Treatment of pension liabilities

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is a multi-employer defined benefit scheme; the defined benefit elements of the scheme are unfunded and are non-contributory except in respect of dependants' benefits. PHSO is unable to identify its share of underlying assets and liabilities.

Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the scheme, PHSO recognises the contributions payable for the year.

A full actuarial valuation of the PCSPS was carried out as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

## Payment of suppliers

PHSO is committed to compliance with the Late Payment of Commercial Debt Regulations 2002. The payment policy is to pay invoices in accordance with agreed contractual conditions or, where no such conditions exist, within 30 days of receipt of goods or services or the presentation of a valid invoice, whichever is the later. During 2007-08 99.16% of invoices were paid in accordance with this policy (compared with 99.56% in 2006-07).

## **Employment policy and communications with staff**

PHSO recruits on the principle of selection on merit through fair and open competition. PHSO is committed to the principle of equality of opportunity and values the diversity of its staff. PHSO is committed to complying with all relevant statutory requirements, including the provisions of the Disability Discrimination Act 1995.

PHSO regularly communicates and consults through Quarterly and Annual Whitley meetings with the Office Trade Union Side (OTUS), which represents members of the Public and Commercial Services and FDA unions. Staff involvement is also actively encouraged as part of the day-to-day process of line management, and information about current and prospective developments is widely disseminated. Further communication takes place through the regular in-house newsletter, 'InPHOmatation'.

The average number of people employed by PHSO in 2007-08 was 270 fte of which 10 fte were disabled.

## Remuneration report

In accordance with the requirements of Schedule 7A of the Companies Act 1985 (as amended), only certain sections of the Remuneration Report have been subject to full external audit. These comprise the tables on salary and pension entitlements.

### The Parliamentary and Health Service Ombudsman

During the year the posts of Parliamentary Ombudsman and Health Service Ombudsman were held by one person, Ann Abraham, who was appointed as Ombudsman on 4 November 2002. One salary is paid for both posts direct from the Consolidated Fund at the same salary as if she were employed in the Civil Service as a Permanent Secretary. In practice this is currently a salary directly equivalent to that of a Group 4 High Court Judge, and is reviewed accordingly on 1 April each year.

Appointment to the office of Ombudsman is permanent. The appointee may be relieved of office by Her Majesty at her own request, or may be removed from office by Her Majesty in consequence of addresses from both Houses of Parliament, and shall in any case vacate office on completing the year of service in which she reaches 65 years of age.

Legislation was implemented during 2006-07 which removes the specific retirement age for the Ombudsman, and amends the appointment provision so that future appointments to the office will be made for a single non-renewable term of not more than seven years. The legislation incorporates a saving provision exempting the current Ombudsman.

The salary and pension entitlements of the Ombudsman for the year ended 31 March 2008 were as follows:

Name	Salary £000	Benefits in kind (to the nearest £100) £	Real increase in pension at 60 £000	Total accrued pension at 60 at 31/03/08 £000	CETV of pension at 31/03/07 £000	CETV of pension at 31/03/08 <sup>1</sup> £000	Real increase in CETV as funded by employer £000
Ann Abraham	165-170	12,000 <sup>2</sup>	0-2.5	52.5-55	1,040	1,219	32

The salary and pension entitlement of the Ombudsman for the year ended 31 March 2007 were as follows:

Name	Salary £000	Benefits in kind (to the nearest £100) £	Real increase in pension at 60 £000	Total accrued pension at 60 at 31/03/07 £000	CETV of pension at 31/03/06 £000	CETV of pension at 31/03/07 <sup>3</sup> £000	Real increase in CETV as funded by employer £000
Ann Abraham	155-160	6,300 <sup>2</sup>	0-2.5	40-42.5	786	833	19

<sup>1</sup> The cash equivalent transfer value (CETV) figures and other pension disclosures are provided by Paymaster, PHSO's Authorised Pensions Administration Centre, which has assured PHSO that the figures for the year ended 31 March 2008 have been correctly calculated following guidance provided by the Government Actuary's Department.

<sup>2</sup> Hotel accommodation near PHSO when working in the evening or attending evening functions in her role as Parliamentary and Health Service Ombudsman. The cost of this accommodation is treated as a taxable benefit in kind.

<sup>3</sup> CETV and other pension figures disclosed in the 2006-07 Remuneration Report, and reproduced above, were also provided by Paymaster, which assured PHSO that the figures were correctly calculated. However, Paymaster has since informed PHSO that errors were made in calculating the Ombudsman's CETV figures, due to her full service being treated as capped, whereas that part transferred in should have been treated as uncapped.

## Executive Board

During 2007-08 the Executive Board members, and their service contract commencement dates, were as follows:

Trish Longdon	Deputy Ombudsman (4 August 2003)
Bill Richardson	Deputy Chief Executive (21 July 2003)
Philip Aylett	Director of Policy Information and Communications (6 June 2005)

The Deputy Ombudsman and Deputy Chief Executive were permanently appointed under fair and open competition.

Philip Aylett was seconded from the Cabinet Office from 6 June 2005, as Director of Communications, and appointed as Director of Strategy and Communications from 1 April 2006. From 1 April 2007 he became Director of Policy Information and Communications and, on 1 June 2007, transferred permanently from the Cabinet Office to PHSO.

The remuneration for members of the Executive Board is performance-based and is determined by a Pay Committee comprised of the Ombudsman and two external members of the Advisory Board.

The Pay Committee determines senior staff pay in accordance with PHSO's Pay Policy, the aims of which include taking into account: comparability with the Civil Service; public sector pay policy; and appropriate pay market data on external comparison. No members of the Executive Board received a bonus in 2007-08.

In 2007-08 the Pay Committee also considered and endorsed annual bonuses for staff below Executive Board level based on recommendations by line managers and taking account of the criteria set out in PHSO's Pay Policy. The bonuses were paid on a non-consolidated, non-pensionable basis in recognition of: specific achievement and delivery of key objectives during the year; leadership demonstrated at corporate, strategic and functional levels; contribution to achieving change and continuous improvement; and demonstration of PHSO values.

