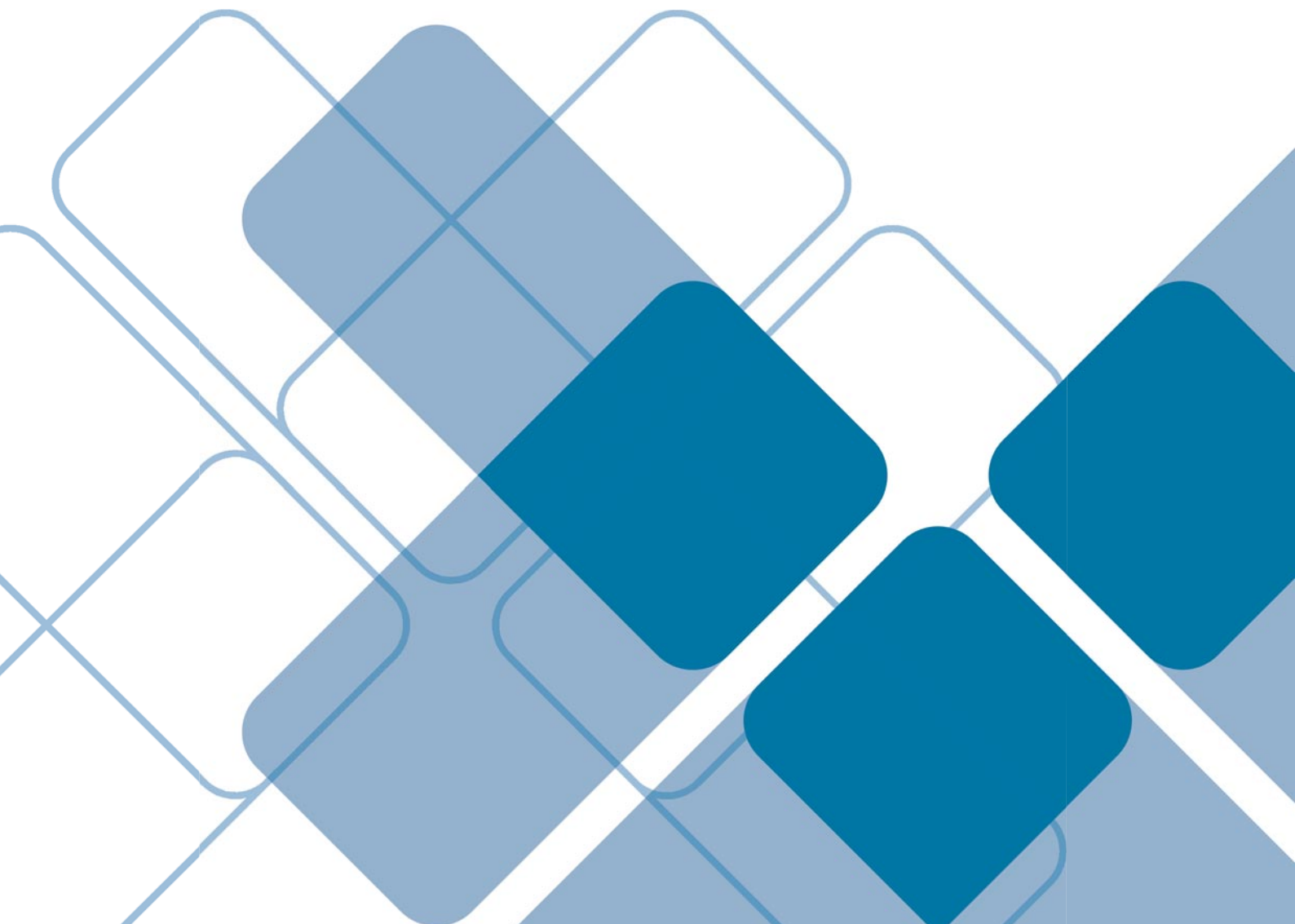


Pensions Ombudsman Service

Annual Report and Accounts 2014/15



Pensions Ombudsman

Pension Protection Fund Ombudsman

Annual Report and Accounts 2014/15

The Pensions Ombudsman's Accounts presented to Parliament pursuant to section 145(9) of the Pension Schemes Act 1993 and the Pensions Ombudsman's report presented to Parliament by Command of Her Majesty.

The Pension Protection Fund Ombudsman's Accounts presented to Parliament pursuant to section 212A of the Pensions Act 2004, and the Pension Protection Fund Ombudsman's report presented to Parliament by Command of Her Majesty.

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About us

We are an independent organisation set up by law to investigate complaints about pension administration. We can also consider complaints about the actions and decisions of the Pension Protection Fund and about some decisions made by the Financial Assistance Scheme.

We look at the facts without taking sides. And we have legal powers to make decisions that are final, binding and enforceable in court. Our service is free.

The Pensions Ombudsman Service combines, in one organisation, the functions of two statutory bodies, the Pensions Ombudsman and the Pension Protection Fund Ombudsman.

The Pensions Ombudsman

The Pensions Ombudsman investigates and determines complaints and disputes concerning occupational and personal pension schemes. The establishing legislation is Part X of the Pension Schemes Act 1993 and Part X of the Pension Schemes (Northern Ireland) Act 1993.

The Pension Protection Fund Ombudsman

The Pension Protection Fund Ombudsman deals with complaints and “reviewable matters” connected with the Pension Protection Fund (a statutory corporation) and appeals against decisions of the manager of the Financial Assistance Scheme. The establishing legislation is sections 209 to 218 of the Pensions Act 2004.

Funding

The service is funded by grant-in-aid paid by the Department for Work and Pensions (DWP). The grant-in-aid is substantially recovered from the general levy on pension schemes that is invoiced and collected by the Pensions Regulator. The levy is set by and owed to the Secretary of State for Work and Pensions.

In 2014/15 the service received £3,067,000 grant-in-aid, incurred net expenditure of £3,291,097 and had net assets at 31 March 2015 of £155,259. Full details are in the accounts.

We are a Non Departmental Public Body sponsored by the Department for Work and Pensions. Our principal place of business is 11 Belgrave Rd, London, SW1V 1RB.

Ombudsman's introduction

There has never been a dull moment in pensions and this is certainly true today as I take on responsibility for the office of the Pensions Ombudsman with effect from 25 May 2015, with a mixture of excitement and trepidation.

With just over one month in the post I cannot claim any credit for the approach and decisions made under the excellent leadership of Tony King. His clear, pragmatic, and proportionate, decision making, which has been evident since his appointment on 1 September 2007, has set the standard.

It is certainly a time of 'all change' with two other members of the senior team also having left: Jane Irvine, the Deputy Pensions Ombudsman; and Kim Parsons, the Casework Director. Both have been excellent and will be missed.

I am pleased to say that Jane's replacement, Karen Johnston, as the new Deputy Pensions Ombudsman, brings with her excellent experience from her time working as a lawyer at the Pensions Regulator, especially given her work in re formulating the Regulator's internal complaints process thereby improving the 'Customer Journey', and also her input into automatic enrolment compliance.

In addition, we have an interim Chief Executive Officer, Simon O'Brien, to assist the transition of the senior management team. He has considerable experience having joined us from the Garda Síochána Ombudsman Commission in Ireland where he was the Chair.

As can be seen from the steady increase in the number of complaints, the challenge over the next year will be to reduce the backlog ensuring that complaints are dealt with in a timely manner whilst maintaining the quality of the process and decisions made.

This trend is likely to continue with increased public awareness, issues concerning pension flexibility and auto enrolment. Also, should a secondary annuity market be introduced, there may be complaints arising from the ability to assign annuities.

I am reviewing the Corporate and Business Plan 2014 - 2017, to see whether it needs up-dating in order to take into account legislative changes. However, many of its objectives remain unchanged. For example, it is vital that we reduce the time it takes to assign a case to an investigator; we are trialing various approaches to see if this can be addressed within our existing resources.

One of the issues highlighted in the Business Plan is the ‘Customer Journey’. This is a very welcome DWP-led review into which I am keen to provide input. One of the challenges for someone who believes they have a pensions grievance is understanding which route they take. The review is timely with auto enrolment, pension freedoms and the new approach to pensions communication: Pension Wise and The Pension Advisory Service.

Also, part of the Business Plan is to continue the good relationships established with all pension stakeholders and build new ones in order to encourage feedback, transparency in what we do, and assist others to ensure a high standard of pension provision and advice.

The requirements of EU Alternative Dispute Resolution Directive will be transposed into national law by 9 July 2015. We will be the Pensions entity reporting to the DWP as the “Competent Authority”. We are reviewing our procedures to ensure compliance has a positive outcome on the service we provide.

Finally, on behalf of Tony King and myself, I wish to express my sincere thanks to all the staff who, in spite of the changes in senior management and the considerable increase in workload, have sought ways to improve productivity while maintaining the quality of our service. Although, I have only been in post a relatively short time I have been struck by the commitment, expertise, and willingness, to find new ways in which we can meet our objectives while maintaining our values.



Anthony Arter
Pensions Ombudsman
Pension Protection Fund Ombudsman

The year in summary

Key facts and figures

Pensions Ombudsman

We received 4,236 contacts (new or repeat) from people who thought we might be able to help them.

We responded to 97% within two working days.

The most common reasons that we did not take cases on were that they had not been taken up with whoever was possibly at fault, or that we thought the Pensions Advisory Service were likely to be able to help.

We took on 1,281 new investigations – 21% more than 2013/14 and 22% more than we planned to.

207 of those new investigations arose from two groups of cases that are unlikely to form part of a long term trend (177 were about “pension liberation” and 30 about a particular scheme). Excluding all anomalies from both years, newly accepted investigations were up by 7% on 2013/14.

Investigations ended in the year took 9.8 months on average to complete.

The most common topics of completed complaints were: missing, late or incorrect benefits, followed by misquotations/misinformation, then transfers and ill-health retirement.

38% of complaints were upheld, at least in part.

Pension Protection Fund Ombudsman

Pension Protection Fund Ombudsman referrals form a very small part of our work. We accepted 14 new cases for investigation in the year, and completed 18 investigations.

Our performance

What we said we would do	What we did
we would respond to 95% of enquiries within an average of 2 days of receipt	we responded to 97% of enquiries within 2 working days of receipt
not more than 5% of the number of enquiries received in the previous 12 months would be open at any time	measured at the end of each month we met this target for 8 out of 12 months (including at the year end)
we would decide whether we could investigate a case on average within 7 weeks from the date on which we had a valid application	we made our decisions whether to investigate in 4 weeks on average
we would complete 1,100 investigations	we completed 970 investigations
if we took on 1,050 new investigations, we would have no more than 670 open at the year end	we took on 1,281 and had 1,031 open at the year end
we would complete investigations on average within 10 months from the date on which we had a valid application	we completed investigations in an average of 9.8 months
investigations open on 31 March would have an average age of not more than 25 weeks	the average age was 28.8 weeks
there would be no more than 5% of open investigations aged over 12 months at 31 March	12% of investigations were over 12 months old
there would be no more than 1% of open investigations aged over 24 months at 31 March	2% of investigations were over 24 months old

Our costs

Our actual operating cost was	£3.291m
Our budgeted operating cost was	£3.305m
An underspend of	£0.014m
Our cost per case was	£853
Our budgeted cost per case was (operating costs divided by the number of enquiries and investigations)	£940
Our cost per investigation was	£3,392
Our budgeted cost per investigation was (operating cost divided by the number of completed investigations)	£3,000

The year ahead

The organisation faces challenges in relation to increasing volumes of work. Over the last three years our workload has risen quite significantly. In the coming year we are predicting we will take on over 1,300 new investigations compared to 915 five years ago (a 42% increase). We are finding it hard to keep pace with the demand for our services within existing resourcing levels. The net effect is that it is taking us longer to deal with cases and our carry forward caseload is increasing.

We anticipate that our workload will increase further as a result of pension changes: increased flexibility on retirement; public sector pension scheme changes; and automatic enrolment which will see many more people becoming members of pension schemes. In order to comply with the Alternative Dispute Resolution directive we need to provide complainants with the opportunity to make an on line application to us. We don't currently provide this and need to have it in place this year. We are currently working with DWP to ensure we meet our requirements.

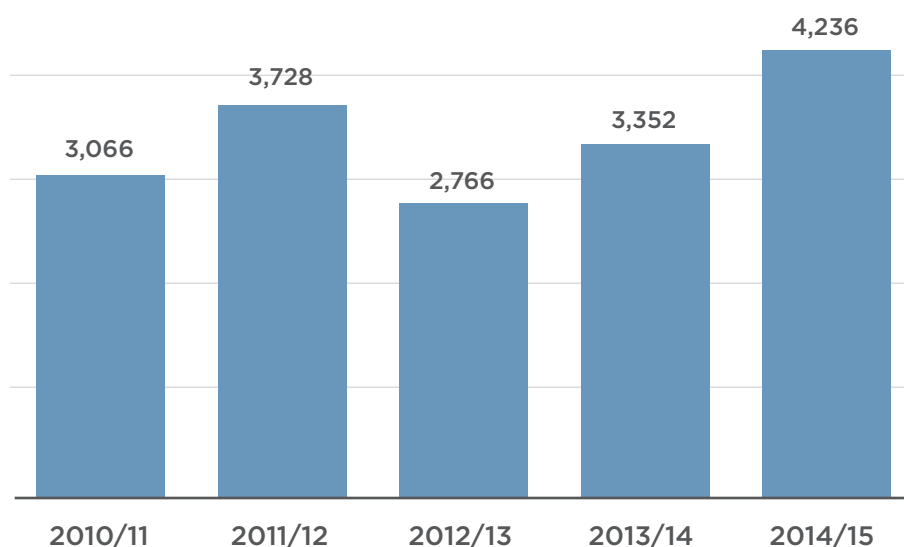
Casework review – Pensions Ombudsman

This part of our report concerns the bulk of our work, in the Pensions Ombudsman’s role. Our work as the Pension Protection Fund Ombudsman is covered in the next section.

Our workload – “enquiries”

We count as “enquiries” any initial written request for our help. There has been an increase in the number we’ve counted this year. Part of that is because we have changed our systems so that we now record some enquiries that only take a very short time to deal with. Part is because of the unusual number of contacts related to pension liberation (discussed later). But we think there is an underlying increase, not accounted for by either of those factors.