The salary and pension entitlements of members of the Executive Board for the year ended 31 March 2008 were as follows:

Name	Salary £000	Benefits in kind (to the nearest £100) £	Real increase in pension at 60 £000	Total accrued pension at 60 at 31/03/08 £000	CETV of pension at 31/03/07 £000	CETV of pension at 31/03/08 <sup>4</sup> £000	Real increase in CETV as funded by employer £000
Trish Longdon <i>Deputy Ombudsman</i>	105-110	-	2.5-5	57.5-60	984	1,189	67
Bill Richardson <i>Deputy Chief Executive</i>	105-110	500 <sup>5</sup>	0-2.5	50-52.5	938	1,117	45
Philip Aylett <i>Director of Policy Information and Communications</i>	80-85	-	2.5-5	30-32.5	595	735	58

The salary and pension entitlements of members of the Executive Board for the year ended 31 March 2007 were as follows:

Name	Salary £000	Benefits in kind (to the nearest £100) £	Real increase in pension at 60 £000	Total accrued pension at 60 at 31/03/07 £000	CETV of pension at 31/03/06 £000	CETV of pension at 31/03/07 <sup>6</sup> £000	Real increase in CETV as funded by employer £000
Trish Longdon <i>Deputy Ombudsman</i>	100-105	-	2.5-5	52.5-55	900	984	37
Bill Richardson <i>Deputy Chief Executive</i>	100-105	-	0-2.5	47.5-50	907	969	30
Philip Aylett <i>Director of Policy Information and Communications</i>	75-80	-	3.5-4	27.5-30	496	595	80

<sup>4</sup> CETV and other pension figures are provided by Paymaster, which has assured PHSO that the figures for the year ended 31 March 2008 have been correctly calculated following guidance provided by the Government Actuary's Department.

<sup>5</sup> Hotel accommodation near PHSO when working in the evening or attending evening functions in his role as Deputy Chief Executive. The cost of this accommodation is treated as a taxable benefit in kind.

<sup>6</sup> CETV and other pension figures disclosed in the 2006-07 Remuneration Report, and reproduced above, were also provided by Paymaster, which assured PHSO that the figures were correctly calculated. However, Paymaster has since informed PHSO that the guidance provided for the year ended 31 March 2007 used incorrect factors which affected the calculation for Bill Richardson, and that incomplete data was used for the calculation. Therefore, the figures disclosed in the 2006-07 Remuneration Report in respect of Bill Richardson were incorrect.

## Executive Board Members' Service Contracts

The commencement dates of service contracts for each Executive Board member are given above.

As the Crown has the power to dismiss at will, the Executive Board members are not entitled to a period of notice terminating their employment. However, unless their employment is terminated by agreement, they will normally be given the following period of notice:

<i>Reason for termination</i>	<i>Less than 4 years' continuous service</i>	<i>More than 4 years' continuous service</i>
Retirement on age grounds Efficiency grounds Disciplinary proceedings	5 weeks	1 week plus 1 week for every year of continuous service (maximum 13 weeks)
Retirement on medical grounds	9 weeks	9 weeks, or as above
Compulsory on other grounds, not constituting grounds for summary dismissal	6 months	6 months

If a contract is terminated without the notice stated above, having regard to the reason for such termination, compensation will be paid in accordance with the relevant provisions of the Civil Service Compensation Scheme.

With effect from 1 October 2006 the standard retirement age was increased from 60 to 65 for all staff and this has been implemented. However, members of the PCSPS scheme have a reserved right to draw on their pensions from age 60. This can be done whilst remaining in employment. A departure before age 65 would be classed as a resignation as they will not be legally able to retire until age 65.

### The Advisory Board: Non-Executive Members

Cecilia Wells, Paula Carter and Linda Charlton each received a salary of £15,000 (2006-07: £15,000 Cecilia Wells only) with no benefits in kind and no pension entitlement. Tony Redmond received no remuneration.

### The Audit Committee: Non-Executive Members

Andrew Puddephatt, the Chair of the Audit Committee, received a salary of £10,000 (2006-07: £10,000) with no benefits in kind and no pension entitlement. Tony Redmond and Jeremy Kean received no remuneration.

### Salary

'Salary' includes: gross salary; performance pay or bonuses; overtime; recruitment and retention allowances; and any other allowance to the extent that it is subject to UK taxation. This report is based on payments made by PHSO and thus recorded in these accounts.

## Benefits in kind

The monetary value of benefits in kind covers any benefit provided by the employer and treated by HM Revenue & Customs as a taxable emolument.

## Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007 scheme members may be in one of four defined benefit schemes: either a 'final salary' scheme (**classic**, **premium** or **classic plus**); or a 'whole career' scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits being met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus** and **nuvos** are increased annually in line with changes in the Retail Price Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (**partnership** pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for **classic** and 3.5% for **premium**, **classic plus** and **nuvos**. Benefits in **classic** accrue at the rate of 1/80<sup>th</sup> of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60<sup>th</sup> of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with the benefits in respect of service to October 2002 calculated broadly as per **classic** and benefits for service from October 2002 calculated as in **premium**. In **nuvos** a member builds up a pension based on his or her pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employers make a basic contribution of between 3% and 12.5% (depending on the age of the members) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be active members of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus** and 65 for members of **nuvos**.

Further details about the Civil Service pension arrangements can be found at the website [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk).

## Cash Equivalent Transfer Values

A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

## Real increase in Cash Equivalent Transfer Values

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

**Ann Abraham**  
Parliamentary and Health Service Ombudsman

**17 September 2008**

## Statement of Accounting Officer's responsibilities

The Office of the Parliamentary Commissioner for Administration and Health Service Commissioner for England (PHSO) prepares resource accounts for each financial year. These are in compliance with the *Government Financial Reporting Manual* (as developed and maintained by HM Treasury), detailing the resources acquired, held or disposed of during the year and the use of resources by PHSO during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of PHSO, the net resource outturn, resources applied to objectives, recognised gains and losses, and cash flows for the financial year.

The appointment as the Parliamentary Commissioner for Administration and Health Service Commissioner for England carries with it the duties of Accounting Officer for PHSO, with responsibility for preparing PHSO's accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts, the Accounting Officer has complied with the *Government Financial Reporting Manual* and in particular:

- observes the relevant accounting and disclosure requirements, and applies suitable accounting policies on a consistent basis;
- makes judgments and estimates on a reasonable basis;
- states whether applicable accounting standards, as set out in the *Government Financial Reporting Manual*, have been followed, and discloses and explains any material departures in the accounts; and
- prepares the accounts on a going concern basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding PHSO's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *Managing Public Money*.

## Statement on internal control

### Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of PHSO's policies, aims and objectives, whilst safeguarding the public funds and PHSO assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of PHSO's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in PHSO for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

### Capacity to handle risk

PHSO has a risk management framework in place to take into account:

- PHSO's role, vision, values, strategic plan and business priorities;
- our business approach that emphasises quality assurance and dialogue in decision making; and
- PHSO governance arrangements, in particular links with stewardship reports, internal review arrangements, and associated roles and responsibilities.

I have personal statutory authority for investigations carried out by PHSO, and as its Accounting Officer have ultimate responsibility for managing risk and responsibility for approving major decisions, taking into account PHSO's risk profile or exposure.

Senior members of PHSO are personally responsible for the management of key risks. Individual responsibility for each strategic risk is assigned to a senior manager, as risk owner, who reports quarterly to the Executive Board and Audit Committee. PHSO is developing risk registers at local level to support the management of strategic risks, as well as providing additional guidance as appropriate on the implementation of risk management processes.

As is appropriate for a public body, there are areas where PHSO is not prepared to take risks, such as with the stewardship of resources and the robust management of our organisation. However, in the context of the core business, PHSO wishes to be innovative and is consequently prepared to accept higher levels of risk. By continually reviewing and monitoring the status of its risks, PHSO will proactively manage them.

## The risk and control framework

To support me in ensuring the effective governance of PHSO, of which I am Chair and Chief Executive, I have appointed a non-statutory Advisory Board in line with my statutory accountability. The Advisory Board has two sub-committees: the Audit Committee comprising an external Chair, two further external members and myself; and the Pay Committee comprising myself and two of the Advisory Board members. The Pay Committee provides advice on pay arrangements and determines the pay of senior staff (except my own which is covered by statutory arrangements).

In addition, I have an Executive Board, the members of which, during 2007-08, were myself as Chair and Chief Executive, the Deputy Ombudsman, the Deputy Chief Executive, and the Director of Policy Information and Communications. It meets regularly and has responsibility for the delivery of PHSO's strategic vision, plans and services to the public and other stakeholders. It also provides a forum for discussion on the development and co-ordination of major work programmes and provides leadership to all staff working for PHSO.

The Executive Board also steers and provides leadership on strategically important areas of work for PHSO, for example directing restructuring of the organisation under Organising for the Future.

The risk management framework, which was approved by the Audit Committee and the Advisory Board in November 2005, sets out our risk policy, risk appetite and management approach. The framework is based around simple, non-bureaucratic processes reflecting best practice. The key aim is to encourage staff to manage risk at all levels in a positive way which supports effective delivery, innovation and improvement - within a systematic framework of analysis, evaluation and review. The framework is available to all staff on the PHSO intranet.

During 2007-08 the key strategic risks have been regularly monitored (and where appropriate recalibrated) by senior management with risk reports being included in the quarterly stewardship report. In this report risk owners provide an assessment of the impact and likelihood for each risk and highlight any items that need to be drawn to the attention of senior management and the PHSO Boards. The strategic risk register has been closely aligned to the strategic plan and business plan objectives are referenced in each risk.

In addition to progress at the strategic level, work has also been done to:

- introduce a delegation scheme in respect of authority delegated by the Ombudsman for decisions made on her behalf on casework matters that clearly sets out individual accountability and responsibilities for caseworkers and their managers;
- embed risk at the level below the strategic risks with ongoing development of individual risk registers at a directorate level; and
- put in place procurement and contract frameworks with specific risk management requirements for PHSO contract management.

Risk owners have a responsibility for:

- sponsoring good risk management practices within their directorates/areas of responsibility;
- keeping the controls, actions and deadlines to manage risks allocated to them up to date;
- reporting on these to the risk manager in advance of Executive Board and Audit Committee meetings;
- exception reporting to the Executive Board when risks arise requiring immediate attention; and
- submitting quarterly stewardship and year end reports to confirm that, to the best of their knowledge, risks for which they are the owner, have been appropriately managed during the year or, where a key risk has crystallised, detail how the risk was managed or what other actions were taken.

At an operational level investigators assess the risk category of each case, and follow corresponding governance arrangements for the selected category. A risk management strategy is developed for all cases that are assessed as either medium or high risk. All risk assessments and mitigating actions are documented on the Case Management System (Visualfiles) and are reviewed during the five key stages of a case. Directors have a responsibility for monitoring the management of casework risk in their directorates and risks are also monitored by the Operations Management Team, chaired by the Deputy Ombudsman. Cases assessed as having a high risk impact are reviewed on a monthly basis by the Ombudsman, Deputy Ombudsman, Business Management Team and relevant members of staff.

Current strategic risks are in the areas of:

- customer and user satisfaction - we must ensure that we are delivering a good service to complainants and all other external stakeholders;
- governance and leadership - we must ensure that we have clear strategic planning, adequate internal controls in place and that senior managers are empowered;
- positioning and communication with stakeholders - we need to ensure that stakeholders are clear about our role and purpose to enable us to be effective in influencing;
- workforce - we must ensure we have a workforce that is skilled, adaptable, diverse and motivated;
- stewardship of resources - we need to ensure value for money in all that we do;
- knowledge and information management - we need to ensure that we are sharing knowledge and using it effectively;
- infrastructure - we must ensure we have the appropriate infrastructure in place; and
- business continuity management - we need to have contingency arrangements in place to allow PHSO to continue to deliver its services.

These will be reviewed early in 2008-09 to ensure that they remain the appropriate focus of risk management for PHSO going forward.

During the year the Risk and Assurance Manager has continued to co-ordinate all internal audit activity, as well as PHSO's risk management and business continuity arrangements. KPMG LLP provided internal audit services under a three year contract, of which this was year two.

A Finance Code was issued during 2005-06 and this continues to support good corporate governance and control through promoting sound financial management and efficient use of resources. Comprehensive budget delegation arrangements are in place.

### **Review of effectiveness**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within PHSO who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Advisory Board and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Audit Committee is responsible for providing advice and assurance on the adequacy and effectiveness of internal control and risk management. It also oversees internal and external audit arrangements, which cover all areas of PHSO's work, both financial and non-financial systems.