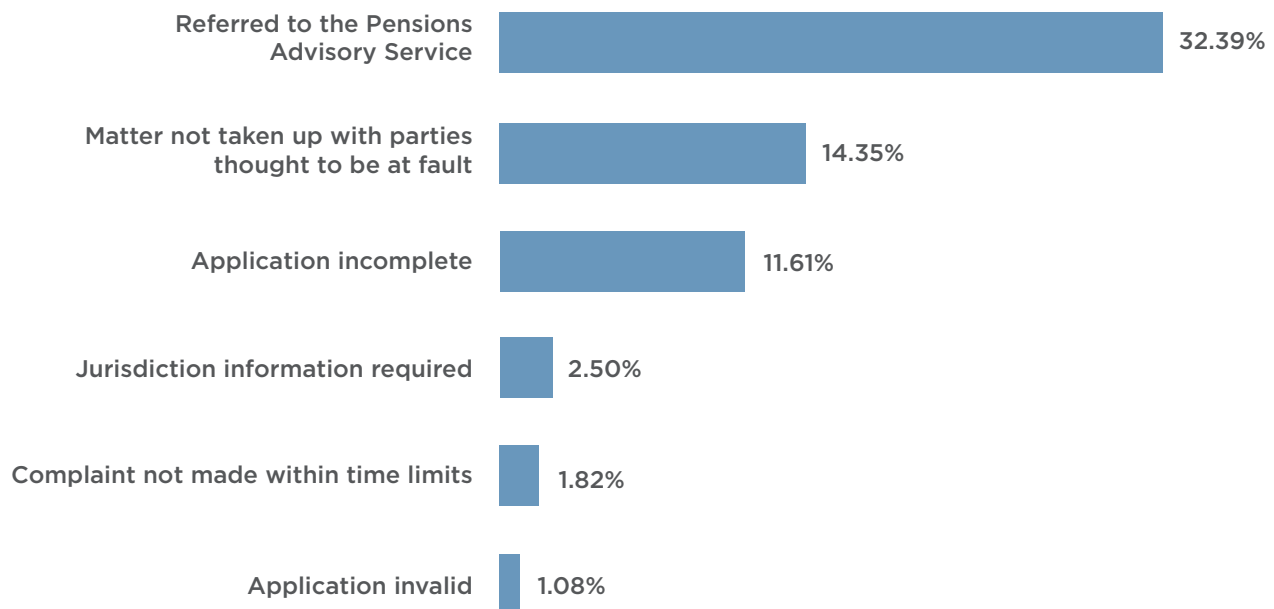
Enquiries - last five years



Our average initial response time to enquiries was less than one day. The target was to respond within two days on 95% of cases. We responded within two working days in 97% of cases.

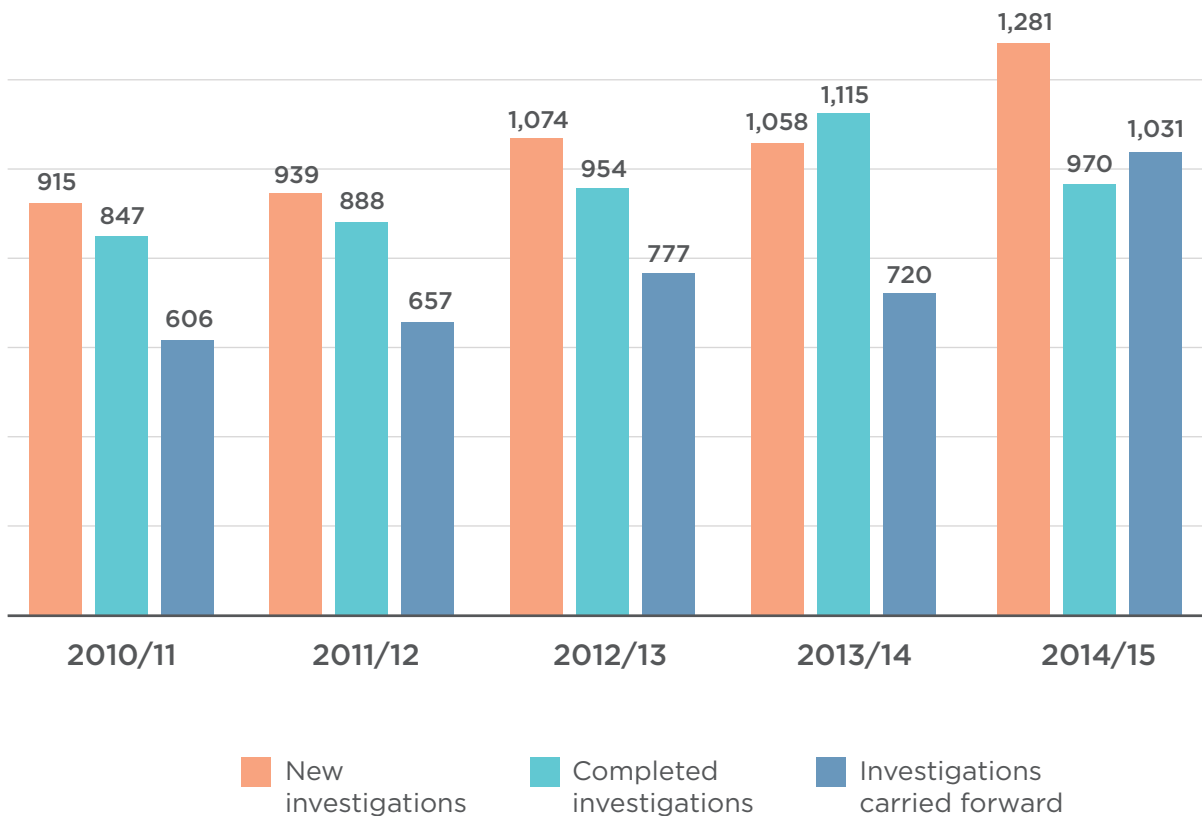
The main reasons that enquiries did not become investigations were that the matter had not yet been taken up with whoever was thought to be at fault, or that we thought that the person would benefit from advice or mediation by the Pensions Advisory Service.

Main reasons that enquiries did not become investigations



Our workload – investigations

New, completed and carried forward investigations – last five years

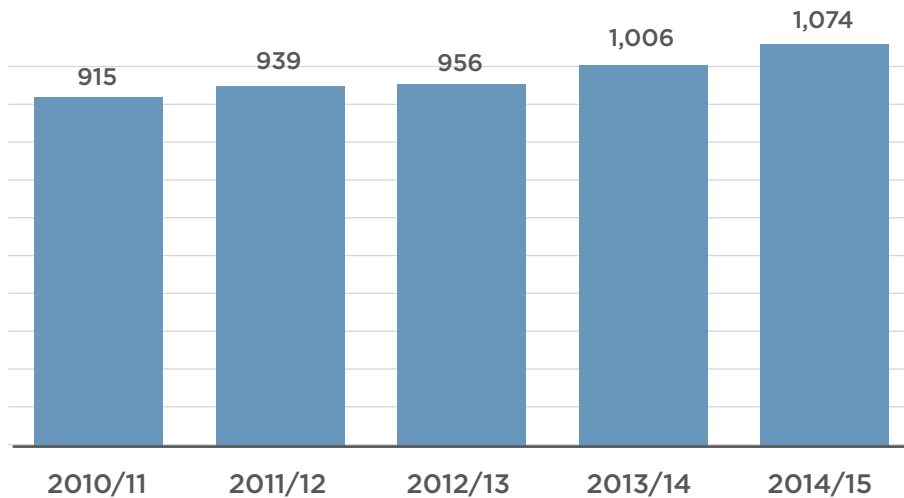


New investigations

We accepted 1,281 cases for investigation in the year (we had planned for 1,050).

Of those, 177 were related to “pension liberation” (preferred by us to the alternative term “pension scams” which might imply prejudgement). There had been 52 accepted the year before. Discounting these and other anomalous groups of cases from all years, the trend is still upwards, if less steeply so.

Underlying trend – new investigations with groups removed



Completing investigations

We were not able to complete as many investigations as we took on, even discounting the unusual groups. That meant a significant increase in work in hand, from 720 cases at the start of the year to 1,031 at the year end. Of those 169 relate to pension liberation and not all of those will require full investigation. However, the numbers will present a challenge for 2015/16.

We completed 970 cases, 130 fewer than we projected at the beginning of the year. There were two main reasons. First, we needed to recruit some replacement staff (see “Our people”), but were unable to find people of the right skills and abilities until later in the year. Second, we had expected that the pension liberation cases that we already had at the start of the year would be completed in 2014/15, but many were not.

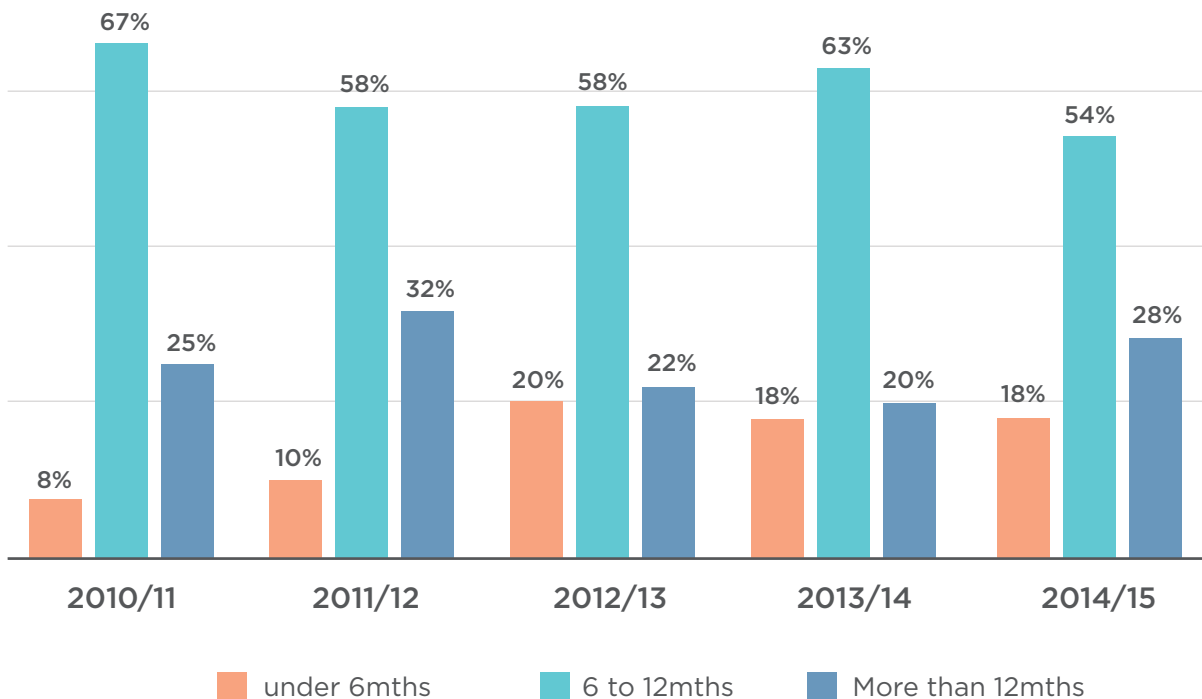
Investigation timescales

The average time from an application being made to the investigation being concluded was 9.8 months. 72% of investigations were dealt with in less than a year (down from 80% in 2013/14).

Ages of open and completed investigations over time

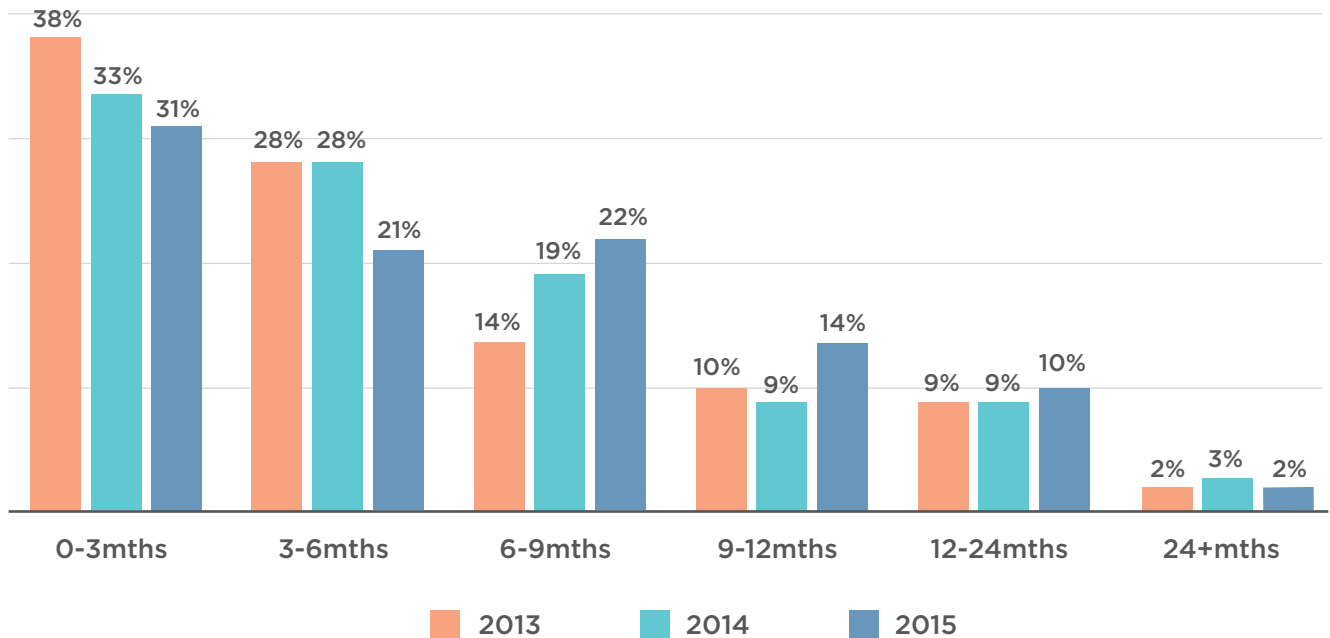
	2010/11	2011/12	2012/13	2013/14	2014/15
Average age of open investigations at 31 March in months	6.7	6.5	5.0	6.3	6.6
Average age of investigations at completion in months	9.8	10.6	9.6	9.5	9.8

Age of completed investigations over time (percentages)



18% of investigations were completed in fewer than 6 months, the same as last year, and a considerable improvement on the 8% of five years before. However, 18% was a slight fall from 20% in 2013/14 and reflects the fact that the profile of cases we have in hand is becoming older because, this year in particular, we have not kept up with the number coming in. A change in the profile of open cases over the past few years reflects the same thing.