During 2007-08 KPMG LLP completed a wide programme of internal audit work giving a 'full' level of assurance to our payroll system and a 'substantial' level of assurance to our financial and accounting systems. A significant amount of work has been carried out internally to address the weaknesses and recommendations raised in individual audits and to confirm that PHSO has not been exposed to unacceptable risk in these areas. In addition our ability to undertake internal reviews using our in-house skills has improved and we undertook a comprehensive review of our records management capability in partnership with The National Archives. We continue to consider the need for other external reviews and audits where specialist skills are required and this year engaged a specialist to review our corporate security arrangements.

KPMG's report on PHSO's corporate governance and risk management arrangements, completed in March 2008, gave a 'substantial' level of assurance on the adequacy and effectiveness of the systems of internal control, particularly focused around the relationship between the Executive Board and key management groups at the next tier.

Building on their review of Business Planning in the previous financial year KPMG reviewed our Strategic and Business Planning and gave the organisation 'Substantial Assurance' in respect of the process and practice we operate. This included endorsement of work we have put in hand to develop and embed a balanced scorecard tailored to the needs of PHSO to measure our corporate performance.

During 2007-08 a weakness in internal controls resulted in early departure payments being made incorrectly to three ex-employees. We are pursuing recovery of these payments and have strengthened our controls following an internal audit review by KPMG LLP.

There have been no other material internal control issues.

**Ann Abraham**  
**Parliamentary and Health Service Ombudsman**

**17 September 2008**

**THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL  
TO THE HOUSE OF COMMONS**

I certify that I have audited the financial statements of the Office of the Parliamentary Commissioner for Administration and Health Service Commissioner for England (Office of the Parliamentary and Health Service Ombudsman) for the year ended 31 March 2008. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

**Respective responsibilities of the Accounting Officer and auditor**

The Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury guidance. I report to you whether, in my opinion, the information which comprises the management commentary, included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Office of the Parliamentary and Health Service Ombudsman has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Office of the Parliamentary and Health Service Ombudsman's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Office of the Parliamentary and Health Service Ombudsman's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the introduction, the management commentary, the statement of governance and accountability arrangements, and the unaudited part of the Remuneration Report. I consider the implications for my certificate if I become aware of any apparent

misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### **Basis of audit opinions**

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Office of the Parliamentary and Health Service Ombudsman's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

### **Opinions**

In my opinion:

- the financial statements give a true and fair view of the state of the Office of the Parliamentary and Health Service Ombudsman's affairs as at 31 March 2008, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury guidance; and
- information which comprises the introduction, management commentary, statement of governance and accountability arrangements and the unaudited part of the Remuneration Report included within the Annual Report, is consistent with the financial statements.

### **Opinion on regularity**

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

**Report**

I have no observations to make on these financial statements.

**T J Burr**  
**Comptroller and Auditor General**  
National Audit Office  
151 Buckingham Palace Road  
Victoria  
London  
SW1W 9SS

29 September 2008

Statement of Parliamentary Supply  
Summary of Resource Outturn 2007-08

		2007-08						2006-07	
		Estimate			Outturn			Net total outturn compared to Estimate: saving/ (excess) £000	Outturn £000
Note	Gross expenditure £000	A in A £000	Net total £000	Gross expenditure £000	A in A £000	Net total £000			
Request for Resources	2	24,773	347	24,426	24,599	347	24,252		
<b>Total Resources</b>		<b>24,773</b>	<b>347</b>	<b>24,426</b>	<b>24,599</b>	<b>347</b>	<b>24,252</b>	<b>174</b>	<b>22,679</b>
Non-operating cost A in A				-	-	-	-	-	-

Net Cash Requirement 2007-08

		2007-08			2006-07	
Note	Estimate £000	Outturn £000	Net total outturn compared to Estimate: saving/ (excess) £000	Outturn £000		
Net Cash Requirement	4	24,941	23,956	985	26,889	

Summary of income payable to the Consolidated Fund

In addition to Appropriations in Aid, the following income related to PHSO and is payable to the Consolidated Fund:

	Note	Forecast 2007-08		Outturn 2007-08	
		£000 Income	£000 Receipts	£000 Income	£000 Receipts
<b>Total</b>	5	-	-	93	2

Explanations of variances between Estimate and outturn are given in Note 2 and in the Management Commentary.

## Operating Cost Statement for the year ended 31 March 2008

	Note	<b>2007-08</b>	<b>2006-07</b>
		£000	£000
<b>Administration costs</b>			
Staff costs	7	12,777	13,458
Other administration costs	8	12,008	9,764
<b>Gross administration costs</b>		<b>24,785</b>	<b>23,222</b>
Operating income	9	(440)	(369)
<b>Net administration costs</b>		<b>24,345</b>	<b>22,853</b>
<b>Net operating cost</b>		<b>24,345</b>	<b>22,853</b>
<b>Net resource outturn</b>		<b>24,252</b>	<b>22,679</b>

All income and expenditure are derived from continuing operations.

## Statement of Recognised Gains and Losses for the year ended 31 March 2008

	<b>2007-08</b>	<b>2006-07</b>
	£000	£000
Net gain/(loss) on revaluation of fixed assets	78	12
Net gain/(loss) on revaluation of early departure provision	-	11
<b>Recognised gains and losses for the financial year</b>	<b>78</b>	<b>23</b>

## Balance Sheet as at 31 March 2008

	Note	31 March 2008		31 March 2007	
		£000	£000	£000	£000
<b>Fixed assets</b>					
Tangible assets	10	6,443		6,354	
Intangible assets	11	519		638	
			6,962		6,992
<b>Current assets</b>					
Debtors	12	1,300		968	
Cash at bank and in hand	13	122		391	
		1,422		1,359	
<b>Creditors (amounts falling due within one year)</b>	14	(1,445)		(1,597)	
<b>Net current liabilities</b>			(23)		(238)
<b>Total assets less current liabilities</b>			<b>6,939</b>		<b>6,754</b>
<b>Creditors (amounts falling due after more than one year)</b>	14	(688)		(825)	
<b>Provisions for liabilities and charges</b>	15	(1,145)		(844)	
			(1,833)		(1,669)
			<b>5,106</b>		<b>5,085</b>
<b>Taxpayers' equity</b>					
General Fund	16		4,660		4,709
Revaluation Reserve	17		446		376
			<b>5,106</b>		<b>5,085</b>

Ann Abraham  
Parliamentary and Health Service Ombudsman

17 September 2008

**Cash Flow Statement for the year ended 31 March 2008**

		<b>2007-08</b>	<b>2006-07</b>
	Note	£000	£000
Net cash outflow from operating activities	18	(22,679)	(22,110)
Capital expenditure and financial investment	18	(1,461)	(4,958)
Payments of amounts due to the Consolidated Fund	18	(5)	(68)
Financing	18	23,876	27,349
<b>Increase/(decrease) in cash</b>		<b>(269)</b>	<b>213</b>

The notes on pages 39 to 52 form part of these financial statements

## Statement of Operating Costs by PHSO's objectives for the year ended 31 March 2008

	2007-08			2006-07		
	Gross	Income	Net	Gross	Income	Net
	£000	£000	£000	£000	£000	£000
<b>Objective 1: PCA</b>						
To deal with all complaints referred to the Parliamentary Commissioner for Administration impartially, objectively, effectively and expeditiously.	12,307	(147)	12,160	12,209	(187)	12,022
<b>Objective 2: HSCE</b>						
To deal with all complaints referred to the Health Service Commissioner for England impartially, objectively, effectively and expeditiously.	12,478	(293)	12,185	11,013	(182)	10,831
<b>Net operating cost</b>	<b>24,785</b>	<b>(440)</b>	<b>24,345</b>	<b>23,222</b>	<b>(369)</b>	<b>22,853</b>

Costs relating specifically to PCA or HSCE are attributed direct to those areas. Administration and central services costs are apportioned to PCA and HSCE in accordance with PHSO's management accounting procedures. The primary cost driver used for apportioning these indirect costs is personnel numbers.

The application of resources year on year will vary in accordance with the nature and number of PCA and HSCE complaints received.

## Notes to the resource accounts

### 1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2007-08 *Government Financial Reporting Manual* (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the FReM also requires the Office to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. The Statement of Operating Costs by PHSO's Objectives and supporting notes analyse PHSO's income and expenditure by the objectives agreed with Parliament.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of PHSO for the purpose of giving a true and fair view has been selected. PHSO's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

#### 1.1 Accounting convention

These accounts have been prepared under the historic cost convention modified to account for the revaluation of fixed assets.

#### 1.2 Tangible fixed assets

Tangible fixed assets have been stated at current cost using appropriate indices. Expenditure on tangible fixed assets of over £1,000 is capitalised. Assets costing less than £1,000 may be capitalised providing they are capital in nature and there are enough to be worth more than £1,000 in total.

On initial recognition fixed assets are measured at cost including any costs, such as installation costs, that are directly attributable to bringing them into working condition for their intended use. Balance sheet values are based on a review of values as at the balance sheet date.

#### 1.3 Intangible fixed assets

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £1,000 or more is incurred. Except where reliable evidence of current value cannot be readily ascertained, these are restated to current value each year.

#### 1.4 Depreciation

Tangible fixed assets are depreciated at rates calculated to write them down to estimated residual value on a straight-line basis over their estimated useful lives. Software licences are amortised over the shorter of the term of the licence and the useful economic life.

Asset lives are normally in the following ranges:

- Furniture and fittings - 10 years;
- IT software and equipment - 3 to 5 years;
- Office machinery - 5 years; and
- Refurbishment - the lesser of 10 years or the lease term.

#### 1.5 Operating income

Operating income is income which relates directly to the operating activities of PHSO. It principally comprises charges for services provided to the Scottish and Welsh Ombudsmen and recoveries in respect of outward secondments. It also includes miscellaneous monies received during the year. PHSO has parliamentary approval to treat only income from the Local Government, Scottish and Welsh Ombudsmen and recoveries in respect of outward secondments as Appropriations in Aid; all other income is recorded as Consolidated Fund Extra Receipts (CFERs) and paid to the Consolidated Fund in the following year in accordance with normal practice.

## 1.6 Administration expenditure

The Operating Cost Statement reflects only administration costs, as PHSO does not incur programme expenditure. Administration costs reflect the costs of running PHSO. These include both administrative costs and associated operating income. Income is analysed in the notes between that which, under the administrative cost-control regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not.

## 1.7 Capital charge

A notional charge, reflecting the cost of capital utilised by PHSO, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the average carrying amount of all assets less liabilities, except for cash balances held with HM Paymaster General, where the charge is nil.

## 1.8 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is an unfunded multi-employer defined benefit scheme and is unfunded and non-contributory except in respect of dependants' benefits. PHSO recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from the employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

## 1.9 Provisions

PHSO provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using HM Treasury's discount rate of 2.2% in real terms.

## 1.10 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with Financial Reporting Standard (FRS) 12, PHSO discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of *Managing Public Money*. Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

## 1.11 Value added tax

PHSO is not registered for value added tax (VAT), and prepares its accounts on a VAT-inclusive basis.

## 1.12 Early departure costs

PHSO is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. PHSO provides in full for the cost when the early retirement programme has been announced and is binding on PHSO. PHSO may, in certain circumstances, settle some or all of its liability in advance by making a payment to HM Paymaster General's account at the Bank of England for the credit of the Civil Superannuation Vote. The amount provided is shown net of any such payments.

## 1.13 Operating leases

Lease rentals paid under operating leases are charged to the Operating Cost Statement as the related benefit is incurred. In accordance with Urgent Issues Task Force *Abstract 28 - Operating Lease Incentives*, all incentives for the agreement of a new or renewed operating lease are recognised as an integral part of the net payment agreed for the use of the leased asset, irrespective of the incentive's nature or form or timing of payments. There were no finance leases.

## 1.14 Financial instruments

Cash is PHSO's only financial instrument.

## 2 Analysis of net resource outturn by section

	2007-08				2006-07		
	Outturn		Estimate		Net total outturn compared with Estimate	Prior year outturn	
	Admin £000	Gross resource expenditure £000	A in A £000	Net total £000			Net total £000
Request for Resources	24,599	24,599	347	24,252	24,426	174	22,679
<b>Resource outturn</b>	<b>24,599</b>	<b>24,599</b>	<b>347</b>	<b>24,252</b>	<b>24,426</b>	<b>174</b>	<b>22,679</b>

Spending has matched plans, with a variance against Estimate of only 1%.  
Detailed explanations for the variances, if required, would be given in the Management Commentary.