Age profile of open investigations at year end



Decision process

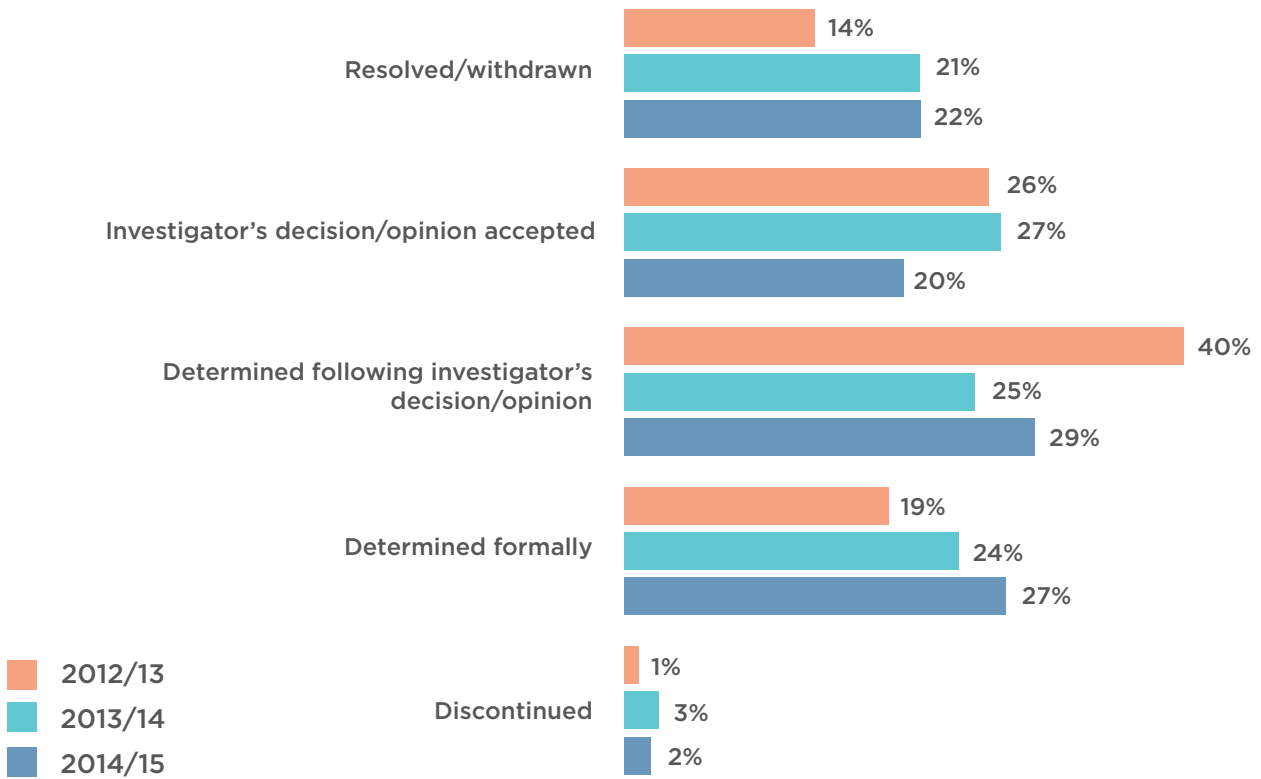
In some cases we are able to give an informal explanation of the position to the parties, which may result in the matter being resolved. 22% of investigations ended because the complaint was resolved or withdrawn.

In appropriate cases, after investigation, our investigators give the parties their written view (or “Opinion”) of the outcome. In 19% of cases closed, the parties accepted that and the matter was settled.

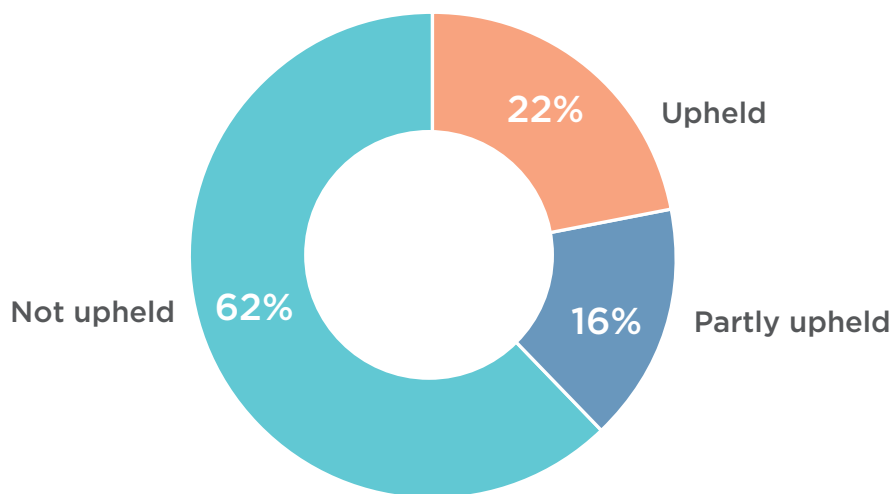
Where all the parties do not accept the Opinion, the matter will be referred to an Ombudsman. If the Ombudsman agrees with the Opinion a final determination will be issued. That happened in 29% of the cases completed in the year.

In more complex cases, or where there is an issue of precedent or for other reasons the case may be determined formally, with the Ombudsman issuing preliminary conclusions before doing so. 27% of investigations closed followed that process.

Decision process: three year comparison

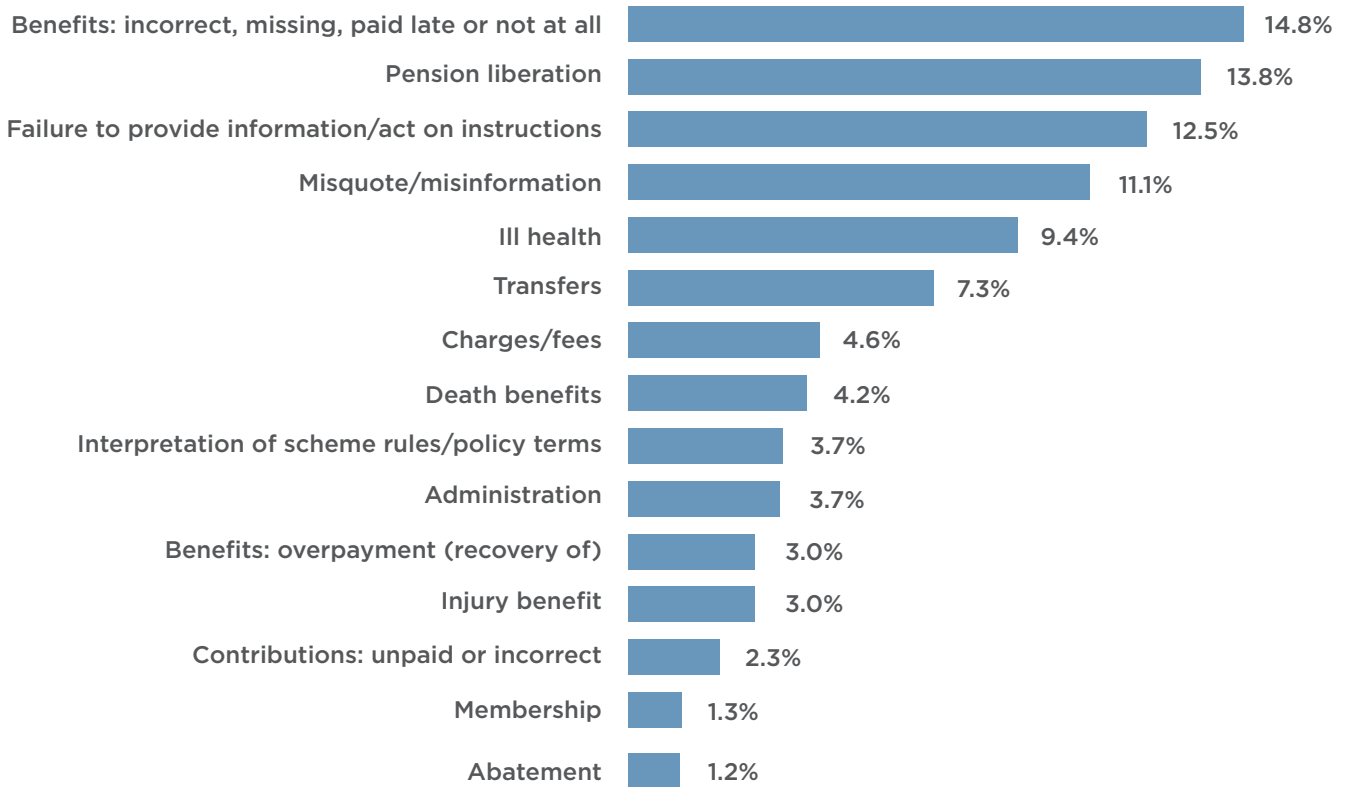


Outcome of cases determined by an ombudsman



What complaints were about

Subject matter of new investigations (top 15)



The significant change in 2014/15 is the number of complaints categorised as relating to “pension liberation”

We use “pension liberation” as a convenient term, certainly without prejudging the motive of the person making the transfer (though it may describe the reason for the transferor’s reluctance). We avoid “pension scam” since it includes a presumption about the receiving scheme.

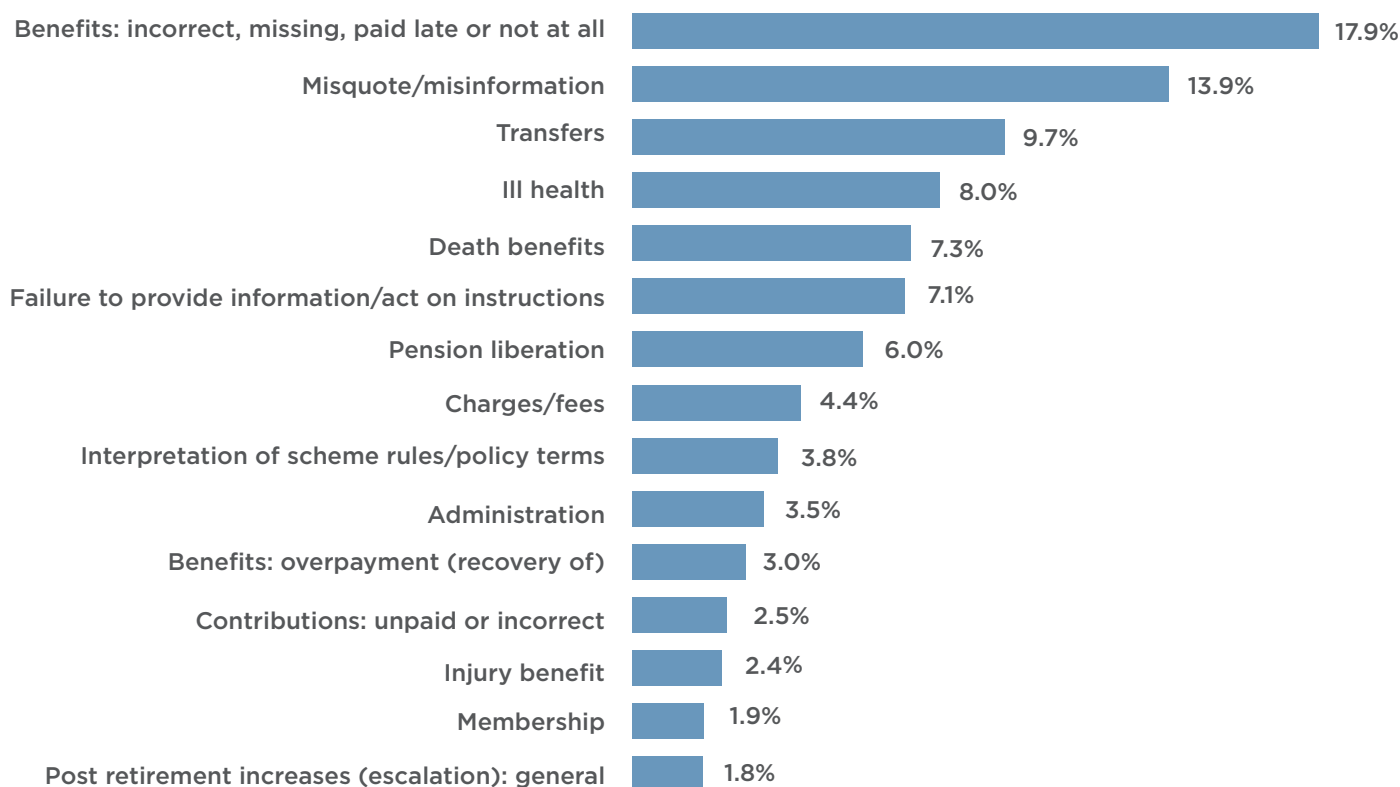
Most cases classified as concerning pension liberation are about not being able to transfer a pension because the transferring scheme thinks the transfer may not be in the member’s best interests (for tax reasons, because of investment risk or because of “scams”). A smaller number are from people who were able to transfer into various schemes and have subsequently become concerned about the safety of their money. They argue that the transferring scheme should not have paid out.

The final group concerns people who have transferred but who are similarly concerned about their money, but complain against the receiving scheme.

Included in the new complaints in the year were two groups, totalling about 70, brought against providers and steered by the arrangers of the intended transfers.

Our decisions on pension liberation cases have received considerable publicity, including through our own website. Very brief summaries of some are also included in the next section of this report.

Subject matter of closed investigations (top 15)



This chart gives a picture of the complaints that we have decided, so is less immediately topical than the previous one. A comparison between the two shows a great deal of similarity between what is coming in and what is going out in their subject matter – with the significant variation being the new pension liberation cases.

Some summaries of completed cases

These much simplified accounts of our cases give a flavour of what we do. We publish all formal determinations in full on our website. Because the summaries below are shortened they have also had the names of parties removed.

When we say “the Ombudsman” we mean whichever of the Pensions Ombudsman or Deputy Pensions Ombudsman dealt with the case.

Pension liberation

Transfer paid - no communication from receiving scheme

Mr X worked for the NHS and had pension benefits worth approximately £370,000. He was encouraged to transfer this sum to the Capita Oak pension scheme – this involved him opting out of the NHS scheme for future service. The Capita Oak pension scheme purported to be an occupational arrangement although Mr X was not employed by a company connected to it. He was told that by proceeding with the transfer he could expect annual investment returns of 8 to 12%.

After the transfer had gone ahead, Mr X became concerned about his decision. He asked to transfer out of the Capita Oak pension scheme. The trustee of the Capita Oak pension scheme, Imperial Trustee Services Ltd, never responded to his many attempts to communicate with them.

We decided that Mr X would have been entitled to transfer out of the Capita Oak pension scheme on formal request, and the only reason he did not make such a request was that the trustee did not reply to him. The Ombudsman directed the trustee to pay a transfer value of at least the original amount, plus interest. Mr X can enforce the direction in the courts, though the Ombudsman noted that even if the trustee engaged with enforcement, Mr X might find that some or all of the money had disappeared.

Transfer blocked

Mr T had a self-invested personal pension (**SIPP**) and he sought to transfer this to his own occupational arrangement. The SIPP operator refused to complete the transfer, being concerned that the scheme was a vehicle for pension liberation.

The operator said that even if Mr T had a statutory right to a transfer, simply allowing a transfer to a scheme that met basic legislative requirements could expose customers to fraud and/or adverse tax consequences. It would also go against the Pensions Regulator’s guidance.