## 3 Reconciliation of outturn to net operating cost and against Administration Budget

### A) Reconciliation of net resource outturn to net operating cost

	Note	2007-08			2006-07
		Outturn £000	Estimate £000	Outturn compared with Estimate £000	Outturn £000
Net resource outturn	2	24,252	24,426	174	22,679
Non-supply income	5	(93)	-	93	(5)
Non-supply expenditure:					
Consolidated Fund Standing Services	16	186	187	1	179
<b>Net operating cost</b>		<b>24,345</b>	<b>24,613</b>	<b>268</b>	<b>22,853</b>

### B) Outturn against final Administration Budget

	2007-08		2006-07
	Budget £000	Outturn £000	Outturn £000
Gross Administration Budget	24,773	24,599	23,043
Income allowable against the Administration Budget	(347)	(347)	(364)
<b>Net outturn against final Administration Budget</b>	<b>24,426</b>	<b>24,252</b>	<b>22,679</b>

**4 Reconciliation of resources to cash requirement**

		2007-08		
	Note	Estimate £000	Outturn £000	Net total outturn compared to Estimate saving/ (excess) £000
Resource outturn	2	24,426	24,252	174
Capital:				
Acquisition of fixed assets	10&11	1,537	1,338	199
Investments		-	-	-
Non-operating A in A:				
Proceeds of fixed asset disposals		-	-	-
Accruals adjustments:				
Non-cash items	8	(1,372)	(2,245)	873
Changes in working capital other than cash	18		215	(215)
Changes in creditors falling due after more than one year	18		137	(137)
Use of provision (cash only)	15	350	261	89
Excess cash receipts surrenderable to the Consolidated Fund	5	-	(2)	2
<b>Net Cash Requirement</b>		<b>24,941</b>	<b>23,956</b>	<b>985</b>

Increases in provisions were £700k higher than shown in the Estimate, with a corresponding reduction in cash usage.

**5 Analysis of income payable to the Consolidated Fund**

In addition to Appropriations in Aid, the following income relates to PHSO and is payable to the Consolidated Fund:

(Cash receipts are shown in italics)

	Forecast 2007-08		Outturn 2007-08	
	Income £000	Receipts £000	Income £000	Receipts £000
Operating income and receipts: excess A in A	-	-	91	-
Other operating income and receipts not classified as A in A	-	-	2	2
<b>Sub total</b>	-	-	<b>93</b>	<b>2</b>
Non-operating income and receipts: excess A in A	-	-	-	-
Other non-operating income and receipts not classified as A in A	-	-	-	-
<b>Total income payable to the Consolidated Fund</b>	-	-	<b>93</b>	<b>2</b>

**6 Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund**

	Note	2007-08 £000	2006-07 £000
Operating income	9	440	369
Income authorised to be appropriated-in-aid		347	364
<b>Operating income payable to the Consolidated Fund</b>	5	<b>93</b>	<b>5</b>

## 7 Staff numbers and related costs

### A) Staff costs

	2007-08			2006-07
	Permanently employed staff £000	Others £000	Total £000	Total £000
Wages and salaries	9,280	689	9,969	10,552
Social security costs	733	11	744	864
Other pension costs	1,856	22	1,878	1,863
<b>Sub total</b>	<b>11,869</b>	<b>722</b>	<b>12,591</b>	<b>13,279</b>
Ombudsman's salary: Consolidated Fund Standing Services	186	-	186	179
<b>Total gross costs</b>	<b>12,055</b>	<b>722</b>	<b>12,777</b>	<b>13,458</b>
Recoveries in respect of outward secondments	(122)	-	(122)	(143)
<b>Total net costs</b>	<b>11,933</b>	<b>722</b>	<b>12,655</b>	<b>13,315</b>

The PCSPS is an unfunded multi-employer defined benefit scheme. PHSO is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2007-08 employers' contributions of £1,811,730 were payable to the PCSPS (2006-07: £1,800,905) at one of four rates in the range of 17.1% to 25.5% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2008-09 the salary bands will be revised but the rates will remain the same. (The rates will be changing with effect from April 2009.) The contribution rates are set to meet the cost of the benefits accruing during 2007-08 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £40,682 were paid to one or more of a panel of three appointed stakeholder pension providers. Employers' contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employers' contributions of £3,232, 0.8% of pensionable pay (2006-07: £3,548, 0.8%), were payable to the PCSPS to cover the cost of the future provision of lump-sum benefits on death-in-service and ill-health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were £3,229. Contributions prepaid at that date were nil.

### B) Average number of persons employed

The average number of full-time equivalent persons employed, including the Ombudsman, during the year was as follows:

	2007-08			2006-07
	Senior management	Other permanent staff	Others	Total
Parliamentary Commissioner for Administration (PCA)	1	83	7	91
Health Service Commissioner for England (HSCE)	1	79	13	93
Corporate Management Group	2	75	9	86
<b>Total</b>	<b>4</b>	<b>237</b>	<b>29</b>	<b>270</b>

**8 Other administration costs**

	Note	2007-08		2006-07
		£000	£000	£000
<b>Rentals under operating leases</b>				
Accommodation		2,329		2,492
Other operating leases		76		248
			2,405	
<b>Non-cash items</b>				
Depreciation and amortisation of fixed assets:				
Tangible fixed assets	10	1,048		782
Intangible fixed assets	11	253		267
Revaluation losses		32		84
Loss on disposal of fixed assets		110		204
Cost of capital charge		190		75
Provisions:				
Provided in year	15	713		309
Provisions not required written back	15	(151)		(86)
Auditor's remuneration and expenses		50		45
			2,245	
<b>Other expenditure</b>			7,358	5,344
<b>Other administration costs</b>			<b>12,008</b>	<b>9,764</b>

i) Other expenditure comprises:

	2007-08	2006-07
	£000	£000
External professional advice (casework-related)	1,646	1,342
Associate investigators	131	247
Professional services	198	287
Consultancy	66	97
Information and communications technology	1,240	1,271
Accommodation costs	1,589	730
Recruitment and training	691	443
Travel, subsistence and hospitality	153	131
Publicity	56	57
Stationery and postage	198	221
Other	1,390	518
<b>Total</b>	<b>7,358</b>	<b>5,344</b>

ii) Auditors have received no remuneration for non-audit work.

iii) Included in Other expenditure above are staff departure costs of £960k, arising as a result of the Organising for the Future programme. This represents the best estimate of directly attributable costs to PHSO arising from the programme.

## 9 Income

	2007-08	2006-07
	£000	Restated £000
Recovery of direct and overhead costs from the:		
Local Government Ombudsman for England	113	35
Public Services Ombudsman for Wales	51	42
Scottish Public Services Ombudsman	89	86
Northern Ireland Ombudsman	3	-
Information Commissioner's Office	60	152
Recoveries in respect of outward secondments	122	49
Other miscellaneous operating receipts	2	5
	<b>440</b>	<b>369</b>

In 2006-07 recoveries in respect of outward secondments to the Information Commissioner's Office were disclosed in the Information Commissioner's Office total. In 2007-08 they are disclosed in the Recoveries in respect of outward secondments total.

## 10 Tangible fixed assets

	Furniture and fittings	IT equipment	Office machinery	Refurbish- ment	Assets under construction	Total
	£000	£000	£000	£000	£000	£000
<b>Cost or valuation</b>						
At 1 April 2007	1,485	1,071	670	4,342	143	7,711
Additions	221	77	-	859	89	1,246
Disposals	(235)	(82)	(24)	-	(48)	(389)
Revaluations	50	(46)	65	-	-	69
Reclassifications	18	-	-	16	(94)	(60)
<b>At 31 March 2008</b>	<b>1,539</b>	<b>1,020</b>	<b>711</b>	<b>5,217</b>	<b>90</b>	<b>8,577</b>
<b>Depreciation</b>						
At 1 April 2007	518	481	63	295	-	1,357
Charged in the year	153	256	134	505	-	1,048
Disposals	(205)	(60)	(14)	-	-	(279)
Revaluations	19	(29)	18	-	-	8
<b>At 31 March 2008</b>	<b>485</b>	<b>648</b>	<b>201</b>	<b>800</b>	<b>-</b>	<b>2,134</b>
<b>NBV at 31 March 2008</b>	<b>1,054</b>	<b>372</b>	<b>510</b>	<b>4,417</b>	<b>90</b>	<b>6,443</b>
NBV at 31 March 2007	967	590	607	4,047	143	6,354

## Analysis of significant movements on tangible fixed assets

The majority of the additions of £1,246k in year relate to completion of the Refurbishment Project.

**11 Intangible fixed assets**

	Purchased software licences
	£000
<b>Cost or valuation</b>	
At 1 April 2007	1,069
Additions	92
Disposals	-
Revaluations	(45)
Reclassifications	60
<b>At 31 March 2008</b>	<b>1,176</b>
<b>Amortisation</b>	
At 1 April 2007	431
Charged in the year	253
Disposals	-
Revaluations	(27)
<b>At 31 March 2008</b>	<b>657</b>
<b>NBV at 31 March 2008</b>	<b>519</b>
NBV at 31 March 2007	638

**12 Debtors**

	2007-08	2006-07
	£000	£000
<b>Amounts falling due within one year</b>		
Trade debtors retainable	14	70
Trade debtors payable to the Consolidated Fund	91	-
Deposits and advances	312	91
Prepayments	883	807
	<b>1,300</b>	<b>968</b>

**13 Cash at bank and in hand**

	2007-08	2006-07
	£000	£000
Balance at 1 April	391	178
Net change in cash balances	(269)	213
<b>Balance at 31 March</b>	<b>122</b>	<b>391</b>
The following balances at 31 March are held at:		
HM Paymaster General	115	361
Cash in hand	7	30
<b>Balance at 31 March</b>	<b>122</b>	<b>391</b>

**14 Creditors**

	2007-08	2006-07
	£000	£000
<b>Amounts falling due within one year</b>		
Trade creditors	400	389
Taxation and social security creditor	254	475
Rent accrual	71	4
Accruals and deferred income	507	338
Amounts issued from the Consolidated Fund for supply but not spent at year end	120	386
CFERs due to be paid to the Consolidated Fund:		
Received	2	5
Receivable	91	-
<b>Sub total</b>	<b>1,445</b>	<b>1,597</b>
<b>Amounts falling due after more than one year</b>		
Rent accrual	688	825
<b>Total</b>	<b>2,133</b>	<b>2,422</b>

**15 Provisions for liabilities and charges**

	2007-08				2006-07
	Early departure costs £000	Legal claims £000	Other £000	Total £000	Total £000
Balance at 1 April	604	160	80	844	1,218
Provided in the year	724	-	-	724	309
Provisions not required written back	-	(83)	(68)	(151)	(86)
Provisions utilised in the year	(239)	(21)	(12)	(272)	(608)
Unwinding of discount	-	-	-	-	11
<b>Balance at 31 March</b>	<b>1,089</b>	<b>56</b>	<b>-</b>	<b>1,145</b>	<b>844</b>

**Early retirement and pension commitments**

PHSO meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. PHSO provides for this in full when the early retirement programme becomes binding on PHSO by establishing a provision for the estimated payments.

**Legal claims**

The above liability is based on management's best estimate of amounts likely to be paid with respect to legal costs awarded against PHSO.

**Other**

During 2003-04 a provision of £266,666 was made for the future impairment of a significant number of the assets classified as fixtures and fittings. The remainder of this provision has been reversed unused in 2007-08: the assets have been disposed of or fully depreciated.

£11,000 disclosed within the 'Balance at 1 April' in the 'Other' category has been transferred in year to 'Early departure costs'. As a result, the 'Provided in year' figure in Note 8 differs from that in Note 15 by £11,000, and an £11,000 adjustment is required in Note 18(A).

**16 General Fund**

The General Fund represents the total assets less liabilities of PHSO, to the extent that the total is not represented by other reserves.

	2007-08		2006-07	
	£000	£000	£000	£000
Balance at 1 April		4,709		389
Net Parliamentary Funding:				
Drawn down	23,690		27,170	
Deemed	386		105	
		24,076		27,275
Consolidated Fund Standing Services		186		179
Year end adjustment:				
Supply creditor - current year		(120)		(386)
Net transfer from operating activities:				
Net operating cost	(24,345)		(22,853)	
Non-operating Income	-		-	
CFERs repayable to the Consolidated Fund	(93)		(5)	
		(24,438)		(22,858)
Non-cash charges:				
Cost of capital	190		75	
Auditor's remuneration	50		45	
		240		120
Transfer from Revaluation Reserve		7		1
Change in pension liability		-		(11)
<b>Balance at 31 March</b>		<b>4,660</b>		<b>4,709</b>