The Ombudsman said that the operator had not examined the receiving scheme's trust deed or rules or considered whether a statutory right to a transfer existed.

However although the intended receiving scheme was an occupational pension scheme within the statutory definition, Mr T was not an "earner" in relation to it so the Ombudsman found he had no statutory right to transfer. However, under the rules of the SIPP, the operator had discretion to pay a transfer value even where there was no statutory right.

The Ombudsman found that the operator had not exercised discretion properly and directed it do this before coming to another decision on whether to process the transfer.

But the Ombudsman added a "serious note of caution" suggesting that Mr T should take professional advice from a properly authorised person before taking a step that was at the least high risk; at the worst he was about to be financially disadvantaged.

Overpayments – application of the Limitation Act

Mr D was a member of a defined benefit scheme from which he was awarded ill health early retirement benefits that were paid from April 1999, which included a tax free lump sum of around £8,500. In May 1999 Mr D ordered a new conservatory costing £11,220.

In June 1999 the scheme's trustees found that Mr D's benefits had been overpaid as a result of an incorrect date being used for the calculation of overtime in pensionable salary. The trustees recouped overpaid pension but decided not to seek recovery of the part of the lump sum which had been overpaid (£3,876) on the grounds that Mr D had relied on it when deciding to purchase the conservatory.

In April 2011 the trustees found a further overpayment dating back to April 1999 as a result of miscalculations regarding overtime. The trustees asked Mr D to agree to a five year repayment plan for the overpaid pension of £2,209 and lump sum of £587. The trustees began to recover overpayments without Mr D's agreement while the internal dispute resolution procedure was in progress.

Mr D referred the matter to the Pensions Ombudsman Service and said that the trustees should not be permitted to recover the second overpayment. He said that since 1999 he had spent around £2,800 on takeaway meals and asserted that the Limitation Act restricted the period in which overpayments could be reclaimed.

The trustees said the second overpayment involved a complex calculation and was so obscure it could not have been discovered with “reasonable diligence” before 2011. (If it could have been that would have given Mr D a defence against some or all recovery.)

The Ombudsman found that:

- The trustees should have noticed the error sooner – by having a sound knowledge of the scheme rules and carrying out audits on a regular basis. This meant that the trustees could not claim back overpayments for the full period, but were restricted by the Limitation Act to those made in a six year period before Mr D was notified of the error.
- Mr D would probably have spent money on takeaway meals had there not been an error in calculating his benefits and, in any event, they were cash purchases for which there was no evidence.
- It was illogical for the trustees not to waive the overpayment of the lump sum for the second overpayment as they did for the first one; it was not likely that Mr D would have gone ahead with the conservatory purchase had his lump sum been £587 lower.

The trustees were directed to recalculate the overpaid pension taking the six year period into account, not to seek recovery of the lump sum and to pay Mr D £350 as compensation for distress and inconvenience.

Death benefits

The complaint was brought by Mr and Mrs N, whose daughter, Ms N, was an active member of the Local Government Pension Scheme (the LGPS) when she died.

In 2005 Ms N had completed a death grant nomination form in favour of her parents, which also set out her address. In 2009 she had a son with Mr S and in April 2010 made a revised will providing for her residual estate to be held on trust for him until his 30th birthday. Ms N died in September 2011. Her son received a child’s pension from the LGPS.

The scheme’s administrator sent the manager of the scheme (also Ms N’s employer), a copy of the will. The manager asked the administrator to find out if Mr and Mrs N were still alive; the administrator confirmed they were but their contact details were awaited. There was no further investigation into this point.

In January 2013 the court issued a grant of representation to Mr S and another trustee giving them administration of Ms N's estate "for the use and benefit of her son". In February 2013 the manager decided to pay the lump sum death grant to Mr S and the other trustee.

Mr and Mrs N complained about this decision to the Ombudsman on the grounds that the benefit had been paid contrary to Ms N's 2005 nomination form.

The Ombudsman found that the manager had not taken all the relevant facts into account when making the decision about payment of the death grant and upheld the complaint.

The manager had discretion as to payment of the death grant and should have made a decision taking all relevant facts into consideration and ignoring irrelevant ones. The manager should have considered if Mr and Mrs N could still have been potential beneficiaries of the death grant.

The Ombudsman directed the manager to take the decision again after obtaining further details from Mr and Mrs N. If that decision resulted in payment of the death grant to Mr and Mrs N, the manager was directed to pay any tax charge that might arise. Recovery of the death grant that had already been paid was a separate matter.

Investment instructions

Mr H was an active member of a defined contribution scheme. 80% of his contributions were paid into a UK equity fund and 20% into a cash fund. In 2011 he asked that 100% of future contributions be invested in the cash fund. Around this time the scheme was closed; Mr H's employer had set up a group personal pension plan (GPPP), managed by the same provider and Mr H's benefits were moved to this arrangement.

Ahead of contributions to the new GPPP commencing, the manager told Mr H that the default fund was cash – saying this was taken from the instructions relating to the old scheme. Mr H was also sent a transfer pack which said that his "transfer value must be invested in exactly the same funds and investment proportions as your existing contributions". The frequently asked questions (FAQs) in the pack said that the transfer value (from the old plan) would be invested "in the same funds as your regular GPPP contribution". The transfer form completed by Mr H said that the transfer value "must be invested in the same funds (and investment proportions) and follow the same lifetime investment programme as your existing policy".

When the transfer took place in May 2012 it was all placed in the GPPP cash fund. This was not what Mr H had intended, it was only new contributions that he wanted to be invested 100% in the cash fund. After he became aware of the error, Mr H tried unsuccessfully to replicate the 80/20 investment split in the GPPP that had existed in the previous plan.

Mr H complained that the manager failed to explain that the transfer value would be invested in the same way as his ongoing contributions. Had the transfer happened as he had wanted, the fund would have been around £16,000 larger in March 2013, when Mr H decided to switch the fund to 50% equities and 50% cash.

The complaint was upheld by the Ombudsman as while the FAQs' reference to how the transfer value would be invested was relatively clear, it need not be read by members. The FAQs were intended to answer questions a reader might have and not to be read in detail as a way of finding information for the first time.

The Ombudsman found that while the references to "existing contributions" in the information pack and "existing policy" on the transfer form were meant to relate to the GPPP, they could be interpreted by a layperson as referring to the old plan, to which Mr H had already made significant contributions. The Ombudsman determined that this information was misleading.

The manager was directed to increase Mr H's transfer value to the sum it would have been had it been invested in the 80/20 equity/cash split Mr H had wanted.

SIPP - annual withdrawal limits

Mr E was a member of a self-invested personal pension (SIPP), the rules of which said that members could make annual income withdrawals not exceeding the maximum amounts set out in tables prepared by the Government Actuary's Department. A fees and services document given to Mr E when the plan was set up in 2001 said that he should be provided with annual statements and updates on investments.

Mr E started to draw benefits from his plan in 2007 - a letter from the SIPP operator to Mr E and his adviser set out the value of his fund and maximum income withdrawal after the tax free lump sum was taken. The letter and accompanying notes said that the amount of income could vary each year up to the maximum, with a year defined and commencing from the date the lump sum or first income withdrawal was taken. Mr E decided to take the maximum allowable lump sum in June 2007, and this was paid to him in July 2007.

Mr E withdrew around £31,000 gross up to 4 July 2008. In December 2008, when he had withdrawn a further £44,000, Mr E received an “annual unsecured pension review” from the SIPP operator for the year from July 2008 to July 2009. This set out that he could withdraw a further £31,000 in the remainder of the year. Mr E realised at this time that he had not drawn the maximum income in 2007/2008, but he was told by the operator that payments could not be backdated.

Mr E complained on the basis that he should have been reminded before the end of the 2007/2008 payment year that he had not yet drawn maximum income.

The SIPP operator said that annual reviews were normally sent two weeks prior to the end of a payment year, and the review sent in December 2008 had been several months late.

The complaint was not upheld by the Ombudsman. Mr E ought to have known what the maximum income in 2007/2008 was from the letter and notes he had been provided with.

There was no scheme rule saying that the operator should give Mr E a reminder of the maximum income, the fees and services document did not include such a service and statute did not impose an obligation on trustees to provide details of what income remained available in a particular year. While there was a general obligation to act in Mr E’s best interest, this did not extend as far as to provide him with such information. It was reasonable for the operator to expect Mr E to manage his pension income without being fed information that had already been made available to him.

The Ombudsman noted that even if the complaint had succeeded the loss would not be the income of £44,000 that Mr E did not take in 2007/2008. It remained in his fund - and even if it had reduced in value, the money he had taken from other sources as substitute income would, had it remained invested, have been subject to the same general market risk.

Misinformation

Mr V was a deferred member of a final salary scheme with a normal retirement date in June 2012. In 2006, he had decided with his adviser that he would need an income of £39,500 from all sources so he could provide for his son, who had cerebral palsy. A statement provided by the scheme administrator in 2006 said that the projected annual pension from normal retirement date was £17,300. In early 2007 Mr V’s adviser told him that income from all sources was set to meet

his target. In 2011, Mr V paid for renovation work to improve the accessibility to his son's bungalow, which was owned by a housing association.

In January 2012 the scheme sent Mr V another statement which said that the pension due at normal retirement date would be around £12,750. There had been a mistake in how the pension was revalued. Increases should only have been made to the relevant part of pension that had accrued from 1 January 1985, but the earlier part had been increased too. Mr V's adviser said he needed an additional £55,000 in order to make good the missing income.

Mr V complained to the trustees – they accepted that he had spent more on his son's bungalow than he would have done but for the mistake and he was offered £5,000, which Mr V did not accept.

Mr V said that he had relied on the 2006 statement and had he known the correct position he would not have spent money which he would need to make up the shortfall in his retirement income. He said that he could have applied for a social services grant but as it would take 18 months to be paid, he decided to use around £21,000 of his own funds thinking it could be spared. A further £34,000 was spent on works to his own house, a holiday and paying off his mortgage. Mr V said that the 2006 statement was in line with one he had received in 1997.

The Ombudsman decided that providing incorrect information on the 2006 statement was maladministration, but that Mr V was not entitled to rely on this in later years – there had been no statements sent between 2006 and 2011. The 1997 and 2006 statements showed only projected income – the actual pension payable depended on the annual rate of revaluation, which changed year to year in line with RPI, and in reviewing income figures with his adviser it was necessary to have up to date information.

The Ombudsman also found that Mr V would have spent the money in any event – the mortgage had to be repaid at some point, and the home renovations would also need to be done – and would have benefited Mr V. There was no evidence that the incorrect statement in 2006 directly led to the spending on the holiday Mr V had purchased. However it was recognised that the statement had raised Mr V's expectations and for this the trustees were directed to pay him £350 to compensate him for the distress and inconvenience he had been caused.

Ill health

Mr R was an active member of a defined benefit scheme, the rules of which said that an immediate ill health early retirement pension was payable if the member left service before normal pension age due to “Incapacity”. Incapacity was defined in the rules of the scheme as mental or physical impairment that “the trustees consider is serious enough to prevent the member from working in any capacity”. The rules allowed the trustees to consult anyone who the trustees thought were qualified to advise them.

In 2007, the trustees changed their practice. Whereas they had used assessments from members’ general practitioners, they would now obtain their own independent medical assessments when arriving at decisions on ill health benefits

Mr R was dismissed on grounds of medical incapacity in December 2012. He applied for ill health early retirement and submitted in support of his application a report from his employer’s doctor, which considered his fitness to carry out his normal duties. The trustees referred Mr R to an independent medical practitioner (IMP) to consider his condition against their incapacity criteria. The IMP concluded that Mr R’s condition was currently not severe enough to prevent him from undertaking any work. The trustees informed Mr R that on the basis of this advice he did not qualify for ill health benefits.

Mr R said the trustees had not taken the company doctor’s view into account but had relied solely on the advice given by the IMP.

The Ombudsman found that the trustees had authority (with the employer’s agreement) to take advice from whoever they wished, as long as they complied with the statutory ill health requirement that assessment should be completed by qualified medical practitioners.

The IMP was suitably qualified and had considered the application correctly against the scheme’s definition of Incapacity. The trustees were not incorrect to disregard the company doctor’s view, as this was reached with a different definition in mind – whether or not Mr R was fit to do his usual job as opposed to any job.

The Ombudsman concluded that the decision was not made incorrectly and the complaint was not upheld.

Case resolved informally – additional costs resulting from misinformation

Mr F had a personal pension plan and in late 2013, in the run-up to his planned retirement date, the plan provider sent Mr F various documents setting out his options, amongst which was a guaranteed maturity amount of £151,300. Mr F advised the provider that he wished to transfer to another provider and sent them the appropriate forms.

In February 2014 the provider of the plan contacted Mr F's IFA to say that there had been a mistake; the guaranteed maturity amount was actually £141,400.

Mr F and his IFA said that the provider should honour the original quotation and pointed out that they had to spend further unexpected time arranging Mr F's retirement income, at a cost to Mr F.

The provider of the plan responded explaining how the guaranteed maturity amount had been calculated and pointed out that they could only transfer what Mr F was actually entitled to. However they appreciated that Mr F had borne additional costs as a result of the mistake and offered to pay £300 for the cost of four extra hours of the IFA's advice and £50 to account for the distress and inconvenience Mr F had been caused.

Mr F's response was that his IFA charged £150 an hour, not £75 as used by the provider in their calculation, there had been a further five hours of work rather than four and that the offer of £50 for distress and inconvenience was far too low and did not come close to providing adequate compensation.

Our investigator wrote to both parties setting out the investigator's opinion. The investigator noted that the plan provider had informed the IFA of the mistake before the intended transfer had taken place. The investigator also said that in their view the additional work completed by the IFA was necessary, and that the provider had not disputed this or put forward any real case as to why £75 an hour was appropriate and £150 would be unreasonable. As it stood, the provider's offer did not put Mr F into the position he would have been in had the error not occurred.

The investigator's view was that the provider should pay Mr F £750 to account for the additional IFA fees he had to pay, and £250 to account for the distress and inconvenience the error caused Mr F. This amount took account of that fact that Mr F was at retirement age, how quickly the error was spotted and how the manager responded to the complaint.

Both parties accepted the findings put forward by the investigator and the case was closed without a determination from the Ombudsman.

Casework review – Pension Protection Fund Ombudsman

This part of our report describes the relatively small part of our jurisdiction that concerns the Pension Protection Fund Ombudsman’s work.

PPF maladministration

We can investigate and determine complaints of maladministration on the part of the Pension Protection Fund (PPF).

PPF reviewable matters

We can review decisions made by the Board of the PPF, but only after they have been reviewed by the Board of the PPF and then considered by their Reconsideration Committee. By far the most common are decisions about the amount of levy raised on a scheme by PPF.