**17 Revaluation Reserve**

The Revaluation Reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

	2007-08	2006-07
	£000	£000
Balance at 1 April	376	368
Arising on revaluation during the year (net)	77	7
Transfer to General Fund in respect of realised element of Revaluation Reserve	(7)	1
<b>Balance at 31 March</b>	<b>446</b>	<b>376</b>

**18 Notes to the Consolidated Cash Flow Statement**

## A) Reconciliation of operating cost to operating cash flows

		2007-08	2006-07
	Note	£000	£000
Net operating cost		24,345	22,853
Adjustments for non-cash transactions	8	(2,245)	(1,680)
Increase/(decrease) in debtors	12	332	(269)
(Increase)/decrease in creditors falling due within one year	14	27	332
Less movements in creditors relating to items not passing through the Operating Cost Statement:			
Consolidated Fund creditor	14	(266)	208
CFERs received and receivable	14	88	(68)
(Increase)/decrease in creditors falling due after more than one year	14	137	174
Use of provisions	15	272	608
Less non-cash use of provisions		(11)	(48)
<b>Net cash outflow from operating activities</b>		<b>22,679</b>	<b>22,110</b>

## B) Analysis of capital expenditure and financial investment

		2007-08	2006-07
	Note	£000	£000
Tangible fixed asset additions	10	1,369	4,904
Intangible fixed asset additions	11	92	54
Proceeds on disposal of fixed assets		-	-
<b>Net cash outflow from investing activities</b>		<b>1,461</b>	<b>4,958</b>

## C) Analysis of financing

		2007-08	2006-07
	Note	£000	£000
From the Consolidated Fund (Supply) - current year	16	23,690	27,170
From the Consolidated Fund (non-Supply) - Standing Services	16	186	179
<b>Net financing</b>		<b>23,876</b>	<b>27,349</b>

## D) Reconciliation of Net Cash Requirement to increase/(decrease) in cash

		2007-08	2006-07
	Note	£000	£000
Net Cash Requirement		(23,956)	(26,889)
From the Consolidated Fund (Supply) - current year	16	23,690	27,170
Amounts due to the Consolidated Fund - received in prior year and paid over		(5)	(73)
Amounts due to the Consolidated Fund - received and not paid over	5	2	5
<b>Increase/(decrease) in cash</b>		<b>(269)</b>	<b>213</b>

**19 Notes to the Statement of Operating Costs by PHSO's objectives**

PHSO's capital is employed exclusively for administration purposes. Its distribution amongst objectives is, therefore, not markedly different from the proportion of the related gross administration costs.

Administration costs and income have been attributed to objectives in accordance with PHSO's management accounting practices.

**20 Capital commitments**

	<b>2007-08</b>	<b>2006-07</b>
	£000	£000
Contracted capital commitments at 31 March for which no provision has been made	-	1,075

**21 Commitments under leases**

## Operating leases

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

	<b>2007-08</b>	<b>2006-07</b>
	£000	£000
Land and buildings:		
Expiry within 1 year	-	52
Expiry after 1 year but not more than 5 years	-	-
Expiry thereafter	2,368	2,957
	<b>2,368</b>	<b>3,009</b>
Other:		
Expiry within 1 year	-	51
Expiry after 1 year but not more than 5 years	52	172
Expiry thereafter	-	-
	<b>52</b>	<b>223</b>

Lease payments on land and buildings expiring after 5 years represent the annualised rental payments on Millbank Tower after accounting for the rent-free period.

## Finance leases

There were no finance leases as at 31 March 2008, or as at 31 March 2007.

## 22 Other financial commitments

PHSO has entered into non-cancellable contracts (which are not leases or Private Finance Initiative contracts) for the service and maintenance of IT equipment. The payments to which PHSO was committed during 2007-08, analysed by the period during which the commitment expires, are as follows:

	2007-08	2006-07
	£000	£000
Expiry within 1 year	282	382
Expiry after 1 year but not more than 5 years	917	731
Expiry thereafter	790	-
	<b>1,989</b>	<b>1,113</b>

## 23 Financial instruments

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the non-trading nature of its activities and the way in which it is financed, PHSO is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies.

PHSO has no powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing PHSO in undertaking its activities.

### Liquidity risk

PHSO's net revenue resource requirements are financed by resources voted annually by Parliament, as is its capital expenditure. PHSO is not, therefore, exposed to significant liquidity risk.

### Interest rate risk

PHSO is not exposed to any interest rate risk.

### Foreign currency risk

PHSO's exposure to foreign currency risk is insignificant. PHSO undertakes a very small number of low value transactions in foreign currency.

## 24 Contingent liabilities disclosed under FRS 12

There are two legal cases currently in progress regarding decisions taken by the Ombudsman in response to complaints received. The total estimated liability for costs which may be recoverable by the litigants is £100,000.

## 25 Contingent liabilities not required to be disclosed under FRS 12 but included for parliamentary reporting and accountability purposes

PHSO has no contingent liabilities that are not required to be disclosed under FRS 12 but should be included for parliamentary reporting and accountability purposes.

**26 Losses and special payments**

	2007-08		2006-07	
	No. of cases	£000	No. of cases	£000
Total	46	255	40	165

No individual cases in either 2007-08 or 2006-07 exceeded £250,000.

**27 Related-party transactions**

PHSO contracts with a number of External Professional Advisers, who are experts in their field and provide specialist advice, including advice on clinical matters, to PHSO when required regarding investigated complaints. The Public Services Ombudsman for Wales and the Scottish Public Services Ombudsman contract with PHSO for the services of these External Professional Advisers in accordance with their respective service level agreements. The cost of these services to PHSO is recovered, and is disclosed as Appropriations in Aid in these resource accounts.

PHSO and the Local Government Ombudsman for England (LGO) undertake joint working and collaboration across a wide number of areas and initiatives.

In February 2003 LGO co-located with PHSO in Millbank Tower. As part of the co-location arrangements the two bodies have exchanged areas of accommodation within Millbank Tower to develop closer working relationships, particularly between their corporate service functions. Income from LGO is disclosed in Note 9. Payments (on an accruals basis) to LGO totalled £177,307.

In addition, PHSO has a small number of transactions with other government departments and health service bodies.

Other than as noted above, neither the Ombudsman nor any members of the management group or key managerial staff have undertaken any material transactions with PHSO during the reporting period.

**28 Post balance sheet events**

In accordance with the requirements of FRS 21, post balance sheet events are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date the accounts are laid before Parliament. These accounts will be laid before Parliament on 6 October 2008.

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