Financial Assistance Scheme (FAS) appeals

We can investigate and determine appeals against decisions made by the PPF, as scheme manager of the FAS, relating to eligibility to receive compensation. FAS appeals can be sub-divided further into two main categories: whether a scheme is eligible to be accepted by the FAS, and whether a member has received the correct entitlement.

The year’s cases

	In hand at 01/04/14	New matters	Accepted for investigation	Not accepted for investigation	Completed investigations	In hand at 31/03/15
PPF maladministration	2	24	2	22	2	2
PPF reviewable matter	7	9	5	5	5	6
FAS appeal	10	39	7	31	11	7
Total	19	72	14	58	18	15

In the early years of the jurisdiction most Pension Protection Fund Ombudsman's cases were referrals of decisions by the Board of the PPF about the levy on the scheme concerned. There has been a continuing shift away from that subject, no doubt as schemes become more familiar with the levy regime and with the extent of our powers.

The number of appeals against FAS decisions has gone up slightly. It is perhaps unsurprising that people should complain about quite complex calculations at a time when their pensions, even with FAS compensation, are going to be lower than if their employer's pension scheme had survived.

Case summary - Referral to the Pension Protection Fund Ombudsman

There were two participating employers in the scheme. In 2012 the trustees of the scheme certified a contingent asset – a guarantee given by one of the two employers. This had been accepted by the PPF in previous years but they refused to do so for the 2012/2013 levy year. This was because the guarantor did not meet the strength requirement set out in Rule G2.3 of the 2012/2013 levy determination (the determination).

The trustees asked the PPF to reconsider the rejection of a contingent asset, pointing out the strength of the sponsoring employer and that they were fully committed to supporting the scheme.

The trustees said that the potential sale value of the guarantor was considerably more than the amount of the guarantee, and added the guarantor's overdraft limit was more than three times the value of the guarantee. They pointed out that the contingent asset guidance said the trustees could take an employer's ability to borrow money into account, along with the guarantor's net asset value.

The PPF Board said it had no discretion to depart from the requirements set out in the levy determination. The rule in question required the PPF to ask itself if the guarantee reduced the risk of the PPF having to pay compensation, and if the reduction in levy was reasonably consistent with the reduction in risk attributable to the guarantee. The PPF accepted that the first test had been met. In respect of the second part, the determination said that the guarantee should be sufficient to cover the scheme's underfunding, which in this case was nearly £28m and the other employer's liabilities to the scheme, which were just under £14m.

The PPF said that the overdraft was not a certain source of funding, and while it could cover the guarantor's obligations in current circumstances the facility might

not be available should both employers become insolvent. They also pointed out that while the guarantor owned freehold buildings, they had not been provided with independent valuations. Even if these properties were taken into account, their sale to meet scheme obligations would mean that the guarantor would not be able to continue trading, meaning not all scheme obligations could be covered.

In responding to the Pensions Ombudsman Service the PPF said they were under no obligation to accept any contingent asset and they were not satisfied of the employers' ability to cover the scheme deficit should they become insolvent. This was partly because of a difference in the valuation of certain assets; the trustees had submitted a valuation of property using the top end valuation, rather than a more cautious lower valuation, which would mean that the employer would be unable to cover the deficit. The PPF said that while the difference could be seen as marginal, part recognition of a contingent asset was meant for exceptional cases, not as a fall back option for schemes whose contingent assets fell short of the required amount.

The trustees said that the PPF should have exercised its discretion and recognised the guarantee of a contingent asset. They said that the two employers in the scheme participated in different markets, so the insolvency of one would not affect the other. They added that the business had been conservatively valued to account for a forced sale, and that property had been undervalued in the guarantor's accounts.

The trustees also said that the employers' group had diverse markets across 60 countries, was cash positive in March 2012 and that the full £50m overdraft facility was available if required. They added that the group had shown a profit for 78 out of 80 years of operation showing that the possibility they would become insolvent was remote.

The Ombudsman pointed out the limits of jurisdiction; he can only look at how the PPF arrived at their decision. The Ombudsman would not support either the trustees' or the PPF's view of the contingent asset. The Ombudsman noted that the determination said the PPF "may" recognise a contingent asset, to the extent that it is consistent with the reduction in risk, but the determination also said that the PPF was under no obligation to accept any contingent asset. While the PPF's view of the strength of the guarantee was markedly different to that of the trustees, it did not mean that the PPF had failed to comply with the determination. The PPF were therefore not required to take any further action.

The Courts

Appeals

Determinations of the Pensions Ombudsman and Pension Protection Fund Ombudsman are final and binding, subject to appeal on a point of law to the High Court in England and Wales, the Court of Appeal in Northern Ireland and the Court of Session in Scotland.

Pensions Ombudsman appeals

Outstanding at the start of the year	6
New	7
Heard/settled/withdrawn during the year	9
Remaining at year-end	4

Pension Protection Fund Ombudsman appeals

Outstanding at the start of the year	1
New	0
Heard/settled/withdrawn during the year	0
Remaining at year-end	1

Right of appeal

From 6 April 2014, in England and Wales only, a party applying to the court requires the consent of the High Court to appeal. We are aware of only one case in which permission was refused.

Participation and notification

Our general policy is not to participate in appeals other than where it would assist the court for us to do so and/or where there is an issue of wider importance – in particular one that may impact on jurisdiction or process. Even where we decide not to participate, we monitor the progress and outcome of appeals for a variety of reasons: for example, so that we can decide whether to change our view on participation if new issues arise during the proceedings, for learning purposes and so that we know the issues to address if the case is remitted back to us for reconsideration.

But we can only do that if we know about the appeal in advance of any court hearing. We are supposed to be sent the notice of appeal, but this has not always happened. For example, in the one case this year mentioned above¹, the appellant was twice refused permission to appeal – which we only discovered upon receiving the judgment from the court clerk. We are hoping to make better arrangements with the High Court to prevent similar occurrences.

Cases

In last year's report, we provided an update on the long-running case brought by Mr Bradbury against the BBC² about the imposition of a cap on his pensionable salary through the mechanism of his pay award. We issued determinations in October 2011 and, following remittance, in December 2013. The second determination was appealed also. The High Court, Chancery Division heard that appeal on 14 January 2015. Judgment was handed down in May 2015: the appeal was unsuccessful.

Judgment has recently been handed down by the Court of Appeal in the case of Annette Ellis and the Cabinet Office³, which related to a determination successfully appealed by Ms Ellis but then further appealed by the Cabinet Office. The Court of Appeal upheld the Cabinet Office's appeal and restored the Ombudsman's decision - which effectively turned on whether the scheme rules could define 'resignation' more widely than its common usage.

Also in the Court of Appeal is an appeal against a Pension Protection Fund Ombudsman Determination⁴. Mr Hampshire appealed to the PPF Ombudsman about the decision of the Board of the PPF to approve a valuation of the assets and protected liabilities of his scheme. He based his appeal on a potential breach of the EU insolvency directive. The Ombudsman did not find in his favour. Mr Hampshire's subsequent appeal of the Ombudsman's determination to the High Court was unsuccessful. Mr Hampshire sought permission to appeal to the Court of Appeal and permission was granted very recently.

Last year we participated in an appeal against a Pensions Ombudsman determination⁵. It was heard in March, but at the time of last year's annual report had not been reported. One of the grounds of appeal concerned the meaning of the word maladministration. It was argued, contrary to the finding in the determination, that the provision of incorrect information generated by an administrator's computer system could not be maladministration. We participated in the appeal in order to address the court on that point. The judgment was

1 Our ref: PO-2470; Langdell v Abbey Life Assurance Company Ltd [2015] EWHC 602 (Ch)

2 Our ref PO-636; Bradbury v BBC [2012] EWHC 1369; John Bradbury v BBC (High Court Chancery Division CH/2011/0427

3 Our ref PO-765; Annette Ellis v Cabinet Office [2015] EWCA Civ 252

4 Our ref PPFO-750; Grenville Holden Hampshire v The Board of the Pension Protection Fund [2014] EWHC 4402 (Ch)

5 Our ref PO-85454/1; NHS Business Services Authority v Jean Leeks & Ors [2014] EWHC 1446 (Ch)

handed down by the High Court in June 2014. The appeal was dismissed and permission to appeal to the Court of Appeal refused. The judge found that defects in automated systems – such as the administrator’s computer system – could be maladministration.

Judicial review

Judicial reviews

Outstanding at the start of the year	1
New	1
Heard/settled/withdrawn during the year	1
Remaining at year-end	1

Participation and notification

We are, of course, a party to a judicial review and so, more obviously than appeals, should be served with notice.

However, for the only new judicial review we received this year we were not notified directly of a hearing date and had to attend at the last minute to seek an adjournment.

Cases

We had one judicial review application outstanding at the beginning of 2014/15⁶. On 24 April 2014 permission was refused off the papers on the grounds that the application was totally without merit. In consequence, following a change in court rules affecting applications made after 1 July 2013, the applicant could not ask for a permission hearing.

In the one new judicial review application referred to above⁷, unusually, at the first permission hearing the judge decided to award costs in our favour. He did not, however, rule that the application was totally without merit. If he had, the applicant would not have been able to continue to the Court of Appeal, in consequence of changes in the court rules. He now has.

6 Our ref PO-634; Carroll v the Pensions Ombudsman (High Court Administrative Division CO/523/2014)
7 Our ref PO-1997; Ellison v Pension Ombudsman (High Court Administrative Division CO/4615/2014)

Our people

Ombudsmen

The holders of the posts of Pensions Ombudsman/Pension Protection Fund Ombudsman and Deputy Pensions Ombudsman/Pension Protection Fund Ombudsman are statutory commissioners.

Staff and Office Holders

Numbers at year end			
Full time equivalent	2012/13	2013/14	2014/15
Ombudsmen	1.4	1.4	1.4
Actively in post	33.1	30.5	39.5
Temporary/on contract	4.4	4.4	0
On long term leave	1.6	0	0.8
Total in post	39.1	34.9	40.3
Vacancies	1.0	4.0	1.0
Total	41.5	40.3	42.7

In 2012/13 and 2013/14 we had agreed additional funding for five temporary investigators. Being a short-term arrangement, it ended on 31 March 2014.

For 2014/15, due to the general increase in our workload, we obtained additional funding for two permanent investigation staff. However, we carried vacancies for them (plus other vacancies) well into the year, in part because our initial recruitment trawl did not produce enough suitable candidates. It necessarily takes several months before a new investigator is working to capacity, so the recruitment difficulties had a damaging effect on the number of cases we were able to deal with.

We filled the posts in October 2014. We also increased our legal resource by one post in the year. Because we did not recruit to the two new posts until mid-year we had some underspend in payroll and fortunately were able to recruit experienced short term people to maximise use of our financial resources and reduce the effect of delayed recruitment.

Our Casework Director's 5 year loan from DWP ended in December 2014. At about the same time, the Pensions Ombudsman decided to stand down for personal reasons in spring 2015 and the Deputy Pensions Ombudsman, whose term ended in the autumn of 2015, decided that she too would stand down in spring.

Because of those planned departures we recruited an interim chief executive with a view to creating greater stability and continuity over a time of change.

Pay

We are bound to follow Treasury guidance for the public sector, so the maximum consolidated increase in total payroll allowed was 1%. For non-consolidated awards we were able to use up to an equivalent sum to the performance pot from the year before.

To be eligible for an award in 2014/15, staff needed to have been in post on 31 March 2014.

All eligible staff received a consolidated 1% increase.

Our performance related pay awards are small. As a result of constructive talks with the PCS union we modified the existing performance related pay structure. There was a concern that a significant proportion of the total award was going to those with a performance ranking of 6 (our highest) and that lower qualifying rankings received a disproportionately lower sum. We agreed to a revision that straightened out the changes between the rankings.

Staff Communication Forum

We have a formal staff communication forum that meets half yearly or otherwise as needed. It has representatives elected by constituencies in different areas of our work. The sitting representatives' terms expired in July 2014 and members were subsequently re-elected for another two years. The forum met twice in 2014/15.

Union

In 2013/14, following a ballot, we entered into a voluntary recognition agreement with the Public and Commercial Service Union (PCS). However, in the year under report we were unable to build on the relationship because of a lack of engagement either in the office or by PCS officials. There have been developments that indicate a more fruitful relationship for 2015/16, however.

Staff satisfaction

We introduced our staff survey in 2010-11 and have run it every year since. It now gives us a valuable insight into how people feel, where we can improve and how things are changing.

The results of the staff survey demonstrate high levels of staff interest and satisfaction with their work; a clear understanding of the organisation's objectives and people's own understanding of how their work contributes to these; a good sense of teamwork within teams; people feeling sufficiently skilled and provided with learning and development opportunities to do the job well; a sense of being treated fairly and with respect; managers being open to ideas and providing regular feedback; and managers being considerate about people's lives outside of work.

Though still positive, the areas where we could do better (in some cases showing a downward trend) were around managing change, motivation, constructive feedback, feeling valued, involvement in decision making and being able to challenge.

There are two possible reasons. First the survey was carried out at a time of some uncertainty, following decisions by the Casework Director, Ombudsman and Deputy Ombudsman to move on. Second, we had a higher than usual proportion of relatively new staff who might not have had time to develop confidence about management in those areas. (At the end of 2013/14 under 6% of our staff had been with us a year or less, at the end of 2014/15 over 21% had been with us for a year or less).

Whatever the background reasons, the less positive responses relate to the softer people-management skills, and measures to strengthen those will be taken forward into 2015/16.

To the extent that sickness ratios can be regarded as an indicator of staff satisfaction, ours was very low at 1.1 days per capita.

Diversity

We do not have the hard data about the diversity of our staff that we would like to. (Being very small, we have a reasonable, if unscientific, understanding of the picture, but that is not enough.)

We decided in 2012/13 that we ought to ask our staff to provide information about themselves and asked for advice on process from PCS who were also keen on understanding our effectiveness, and who we thought could help with buy-in. Unfortunately, for reasons described above, the PCS relationship has foundered somewhat, leaving the diversity survey as a piece of work to be carried forward.

Gender of staff and office holders in post (headcount)

	Year end 2013/14		Year end 2014/15	
	Male	Female	Male	Female
Ombudsmen	1	1	1	1
Managers	2	4	2	4
Other employees	15	11	11	20

We ask applicants for jobs to complete monitoring forms, and review the results, including the relationships between applicant and appointee data. No matters for concern have been identified.

Learning and development

Learning and development is co-ordinated by a small group of staff representing a cross-section of the service's people. The aim of the group is to identify and administer any necessary training to ensure we achieve our corporate objectives and to address any development needs identified during performance reviews and elsewhere.

During the year staff went on a range of external courses and seminars, including:

- Plain English and report writing
- Diversity and equality
- Chairing and facilitating meetings
- Objective setting

And our own staff offered internal group sessions on subjects including:

- The Data Protection Act
- Appeals and judicial reviews
- Investigation skills
- Additional voluntary contributions and with profit arrangements
- Contracting out

We also arranged for external speakers to give group sessions on such topics as:

- Changes to the regulations governing public sector pension schemes
- Pension Wise

Other activities

In 2013/14 we began a review of the way we presented ourselves externally. The reasoning behind the review was that expectations of us are changing – and are likely to change more in future. For example, the demographic of pension scheme membership should be influenced by automatic enrolment – as should the ways in which people engage with their pension providers.

The starting point was to consider how we thought about ourselves. We reviewed what we used to call our “aims and principles”, involving everyone in the project, and came up with a new vision, aims and values.

Vision

A trusted, fair, impartial service that makes it easy for everyone to resolve pension complaints.

Aims

Get the right outcome every time and in good time – by being proportionate, efficient and consistent with the law

Make it easier to resolve complaints about pensions – by ensuring more people know where to go for help and by working closely with our stakeholders and partners

Provide a trusted, accessible service – by listening, delivering on promises and being honest about what we can and can't do

Deliver value for money – by making a difference to how pension schemes are run and by continually reviewing and improving the way we work

Ensure everyone who works here is supported to succeed – by being a good employer and helping people develop their potential

Values

We are: **Fair** - we look at the facts, without taking sides and we're always impartial. We take our responsibilities seriously.

Collaborative – we share what we know so everyone can do a better job. We seek out opportunities to work with others and then take action to make it happen.

Open – we're approachable and make it easy for people to get the help they need. We're honest and transparent about how and why we make our decisions.

We: Show **Respect** – we're considerate and take people's needs into account. We believe in treating people with dignity and we welcome different points of view.

Build Trust - we take pride in our work and do our best to get it right. We always do what we say we will.

And we: Keep **Learning** – we're open to change and want to find better ways of doing things. We stay positive, take charge of our own development and support people trying something new.

We then developed a new visual style, designed with accessibility in mind. And we decided that we should reflect our role as a service provider in our name – and that we should no longer present the slightly confusing picture of being two different organisations – the Pensions Ombudsman and the Pension Protection Fund Ombudsman. So now, other than when it is strictly necessary to distinguish, we operate as the Pensions Ombudsman Service, in whatever we do.

Following on from the new visual style was a review of content. So all of our standard letters and other documents were updated and made simpler where possible – and we put together new writing guidelines and used the Plain English Campaign to train us in clearer communication.

And we redeveloped our website from scratch, making it simpler, clearer and designing it to adapt to tablets and smartphones.

We achieved a great deal on a modest budget including, importantly, a forward communications strategy and plan, intended to build on the 2014/15 work in future years.

Corporate Plan objectives

In our 2014/15 Corporate Plan we set out our work plan aligning tasks with our aims. As we explain earlier in this report, our incoming casework outstripped our ability to handle it and, in addition, it became clear that there were forthcoming significant staff changes at a senior level. So in our third quarter we took a decision to prioritise casework at the expense of work that might not be so productive and which could be picked up after the changes. A commentary on completed and outstanding work follows.

Get the right outcome every time and in good time

As planned, we designed and implemented a new casework handbook, checking for potential process improvement as we went along and reviewing and updating our service standards, building them into the handbook.

We added a new series of checks to our quality process. We did not, however, recruit a specialist to monitor and measure operational performance as we had intended. We did not find a suitable candidate, and decided to use the resource on casework for the time being.

We continued our “specialisation” work, under which cases of particular types and subject matter are allocated to a pool of experienced staff.

We did not refresh our knowledge management systems and accompanying guidance. The main reason was lack of resource and the need to concentrate on casework. This should be a high priority matter for 2015/16.

For reasons already discussed, the pool of cases has grown in the year, when we had planned on it reducing.

Make it easier to resolve complaints about pensions

We continued to work with the Financial Ombudsman Service on day- to-day case matters so that cases would be dealt with by the appropriate service. We made progress towards a shared leaflet with them and the Pensions Advisory Service describing how we work.

We said we expected to work with DWP and others to respond to recommendations made in DWP's triennial review of the pensions bodies, in relation to the "customer journey". That work was due to be led by DWP and it did not begin in the year.

We planned to share more information with stakeholders on case outcomes: our new website includes guidance on typical outcomes for a number of kinds of case.

Provide a trusted accessible service

We said we would develop and begin to implement a communications strategy, and we did.

We planned to implement a way of exchanging sensitive data securely with parties to complaints: in late January 2015 we started using an email encryption which does not require parties to have any special software.

We said we would liaise with others – in particular in relation to automatic enrolment and public sector pension changes. We maintained, and added to, our "relationship managed" schemes (where a member of our staff acts as a regular contact point for a scheme on general issues) and our "provider forum".

We said we would make it easier for us to comply with FOI and DPA requests, and in the year we reviewed our data retention and destruction policy, and gave briefings to our staff on data protection act issues.

Deliver value for money

Under this heading, much of our work was IT related. For example, we carried out a post-implementation review of our new systems a year after implementation. Also, our new management information tool went live – though later than intended, so not giving us enough time for the six month review that we said we would undertake.

Ensure everyone who works here is supported to succeed

We said we would review our performance framework. We completed that task during the year, aligning it with the new aims and values. That was part of the general strategy of using our new aims and values internally.

We planned to relaunch our staff handbook. We did so, having simplified and updated it, although a final version reformatted to fit our new visual identity was not completed until after the year end.

The “Our people” section of this report covers our wider work in training, consultation and general support.



Anthony Arter
Pensions Ombudsman
Pension Protection Fund Ombudsman

23 June 2015

Disclosures and Financial Statements

Statutory background

The Pensions Ombudsman is a statutory commissioner appointed by the Secretary of State for Work and Pensions under section 154 of the Pension Schemes Act 1993. The jurisdiction and powers of the Pensions Ombudsman are derived from Part X of the Pension Schemes Act 1993 and regulations thereunder.

The Ombudsman for the Board of the Pension Protection Fund (the Pension Protection Fund Ombudsman) is a statutory commissioner appointed by the Secretary of State for Work and Pensions under section 209 of the Pensions Act 2004. The jurisdiction and powers of the Pension Protection Fund Ombudsman are contained in sections 209 to 218 of the Pensions Act 2004 and regulations thereunder.

The respective legislation also provides for the appointment by the Secretary of State for Work and Pensions of a Deputy Pensions Ombudsman and a Deputy Ombudsman for the Board of the Pension Protection Fund (Deputy Pension Protection Fund Ombudsman).

At present the postholder of Pensions Ombudsman also holds the post of Pension Protection Fund Ombudsman. Similarly, the Deputy Pensions Ombudsman also holds the post of Deputy Pension Protection Fund Ombudsman.

Other interests

Neither the Pensions Ombudsman nor the Deputy Pensions Ombudsman had any significant external interests that conflicted with their management responsibilities.

Accounting and audit

The accounts have been prepared under a direction issued by the Secretary of State for the Department for Work and Pensions in accordance with Section 145(8)-(10) of the Pension Schemes Act 1993 and section 212A of the Pensions Act 2004 as inserted by the Government Resources and Accounts Act 2000 (Audit of Public Bodies) Order 2008.

There are no significant future net liabilities that will be financed by grant-in-aid.

Details of the treatment of pension liabilities in the accounts can be found in the Remuneration Report, in the accounting policies and note 3.

The office has a policy of paying invoices within 10 days and monitors compliance with it. The process is such that invoices are in fact paid within a maximum of five working days, unless there is a query on the invoice.

The auditors did not receive any remuneration for non-audit work.

So far as the Pensions Ombudsman is aware, there is no relevant audit information of which the auditors are unaware, and the Pensions Ombudsman has taken all the steps that he ought to have taken to make him aware of any relevant audit information and to establish that the auditors are aware of that information.



Anthony Arter
Pensions Ombudsman
Pension Protection Fund Ombudsman

23 June 2015

Remuneration report

Remuneration policy

In accordance with Sections 145 and 145A of the Pension Schemes Act 1993, the current and future remuneration of the Pensions Ombudsman and the Deputy Pensions Ombudsman is determined by the Secretary of State for Work and Pensions. The current and future remuneration of the Pension Protection Fund Ombudsman and Deputy Pension Protection Fund Ombudsman is determined by the Secretary of State in accordance with Sections 209(4) and 210(6) of the Pensions Act 2004. For the year 2013/14 (paid in the accounting year) the Ombudsman's payments included a bonus element of up to 10% of salary as assessed by the Departmental Steward on behalf of the Secretary of State.

Service contracts

The length of service contracts is determined by the Secretary of State for Work and Pensions. Tony King was reappointed for a further 4 years on 1 September 2013 but he stepped down on 22 May 2015. Jane Irvine was reappointed on a part time basis for 3 years on 18 November 2012, she stepped down on 31 May 2015. Simon O'Brien was appointed Interim Chief Executive for one year on 1 February 2015.

Anthony Arter has been appointed as Pensions Ombudsman and Pension Protection Fund Ombudsman for 4 years from 23 May 2015. Karen Johnston has been appointed as Deputy Pensions Ombudsman and Deputy Pension Protection Fund Ombudsman for three years from 1 July 2015.

Name	Dates of appointment	Unexpired term at 31/3/15	Notice period
Tony King	1 September 2007	1.75 months	6 months from employee
Jane Irvine	18 November 2009	2 months	6 months from employee
Simon O'Brien	1 February 2015	10 months	1 month from employee

The Pensions Ombudsman and Deputy Pensions Ombudsman appointment may be terminated early by the employer on the following grounds:

1. Misbehaviour
2. Incapacity
3. Bankruptcy or arrangement with creditors.

Any decision to remove on one or more of the above three grounds will be taken by the Secretary of State with the concurrence of the Lord Chief Justice. No compensation will be paid if the appointment is terminated on any of the grounds set out above. Should the appointment be terminated on the basis of misbehaviour one month's notice will be given. Where conduct is so serious as to warrant immediate removal from office pay in lieu of notice will be paid.

The notice periods shall not prevent the Ombudsman, Deputy Ombudsman or Secretary of State waiving the right to notice or the Ombudsman or Deputy Ombudsman accepting a payment in lieu of notice.

The Interim Chief Executive appointment may be terminated by the employer on misbehaviour grounds. Should the appointment be terminated on the basis of misbehaviour one month's notice will be given. Where conduct is so serious as to warrant immediate removal from office pay in lieu of notice will be paid.

The notice periods shall not prevent the employer waiving the right to notice or the Interim Chief Executive accepting a payment in lieu of notice.

Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of the Pensions Ombudsman and Deputy Pensions Ombudsman and interim Chief Executive.

The information in these tables is subject to audit.

Single total figure of remuneration										
Officials	Salary (£'000)		Bonus payments (£'000)		Benefits in kind (to nearest £100)		Pension benefits (£'000) ¹		Total (£'000)	
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
Tony King	130-135	125-130	5-10**	10-15*	-	-	52	13	185-190	150-155
Jane Irvine	25-30	35-40	-	-	-	-	-	-	25-30	35-40
Simon O'Brien	15-20*** 95-100****	-	-	-	-	-	6	-	20-25	-

* paid in 2013/14 but earned in 2012/13

** paid in 2014/15 but earned in 2013/14

*** actual salary

**** annualised salary

¹ The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

	2014/15 (£'000)	2013/14 (£'000)
Band of Highest Paid Director's Total Remuneration	135-140	135-140
Median Total Remuneration	37	36
Ratio	3.64	3.75

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's workforce. The organisation does not have any Directors. The banded remuneration of the highest paid office holder in the financial year 2014/15 was £135,000 - £140,000 (2013/14 £135,000 - £140,000). This was 3.67 times (2013/14 - 3.75) the median remuneration of the workforce which was £37,000 (2013/14 -£35,675).

No employees received remuneration in excess of the highest paid office holder.

Total remuneration includes salary and non consolidated performance related pay. It does not include employer pension contributions and the case equivalent transfer values of pensions.

	Accrued pension at age 60 as at 31/3/15 (£'000)	Real increase in pension at age 60 (£'000)	CETV at 31/3/15 (£'000)	CETV at 31/3/14 (£'000)	Real Increase in CETV (£'000)
Tony King	60-65	2.5-5	1,151	1,100	49
Simon O'Brien	0-2.5	0-2.5	5	-	4

Related lump sum at 31/3/15 and at pension age is Nil.

Jane Irvine did not receive any pension benefits as a result of her appointment.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (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 current service in a senior capacity to which disclosure applies. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pensions benefits are taken.

The real increase in the value of the CETV

This is effectively the element of the increase in accrued pension funded by the Exchequer. It excludes increases due to inflation and contributions paid by the individual and is worked out using common market valuation factors for the start and end of the period.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, 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 met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus** and **nuvos** are increased annually in line with Pensions Increase legislation. Members who joined from October 2002 could 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 salary related and range between 1.5% and 6.85% of pensionable earnings for **classic** and 3.5% and 8.85% for **premium**, **classic plus** and **nuvos**. Increases to employee contributions will apply from 1 April 2015. Benefits in **classic** accrue at the rate of 1/80th 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 1/60th of final pensionable

earnings for each year of service. Unlike **classic** there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his 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, immediately after the scheme year end, the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) 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 an active member 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**.

Although the Principal Civil Service Pension Scheme (PCSPS) is unfunded, employer contributions are set at the level of contributions that would be paid by private sector employers to pension schemes for their employees. For 2014/2015, employers' contributions were payable to the PCSPS Scheme in the range 16.7% to 24.3% of pensionable pay. From 1 April 2015 the percentages remain the same but the salary bands have changed.

New career average pension arrangements come into force from 1 April 2015 and the majority of classic, premium, classic plus, and nuvos members will join the new scheme.

The information in this table is subject to audit.

Band	2014 -2015		From 1 April 2015	
	Salary Band (£)	Rate of charge	Salary Band (£)	Rate of charge
Band 1	22,000 and under	16.7%	22,000 and under	20%
Band 2	22,001 to 44,500	18.8%	22,001 to 45,000	20.9%
Band 3	44,501 to 74,500	21.8%	45,001 to 75,000	22.1%
Band 4	74,501 and above	24.3%	75,001 and above	24.5%

Further details about the PCSPS arrangements can be found at the website www.civilservice-pensions.gov.uk

Further staff cost disclosures are included in the notes to the accounts staff note 3. The financial disclosures within the Remuneration Report are subject to audit.



Anthony Arter
Pensions Ombudsman
Pension Protection Fund Ombudsman

23 June 2015

Statement of Accounting Officer's responsibilities

Under Section 145(8) of the Pensions Scheme Act 1993 and Section 212A of the Pensions Act 2004, the Secretary of State for Work and Pensions (with the consent of the Treasury) has directed the Pensions Ombudsman and Pensions Protection Fund Ombudsman to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Pensions Ombudsman and Pension Protection Fund Ombudsman and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by the Secretary of State for Work and Pensions, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

The Accounting Officer of the Department for Work and Pensions has designated the Pensions Ombudsman as Accounting Officer of the Pensions Ombudsman and Pension Protection Fund Ombudsman. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Pensions Ombudsman and Pension Protection Fund Ombudsman's assets, are set out in the Non-Departmental Public Bodies Accounting Officers Memorandum and in Managing Public Money issued by the Treasury.

Governance statement

Scope of responsibility

The statutory role of the Pensions Ombudsman is primarily determined by Part X of the Pension Schemes Act 1993 and Part X of the Pension Schemes (Northern Ireland Act) Act 1993. The statutory role of the Pension Protection Fund Ombudsman is primarily determined by sections 209 to 218 of the Pensions Act 2004.

The Pensions Ombudsman and Pension Protection Fund Ombudsman is a statutory commissioner appointed to both posts by the Secretary of State for Work and Pensions. As post-holder I have been designated as accounting officer, and am therefore accountable (through the DWP principal accounting officer) to Parliament for regularity and propriety in use of public finances. I therefore have responsibility for maintaining a sound system of internal control that supports the statutory functions of the Pensions Ombudsman Service.

My review of the system of internal control is substantially informed by a letter of assurance from, Tony King, who was the post-holder until 22 May 2015.

Governance framework

Framework agreement with DWP

The present Framework Document is the result of revision and simplification in August 2014. It identifies the differing responsibilities of the DWP Principal Accounting Officer and the Pensions Ombudsman Service Accounting Officer. In particular it describes the requirements for the keeping of records and access to them, preparation of corporate and business plans and annual reports, arrangements for audit, spending controls and delegations, and in-year reporting.

DWP receives reports on performance, finance and risk at quarterly accountability meetings.

Corporate governance

As the Pensions Ombudsman and Pension Protection Fund Ombudsman is a statutory commissioner and the Pensions Ombudsman Service is not a corporate body, we do not have a board and the Corporate Governance Code does not apply. Our internal governance arrangements are described below.

Management team

Membership

Pensions Ombudsman

Casework Director (left 31 December 2014)

Interim Chief Executive (from 1 February 2015)

Business Manager

Team Leaders

Purpose:

- provide leadership;
- make decisions on all significant matters relating to how the organisation works to meet its statutory responsibility to deal with pension complaints and disputes (except where the matter has been reserved to the Pensions Ombudsman or Deputy Pensions Ombudsman); and
- support the Accounting Officer in ensuring that corporate governance arrangements and internal controls are effective.

Meetings are designated as Strategic Management Forum meetings, Management Team meetings or Projects and Portfolio meetings.

Strategic Management Forum meetings are normally held quarterly and deal with strategic issues, typically being those which may:

- affect medium to long term plans and forecasts;
- alter the way we approach our work;
- change the perception of our ability to provide our services;
- have significant budgetary implications;
- have a significant impact on corporate governance arrangements;
- result in qualified audit;
- have significant consequences for stakeholders.

Management Team meetings are usually held monthly and deal with operational matters, typically being those which may:

- affect immediate (ie month to month) plans and forecasts;
- affect the wellbeing of our staff;
- cause disruption to day to day effectiveness of the operation;
- cause embarrassment or localised dissatisfaction;
- threaten or result in overspend requiring correction;
- be an early indicator of a larger strategic problem.

Project and Portfolio meetings are also held monthly, in between Management Team meetings and deal with project updates and operational progress reports.

In the year there were two meetings of the Strategic Management Forum, twelve ordinary Management Team meetings and ten Project and Portfolio meetings.

Risk assessment

The system of 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, 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 achievements of our 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 control has been in place for the year ended 31 March 2015 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

The Management Team has determined, in the light of the size of the organisation and our relatively straightforward functions, that risk should be managed proportionately and reasonably in order to ensure that value is added to the office's objectives. We seek to avoid risk, but we do not expect to eliminate all risk. We do expect to manage risk so as to be able to fulfil our functions effectively and efficiently so as to maintain public confidence.

Being a small organisation, those engaged in strategic risk management are as a matter of course greatly engaged in operational matters. We adapt to change by identifying and managing risks both informally and formally at operational level, recording and acting on any strategic implications of those risks.

Our risk management framework has been in place since June 2011 but was revised in 2013/14 as described below. It defines those risks that are regarded as strategic – and so within the Strategic Management Forum's remit and those that are operational – and so dealt with in Management Team meetings.

Within that structure, risk is controlled through the following steps:

- key risks to the achievement of strategic and or business delivery aims objectives and targets are identified and assigned to named individuals;
- causes and consequences of those risks are identified;
- there is a consistent scoring system for the assessment of risks on the basis of likelihood and impact;
- we determine appropriate management controls and activities to mitigate the risks identified, having regard to the amount of risk deemed to be tolerable and justifiable;

- risks are measured at both inherent and residual level to assess the reliance placed on mitigating controls and activities and the office's exposure should they fail;
- measures and indicators are identified to provide assurance that the mitigation actions are appropriate and effective;
- regular monitoring and updating of risk information to ensure new and emerging risks are captured.

In 2013/14 we revisited our approach with input from DWP Risk Assurance Division and identified the level of tolerance the PO should have for risk and the level of exposure faced. This resulted in a more focussed and informed strategic risk register.

In 2014/15 we applied the same approach to the operational risk register.

The Audit Committee

In the year, the Audit Committee consisted of two independent members, Roy Field, chair (appointed March 2010, chair from April 2014) and Mark Ardron (April 2014). They are unpaid volunteers, with experience in public bodies. They were appointed by the Accounting Officer. Their appointments are for three years.

The Casework Director, Business Manager and other staff, the external auditors (National Audit Office and their partner, Deloitte), the internal auditors (DWP) and a DWP observer attend meetings by invitation.

The committee's role is to advise the Accounting Officer on the strategic processes for risk, control and governance:

- the accounting policies, the accounts, and the annual report of the organisation, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;
- the planned activity and results of both internal and external audit;
- adequacy of management response to issues identified by audit activity, including external audit's management letter;
- assurances relating to the corporate governance requirements for the organisation;
- proposals for tendering for Internal Audit services or for purchase of non-audit services from contractors who provide audit services;
- anti-fraud policies, whistle blowing processes, and arrangements for special investigations.

The committee met four times during 2014/15. Roy Field and Mark Ardron attended all four meetings.

Information security

In accordance with our responsibilities under the Data Protection Act and HMG Security Policy Framework the Pensions Ombudsman Service has in place arrangements for data security. In particular we have assessed our casework-related data as requiring to be treated as “official” and at “business impact level 3”. Staff are security cleared to a minimum of baseline clearance (BPSS), receive annual training, and are contractually required to follow documented security operation procedures.

There were no non-trivial breaches requiring notification to the Information Commissioner in the year.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control.

I am satisfied that the arrangements described above are fit for purpose and effective, having themselves been subject to appropriate review during the year.

My review of the effectiveness of the system of internal control is informed by a letter of assurance from my predecessor who was in turn informed by the work of the internal auditors and comments made by the external auditors in their management letter and other reports. My predecessor had been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

For 2014/15 our internal auditors in their assurance report gave an overall assurance level of “moderate”.



Anthony Arter
Pensions Ombudsman
Pensions Protection Fund Ombudsman
23 June 2015

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I have audited the financial statements of the Pensions Ombudsman and Pension Protection Fund Ombudsman for the year ended 31 March 2015 under the Pension Schemes Act 1993 and the Pensions Act 2004. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; 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 Board, Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Ombudsman as the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, and express an opinion on the financial statements in accordance with the Pension Schemes Act 1993 and the Pensions Act 2004. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Pensions Ombudsman and Pension Protection Fund Ombudsman's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Pensions Ombudsman and Pension Protection Fund Ombudsman; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Pensions Ombudsman and Pension Protection Fund Ombudsman's affairs as at 31 March 2015 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Pension Schemes Act 1993 and the Pensions Act 2004 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretary of State directions made under the Pension Schemes Act 1993 and the Pensions Act 2004; and
- the information given in the Strategic Report and Disclosures for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or

- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

26 June 2015

Statement of comprehensive net expenditure

Year ended 31 March 2015

	Note	2014/15 £	2013/14 £
Expenditure			
Staff costs	3	(2,077,857)	(1,908,283)
Depreciation	5	(5,089)	(348)
Amortisation	6	(73,182)	(67,052)
Other expenditure	4	<u>(1,134,969)</u>	<u>(1,196,413)</u>
Net expenditure		<u>(3,291,097)</u>	<u>(3,172,096)</u>
Total comprehensive expenditure		<u>(3,291,097)</u>	<u>(3,172,096)</u>

All activities were continuing throughout the year.

The notes on pages 66 to 79 form part of these accounts.

Statement of financial position

Year ended 31 March 2015

	Note	2014/15 £	2013/14 £
Non-current assets			
Property, plant and equipment	5	24,252	28,964
Intangible assets	6	<u>178,530</u>	<u>261,927</u>
Total non-current assets		202,782	290,891
Current assets			
Trade and other receivables	7	71,026	70,333
Cash and cash equivalents	8	<u>17,410</u>	<u>227,154</u>
Total current assets		<u>88,436</u>	<u>297,487</u>
Total assets		<u>291,218</u>	<u>588,378</u>
Current liabilities			
Trade and other payables	9	<u>135,959</u>	<u>209,022</u>
Total current liabilities		<u>135,959</u>	<u>209,022</u>
Assets less liabilities		<u>155,259</u>	<u>379,356</u>
Capital and reserves			
General reserve		<u>155,259</u>	<u>379,356</u>

The financial statements on pages 62 to 65 were approved on 23 June 2015

and signed by



Anthony Arter
Pensions Ombudsman
Pensions Protection Fund Ombudsman
23 June 2015

The notes on pages 66 to 79 form part of these accounts.

Statement of cash flows

Year ended 31 March 2015

	Note	2014/15 £	£	2013/14 £	£
Cash flows from operating activities					
Net expenditure after taxation		(3,291,097)		(3,172,096)	
Depreciation	5	5,089		348	
Amortisation	6	73,182		67,052	
Revaluation of non current assets	5+6	11,345		27,949	
Increase in receivables		(693)		(34,483)	
Decrease in payables		(73,063)		41,929	
Loss on disposals		-		817	
		<u> </u>		<u> </u>	
Net cash outflow from operating activities		(3,275,237)		(3,068,484)	
Cash flows from investing activities					
Purchase of property, plant and equipment		(1,507)		(28,734)	
Net cash outflow from investing activities		(1,507)		(28,734)	
Cash flows from financing activities					
Grants from sponsor department		3,067,000		3,179,000	
Net financing		3,067,000		3,179,000	
Net (decrease)/increase in cash and cash equivalents in the year		(209,744)		81,782	
Cash and cash equivalents at the beginning of the year	8	227,154		145,372	
Cash and cash equivalents at the end of the year	8	17,410		227,154	

The notes on pages 66 to 79 form part of these accounts.

Statement of changes in taxpayer's equity

Year ended 31 March 2015

	General Reserve £
Balance at 1 April 2013	<u>372,452</u>
Changes in Taxpayers' Equity	
Comprehensive expenditure for the year	<u>(3,172,096)</u>
Grant from sponsor department	<u>3,179,000</u>
Balance at 31 March 2014	<u>379,356</u>
Changes in Taxpayers' Equity	
Comprehensive expenditure for the year	<u>(3,291,097)</u>
Grant from sponsor department	<u>3,067,000</u>
Balance at 31 March 2015	<u>155,259</u>

The notes on pages 66 to 79 form part of these accounts.

Notes to the accounts

Year ended 31 March 2015

1. Accounting Policies

Basis of accounting

These financial statements have been prepared in accordance with the 2014-15 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Pensions Ombudsman for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Pensions Ombudsman are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

International Financial Reporting Standards Amendments and Interpretations effective in 2014-15

No Amendments or Interpretations that have been issued but are not yet effective, and that are available for early adoption, have been applied by the Pensions Ombudsman in these financial statements. There are no Amendments or Interpretations issued, but not yet effective, which are expected to have a material effect on the financial statements in the future.

Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment and intangible assets.

Going concern

Future financing of the Ombudsman will be met by grant-in aid from the Department for Work and Pensions, as the Ombudsman's sponsoring dept. The amount for 2015/16 has already been agreed and there is no reason to suppose that this will not continue. It has accordingly been considered appropriate to adopt the going concern basis for the preparation of these financial statements.

Notes to the accounts

Year ended 31 March 2015

1. Accounting Policies (continued)

Grant-in-aid

Grant-in-aid received used to finance activities which support the statutory and other objectives of the entity are treated as financing, credited to the General Reserve, because they are regarded as contributions from a controlling party. Grant-in-aid is accounted for on a cash basis.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short term deposits. Short term deposits are defined as deposits with an initial maturity of three months or less.

Other income and expenditure

Other income and expenditure is recognised on an accruals basis. Where income received relates to the period of time covering more than one accounting period that part extending beyond the current accounting period is treated as deferred income.

VAT

The Ombudsman was not registered for VAT during the financial year 2014/15.

Property, plant and equipment

Property, plant and equipment are valued at current replacement cost which is calculated by applying appropriate Office for National Statistics indices (ONS) to the historical cost of each asset. Any surplus on revaluation of these is credited to the General Reserve. Any impairment in the value of a non-current asset on revaluation is charged to the Statement of Comprehensive Net Expenditure when it occurs. The Ombudsman is required to remit the proceeds of disposal of non-current assets to the Secretary of State.

Non-current assets are recognised where expenditure is in excess of £500.

Notes to the accounts

Year ended 31 March 2015

1. Accounting Policies (continued)

Depreciation

Depreciation is calculated so as to write off the carrying value of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Information Technology	- Straight line over 5 to 9 years
Leasehold Improvements	- Straight line over estimated remaining life of the lease

Assets are not depreciated until they are commissioned or brought into use.

During 2014-15 the Ombudsman conducted a review of its depreciation rates to ensure assets were charged over the expected useful economic life of the assets, this resulted in some items of IT Equipment being charged over a revised 9 years (8 years 2013-14). The impact of this change in accounting estimate is a £174 reduction in charge for the year to the Statement of Comprehensive Net Expenditure.

During 2014-15 the estimated remaining life of the lease was determined to be the 6 years up to 31 March 2021. It is the Ombudsman's view that this is an accurate estimate of the remaining life of the lease, as it is fully expected that it will be renewed in 2016.

Intangible assets

Intangible assets are recognised and valued at current replacement cost which is calculated by applying appropriate ONS indices to the historical cost of each asset. Any surplus on revaluation of these is credited to the General Reserve. Any impairment in the value of a non-current asset on revaluation is charged to the Statement of Comprehensive Net Expenditure when it occurs. The Ombudsman is required to remit the proceeds of disposal of non-current assets to the Secretary of State.

Notes to the accounts

Year ended 31 March 2015

1. Accounting Policies (continued)

Amortisation

Amortisation is calculated so as to write off the carrying value of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Information Technology - Straight line over 5 years

Intangible assets are not amortised until they are commissioned or brought into use.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to the Statement of Comprehensive Net Expenditure on a straight-line basis over the term of the relevant lease.

Pension arrangements

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is a defined benefit scheme and is unfunded and non-contributory, except in respect of dependants' benefits, but the Ombudsman is unable to identify its shares of underlying assets and liabilities. The Ombudsman recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employers' service by payment to the PCSPS of amounts calculated on an accruing basis. Liability for the payment of future benefits is a charge on the PCSPS.

Financial instruments

The Pensions Ombudsman determines the classification of financial assets and liabilities at initial recognition. They are derecognised when the right to receive cash flows has expired or when it transfers the financial asset and the transfer qualifies for derecognition.

Notes to the accounts

Year ended 31 March 2015

1. Accounting Policies (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. Loans and receivables are initially recognised at fair value and subsequently held at amortised cost. The fair value of trade and other receivables is usually the original invoiced amount.

Cash at bank and in hand comprises cash in hand and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

The Pensions Ombudsman assesses at each Statement of Financial Position date whether there is objective evidence that financial assets are impaired as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the Statement of Financial Position date and whether such events have had an impact on the estimated future cash flows of the financial instrument and can be reliably estimated.

Interest determined, impairment losses and translation differences on monetary items are recognised in the Statement of Comprehensive Net Expenditure.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the financial statements.

We consider there to be no areas of critical judgement used in applying the accounting policies.

There are no significant sources of estimation uncertainty.

Operating Segments

The Pensions Ombudsman only report one operating segment to management for the entire organisation. As such there is no additional analysis requiring disclosure in the accounts.

Notes to the accounts

Year ended 31 March 2015

2. Pension protection fund ombudsman (ppfo) element of costs

PPFO activity continues to be of relatively limited scale. Previously costs were attributed based purely on a comparison between the number of PPFO cases and PO cases dealt with. During the 2008/9 year we introduced an informal time recording arrangement to support the split of costs. During the year 18 PPFO cases (2013/14: 24 cases) and 970 PO cases (2013/14: 1,115 cases) were closed. Approximately 1.8% (2013/14: 2%) of expenditure (corresponding to £59,240 for the year ended 31 March 2015) is deemed attributable to the PPFO (2013/14: £63,441).

No further analysis of costs is made between PPFO and PO cases and these costs are not separately reported to management. Therefore the Ombudsman is considered to only have one operating segment and as such there is no additional segmental analysis requiring disclosure in the accounts.

3. Staff costs

	Year ended 31 March 2015			31 March 2014
	Total	Permanently employed staff	Others	
	£	£	£	£
Wages and salaries	1,634,259	1,603,531	30,728	1,483,435
Social security costs	142,326	142,326	-	132,147
Other pension costs	301,272	301,272	-	282,029
Termination benefits	-	-	-	10,672
	<u>2,077,857</u>	<u>2,047,129</u>	<u>30,728</u>	<u>1,908,283</u>

The average number of staff employed during the period was 41 (2013/14: 38). The average number of other staff was 1 (2013/14: 5).

Principal Civil Service Pension Schemes

From 1 October 2002, civil servants and others approved by the Cabinet Office, including certain designated staff of the Ombudsman, may be in one of three statutory based 'final salary' unfunded multi-employer defined benefit schemes

Notes to the accounts

Year ended 31 March 2015

(Classic, Premium, and Classic Plus). The schemes are unfunded, with the cost of benefits met by monies voted by Parliament each year. Entrants after 1 October 2002 may choose to join a 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account). Pensions payable under Classic, Premium, and Classic Plus are increased annually in line with Pensions Increase legislation. Employee contributions are set at the rate between 1.5% and 6.85% of pensionable earnings for Classic and between 3.5% and 8.85% for Premium and Classic Plus.

Benefits in Classic accrue at the rate of 1/80th of pensionable salary 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 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum, (but members may give up (commute) some of their pension to provide a lump sum). Classic Plus is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic.

The partnership pension account is a stakeholder arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. 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 existing schemes closed to new members in July 2007. Existing members retained membership and existing benefits. A new Scheme called Nuvos was established for new members from that date. Nuvos allows staff to earn 2.3% of their pensionable earnings towards their pension each year. Again there is no automatic lump sum but like Premium, members may opt to give up part of their pension for a lump sum which will usually be tax-free.

Further details about the Civil Service Pension arrangements can be found at the website www.civilservice-pensions.gov.uk

During 2014/15 employers contributions of £301,272 (2013/14: £282,029) were payable to the scheme.

Notes to the accounts

Year ended 31 March 2015

4. Other expenditure

	Year ended 31 March 2015	Year ended 31 March 2014
	£	£
Education and exams	-	740
Rent and rates	354,111	321,510
Insurance	1,416	2,554
Business continuity	12,304	13,392
Travel and subsistence	6,557	8,638
Telephone	2,329	2,122
Hire of equipment	26,333	13,450
Printing, stationery and postage	46,259	37,754
Staff training	23,330	18,620
Sundry expenses	7,991	9,993
Computer expenses	388,869	329,974
Subscriptions	51,317	54,729
Staff recruitment	19,609	11,179
Legal and professional fees	146,803	309,169
Accountancy fees	15,060	12,360
Auditors remuneration	20,500	20,500
Non-cash items:		
• Revaluation of non current assets	11,345	27,949
• Loss on disposal of fixed assets	-	817
• Bank charges	836	963
	<u>1,134,969</u>	<u>1,196,413</u>

The auditors did not receive any remuneration for non audit work (2013/14: £Nil).

Notes to the accounts

Year ended 31 March 2015

5. Property, plant and equipment

	Information Technology	Leasehold Improvements	Total
Valuation	£	£	£
At 1 April 2014	44,511	27,220	71,731
Revaluation	(1,736)	(1,062)	(2,798)
Additions	1,507	-	1,507
At 31 March 2015	<u>44,282</u>	<u>26,158</u>	<u>70,440</u>
Depreciation			
At 1 April 2014	42,767	-	42,767
Revaluation	(1,668)	-	(1,668)
Charge for the year	552	4,537	5,089
At 31 March 2015	<u>41,651</u>	<u>4,537</u>	<u>46,188</u>
Carrying amount			
At 31 March 2015	<u>2,631</u>	<u>21,621</u>	<u>24,252</u>
At 31 March 2014	<u>1,744</u>	<u>27,220</u>	<u>28,964</u>
Valuation			
At 1 April 2013	112,559	-	112,559
Revaluation	(8,780)	-	(8,780)
Additions	1,514	27,220	28,734
Disposals	(60,782)	-	(60,782)
At 31 March 2014	<u>44,511</u>	<u>27,220</u>	<u>71,731</u>
Depreciation			
At 1 April 2013	111,046	-	111,046
Revaluation	(8,662)	-	(8,662)
Charge for the year	348	-	348
On disposals	(59,965)	-	(59,965)
At 31 March 2014	<u>42,767</u>	<u>-</u>	<u>42,767</u>
Carrying amount			
At 31 March 2014	<u>1,744</u>	<u>27,220</u>	<u>28,964</u>
At 31 March 2013	<u>1,513</u>	<u>-</u>	<u>1,513</u>

Property, plant and equipment is valued using indices.

Notes to the accounts

Year ended 31 March 2015

6. Intangible assets

	Information Technology	Leasehold Improvements	Total
Valuation	£	£	£
At 1 April 2014	337,369	-	337,369
Revaluation	(13,157)	-	(13,157)
At 31 March 2015	<u>324,212</u>	<u>-</u>	<u>324,212</u>
Amortisation			
At 1 April 2014	75,442	-	75,442
Revaluation	(2,942)	-	(2,942)
Charge for the year	73,182	-	73,182
At 31 March 2015	<u>145,682</u>	<u>-</u>	<u>145,682</u>
Carrying amount			
At 31 March 2015	<u>178,530</u>	<u>-</u>	<u>178,530</u>
At 31 March 2014	<u>261,927</u>	<u>-</u>	<u>261,927</u>
Valuation			
At 1 April 2013	182,005	183,905	365,910
Revaluation	(28,541)	-	(28,541)
Transfer	183,905	(183,905)	-
At 31 March 2014	<u>337,369</u>	<u>0</u>	<u>337,369</u>
Amortisation			
At 1 April 2013	9,100	-	9,100
Revaluation	(710)	-	(710)
Charge for the year	67,052	-	67,052
At 31 March 2014	<u>75,442</u>	<u>-</u>	<u>75,442</u>
Carrying amount			
At 31 March 2014	<u>261,927</u>	<u>-</u>	<u>261,927</u>
At 31 March 2013	<u>172,905</u>	<u>183,905</u>	<u>356,810</u>

Included in Intangible assets at 31 March 2015 are leased assets with a valuation of £324,212 and accumulated amortisation of £145,682.

The carrying amount that would have been recognised had Information Technology been measured after recognition using the cost model would be £216,576 (2013/14 £289,758).

Notes to the accounts

Year ended 31 March 2015

7. Trade and other receivables

	31 March 2015	31 March 2014
	£	£
Other receivables	20,420	18,499
Prepayments	<u>50,606</u>	<u>51,834</u>
	<u>71,026</u>	<u>70,333</u>

There are no intra government balances

8. Cash and cash equivalents

	31 March 2015	31 March 2014
	£	£
Balance at 1 April	227,154	145,372
Net change in cash and cash equivalent balances	<u>(209,744)</u>	<u>81,782</u>
Balance at 31 March	<u>17,410</u>	<u>227,154</u>

The following balances at 31 March 2015 were held at:
Commercial banks £17,226 (31 March 2014: £227,021).

9. Trade and other payables

	31 March 2015	31 March 2014
	£	£
Accruals	<u>135,959</u>	<u>209,022</u>

Notes to the accounts
Year ended 31 March 2015

Payables: Balances with other Central Government bodies

	31 March 2015	31 March 2014
	£	£
DWP	20,364	-
HM Revenue and Customs	57,627	70,234
Bodies external to government	<u>57,968</u>	<u>138,788</u>
Accruals	<u>135,959</u>	<u>209,022</u>

10. Commitments under operating leases

The total future minimum lease payments under operating leases are given below, analysed according to the period in which payments fall due:

Buildings

	31 March 2015	31 March 2014
	£	£
Obligations under operating leases comprise: -		
Not later than one year	225,096	229,760
Later than one year and not later than five years	<u>56,274</u>	<u>287,200</u>
	<u>281,370</u>	<u>516,960</u>

Other

	31 March 2015	31 March 2014
	£	£
Obligations under operating leases comprise: -		
Not later than one year	121,967	163,707
Later than one year and not later than five years	<u>252,609</u>	<u>347,390</u>
	<u>374,576</u>	<u>511,097</u>

Notes to the accounts

Year ended 31 March 2015

11. Related party transactions

The Department for Work and Pensions are our Sponsor Department and grant-in-aid is received from them, the amounts are disclosed in the Statement of Changes in Taxpayers' Equity. Service Charges in respect of the accommodation were reimbursed to the Department for Work and Pensions in the sum of £22,264 during the year (2013/14: £21,628). During the year the office accommodation was rented from HM Revenue and Customs at an annual cost of £352,120 (2013/14: £300,248). At 31 March 2015 £nil was due to the Department for Work and Pensions (2013/14: £nil) and £57,627 was due to HM Revenue and Customs (2013/14: £70,234). The Ombudsman's Internal Audit Services are provided by the Department for Work and Pensions and the annual cost was £20,364 for 2014/15 (2013/14: £23,418). At 31 March 2015 £20,364 was due to the Department for Work and Pensions (2013/14: £nil).

The Ombudsman had no personal dealings with related parties.

12. Capital commitments

Amounts contracted for but not provided in the accounts amounts to £nil (2013/14: £nil).

13. Financial instruments

It is, and has been, the Pension's Ombudsman policy that no trading in financial instruments is undertaken.

The Ombudsman does not face the degree of exposure to financial risk that commercial businesses do. In addition financial assets and liabilities generated by day-to-day operational activities are not held in order to change the risks facing the Pensions Ombudsman in undertaking its activities. The Ombudsman relies upon the Department for Work and Pensions for its cash requirements, having no power itself to borrow or invest surplus funds and the Ombudsman's main financial assets and liabilities have either a nil or a fixed rate of interest related to the cost of capital (currently 3.5%). The short-term liquidity and interest rate risks are therefore slight. The Ombudsman's exposure to foreign currency risk is not significant.

The fair values of the Ombudsman's financial assets and liabilities for both the current and comparative year do not differ materially from their carrying values.

Notes to the accounts

Year ended 31 March 2015

Financial Assets by category at fair value

	2015	2014
	Loans and receivables	Loans and receivables
	£	£
Cash and cash equivalents	17,410	227,154
Other receivables	<u>20,420</u>	<u>18,499</u>
	<u>37,380</u>	<u>245,653</u>

Financial liabilities by category at fair value

	2015	2014
	Measured at	Measured at
	amortised cost	amortised cost
	£	£
Accruals	<u>135,959</u>	<u>209,022</u>

Liquidity risk

The Ombudsman's net revenue resource requirements are largely funded by grant-in-aid from its Sponsor Department. The capital expenditure is also financed through grant-in-aid. The Ombudsman is consequently not exposed to significant liquidity risks.

Interest rate risk

The Ombudsman is not exposed to any interest rate risk.

Foreign currency risk

There is no risk as the Ombudsman does not deal in foreign currency.

14. Events after the reporting date

No material events have occurred since the reporting date that have an effect on the accounts. The Accounting Officer authorised these financial statements for issue on 23 June 2015.

Accounts direction

The Secretary of State for the Department for Work and Pensions has issued the following accounts direction.

1. This direction applies to the Pensions Ombudsman/Pension Protection Fund Ombudsman.
2. The Pensions Ombudsman/Pensions Protection Fund Ombudsman shall prepare accounts for the financial year ended 31 March 2009 and each subsequent financial year in compliance with:
 - the accounting principles and disclosure requirements of the current edition of the Government Financial reporting Manual issued by HM Treasury (“the FReM”) which is in force for the financial year for which the accounts are being prepared;
 - other guidance which HM Treasury may issue from time to time in respect of accounts which are required to give a true and fair view;
 - the Framework Document (containing the Management Statement and Financial Memorandum of Understanding) agreed between the Pensions Ombudsman/Pension Protection Fund Ombudsman and the Department for Work and Pensions; and
 - any other specific disclosure or other requirements required by the Secretary of State.
3. The accounts shall be prepared so as to:
 - a) give a true and fair view of the state of affairs as of 31 March 2009 and subsequent financial year ends, and of the income and expenditure, total recognised gains and losses and cash flows for each year then ended; and
 - b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

4. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed with HM Treasury.

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